



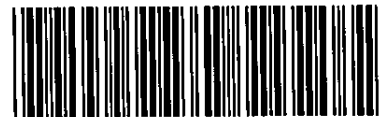
PLC

Leading the way in HD Audio

Annual Report and Accounts 2011

for the 52 weeks ended 1 January 2012

Registered number: SC089839



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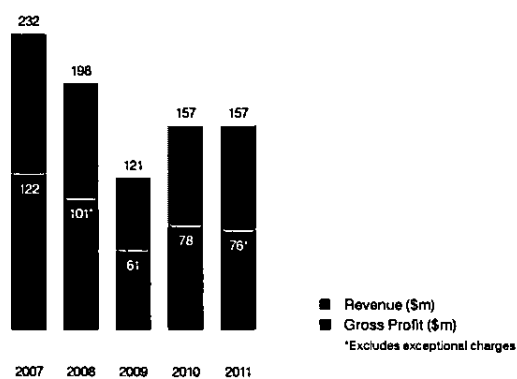
COMPANIES HOUSE

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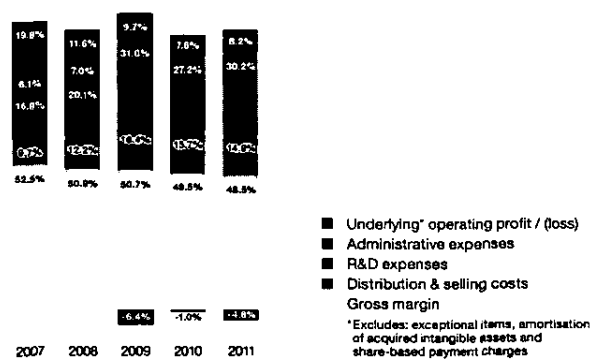
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Key Performance Indicators

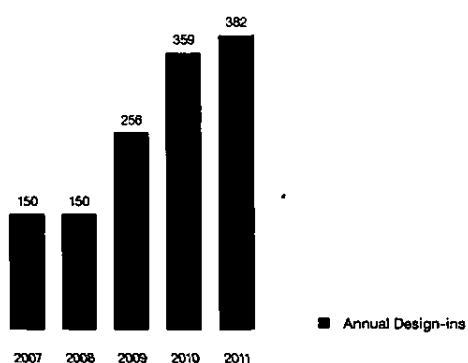
Annual revenue and gross profit (\$m)



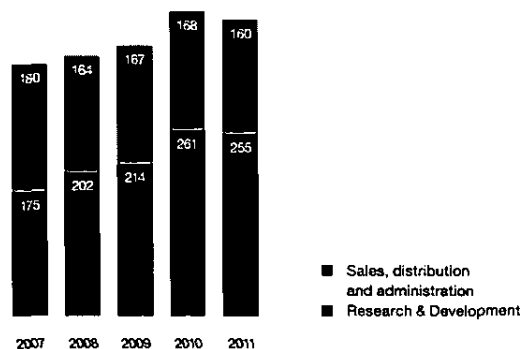
Summary of underlying* profit and costs (as a % of revenue)



Number of Design-Ins



Average number of employees by activity



Chairman's Statement

"Through 2011 we achieved over 380 design-ins during the year, a 6% increase over the record-breaking performance of 2010."

Michael Ruetters, Chairman

Chairman's Statement

2011 was a disappointing year financially for Wolfson's Board and management team. We had expected revenue growth in 2011 and a return to profitability; instead revenues were flat on 2010. While the first quarter started on plan, we saw weakening end user demand, slower end product sell-through with consequent customer product delays and cancellations during the second quarter which, for the most part, did not recover in the second half of the year.

The sharp reduction in near-term demand from our customers in the second quarter caused us to lower our revenue forecasts for the second half of the year. Internally we reacted by fine tuning our expense model, reducing our annual spending rate by \$6 million. While we increased our research and development activities in the Audio Hub franchise we reduced or postponed investments in lower growth or lower margin areas. Unfortunately one outcome of these decisions was a reduction in employee headcount.

On the other hand, with the business strategy I mentioned in my statement last year, I believe Wolfson remains well positioned to become the high definition (HD) audio leader in consumer electronics products.

Our strategy is built around the fundamental premise that to deliver the best HD Audio in consumer electronics products it is necessary, within the underlying technology of those products, to reverse the previous trend of integrating audio into the central processing unit (CPU) and to "dis-integrate" the audio function into a separate Audio Hub. With this strategy, Wolfson's Audio Hubs and HD Audio System-on-Chip (SoC) products are now building a leadership position.

% of Audio Hub design-ins



In any technology company, new products are the life blood and in July 2011 Wolfson launched the WM5100, the world's first HD Audio SoC, integrating a high performance, low power, multi-channel audio system with full transmit path (Tx) noise reduction, receive path (Rx) noise reduction and Wolfson's myZone™ adaptive Ambient Noise Cancellation (ANC) technology in one device. Featuring a multi-core programmable Digital Signal Processor (DSP) for audio processing, the device enables simultaneous multiple use-cases combined with sound enhancement and noise cancelling algorithms. These allow Wolfson to offer customers a HD Audio solution that clearly differentiates its customers' end products in the consumer marketplace, whether it be traditional electronics products or new product segments such as smartphones and tablet computers.

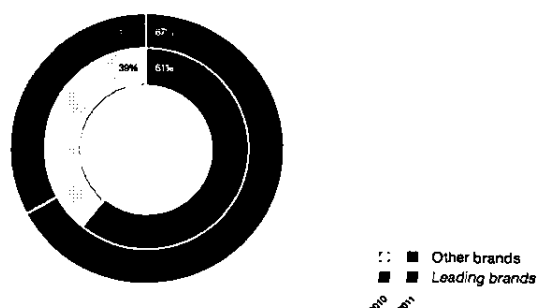
Wolfson's Audio Hubs and HD Audio System-on-Chip (SoC) products are now building a leadership position.

Although global economic conditions remain challenging, it is reassuring to note that our business strategy directly addresses those consumer electronics applications with the highest growth rates: namely smartphones (33%* annually) and tablet computers (over 80%* annually).

Through 2011 we achieved over 380 design-ins during the year, a 6% increase over the record-breaking performance of 2010. These design-ins are with new and existing customers and we continue to benefit as more and more customers separate the audio function from the CPU. Over 60% of all design-ins are for our Audio Hub and HD Audio SoC products and around 70% are with leading consumer electronics brands.

* Source: iSuppli, Wolfson

% of Design-ins with leading brands



Another notable achievement during 2011 was shipping our Micro-Electro-Mechanical Systems (MEMS) microphones in volume. The MEMS microphone market, like that for Audio Hubs, is undergoing a technology transition, in this case from discrete Electret Condenser Microphones (ECM) to more compact MEMS microphones. This change also reflects the need for an increasing number of smaller microphones for portable consumer electronics products such as smartphones and tablet computers. We are also seeing recent growth of multi-microphone applications where multiple microphones are used for noise cancellation or advanced audio processing. We believe we are well positioned to capture share in this growing market.

Working closely with the Wolfson team over the past 18 months, Dynamic Hearing developed and supplied a suite of audio enhancing transmit (Tx) noise reduction and Acoustic Echo Cancellation (AEC) algorithms to run on Wolfson's Audio Hub products. As the software and knowledge from this technology licensing agreement was seen as a strategic platform, in September 2011 Wolfson acquired Dynamic Hearing. The company, based in Melbourne Australia, is a leading provider of high quality audio processing software for personal communication devices such as smartphones, Bluetooth headsets and hearing aids. We welcome the outstanding Dynamic Hearing team and their customers to Wolfson and I know they will make a valuable contribution in the years ahead.

Also in September we strengthened our Board expertise with the appointment of John Grant as a non-executive director of the Company. John serves as a member of the Audit Committee. John has held a number of senior positions within the Ford Motor Company in the USA and in Europe, including executive deputy chairman of Jaguar Cars and head of corporate strategy at Ford in the USA and has served on the boards of companies in a number of other industries. We look forward to benefiting from John's broad experience and his international corporate governance knowledge.

Our priority for the year ahead is clear: to be the leader in HD Audio solutions for the consumer electronics market. We are delivering innovative HD Audio Hubs and SoCs, leveraging leadership technology in mixed-signal design, noise cancelling and sound enhancement and establishing a growing business in high quality MEMS microphones.

Finally, I would like to thank all of our hard-working and dedicated employees, without whom Wolfson would not be the company it is today and you, our shareholders, for your continued support.

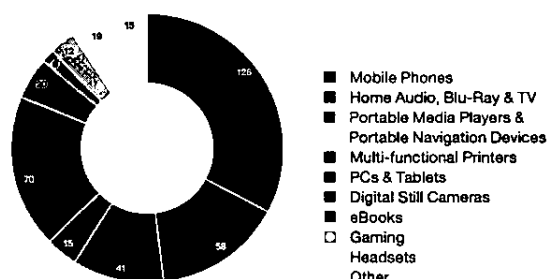
Michael Ruetters
Chairman

Business Review

“Wolfson now leads in Audio Hubs, some of which are now becoming full HD Audio System-on-Chip (SoC) products with on board advanced noise cancelling and sound processing.”

Mike Hickey, Chief Executive Officer

2011: Design-ins by Application



Strategic Update

Introduction and Summary

2011 has been a very challenging year for Wolfson, our customers, the consumer electronics market and the global economy as a whole. However, despite this backdrop, a significant transformation of the business has already been achieved.

Three years ago Wolfson embarked on an ambitious new strategy to take the lead in Audio Hubs, noise cancelling and sound processing and in integrated MEMS microphones. This was to exploit three technology transitions:

- The dis-integration of the audio function from central processors in consumer electronics products to standalone devices like Wolfson's Audio Hubs (as illustrated on pages 6 and 7)
- The emergence of noise cancelling and sound processing as key features in smart mobile devices
- The replacement in consumer electronic devices of traditional Electret Condenser Microphones (ECM) with MEMS technology microphones and the emergence of multi-microphone applications to support complex sound processing and noise cancelling features

We have seen these technology transitions become fully validated in the market in 2011, and Wolfson is well placed:

- Wolfson now leads in Audio Hubs, some of which are now becoming full HD Audio System-on-Chip (SoC) products with on board advanced noise cancelling and sound processing
- Wolfson's MEMS microphone technology has ramped to high volume production and the first fully integrated MEMS microphone has been designed and fabricated and is now being tested

These advances have involved much change, new intellectual property, new process nodes (smaller geometries), new tools, new systems, new software and software tools, new suppliers and innovations in our supply chain, new customer engagements and new support requirements.

Audio Hubs already account for over 60% of our design-ins, and we will build on this solid base to increase our leadership position. During 2011 we launched the world's first HD Audio SoC and current and prospective customers have reacted positively and quickly. We will deploy this technology first in the mobile market, but the functionality is also fast being considered across our other application areas.

During the year we welcomed colleagues from Dynamic Hearing to Wolfson. Their technology complements our existing noise cancelling expertise, giving us the most complete offering in the market. They will greatly enhance our ability to penetrate new customers, applications and markets.

Our MEMS microphone technology has come to fruition during the year and I am delighted to report that we are now successfully shipping microphones in high volume. I expect this business to start making a significant contribution to our revenue in 2012 as the electronics industry adoption of MEMS microphones takes off.

We exceeded last year's record-breaking design-in performance in terms of numbers and average anticipated value. This includes some key new wins in applications that are expected to generate strong growth in 2012. While some customer product delays impacted our performance in 2011, these products are now shipping, and the combination of 2010 and 2011 design-ins positions us nicely for a growing and successful 2012.

Innovating fast, effectively implementing new technologies and processes, supplying quality product on time, supporting and engaging with customers, addressing new markets, winning design-ins and meeting customers' expectations takes a great deal of effort, talent, dedication and hard work from all of the Wolfson team around the world. We are grateful to them all for their support, commitment, determination and winning mentality.

Smartphone→

Discrete Solution

The original design solution used off the shelf components, some were not specifically designed for the purpose resulting in sub-optimum overall performance.

Smartphone→

Integrated Solution

Most high volume consumer electronics markets are marked by increased integration over time, especially as they reach maturity. This resulted in the audio CODEC being integrated into the central processor unit (CPU) or companion PMIC and voice CODEC into the baseband chip.

Architectural Benefits

- Original design solution

Architectural Issues

- Mixed-signal design challenges (i.e. noise pick-up from long analogue connections)
- Requires larger printed circuit board (PCB) to accommodate design
- High cost of bill of material (BOM)
- High power consumption reduces battery life
- Acceptable audio performance
- Limited scope to improve voice clarity

Architectural Benefits

- Reduces PCB area

Architectural Issues

- Due to smartphone user operational demands (increased concurrent use cases), a more powerful CPU was required for this architecture. The solution meant that the CPU had to move down to lower geometry nodes (smaller transistors and tracks) that are not conducive to analogue signals thereby degrading audio quality
- Complex PCB design due to fragmented audio (integrated CODEC requires long analogue tracks to speaker driver and headphone amplifier resulting in noise pick-up, crosstalk, interference impacting audio quality). Voice and audio use cases are complex.
- Higher power consumption requirement reduces battery life
- Higher BOM cost due to additional external components
- Audio performance does not meet consumer aspirations
- Significant software effort required to port audio solution to other product tiers
- PMIC integration route non-optimal as PMIC must be closely coupled to the CPU for optimal processor performance. This is detrimental to audio quality as long power management unit development cycles prevent audio improvement across products.

Smartphone→

Audio Hub Solution

Consumer demand for improved audio performance and more use cases, many running concurrently, could not be met using the integrated solution. Audio CODEC dis-integrated from CPU and integrated into Audio Hub that combines all audio mixing, signal switching, speaker driver and head-phone amplifier circuitry into one device. The voice CODEC is also integrated into the Audio Hub.

Smartphone→

Audio SoC Solution

Audio Hubs provide the highest levels of audio performance with minimum power consumption. Recent developments in noise cancellation / reduction technologies, sound enhancement software and new user interfaces requires a more powerful processor core on board.

Architectural Benefits

- Allows more cost effective CPUs to be used
- Reduces PCB area
- Lower BOM cost due to external components and devices integrated into Audio Hub
- At least 10 times less power consumption during audio playback
- Capable of controlling many more use cases
- Delivers much improved audio performance
- Complete audio solution that is repeatable and scalable across product tiers

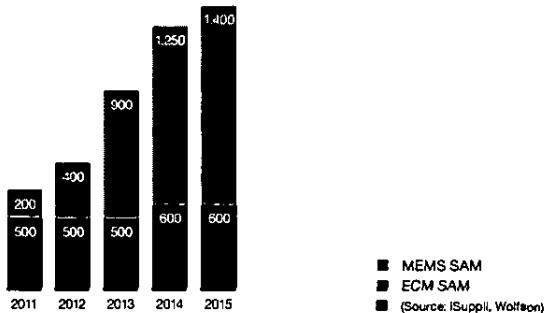
Architectural Issues

- Limited on board processing capability in Audio Hub
- Software effort required to port audio solution to other product tiers and between cores in multi-processor systems
- Move to application-centric designs with slim modems led to inconsistencies between audio processing and tuning for multimedia content, cellular and other wireless audio streams

Architectural Benefits

- Audio DSP allows power hungry CPU to sleep during audio processing, significantly improving battery performance
- Significantly improves audio performance that means it can be tuned to create unique audio branding for handset manufacturers and is consistent across use cases
- Greater clarity of voice calls regardless of location or environment
- Suitable for more responsive user interfaces (haptics and ultrasonics)
- Reduces time to market through ease of integration
- Reduces development costs through hardware and software platform re-usability
- Reduces BOM cost through the aggregation of multiple functions within a monolithic integrated circuit

Microphones Market Value (\$m)



2011 Financial Summary

Wolfson's full year revenue was flat year-on-year at \$157m (2010: \$157m). Audio Hubs grew by some 19% (with Mobile Audio Hubs up 60%) and now represent almost 70% of revenues. Unfortunately this growth was offset almost exactly by a decline in other revenues. Gross margin (before exceptional charges) fell by 100 basis points to 48.5% (2010: 49.5%). This was due to an unfavourable product mix, subcontractor yield issues and inventory write-offs which, unfortunately, offset the good cost reduction work achieved in our supply chain and by the manufacturing operations team.

During the second half of 2011, as a result of our shortfall in revenue, a full review of the business was carried out across all parts of the Company. The outcome was an overhead cost reduction programme and a realignment of the investment in research and development (R&D). A review of the Company's product portfolio resulted in an increased investment in the growing Audio Hubs product line. Reductions in investment were concentrated in slower growing and less profitable lines.

These actions have cut annual overhead costs by \$6.0m and left Wolfson positioned appropriately for the current difficult business environment.

Strategy Update

Broadly, the rationale for the Company's strategy remains as stated in the 2010 Annual Report. An update to our strategic vision was agreed by the Board during 2011 and this update is set out below. The three main components of our strategy going forward are:

1. HD Audio

The Company's goal is to be the leader in HD Audio for consumer electronics products by:

- Leveraging our best-in-class intellectual property (IP) position and brand heritage in highest performance audio
- Growing our leadership in Audio Hubs and making them the *de facto* platform for HD Audio in consumer electronics products
- Building on our technology leadership in noise cancellation and sound enhancement software to 'own' sound processing
- Enabling best-in-class low power, high performance HD Audio solutions with our drivers, converters, amplifiers, power management and transducer ICs

We believe Wolfson's Audio Hubs uniquely provide the ability to handle many different audio channels, enabling a reduction in board space for more compact products; a lower bill of materials for more competitive pricing, and the ability to drive multimedia down through the product tiers; less power consumption for longer battery life and significantly extended playback; and, above all, the delivery of a significantly improved audio experience for the consumer.

With the advent of internet connected, mainly portable, multimedia devices, mostly fuelled by the emergence of smartphones, the trend to integrate audio into CPUs started to reverse a few years ago. This was due to the products needing to manage more audio streams such as voice, music, radio and video sound tracks, which CPUs struggled to do efficiently. The new products also need to run an increasing number of applications simultaneously, requiring evermore power hungry processors and bigger screens, meaning the available power from the battery of portable devices became much more important (sometimes even the limiting factor). Also, most importantly, the sheer processing power required has forced CPUs to "analogue unfriendly" semiconductor technology nodes just to ensure there are sufficient transistors at low enough power to provide the required raw processing performance. Off boarding or "dis-integrating" audio and other real-time, real world "mixed-signal" functions to other chips which offer performance, power and use case flexibility benefits, whilst simplifying the CPU design, is an obvious solution to the problem. Our IP and long-established brand in audio means we have a great opportunity to exploit this.

When fully implemented in most consumer electronics product applications, there could be 4 billion* units representing \$5 billion* of Serviceable Addressable Market (SAM) by 2015 for Wolfson's Audio Hub products. We see a world, not too far in the future, where a consumer's smartphone, tablet computer, TV and camera will have the same user interface, will all be connected to the same servers and all be powered by the same or similar chipsets that run a smartphone today.

Our specific products range from simple CODECs (a combination of Analogue-to-Digital Converters (ADCs), Digital-to-Analogue Converters (DACs) and mixers) which route and play audio to complex HD Audio SoCs that route audio, provide digital signal processors (DSPs) which run software algorithms that decode, manipulate and enhance sound. They are also capable of managing the interfacing and processing of other mixed-signal real-time, real world interface devices such as microphones, ultrasonics

*Source: iSuppli, Wolfson

“Wolfson added to its family of MEMS microphones with the WM7130E bottom port analogue microphone for multi-microphone applications such as noise cancellation headsets, conference phones and noise reduction solutions in mobile products.”

and haptics, further off-loading intensive computer calculations, which are power hungry activities, from the product's CPU.

Part of the Audio Hubs strategy is also to develop noise reduction and noise cancellation solutions. Building on Wolfson's myZone™ active ambient noise cancellation (ANC) technology, the Company has launched the Digital Silence brand of ANC headsets. Customers have already adopted Wolfson's technology and headset reference solutions to create their own brands of ANC headsets.

2. Build the MEMS Microphone Business (transducer integrated circuits)

The microphone market is long established but over the last few years it has grown significantly. This is the result of widespread growth in voice interactive consumer electronics applications, plus the more recent growth of “multi-microphone” applications where multiple microphones are used in products for noise cancelling or advanced sound processing. Similar to Audio Hubs, the main drivers behind this growth in microphone demand are smartphones and tablet computers where consumers are demanding a much higher quality of audio.

As shown in the chart on page 8, the overall microphone market is expected to double from around \$1 billion* in 2012 to \$2 billion* in 2015 while the MEMS microphone portion of the market is expected to grow from \$400 million* to \$1.4 billion* during the same period.

Within this growth there is, similar to the situation with Audio Hubs, an underlying technology transition. This is the switch from traditional ECM to MEMS microphones. This switch has primarily been driven by the reduced form factor of portable devices, meeting consumer demand for thinner smartphones and tablet computers. Likewise the increased demand for noise cancellation and sound enhancement in portable products requires multiple microphones with improved audio performance and tight tolerance sensitivity, only available from MEMS microphones.

3. Promote and sell Discrete and Power Products

The discrete audio component market is a maturing market that has become increasingly competitive. As part of the R&D realignment programme adopted by the Company in 2011, it was decided to reduce the level of new development in this area and focus, at present, on selling our existing discrete and power management devices, which have undergone a major refresh over the last two years.

*Source: iSuppli, Wolfson

Product Development Update

Over the last year we have continued the programme of investment in research and development, resulting in the launch of 24 new products. The highlights of the Company's product development progress in 2011 are outlined below.

During the first half of 2011, Wolfson launched 11 new products. These included a new, industry-leading product, the WM5100, which was added to the Audio Hubs family. The WM5100 is the world's first integrated HD Audio SoC, combining an Audio Hub, transmit path noise reduction, receive path noise reduction with adaptive Ambient Noise Cancellation (ANC), Acoustic Echo Cancellation (AEC) and an audio DSP for sound enhancement, into a single device.

The Company also launched the WM1811 Audio Hub with world leading analogue IP to provide next generation audio solutions across the mobile phone tiers, ideal for feature phones and smartphones.

Wolfson added to its family of MEMS microphones with the WM7130E bottom port analogue microphone for multi-microphone applications such as noise cancellation headsets, conference phones and noise reduction solutions in mobile products. Wolfson also added another headset reference solution with the launch of the WM229 digital ANC ear-bud headset, incorporating Wolfson's unique feed-forward digital myZone™ ambient noise cancellation technology and MEMS microphone technology.

In the second half of 2011, Wolfson launched 13 new products and further enhanced its Audio Hubs product line. The Wolfson WM8996 Audio Hub is aimed at the smartphone and tablet computer market that requires high quality voice calls and music playback. This device incorporates the digital mixing required to route the various audio signals and provides a digital audio interface to microphones, such as Wolfson's WM7210 / WM7220, and digital input speaker amplifiers, such as Wolfson's WM9082. The digital audio interface between the WM8996 and the WM9082 Class D speaker driver provides excellent noise immunity, eliminates traditional input filtering components and improves audio quality.

Two HD Audio Hub products, Wolfson's WM8861 and WM8862, are aimed at improving the audio performance of Intel-based PCs, notebooks, laptops and tablet computer systems. They provide a complete audio subsystem with ultra low power consumption and include high output power integrated speaker amplifiers. Also launched was the DS-321D, a state-of-the-art, in-ear, digital active ANC stereo headset with voice microphone.

“This fundamental technology transition is creating a large addressable market opportunity for Audio Hubs where Wolfson is strongly positioned to capture good share.”

Design-in Performance

Building and strengthening our customer base has been a prime focus for Wolfson over recent years, with cross-functional focus account teams having global responsibility supporting leading customers. This focus has reaped rewards and the success can be demonstrated by the fact that we secured over 380 significant new design-ins in 2011.

An analysis of the design-ins indicates that the average value of each design-in is increasing. Also increasing is the total number of design-ins that are included in end products that go to market, the current run-rate being in excess of 90%.

The majority of design-ins (over 60%) are for our Audio Hub and HD Audio SoC family of products, principally in the high growth sectors of the consumer electronics market such as smartphones, tablet computers, eBook readers and gaming consoles.

Since the introduction of our Audio Hub category of products, the design-in phase is now much earlier in the customer product cycle. As the Audio Hub or HD Audio SoC works in tandem with the CPU, the audio solution is considered at the same time as the CPU is selected. This means that the gestation period from design-in selection to volume manufacturing (design win) has increased in many cases up to 18 months. Additionally, as the Audio Hub is consolidated as part of the end product architecture, it becomes much more difficult for the device and associated software algorithms to be replaced by a competitor.

Around 70% of design-ins achieved in 2011 are with leading consumer electronics brands. Some notable design-ins during the year include:

- Samsung for its Galaxy S range of smartphones and tablet computers
- LG for its Optimus range of smartphones and Slate range of tablet computers
- Research in Motion for its Blackberry Playbook tablet computer
- ZTE for its new tablet computer
- Best Buy for its Rocketfish brand of headset

Software Development

As Wolfson transitions from a provider of mixed-signal discrete products to a partner delivering HD Audio solutions to our customers, one of the key differentiators of these solutions is software. This journey from discrete components to HD Audio SoC is illustrated and explained further with diagrams on pages 6 and 7.

Over the last two years Wolfson has built an engineering team to develop the software required to provide noise reduction and sound enhancement products that run on the new family of HD Audio SoCs.

The software and hardware development teams work in tandem to ensure the device and algorithms are compatible and available concurrently to allow customers to evaluate the complete audio solution.

The software development team is responsible for developing transmit and receive noise cancellation / noise reduction solutions and audio enhancement features to significantly enhance the user audio experience. The software development life-cycle includes systems & architecture design, algorithm design & development, code development & integration and validation & testing on multiple simulation or hardware platforms. Additionally, the software team provides the tools and system framework to enable Wolfson's customers to develop and integrate proprietary or open sourced applications to run on, or alongside, the Wolfson Audio Hubs.

One example of open sourced applications is Google's Android Operating System. Wolfson has contributed to, and helps maintain, the embedded audio and power regulation framework in the Linux kernel which is at the heart of Android and other smartphone operating systems.

The Business Cycle:

From business case through design and development, then the manufacturing process of wafer fabrication, assembly & test, to samples for verification and customer acceptance, then finally customer purchase orders and revenue.

Follow stages 1 to 4 on pages 12 to 15

Business Case Development and Evaluation Customer Evaluation and Design-In Product Revenue

1 2 3 4

Wolfson Dynamic Hearing

During the year, Wolfson acquired Dynamic Hearing Pty Ltd ("Dynamic Hearing"). Dynamic Hearing is a leading provider of high quality audio processing software for personal communication devices such as smartphones, Bluetooth headsets and hearing aids. The 22 Dynamic Hearing employees are now part of the Wolfson team and continue to serve Dynamic Hearing's existing customers as well as providing sound processing software for Wolfson's HD Audio solutions.

Working closely with the Wolfson team during the past 18 months, Dynamic Hearing has developed and supplied a suite of audio enhancing transmit noise reduction and Acoustic Echo Cancellation (AEC) algorithms to run on Wolfson's Audio Hub products. Wolfson's WM2200 device, launched in 2011, was the first product combining Dynamic Hearing's multi-microphone transmit path / voice capture noise reduction and AEC technologies with Wolfson's unique receive ANC technology. This combination of audio processing technologies provides a complete platform-agnostic turnkey transmit and receive noise reduction solution. This technology will be further deployed across Wolfson's Audio Hub products for mobile phones and tablet computers.

2012 and Beyond

Whilst weak consumer demand, along with some customer product delays, have impacted the Company's 2011 revenue and delayed the return to profitability, the underlying fundamentals of the business continue to improve. This improvement is being driven by an accelerating technology trend in consumer electronics devices to "off-board" audio from central processor units to standalone audio devices where Wolfson Audio Hub products have a leadership position.

This fundamental technology transition is creating a large addressable market opportunity for Audio Hubs where Wolfson is strongly positioned to capture good share. As the Audio Hub or HD Audio SoC works in tandem with the CPU, the audio solution is considered at the same time as the CPU is selected. As the Audio Hub is consolidated as part of the end product architecture, it becomes much more difficult for the device and associated software algorithms to be replaced by a competitor.

This technology changeover is increasingly evident in smartphones and tablet computers, and is also being adopted across other consumer electronics product applications. The Company is playing a leading role and already benefitting from this end-product architecture evolution.

Likewise, the technology transition from ECM to MEMS microphones is creating a growing opportunity for Wolfson. Our analogue and digital MEMS microphones are extremely compact with excellent audio performance and tight sensitivity tolerance (± 1 dB), ideal for multi-microphone applications such as noise cancellation and advanced sound processing.

These opportunities position the Company well to improve sales growth and profitability as its target markets continue to develop and overall consumer demand recovers.

While the short-term economic outlook remains challenging, we are confident in the long-term growth prospects of the business. We have put in place the building blocks for the future, namely: Audio Hubs and HD Audio SoCs for mobile, computing and entertainment audio products; MEMS microphones and our legacy Power and Discrete products. In this climate of economic uncertainty, our priority remains to generate value for shareholders through the delivery of compelling HD Audio solutions.

We will continue to focus on executing against our strategic business plan, ensuring that as we grow, we continue to exceed our customers' exacting expectations and invest in the innovation that sets Wolfson apart.

Looking ahead, favourable technology trends coupled with the right products, customers and application markets are improving the fundamentals of the business. These factors, plus record design-ins with leading brands, position the Company well to achieve a step-up in revenues as 2012 progresses, along with a return to both top line growth and underlying profitability.

Mike Hickey
Chief Executive Officer

Stage 1 →

Business Case

Before any investment is made towards the design and development of a new product a thorough review of the business case for the product or solution is conducted. The appropriate Product Line Manager is responsible for co-ordinating the business case. The business case will include: target applications, potential customers, product proposition, resource requirement, development costs, sales volume potential, return on investment and competitive landscape. Only after careful, thorough review and approval by the management team will a new product be allocated the resource and project budget to proceed.

Business Description

Principal Activities and Products

Wolfson is a semiconductor company specialising in the design and supply of high performance audio solutions. Wolfson plays an essential role in leading consumer electronics products, converting information from the real world of analogue signals, emanating from sounds, images and physical touch, to the digital domain and back again. The Company focuses on high performance Audio Hubs, including High Definition (HD) Audio Systems-on-Chip (SoC), noise reduction and sound enhancement software; Discrete and Power products including Micro-Electro-Mechanical Systems (MEMS) microphones, ultra-low power audio and power management integrated circuits to deliver HD Audio solutions for the consumer electronics market.

The Company has built a strong global reputation in audio and Wolfson devices enliven the user experience in such consumer electronics products as mobile phones, tablet computers, eBook readers, portable media players, headsets/headphones, portable navigation devices, handheld game consoles, digital still cameras and home audio including flat panel televisions.

Wolfson is in the midst of a major transformation. Within the next few years most of the Company's revenues will come from advanced Audio Hubs and MEMS microphones, reflecting several key internal changes:

- Development team skills will have evolved from being 100% analogue to involving considerable digital and software engineering
- HD Audio Hubs and related technologies will be far more complex and have moved onto smaller semiconductor geometries (mainly 65nm)
- Design cycles will be longer and more complex but will lead to greater functionality, value-add and strategic customer commitment

Wolfson's competitors vary by product line and include:

- HD Audio Hubs: Qualcomm, Texas Instruments and Cirrus Logic
- MEMS microphones: Knowles and Analog Devices
- Others: AKM, AMS, Dialog, Maxim and Yamaha

The consumer electronics industry is global and Wolfson has a worldwide customer base. Headquartered in Edinburgh, UK, Wolfson has around 400 employees working in 12 locations worldwide with design, sales and engineering teams in the UK, USA, Japan, China, Taiwan, Korea and Australia.

Stage 2 →

Development and Evaluation Stage

The duration of the development and evaluation cycle for a new product will depend on the complexity of the device and/or software. Included in this will be determining whether any new Intellectual Property (IP) is required or if existing IP can be re-used. Once the design phase is complete a manufacturing mask set is produced and sent to the wafer fabrication facility. The first manufacturing run builds sufficient samples to allow the development team to evaluate the success of their design. At the same time the test procedures to ensure the device meets its published specification are confirmed.

Customers

The Company's customers are amongst the most demanding in the world with regard to product performance, quality and supply. Wolfson has become a trusted supplier to many of the world's leading consumer electronics manufacturers including Fujitsu, Hewlett-Packard, Lenovo, LG, Microsoft, Motorola, Olympus, Research in Motion (RIM), Samsung, Sharp, Sony, Toshiba and ZTE.

New Developments

To optimise sound quality and performance Wolfson defined the Audio Hub. This development coincided with the recent technology trend to 'off-board' or 'dis-integrate' audio functions from the Central Processing Units (CPUs) in portable multimedia products. Wolfson Audio Hubs offer numerous advantages including:

- the ability to handle many different audio channels, enabling a reduction in board space for more compact, economical and high-performance products
- less power consumption, delivering longer battery life and extended playback
- significantly improved voice communications which, thanks to Wolfson's noise reduction and post-processing algorithms, are more intelligible and noise-tolerant

Wolfson Audio Hubs and HD Audio SoCs are complemented by the Company's MEMS microphones as well as its renowned Analogue to Digital Converters (ADCs) and Digital to Analogue Converters (DACs) featuring advanced digital filtering.

Finally, the Company's integrated power management solutions are crucial for many applications including battery-operated portable consumer electronics products. This mixed-signal circuitry intelligently manages voltages and currents, reducing power consumption and maintaining maximum processor performance.

World Class Engineering

The process of integrated circuit development is demanding and complex and requires substantial creative input from design engineers. As the Company's products transition from predominately analogue into a more digital world, Wolfson has responded by building a software engineering team to develop audio enhancing software algorithms that run on its Audio Hub family of products. Their role is to design the algorithms that provide noise reduction for both transmit and receive paths and sound enhancement features.

The Company's acquisition in September 2011 of Dynamic Hearing further strengthens its software capabilities. Wolfson's world-class engineering team now includes design centres in Edinburgh and Newbury in the UK, Melbourne in Australia and Yokohama in Japan.

And at the end of 2011, Wolfson had over 450 patents and patent applications throughout the world.

Sales, Marketing and Field Engineering

To maintain its leadership position, Wolfson works closely with customers to define new technology and new product roadmaps that meet both their current and future needs. These customers are located in key global markets and so, therefore, are the sales teams, providing skilled technical and commercial support.

Most of these offices are equipped with applications laboratories which are used by both Wolfson and its customers for product demonstrations and system verification. These ensure close customer linkages from product definition through to market launch and on-going application support.

Stage 3 →

Customer Evaluation and Design-in

As part of the business case, potential customers are identified. During the development and evaluation stage the sales team work closely with customers to identify possible slots in their new products for the device. Sample devices along with evaluation board and any software are delivered to the customer to allow them to evaluate the new device and confirm its compatibility and suitability for their new product. Wolfson's Field Application Engineering team support the customer during this evaluation process. A successful evaluation process results in a design-in success.

Business Model

Wolfson's fabless business model means it outsources all manufacturing requirements to silicon wafer foundries and assembly/test houses. This delivers three distinct benefits:

- Wolfson can stay focussed on its design and development strengths
- Fixed costs and capital expenditure are kept low
- It provides a highly scalable production capability

In addition, to ensure competitive costs and continuity of supply, Wolfson adopts a multiple vendor model for every stage of the manufacturing process. Wafer fabrication is outsourced to GlobalFoundries in Singapore, MagnaChip in South Korea, CSMC in China, TSMC in Taiwan and X-FAB in Germany. Most assembly and testing of products is carried out by Unisem and Carsem in Malaysia and by ASE, OSE and KYEC in Taiwan. Wolfson has also established a distribution hub in Malaysia to ensure a short supply chain and high customer responsiveness. Wolfson ships directly to many Original Equipment Manufacturer (OEM) customers as well as through independent distributors.

To optimise the manufacturing operation and ensure it is cost competitive, Wolfson constantly reviews its supply chain. As the majority of suppliers are based in the Far East, Wolfson has recently opened a new office in Taiwan and recruited a local supply chain support team. This team will enable Wolfson to provide the reduction in cycle times, quality improvements and cost competitiveness that customers demand.

Business Cycle

The Wolfson business cycle is illustrated and explained further within diagrams on pages 12 to 15. It starts with the business case for a new product, after which development resource and budget are allocated. The development schedule depends on the complexity of the device and/or the need to develop new Intellectual Property (IP). Once the device design is complete, a manufacturing mask set is created and the manufacturing process begins.

The first manufacturing run is typically focussed on creating enough samples for the Wolfson development team to evaluate the success of their design and for potential customers to evaluate the performance and suitability of the device. A successful customer evaluation will result in a design-in and the product will become part of the customer's consumer electronics product.

Since the introduction of our Audio Hub category of products, the design-in phase is now much earlier in the customer product cycle. As the Audio Hub or HD Audio SoC works in tandem with the CPU, the audio solution is considered at the same time as the CPU is selected. This means that the gestation period from design-in selection to volume manufacturing (design win) has increased in many cases up to 18 months. Additionally, as the Audio Hub is consolidated as part of the end product architecture, it becomes much more difficult for the device and associated software algorithms to be replaced by a competitor.

Stage 4 →

Product Revenue

After a device has been selected by a customer for their new product, the sales team will work with the customer to determine the volume forecast and delivery schedule. Introducing new products into the consumer electronics market at the correct time is often the key to the success of the product. The receipt of a customer purchase order requesting quantity and delivery, and the corresponding commencement of volume manufacturing leads to the first revenue to Wolfson for the new device. This could be 2 to 3 years after the first business case review and up to 1 year after the successful design-in.

The start of volume manufacturing and first revenue typically occurs 2-3 years after the first business case review, depending on customer introduction schedules and volumes. On receipt of the first high volume order for the part, the design-in converts to a design win as revenue can now be generated once the products are delivered to the customer. It should be noted that the revenue as a percentage of the cost of the board will increase because the Audio Hub or HD Audio SoC and associated software solution is a centre of integration and makes many of the previously discrete components redundant.

At this point, Wolfson will often start work to develop the next generation device for the future revision of the customer's end product, striving also to increase 'share of board' with complementary Wolfson solutions. The Company is uniquely placed to provide multiple products for the complete audio chain in consumer electronics products from microphone to earpiece and significantly increase its average revenue per board.

Financial Model

Wolfson enjoys high operational gearing (around 50% gross margins), with most overheads, after gross margin, relatively fixed. Given the fabless model, there is a relatively low level of capital expenditure required. Following the recent streamlining of activities and costs, underlying operating breakeven is achieved on a turnover of around \$165 million. Net working capital (inventory + debtors - creditors) currently amounts to around 90 days revenue. This model can create healthy cash generation given that cash flow from increasing turnover flows via the high operational gearing model into operating profits, substantially outstripping net working capital and capital expenditure demands.

Looking forward, until these increases in cash become more predictable and in order to demonstrate its financial stability to its high profile customers and suppliers, the Board of Directors has decided to continue to hold and then build cash in lieu of distributing dividends or re-initiating a share buyback programme.

Quality and Environmental

Quality of design and manufacturing is of paramount importance to Wolfson and its customers. The performance of each device is optimised as part of the rigorous development process and qualified through a process of accelerated life testing to ensure reliable and economic manufacturability.

In production, strict monitoring of the manufacturing process is undertaken and each individual device is tested to the published performance specifications before shipment to customers.

Wolfson complies with the quality standards and methodology defined by BS EN ISO 9001: 2008 for which it is certified by the British Standards Institution. Wolfson is also qualified to BS EN ISO 14001: 2004 and is a Sony Green Partner. Wolfson is dedicated to supplying high quality products in a manner consistent with the environmental and ethical requirements of its customers and its own exacting standards (see further details on pages 42 and 43).

Risks and Uncertainties

The transformation of the Company has brought new, short-term risks such as more complex products, integration of acquisitions, longer design cycles, and new customer targets. However, these are deemed essential to Wolfson's longer term success. Risk also remains due to the highly competitive, IP intensive, fast-moving nature of the electronics industry. These risks are continuously assessed and factored into company strategy and operation by both the Board and the management team. They are further detailed in the Operating and Financial Review (see further details on pages 21 to 23).

Operating and Financial Review

“Revenues from Audio Hubs, at \$105.4m in 2011 accounted for 67% of Group revenue (2010: 56%) and increased by 19% in the year from \$88.6m in 2010.”

Mark Cubitt, Chief Financial Officer and Finance Director

Segmental Performance

Audio Hubs

The Company focuses on high performance Audio Hubs, including High Definition (HD) Audio System-on-Chip (SoC), noise reduction and sound enhancement software. Revenues at \$105.4m in 2011 accounted for 67% of Group revenue (2010: 56%) and increased by 19% in the year from \$88.6m in 2010. Within this segment, Audio Hubs sold into mobile applications increased by 60% whilst Audio Hubs in non-mobile applications fell by 6%, reflecting the strong growth in smartphones and tablet computers, but weaker demand in most other application markets.

Gross margin for this reportable segment improved to 49.8% in 2011 from 49.0% in 2010, reflecting the higher proportion of newer products with more differentiated features in 2011 revenues.

Discrete and Power Products

This segment comprises simpler audio products (ADCs, DACs), power management integrated circuits, imaging parts and MEMS microphones. Revenues at \$50.9m in 2011 accounted for 32% of Group revenue (2010: 44%) and declined by 26% in the year from \$68.7m in 2010. Within this segment, MEMS microphones grew by 67%, albeit from a very small base, to revenue of \$0.5m. The other components of this segment suffered from the weakness in the general consumer electronics market, particularly in the second half of 2011. As part of the refocusing announced in July 2011, resources were reallocated from this segment, MEMS excluded, to Audio Hubs where there are greater growth opportunities.

Gross margin for this reportable segment fell to 45.6% in 2011 from 50.1% in 2010, reflecting the tough market environment for these less feature rich products.

Other Products

Other comprises the sale of complete headset products and royalties thereon. This segment is fundamentally different from the other segments as it relates to sales of finished consumer product rather than the sale of integrated circuit components. Revenues in 2011 represented less than 1% of Group revenues, but grew from \$0.1m in 2010 to \$0.7m in 2011. Gross margin in 2011 was 72% against 100% in 2010 as the latter represented purely royalties.

Financial Reporting

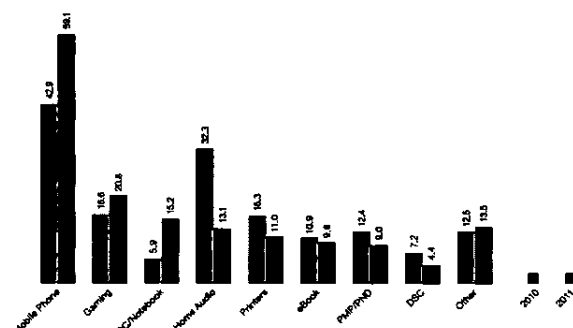
The Group and the Company financial statements have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union ('adopted IFRS').

Financial Review

The financial results of the Group for the 52 week period ended 1 January 2012 are summarised in the table opposite. The consolidated income statement for the period is on page 62.

Financial highlights are also included on some of the charts on page 1.

Revenue by Application (\$m)



	52 week period ended 1 January 2012		52 week period ended 2 January 2011	
	\$m	% of revenue	\$m	% of revenue
Revenue	156.9		157.3	
Gross profit (IFRS)	70.2	44.7%	77.9	49.5%
Exceptional charge	5.9	3.8%	–	–
Gross profit (Underlying)	76.1	48.5%	77.9	49.5%
Overheads				
Research & Development expenses	(47.3)	30%	(42.8)	27%
Distribution & selling costs	(23.4)	15%	(24.6)	16%
Administrative expenses	(12.9)	8%	(12.0)	8%
Underlying* operating loss	(7.5)	-5%	(1.5)	-1%
Share-based compensation charges	(3.6)	2%	(4.5)	3%
Amortisation charges	(5.5)	4%	(5.3)	3%
Exceptional items:				
– recognised in cost of sales	(5.9)	4%	–	–
– recognised in overheads	(3.5)	2%	–	–
– pension curtailment gain	1.8	-1%	–	–
Operating loss	(24.2)	-15%	(11.3)	-7%
Net financing income	0.1		0.1	
Loss before tax	(24.1)	-15%	(11.2)	-7%
Income tax credit	6.2		4.6	
Loss after tax	(17.9)	-11%	(6.6)	-4%
Basic and diluted loss per share (cents)	(15.4)		(5.7)	
Underlying and diluted (loss) / earnings per share (cents)	(4.9)		0.4	
Average £/\$ exchange rate (\$:£1)	1.60		1.55	

*Underlying results exclude: charges for the amortisation of acquired intangible assets (2011: \$5.5m; 2010: \$5.3m) and share-based compensation charges, including associated payroll taxes, (2011: \$3.6m; 2010: \$4.5m). Also, in 2011, exceptional items totalling \$7.6m (2010: \$nil) are excluded (further details of the exceptional items are provided in Note 4 to the financial statements on page 78). The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures. Reconciliations of underlying measures to IFRS measures for operating expenses and operating loss in respect of each period are provided in the tables on page 18.

“Our continuous investment in research and development and best-in-class engineering tools is imperative to our growth strategy and our long term competitiveness.”

Operating expenses: reconciliation from Underlying to IFRS

	Underlying \$m	Share-based compensation (including associated payroll taxes) \$m	Amortisation of acquired intangible assets \$m	Exceptional items \$m	IFRS \$m
52 weeks ended 1 January 2012					
Distribution and selling costs	(23.4)	(1.0)	–	(1.9)	(26.3)
Research and development expenses	(47.3)	(2.0)	(5.5)	(1.5)	(56.3)
Administrative expenses	(12.9)	(0.6)	–	(0.1)	(13.6)
Curtailment gain on defined benefit plan	–	–	–	1.8	1.8
	(83.6)	(3.6)	(5.5)	(1.7)	(94.4)
52 weeks ended 2 January 2011					
Distribution and selling costs	(24.6)	(1.7)	–	–	(26.3)
Research and development expenses	(42.8)	(2.0)	(5.3)	–	(50.1)
Administrative expenses	(12.0)	(0.8)	–	–	(12.8)
	(79.4)	(4.5)	(5.3)	–	(89.2)

Operating loss: reconciliation from Underlying to IFRS

	52 weeks ended 1 January 2012 \$m	52 weeks ended 2 January 2011 \$m
Underlying operating loss	(7.5)	(1.5)
Share-based compensation and related payroll taxes	(3.6)	(4.5)
Amortisation of acquired intangible assets	(5.5)	(5.3)
Exceptional items	(7.6)	–
Operating loss (IFRS)	(24.2)	(11.3)

Revenue

Group revenue was marginally down to \$156.9m (2010: \$157.3m), with the growth of 24% in the first half being reversed by weak consumer demand in the second half of the year. As explained in the Segmental Performance section on page 16, this is the net result of strong growth in Audio Hubs, up 19%, offset by weakness in Discrete and Power products. The largest customer represented 16% of revenue (2010: 20%).

Gross Profit

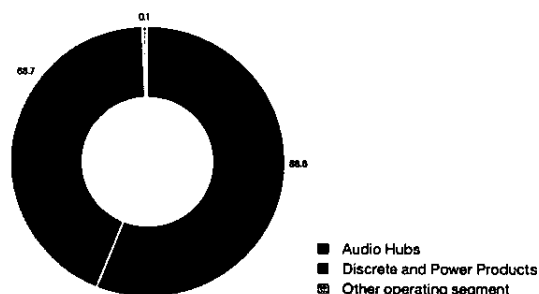
Group gross profit in 2011, before exceptional charges, was \$76.1m, down 2% from the previous year (2010: \$77.9m). Gross margin, before exceptional charges, fell to 48.5%, from 49.5% in 2010, primarily impacted by weakness in Discrete and Power products and subcontractor yield issues early in 2011.

Operating Expenses

Total underlying overheads, excluding amortisation of acquired intangibles, share-based compensation charges (and associated payroll taxes) and exceptional items amounted to \$83.6m, compared to \$79.4m in 2010, an increase of \$4.2m. Of this increase, \$1.5m relates to the adverse movement in the average £/\$ exchange rate from \$1.55/£1 in 2010 to \$1.60/£1 in 2011, whilst a further \$0.7m relates to the three month costs of Dynamic Hearing which was acquired on 30 September 2011. After stripping these increases out, the like for like increase is \$2.0m, or 2.4%. The individual overhead categories are explained further in the following paragraphs.

Our continuous investment in research and development and best-in-class engineering tools is imperative to our growth strategy and our long-term competitiveness. Expenditure on research and development, excluding charges such as amortisation and share-based compensation charges, increased by 11% to \$47.3m or 30% of revenue (2010: \$42.8m or 27% of revenue). The increase primarily reflects the increased complexity of the products now being developed, through higher mask costs on lower technology node tape-outs, software and subcontract DSP costs on these newer products and with the addition of development costs incurred by Dynamic Hearing in the period since its acquisition.

Revenue by Segment 2010 (\$m)



Distribution and selling expenses, excluding share-based compensation charges and exceptional charges, decreased by 5% to \$23.4m or 15% of revenue (2010: \$24.6m or 16% of revenue). The decrease reflects more efficient distribution, freight and packaging arrangements.

Administrative expenses, excluding share-based compensation charges and exceptional charges, increased by 7% to \$12.9m or 8% of revenue (2010: \$12.0m or 8% of revenue), reflecting the underlying £/\$ exchange rate impact and the professional fees associated with the acquisition of Dynamic Hearing.

Exceptional Items

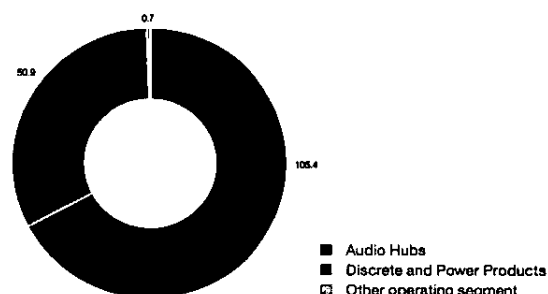
At the interim results on 25 July 2011, the Company announced a cost reduction and refocusing programme to be actioned in the second half of 2011 at an exceptional cash cost of \$3.5m, with annual savings of \$6.0m. The impact of the restructuring in 2011 was to reduce underlying operating expenses by \$1.7m. The full savings of \$1.5m per quarter are expected from quarter two 2012 onwards.

A review of inventory, as part of the restructuring and refocusing programme, itself prompted both by weak end user demand and customers deciding to make some products end-of-life much sooner than originally intimated to the Company, highlighted \$3.5m of older parts associated with Discrete and Power Products which were in excess of anticipated demand. The Company therefore decided to take an exceptional write down on these parts in 2011.

In the course of the process to realign the Company's supply chain to better meet the Company's future product and anticipated demand requirements, involving the relocation of certain production support functions to the Far East and a streamlining of the subcontract manufacturing supply base, an inventory loss of \$2.4m was identified. This arose as a result of unacceptably low yields at a subcontractor from production of a high volume part; the extent of inventory scrapped by the subcontractor during the year had not been properly reported at the time. Although reparation is being sought from the subcontractor concerned nothing has been anticipated for accounting purposes in the Company's 2011 financial statements.

The remaining exceptional item represents a \$1.8m non-cash curtailment gain arising on closing the defined benefit pension scheme to future accrual in 2011. Further details are given on page 20 regarding the defined benefit pension scheme and in note 20 to the financial statements on pages 92 to 95.

Revenue by Segment 2011 (\$m)



Operating Loss

Underlying operating loss was \$7.5m for the 52 week period ended 1 January 2012, compared to a loss of \$1.5m in 2010.

Share-based compensation charges, calculated in accordance with IFRS 2, and associated payroll taxes amounted to \$3.6m in 2011, compared to \$4.5m in 2010. The decrease reflects new share-based awards in 2011 being offset by the lower share price and a credit of \$0.7m recognised in respect of the lapsing of 2009 executive long term incentive plan awards due to the non-market performance conditions not being met. Based on the share price as at 30 December 2011 and planned share-based awards for 2012, the share-based compensation charge in 2012, including the associated payroll taxes, is estimated to be approximately \$5m.

Total intangible asset amortisation charges recognised in 2011 on the 2007 acquisitions, and on the Dynamic Hearing acquisition, from 30 September 2011 (note 10 on page 82), amounted to \$5.5m (2010: \$5.3m). The charge for 2012 is expected to be \$2.0m, weighted to the first half of the year.

The IFRS operating loss was \$24.2m in 2011 (2010: \$11.3m loss).

Financial income amounted to \$1.6m, with finance expenses of \$1.5m, resulting in net finance income in 2011 of \$0.1m (2010: \$0.1m). These sums include non-cash income and expenses associated with the defined benefit pension scheme and notional interest on the acquisition deferred consideration. The net interest income, in cash terms, was \$0.2m (2010: \$0.5m).

Taxation

The total effective tax rate was 25.6% (a credit) (2010: 41% credit) reflecting primarily the benefit from additional allowances on research and development expenditure offset by the partial non-deductibility of share-based compensation charges on awards above the share price as at 30 December 2011. The effective tax rate in 2012 is expected to be around 26%.

Cash Flow & Balance Sheet**Summarised Consolidated Cash Flow**

52 weeks ended 1 January 2012	2011 \$m	2010 \$m
Loss before tax (after exceptional items in 2011)	(24.1)	(11.2)
Depreciation & amortisation	13.7	14.1
Net financing income	(0.1)	(0.1)
(Loss) / earnings before interest, tax, depreciation and amortisation	(10.5)	2.8
Share-based compensation charge	4.1	3.1
Change in working capital:		
- decrease / (increase) in inventories/receivables	4.2	(28.1)
- (decrease) / increase in payables/provisions	(18.9)	26.3
Pension curtailment gain	(1.8)	-
Payments to defined benefit pension scheme	(4.5)	-
Foreign exchange	0.2	(0.3)
Income taxes (paid) / received	(0.3)	3.1
Net cash flow from operating activities	(27.5)	6.9
Capital expenditure	(6.5)	(6.4)
Free cash flow	(34.0)	0.5
Purchase of shares by employee share trust	(5.4)	(1.7)
Proceeds from new issue shares	0.7	1.2
Acquisition of subsidiary / deferred consideration	(5.1)	(1.0)
Interest received	0.2	0.5
Foreign exchange (losses) / gains	(0.1)	(0.2)
Net cash outflow	(43.7)	(0.7)
Opening cash balances*	97.1	97.8
Closing cash balances*	53.4	97.1

*includes cash and cash equivalents and short-term deposit balances

Cash and short-term deposits amounted to \$53.4m at 1 January 2012 (2 January 2011: \$97.1m).

Net cash outflow from operating activities was \$27.5m (2010: \$6.9m inflow), driven by the underlying operating loss, \$4.5m of payments on closure of the defined benefit pension scheme to future accrual and, most significantly by, the \$18.9m impact of the reversal of the unusually large trade payables position at the end of 2010.

On 30 September 2011, the Company acquired Dynamic Hearing for \$4.3m. Note 10 to the financial statements on page 82 provides full details of the acquisition. The Company also paid \$0.8m (2010: \$1.0m) for deferred consideration as milestones were achieved on the 2007 acquisition of Sonaptic (ANC).

Cash outflow on capital expenditure amounted to \$6.5m (2010: \$6.4m) and relates primarily to software licenses and IT equipment.

The value of inventory held at 1 January 2012 was \$22.9m or 103 days inventory (2 January 2011: \$29.1m or 105 days inventory). It is anticipated that inventory levels will average around 70 – 100 days in 2012 to meet fluctuations in demand. Trade receivables amounted to \$25.9m or 51 days sales outstanding at 1 January 2012 (2 January 2011: \$23.6m or 44 days sales outstanding). It is expected that the number of days sales outstanding will average around 45 in 2012. Trade payables at 1 January 2012 amounted to \$16.5m or 53 days purchases (2 January 2011: \$33.4m or 99 days purchases). It is anticipated that the number of days purchases will average 50 in 2012.

Treasury and Foreign Exchange

Nearly all revenue and cost of goods sold are denominated in US dollars, so there is a natural and effective hedge down to the gross margin level. However, approximately two-thirds of operating costs are denominated in sterling, and this represents a structural currency exposure derived from the UK base of the Company. During 2011, there was currency hedging in place throughout the year, ranging from three to six months forward in time, with an average rate over the year of \$1.60 to £1 (2010: \$1.55 to £1). It is estimated that during 2011 and going into 2012, every one cent decrease in the US dollar/sterling exchange rate (i.e. weakening of sterling) has the effect of decreasing the Company's overheads and increasing operating profit by \$300,000 on an annualised basis. To give some short-term certainty, the majority of the sterling dominated overheads for all of 2012 have been hedged at an average rate of \$1.55 to £1. Note 23 to the financial statements, on pages 102 to 108, contains further details regarding currency risk management.

Share Repurchases

In 2011 one of the employee share trusts purchased 1,422,545 (2010: 585,663) ordinary shares in the Company for a total consideration of \$5.4m (2010: \$1.7m) to cover employee share-based awards. This employee share trust is likely to make further purchases of shares in the Company going forward to satisfy employee share-based awards and in order to minimise the dilution impact of those share-based awards.

Defined Benefit Pension Scheme

On 30 April 2011 the Company closed the defined benefit pension scheme to future accrual and transferred the 28 active members into the Company defined contribution scheme. On breaking the link to final salary a \$1.8m non-cash curtailment gain was recognised as an exceptional item. During the year the Company paid in \$1.3m under the regular schedule of contributions and a further \$3.2m as part of the agreement reached with the trustees to close the scheme to future accrual. Note 20 on pages 92 to 95 explains the position of the defined benefit scheme.

Risks and Uncertainties

The constant review of risk and the risk profile of the business against the corresponding business opportunities are considered, within Wolfson, to be a fundamental responsibility of management. However, in addition and as a safeguard, the Company has put in place formal processes for the identification and, where possible, the management and/or mitigation of significant risks. In 2011, Wolfson conducted its formal risk management review processes in a manner similar to that adopted in 2010. Flowing from the annual strategic review, an updated risk register was generated by the senior management team, designed to align the strategy propositions with the corresponding risks; this reflected both a bottom up and top down analysis of opportunities and related risks. This updated risk register was reviewed at Audit Committee and at full Board level, and formally adopted.

The risk register is reviewed quarterly by the senior management team and pertinent issues arising are reported back to the Board and/or Audit Committee to ensure the directors are aware of any change in profile and other relevant matters. Details on the identification and management of risks are also included on pages 38 and 39 in the Corporate Governance Statement.

Principal Risks

For 2012 the main priority for the business is the continued focus on the transformation programme, successful completion of which could/should completely change the scale of opportunity available to Wolfson. It is accepted that this strategy of itself has increased the overall risk and opportunity profile of the business for the reasons outlined in the Strategic Update section of the Business Review (on pages 5 to 11). The main factors which might damage achievement of the Company's ambition or its ability to optimise its opportunities may be summarised thus:

- Failure to execute successfully any of the 3 core strands of the transformation strategy being:
 - a. The key development programmes of HD Audio Hubs and integrated MEMS microphones
 - b. Achieving the status of approved strategic partner and winning the high profile design slots with sufficient major customers (those producing smartphones and tablets in particular)
 - c. Managing the skills transition and being able to attract sufficient top calibre software engineers.
- Major litigation, particularly claims of patent infringement, managing to derail any of the core developments or affecting customer confidence in Wolfson as a supplier.
- Being outgunned by competitors either on development of leading technologies or in the strategic engagement with major customers.
- Product quality issues leading to loss of reputation with customers and/or product recalls.
- Supply chain capacity becoming a limiting factor; this could arise from natural disaster (e.g. Japan tsunami) or simply demand outstripping supply and Wolfson's subcontracted manufacturing capacity being squeezed resulting in higher prices (lower gross margin) or supply shortages.

The Full Complement of Risks

The complete list of possible risks can be categorised into 3 parts:

- i. specific to Wolfson's strategy and positioning within its industry;
- ii. generic to the industry in which the Company operates; and
- iii. general risks with the potential for affecting virtually all companies in some way (e.g. bird flu pandemic).

The principal risks articulated above concentrate mainly on category i. What follows is the output from the Company's risk register concentrating more on categories ii. and, to a lesser extent, category iii.

New Product Specification and Introductions

Specifying and then designing the correct products is fundamental to the success of the Company. These are particularly important management considerations for 2012 and 2013. Customers tend to have set design windows that must be met for a product to be selected, and missing these windows through being late or not meeting the required specification can result in being excluded from an entire end consumer product cycle. The average design cycle for the Company's products can take 18 months or longer to complete and achieve volume production; therefore missing a cycle can take more than two years to recover. This long design cycle, coupled with limited customer visibility as to the commercial success of its own products before taking account of uncertainties over customers' future requirements and plans, makes forecasting product demand and the timing of that demand difficult. There are also inherent risks in lengthy design cycles including risk of future design loss to a competitor, risk of cancellation and limited uptake for new products.

Executing New Products on Schedule

The challenge to execute product development projects on time is more important than ever. Wolfson's Audio Hub products have significantly higher complexity (with combined analogue plus digital integrated circuits and related software) and this has therefore increased the Company's need to continuously improve its design process, tools and project management in order to complete critical new product developments on time.

Technological Advance

Wolfson's business is technology-intensive and, by nature, fast-moving. Rapid progress in microelectronics continues unabated. By definition, Wolfson is thereby exposed as a matter of course to the threat of obsolescence, whether in the tools by which it designs products, the processes on which it builds products, the systems by which it tests products, or the end-devices into which it sells products. Wolfson invests heavily in research and development to keep pace, but this expenditure must be well-aimed and well-executed to benefit the Company fully and differentiate its solutions for customers. Failure in any of these respects could degrade significantly the Company's business, as well as technical, performance and prospects.

Increased Dependence on the Audio Hub Strategy

Wolfson sees the continued momentum behind Audio Hubs to be critical to its success going forward (as explained in the Strategic Update on pages 5 to 11). Continuation of the trend to dis-integrate audio and related functions from the main applications processor will be key to Wolfson's success.

Winning the Right Design-ins at Customers

The Company's sales success is dependent on first winning design-ins within customers' own products. The sales team must identify opportunities for design-ins early, convince the customer that the Wolfson product is better than the competition and support the customer as technical issues are resolved during the run up to the customer's mass production. The time from design-in to volume production of the customer's product, and therefore of sales revenue for Wolfson, can vary from a few months to over a year. Thereafter there is an inevitable reliance on the commercial success of those (customer) products into which Wolfson has been designed.

Dependence on the Growth of the Consumer Electronics Market

The Company's future success relies on the growth of the digital consumer electronics market and the successful adoption by customers of its integrated circuits in their products. The future size of the digital audio, portable devices, digital imaging markets, and other potential markets, is uncertain and depends on a number of factors, all of which are beyond the Company's control. The failure of these markets to develop as generally expected would, in all likelihood, have a material adverse effect on the business, financial condition and results of the Company's operations.

In addition, the Company's future success is also dependent on the success of its customers in their related markets. Reduced uptake by consumers of products from the Company's end customers could also have a material adverse effect on the Company's business, financial condition and operating results.

Customer Dependence

The Company supplies products to a range of companies. The Company seeks continually to expand its customer base and customer mix. However, one or a small number of customers may become responsible for a significant proportion of the Company's sales. Rapid variation of such customers' demand could then significantly affect the Company's revenues. The largest customer in 2011 accounted for 16% of revenue (2010: 20%), with the top 10 customers accounting for 65% of revenue in 2011 (2010: 59%) and the top 20 customers accounting for 81% of revenue in 2011 (2010: 75%).

Moreover, the reliance on a relatively small number of large global customers means that the Company's reputation for meeting development obligations, producing quality products and achieving delivery timescales are crucial. Significant failings in any of these areas could cause serious and long lasting damage to Wolfson's reputation and relationships.

Competitors

The markets in which the Company operates are very competitive and are characterised by rapid technological change and evolving standards. Many of the Company's competitors are larger in size, have greater financial, marketing and/or technical resources, a longer trading history and larger installed customer bases. As a result, they may devote greater resources to the development, promotion and sale of their products than the Company can. These factors may prevent the Company from competing successfully against current or future competitors.

Fabless Business Model

The Company does not have its own manufacturing facilities. As a result, the Company's business model is less capital intensive. The Company uses GLOBALFOUNDRIES (formerly named Chartered Semiconductor), MagnaChip Semiconductor, CSMC, TSMC and X-FAB for the manufacture of most of its silicon wafers and Unisem, Carsem, ASE, OSE and KYEC for major test and assembly services. The Company is reliant on these independent suppliers to provide the required capacity to manufacture, assemble and test its products and to provide high quality products on time. The Company maintains an internal manufacturing support group which directs product supply, helps ensure a high level of quality and reliability and works with the wafer foundries and production assemblers to resolve issues. To mitigate the risk of loss of supply from a manufacturer ceasing business, or a temporary disruption affecting supplies, a number of contingency plans have been put in place, including carrying additional buffer inventories and second-sourcing higher volume parts. Regular senior management meetings are also held with suppliers to ensure the Company is kept up-to-date with current trading and liquidity issues within the supply chain. To mitigate this risk additional capacity has been added through the qualification of new suppliers.

Infringement of Third Party Intellectual Property Rights

The semiconductor industry is characterised by cross-licensing and frequent litigation regarding patent and other intellectual property rights. Given the degree to which success in the Audio Hubs and MEMS microphone markets could displace incumbent vendors, the potential for disruptive litigation is increased. Wolfson believes its innovative intellectual property, much of which is subject to patent applications, is well protected but the risk of attack still remains. The Company has provided certain indemnification protections to some of its customers in respect of any alleged infringement of third party intellectual property rights by its products. Claims against the Company could adversely affect its ability to market and sell its products and seriously harm its operating results. In addition, the defence of such claims could result in significant costs and divert the attention of the Company's executives and technical personnel from their day-to-day work.

Personnel

The Company relies on the ability to hire and retain appropriately qualified staff who provide the expertise and experience critical to its business and the implementation of its strategy. There is intense competition for qualified personnel in the semiconductor industry and, from time to time, the Company experiences difficulty in locating candidates in the relevant country with appropriate qualifications and experience. The Company enters into employment contracts with its personnel but there is no assurance that it will be able to continue to hire and retain appropriately qualified personnel. The loss of the service of, or failure to recruit in a timely manner, key technical and management personnel (or teams) would adversely impact the Company's product development programmes and could have a material adverse effect on its performance and future growth.

Catastrophic Failure of End-user Device in the Field

The Company supplies components primarily into consumer electronic products. Many of the major consumer brands require indemnities should a customer product recall be required as a result of significant field failures caused by one of the Company's components. The Company looks to avoid such indemnities and, where given, to limit the scope and quantum of the indemnity; however, this is often not possible and indeed some indemnities are unlimited in quantum. To reduce this risk there are rigorous procedures and controls on the design, manufacture, testing and quality processes of the Company, so as to avoid any components being supplied that could result in such field failures. The Company also has significant, but not unlimited, product liability insurance in place to cover such an event.

Inventories

The typical cycle time to manufacture a part from start to finish can range from twelve weeks to sixteen weeks depending on industry lead times. Customers typically place orders between three and eight weeks before required ship date, therefore inventory is built based on customer forecasts plus agreed buffer levels. To manage the potential risk of holding excess inventory, it is often held at wafer level, which accounts for half of the product manufacturing cycle time, with wafers often being capable of use in multiple products, thereby increasing flexibility and reducing risk of obsolescence. Very few parts are customised for specific customers, but when this is the case, such parts are built to order where possible. Detailed sales forecasts are reviewed monthly and manufacturing of inventories are managed against these forecasts, with large volume parts reviewed more regularly. When a part is identified as nearing end of life or a newer revision of the part is launched, or customers' forecasts decline, increased focus is given to manage the required reduction in inventory levels.

Cash Funding

The markets in which the Company operates are very volatile and can quickly turn both favourably and unfavourably, based on end consumer confidence, success of a given customer's product and the general economic climate. With the underlying operational gearing in the business (refer to the Business Description section within the Business Review on page 15), a downturn in revenues quickly impacts the profitability and cash generation of the Company. It is therefore usual practice within the fabless industry that companies carry no debt (due to potential covenant issues) and a healthy cash surplus position to provide cover against sharp downturns, thereby giving assurance to both customers and suppliers.

Acquisitions

The Company expects to review further potential (technology based) acquisition targets as part of its strategy. The internal investment case for such acquisitions may not materialise as planned. In addition, the integration of acquired companies involves additional risk including diversion of management time, potential failure to realise the synergy benefits anticipated from the acquisition, the cultural risk associated with integrating different companies in various countries, and risks associated with unexpected liabilities or events arising post acquisition.

Foreign Currency Exposure

Refer to Treasury and Foreign Exchange section on page 20.

This Annual Report contains certain forward-looking statements that are Wolfson's expectations and beliefs about our future business. These statements are made by the Directors in good faith, based on information available to them at the time of the approval of the report. Undue reliance should not be placed on such statements, which are based on Wolfson's current plans, estimates, projections and assumptions. By their nature, forward-looking statements involve known and unknown risk and uncertainty because they relate to events and depend on circumstances which may occur in the future and which in some cases are beyond Wolfson's control. Actual results may differ from those expressed in such statements, depending on a variety of factors. These factors include, but are not limited to: consumer and market acceptance of the Company's products and the products that use the Company's products; decreases in the demand for the Company's products; excess inventory levels at the Company's customers; decline in average selling prices of the Company's products; cancellation of existing orders or the failure to secure new orders; the Company's failure to introduce new products and to implement new technologies on a timely basis; the Company's failure to anticipate changing customer product requirements; fluctuations in manufacturing and assembly and test yields; the Company's failure to deliver products to its customers on a timely basis; disruption in the supply of wafers or assembly or testing services; the timing of significant orders; increased expenses associated with new product introductions, masks, or process changes; the commencement of, or developments with respect to, any future litigation; the cyclicality of the semiconductor industry; and overall economic conditions.

Mark Cubitt

Chief Financial Officer

Directors

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Michael Ruettgers (age 69)¹

Chairman

Mr Ruettgers joined the Board and became Chairman on 1 January 2008; he is also chairman of the Nomination Committee and is a member of the Remuneration Committee. Mr Ruettgers joined EMC Corporation, which is listed on the New York Stock Exchange, in 1988 and served as its Chief Executive Officer from 1992 until January 2001, before becoming Executive Chairman and finally Chairman until 2005. Mr Ruettgers is the lead independent director at the *Raytheon Company*, also a New York Stock Exchange company. Mr Ruettgers also serves as a non-executive director at two private companies, the Orvis Company, Inc. and Gigamon, Inc.

J. Michael Hickey (age 52)²

Chief Executive Officer and Managing Director

Mr Hickey was appointed to the Board on 8 September 2008 as Chief Executive Officer Designate and he became Chief Executive Officer with effect from 1 January 2009. Mr Hickey joined Wolfson from Motorola, Inc., where from March 2005 he held various senior positions in Motorola's mobile device business. Most recently he was Senior Vice President and General Manager of the Multimedia Product organisation, reporting directly to the Mobile Devices business president. Previous to Motorola he served as non-executive chairman of Incline Global Technology Services Ltd and, prior to this, Chief Executive Officer of Kymata Ltd, both private UK companies. Mr Hickey has also held senior positions at Alcatel Optronics, until the end of 2002, and during an earlier period (from 1993 to October 2000) at Motorola. Prior to this he worked for Digital Equipment Co. Ltd and Philips Ltd. Mr Hickey holds a B.Sc. in Physics and Electronics from Brunel University, London, and a DMS and an MBA from Portsmouth Business School. He is a member of the Institute of Management, the Institution of Engineering and Technology and is a chartered engineer.

Mark Cubitt CA (age 49)³

Chief Financial Officer and Finance Director

Mr Cubitt joined the Board in January 2007 and serves as the Chief Financial Officer and Finance Director. Mr Cubitt was previously Vice President of Finance at Jacobs Engineering in the UK and Ireland. He was the Finance Director of Babbie Group from 2001 until the sale of the company to Jacobs Engineering in 2004, when he then took up a wider finance role within Jacobs. Before joining Babbie, Mr Cubitt was the Finance Director of Dawson International PLC, where he worked from 1996 until 2000. From 1988 to 1994, he held a number of finance posts in Christian Salvesen PLC and its then subsidiary Aggreko. Mr Cubitt is a Chartered Accountant and has a degree in Accountancy and Computer Science from Heriot-Watt University and was the chairman of the Scottish Finance Directors Discussion Group in 2010.

Ross King Graham FCA (age 64)⁴

Non-executive Director

Mr Graham was appointed to the Board in September 2003 and serves as a non-executive director. On 20 September 2010, Mr Graham was appointed as the Senior Independent Director. He is the chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Mr Graham qualified as a chartered accountant with Arthur Young in 1969, and was made a partner of that firm in 1981. In 1987 Mr Graham joined Misys on its flotation as its Finance Director, becoming Corporate Development Director in 1998 and finally retiring from the Board at the end of 2003. Throughout his time at Misys he played a key role in developing and implementing its acquisition strategy. Mr Graham also holds a non-executive directorship at Psion plc where he acts as the senior independent director and chairman of the audit committee.

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Alastair David Milne (age 69)⁵**Non-executive Director**

Dr Milne co-founded the Company in 1984 and served as the Chief Executive Officer and Managing Director until 28 February 2007. He remained an executive director of the Company until 8 November 2007 when he retired and was appointed as a non-executive director from 9 November 2007. From 1973 to 1985, Dr Milne directed the Wolfson Microelectronics Institute at Edinburgh University, which developed CAD software and integrated circuit technology. Dr Milne was Vice President of the Royal Society of Edinburgh from October 1995 to September 1998 and is a Fellow of the Royal Academy of Engineers. Dr Milne was Chairman of the European Leadership Council of the Global Semiconductor Alliance in 2007/2008. Dr Milne has been a director and chairman of Edinburgh International Science Festival Limited since 2007. Dr Milne was appointed a director and chairman of the board of Elonics Limited in September 2008. He has a Doctorate in Physics from Bristol University and was a member of the Court of the University of Edinburgh from 1998 until 31 August 2007. Dr Milne has honorary Doctorates of Science from Universities of Heriot-Watt and Edinburgh and an honorary Doctorate of Engineering from Bristol University. Dr Milne was awarded the OBE in 1985 for services to industry.

Robert Laurence Eckelmann (age 55)⁶**Non-executive Director**

Mr Eckelmann joined the Board in November 2004 and serves on the Audit, Nomination and Remuneration Committees. From 1988 to 2002 Mr Eckelmann was employed by Intel Corporation, where he launched its Asian business and was then Vice President and General Manager of the EMEA region. Before joining Intel in 1988, Mr Eckelmann served for six years at the US Department of Commerce responsible for high-tech trade policy and negotiations with Asia and the EU. Mr Eckelmann holds several non-executive directorships including: Emulation & Verification Engineering, the Midis Group and he is chairman of Silecs International.

Glenn Collinson (age 48)⁷**Non-executive Director**

Mr Collinson was appointed to the Board on 1 September 2008 and serves as a non-executive director and is a member of the Audit Committee. On 20 September 2010, Mr Collinson became a member of the Company's Remuneration Committee and was appointed as chairman of that Committee from that date. In 1998 Mr Collinson co-founded Cambridge Silicon Radio (CSR plc) as a start-up project and was a member of the board of directors that managed the growth of CSR through its listing as a public company in 2004 and up until 2007, serving first as Marketing Director and then as Sales Director. Prior to CSR plc, Mr. Collinson held positions including Senior Engineer and then Marketing Manager at Cambridge Consultants Ltd from 1996 to 1998 and held positions as a Design Engineer and Marketing Manager at Texas Instruments from 1989 to 1996. He is a member of the Institution of Engineering and Technology and holds a B.Sc. in Physics and an M.Sc. in Electronics from Durham University, as well as an MBA from Cranfield University. Mr Collinson currently holds non-executive director positions at Inside Secure SA, at Solar Press Limited and at Neul Limited.

John Grant (age 65)⁸**Non-executive Director**

Mr Grant was appointed to the Board on 1 September 2011 and serves as a non-executive director and is a member of the Audit Committee. Mr Grant has held a number of senior positions within the Ford Motor Company in the USA and in Europe, including executive deputy chairman of Jaguar Cars and head of corporate strategy at Ford in the USA, where his career spanned some 25 years. In 1992, Mr Grant joined Lucas Industries plc (subsequently Lucas Varity plc) where he served as group finance director until 1996. Mr Grant was chief executive of Ascot plc from 1997 to 2000, and then from 2000 to 2004, he served as executive chairman of Hasgo Group Ltd. Mr Grant currently holds the positions of non-executive director of both Pace plc and of MHP S.A., where he serves as chairman of their respective audit committees; and non-executive director of Melrose plc. He holds a B.Sc. in Economics from Queen's University of Belfast and an MBA from Cranfield School of Management and is a Fellow of the Association of Corporate Treasurers.

Directors' Report

The directors have pleasure in submitting their report and financial statements for the 52 week period ended 1 January 2012.

Principal activities

The Group is principally engaged in the design, manufacture and supply of high performance mixed-signal integrated circuits for the consumer electronics market. The Business Review on pages 4 to 15 provides further details of the principal activities of the Group.

Financial

The Group's consolidated loss for the 52 week financial period, after taxation, was \$17,886,000 (2010: \$6,592,000 loss). A financial review of the results for the 52 week period is set out on pages 16 to 23.

The financial risk management objectives and policies and an indication of the exposure to financial risk is included in note 23 to the financial statements.

Going concern

As explained in note 1 to the financial statements on page 67, the directors have reviewed the latest forecast results and cash flow projections. After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. The financial statements for the 52 week period ended 1 January 2012 have therefore been prepared on a going concern basis.

Dividends

The Company's current policy, which is kept under regular review, is to retain future earnings for the development and expansion of the business. Payment of any future dividends will be at the discretion of the Board after taking into account various factors, including the Company's current and future cash requirements, development plans and operating results.

Business Review

The report of the directors should be read in conjunction with the Chairman's Statement, the Business Review and the Operating and Financial Review on pages 2 to 23, which contain details of the principal activities of the Group during the period and an indication of future developments. The review of the business has been divided into three areas and dealt with in this Annual Report as follows:

- principal risks and uncertainties – pages 21 to 23 of the Operating and Financial Review;
- a review of the development and performance of the business and the position of the Group at 1 January 2012 – included in the Business Review on pages 4 to 15 and in the Operating and Financial Review on pages 16 to 23; and
- key performance indicators – on page 1 and on pages 16 to 20.

All of the information detailed in those sections, which is required for the business review or otherwise for this report, is incorporated by reference in (and shall be deemed to form part of) this report.

Research and development

The Group continues to invest in research and development of mixed-signal integrated circuits and related technology. The Business Review on pages 4 to 15 provides further information regarding the research and development activities conducted by the Group. The Group incurred research and development expenses of \$56.3 million in the 52 week period ended 1 January 2012 (2010: \$50.1 million), representing 36% of revenues (2010: 32%).

Donations

The Group made no political contributions during the 52 week period ended 1 January 2012. Sponsorships and donations to UK charities amounted to \$186,000 (2010: \$324,000).

Directors

The directors who held office at 1 January 2012 and their interests in the shares of the Company at that date are set out on page 54. The interests of the directors in the share options of the Company are set out on page 55. No director had, during or at the end of the financial period, any material interest in any contract of significance in relation to the Group's business.

Barry Rose retired as a non-executive director of the Company at the conclusion of the annual general meeting ("AGM") of the Company held on 21 April 2011.

On 1 September 2011 John Grant was appointed as a non-executive director of the Company.

At the forthcoming AGM, J Michael Hickey and Glenn Collinson will retire by rotation and, being eligible, will offer themselves for re-election. John Grant, who was appointed as a non-executive director by the Board on 1 September 2011, will also retire at the forthcoming AGM and, being eligible, will offer himself for election.

In accordance with the Company's Articles of Association (the "Articles"), directors appointed by the Board are required to submit themselves for election at the first AGM following their appointment and thereafter at the third AGM following the AGM at which they were last elected or re-elected. However, in accordance with the UK Corporate Governance Code, the Board has decided that, with effect from the AGM to be held in 2012, all directors will submit themselves for annual re-election by shareholders. Therefore at the forthcoming AGM, Michael Ruettgers, Mark Cubitt, Robert Eckelmann, Ross K Graham, and Alastair David Milne will also retire and, being eligible, will offer themselves for re-election.

The names and biographical details for the directors who held office at 1 January 2012 are set out on pages 24 and 25 and details of directors' service contracts are set out in the Directors' Remuneration Report on page 56.

Appointment of directors

The Articles provide that the holders of the Company's ordinary shares ("ordinary shares") may, by ordinary resolution, appoint any person to be a director. At each AGM, any director who was appointed to the Board since the last AGM, or any director who held office at the time of the two preceding AGMs, must retire by rotation. Any director who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the AGM shall retire from office. A retiring director is eligible for re-election unless the directors have agreed otherwise.

The Board may appoint a director to fill a casual vacancy or as an additional director to hold office until the next AGM when that director shall then be eligible for election.

Directors' responsibilities

The directors' responsibilities in respect of the Annual Report and the financial statements are shown on page 60.

Share capital and control

As at 1 January 2012 there were 116,308,427 ordinary shares in issue, all of which are fully paid. Note 19 to the financial statements contains information regarding the Company's share capital, including details of ordinary shares issued during the period. The ordinary shares are listed on the London Stock Exchange.

The rights and obligations attaching to the ordinary shares, in addition to those conferred on their holders by law, are set out in the Articles, a copy of which can be obtained from Companies House or by writing to the Company Secretary. The holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

The Company may amend its Articles by adopting new Articles by special resolution. Amendments to the Articles, primarily to accommodate changes in company law arising from the Companies Act 2006, were approved by the shareholders at the AGMs held on 20 May 2009 and on 20 May 2010 respectively, which included a number of changes some of which impact on the rights and obligations attaching to those shares.

The Board is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Articles.

There are no known arrangements under which financial rights are held by a person other than the holder of the shares. As far as the Company is aware, as at 6 February 2012 there were no persons with significant direct or indirect holdings of voting rights in the Company other than as set out in the section below entitled "Substantial shareholdings".

Significant agreements – change of control

The Company's equity-based plans contain provisions relating to change of control. Share options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. Contingent share awards would normally vest on a change of control of the Company, subject to the satisfaction of any performance conditions and on a time apportioned basis.

Purchase of own shares

At the AGM held on 21 April 2011 the shareholders granted the Company the authority to purchase, in the market, its own ordinary shares up to a maximum of 11,597,313 ordinary shares. In 2011 and in 2010 the Company did not purchase any of its own shares.

The authority for the Company to purchase in the market its own ordinary shares, up to a maximum of 11,597,313 ordinary shares, expires at the conclusion of the AGM to be held on 26 April 2012 and shareholders will be asked to give a similar authority at the forthcoming AGM as set out in the Notice of the AGM which is being sent to all shareholders and will be published at www.wolfsonmicro.com.

Substantial shareholdings

As at 1 January 2012, the Company had received notifications, under Rule 5 of the UK Listing Authority's Disclosure Rules and Transparency Rules, from the following parties that they have an interest in the ordinary share capital of the Company:

	Number of ordinary shares	% of issued share capital	Nature of holding
BlackRock, Inc.	15,059,807	12.95%	Indirect
Artemis Investment Management LLP	11,276,590	9.70%	Direct
Majedie Asset Management Limited	7,783,274	6.69%	Indirect
Legal & General Group Plc	6,752,567	5.81%	Direct
Norges Bank	4,938,239	4.25%	Direct
The Wolfson Microelectronics No.1 and No.2 Employees' Share Trusts	4,359,070	3.75%	Direct
DJ Carey	4,153,422	3.57%	Direct

In the period from 2 January 2012 to 6 February 2012 the Company received a further notification, under Rule 5 of the Disclosure Rules and Transparency Rules, from the following party:

	Number of ordinary shares	% of issued share capital	Nature of holding
JP Morgan Asset Management (UK) Ltd	7,268,683	6.25%	Indirect

Employees

Employee involvement

The Company is committed to employee involvement throughout the business and this is described on pages 40 and 41.

The Company has established offshore employee share trusts in connection with the Company's performance share plan, executive shared ownership plan and staff share award plan. As at 1 January 2012 these trusts held a total of 4,359,070 ordinary shares. The shares to which the trusts relate have voting rights. However, under the terms of these trusts, the trustees have agreed to refrain from exercising voting rights otherwise than to the extent the shares have vested. During 2011, one of the employee share trusts purchased a total of 1,422,545 ordinary shares for a total consideration of \$5,390,000, as referred to in notes 19 and 26 to the financial statements.

Discretionary employee share schemes are an established and effective part of reward packages for employees, encouraging and supporting employee share ownership. A summary of the employee share schemes is included in notes 19 and 20 to the financial statements. In 2010, following receipt of shareholder and HM Revenue and Customs approval, the Company implemented a Save As You Earn share option scheme in which all UK employees are able to participate. There was a high level of participation as a result of both the first invitation under this scheme in 2010 and the second invitation in 2011. Share options were granted to employees, who wished to participate in the first and / or second share option grant from this scheme, on 1 September 2010 and on 30 November 2011 respectively.

Employees with disabilities

The Company's policy is to give full and fair consideration to suitable applications for employment from people with disabilities. If existing employees become disabled they will continue to be employed, wherever practicable, in the same job or, if this is not practicable, every effort will be made to find suitable alternative employment and to provide appropriate training.

Contractual agreements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. The Company has a number of key suppliers, mainly in respect of the subcontracted manufacture of its products. While the loss of or disruption to certain of these arrangements could temporarily affect the operations of the Group, none are considered to be essential to the operation of the Group. The management of key suppliers for the manufacture of the Company's products is explained in the Risks and Uncertainties section of the Operating and Financial Review on page 22.

Policy and practice on payment of creditors

The Company's policy concerning the payment of creditors for goods and services is to pay suppliers within 30 days of the end of the calendar month in which the invoice is received (net 30 day terms), unless alternative terms have been specifically agreed in advance. This policy and any specific terms agreed with suppliers are made known to the appropriate staff and suppliers. At 1 January 2012, the Company had 53 days (2010: 99 days) purchases in trade payables.

Qualifying third party indemnity

Since 21 April 2005, a qualifying third party indemnity provision has been in force pursuant to the Articles.

The Company maintains directors' and officers' liability insurance.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be put to the shareholders at the forthcoming AGM.

Annual General Meeting

The Annual General Meeting will be held on 26 April 2012 in Edinburgh. The Notice of the Annual General Meeting is contained in a separate booklet which is being sent to shareholders along with this Annual Report.

By order of the Board



Jill Goldsmith
Company Secretary

Edinburgh

6 February 2012

Corporate Governance Statement

Chairman's introduction

The Board is accountable to the Company's shareholders for good corporate governance. The UK Corporate Governance Code issued in June 2010 ("the Code") emphasises the Board's responsibility for providing the leadership to promote the long term success of the Group within an effective framework of authority and accountability that encourages innovation and best practice, while properly managing risk.

The Board regards corporate governance not simply as an exercise in compliance, but as a key foundation for this long term success of the Group and, as Chairman, I am conscious of my responsibility to provide leadership to the Board in order to ensure its effectiveness and enable the delivery of the Group's long term strategy. We consider this corporate governance statement to be important as it explains the governance of the Group and identifies how we apply the Code's principles relating to the role of the Board, its effectiveness and accountability, but also as it forms part of our wider engagement with shareholders and other stakeholders.

We are committed to maintaining high standards of corporate governance throughout the Group and therefore aim to apply the principles of corporate governance set out in the Code.

The emphasis in the Code on risk management and on shareholder engagement is consistent with the Board's approach and activity over the last two years with notably a stronger link between our strategic review and our approach to risk management, and also our on-going and regular communication with shareholders through various channels.

Monitoring the level of risk and the governance to support risk management has therefore been an important focus involving the support of both the Audit Committee and the senior management team, particularly in the challenging trading conditions which were experienced in 2011. It is important that we ensure that the risk identification, assessment and monitoring procedures remain active and adaptive and thus reflect the effects of relevant changes to the economic, general market and competitive environment within which the Group operates.

We acknowledge the importance of having an appropriate balance of skills and experience on the Board. During 2011, one of our non-executive directors, Barry Rose, retired from the Board and John Grant joined the Board in September as an independent non-executive director. John brings extensive international corporate governance experience, particularly from an audit committee perspective, from his previous and current directorships of several international companies. The importance of updating and refreshing Board members' skills and knowledge is also recognised, and this applies from the date of appointment with a specific induction programme followed up by selected briefings, publications and seminars.

In addition, the Board aims to enhance further its high standards of corporate governance relating to the evaluation of the Board performance and the re-election of directors. We intend to implement an externally facilitated Board performance evaluation process at least once every three years to complement and enhance the current annual Board performance evaluation procedures. The Board has considered the provision of the Code regarding annual re-election of directors for FTSE 350 companies and, although the Company was not in the FTSE 350 in the current nor in the previous reporting period, the Board believes that annual re-election promotes our accountability to our shareholders. All Board members will therefore offer themselves for re-election at this year's Annual General Meeting.

Although not effective until the Group's financial year 2013, which commences on 31 December 2012, the Board is also aware of the changes to the UK Corporate Governance Code issued by the Financial Reporting Council in October 2011 in relation to boardroom diversity. We consider diversity more broadly than just gender – we believe it is important to get the right balance of independence, skills, knowledge and experience. During 2012 the Board will aim to address further those aspects to ensure that it remains compliant, as far as practicable, with best practice and high standards of corporate governance are maintained.

The statement that follows describes how the directors have applied the principles of corporate governance and the extent to which the principles and provisions of the Code have been complied with during the 52 week period ended 1 January 2012.

Michael Ruetters
Chairman

Compliance Statement

The Group has complied, throughout the 52 week period ended 1 January 2012, with the provisions of the UK Corporate Governance Code ("the Code").

For the current reporting period, the Company is deemed to be a "smaller company" in terms of provision B.1.2 of the Code, and has had at least two independent non-executive directors throughout the 52 week period ended 1 January 2012. Since 1 September 2011, being the date of appointment of J Grant as an independent non-executive director, half of the board (excluding the chairman) comprises independent non-executive directors as defined in Code provision B.1.1.

Also, by working toward implementing both an externally facilitated evaluation of the Board at least every three years, and the annual re-election of the directors by shareholders, the Company aims to achieve higher corporate governance standards by exceeding the provisions in the Code as they relate to "smaller companies".

To the extent that it is not specifically included in this Corporate Governance Statement, the information required by section 7.2 of the Disclosure Rules and Transparency Rules of the UK Listing Authority is included in the Directors' Report (pages 26 to 28).

Board Composition and Operation

Board Composition

During 2011, BM Rose retired as non-executive director of the Company on 21 April 2011 and J Grant was appointed as an independent non-executive director with effect from 1 September 2011. The changes in the Board composition during the period are summarised below:

Period	Number of executive directors during the period	Number of non-executive directors during the period	
		Independent*	Not independent*
3 January - 21 April 2011	2	3	3
22 April - 31 August 2011	2	3	2
From 1 September 2011	2	4	2

*as defined in Code provision B.1.1

In the period from the beginning of 2011 until 31 August 2011, three of the non-executive directors were independent in accordance with the terms of the Code: RK Graham, R Eckelmann and G Collinson. From 1 September 2011, upon the appointment of J Grant as an independent non-executive director, four non-executive directors were independent in accordance with the terms of the Code (see below). From 1 September 2011 and until the date of approval of this report, the Board has therefore comprised eight directors: the Chairman, two executive directors and five non-executive directors. The Senior Independent Director is RK Graham.

The Board considers all of its non-executive directors to be independent in character and judgement. However, throughout the 52 week period ended 1 January 2012, only RK Graham, R Eckelmann and G Collinson are independent in terms of Code provision B.1.1 as none of these:

- has been an employee of the Company or Group within the last five years;
- has, or has had within the last three years, a material business relationship with the Company or Group;
- receives remuneration other than a director's fee, participates in the Company's share option schemes or is a member of the Company's pension scheme;
- has close family ties with any of the Company's or Group's advisers, directors or senior employees;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years.

J Grant, who was appointed on 1 September 2011, is also independent in terms of the Code provision B.1.1.

With effect from 1 September 2011, J Grant was appointed as a member of the audit committee. The members of the Committees of the Board during the period are set out on pages 34 to 37.

Board Operation

The Board considers that it has an appropriate number of directors, who amongst them have the necessary balance of skills, experience, independence and knowledge given the size and complexity of the Group. The directors contribute a range of complementary skills, knowledge and experience to the Board. Biographical details of all the directors serving as at 1 January 2012 are given on pages 24 and 25. The Board's view is that the independent directors are of sufficient calibre and number that their views carry appropriate weight and influence on the Board's decision making. All directors are aware of their responsibility to take decisions objectively which promote the success of the Company for the benefit of its members and other stakeholders.

The Company's Articles of Association require that all directors must submit themselves for election at the annual general meeting ("AGM") following their appointment and, thereafter, for re-election at least once every three years. Any director who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the AGM shall retire from office. Although AD Milne has served as a director of the Company for more than nine years, he has only served as a non-executive director since 9 November 2007. AD Milne is therefore not currently subject to this annual re-election provision. Although it is not a requirement of the Code for "smaller companies", as the Chairman explains in his introduction on page 29, the Board believes that annual re-election promotes our accountability to our shareholders. All Board members will therefore offer themselves for re-election at this year's AGM.

The non-executive directors are generally initially appointed for fixed terms of three years. The Group seeks to retain the services of the non-executive directors for periods that may be longer than is recommended by the Code due to their experience and knowledge. In 2011, the Board (in accordance with the terms of his letter of appointment) invited G Collinson to serve for an additional period as stated in the table below and G Collinson accepted this extension to his term of appointment.

Non-executive director	Date of original appointment as non-executive director of the Company	Length of tenure as a non-executive director of the Company as at 1 January 2012	Date term of appointment extended until (upon invitation from the Board to serve for an additional period)
G Collinson	1 September 2008	3 years & 4 months	31 August 2014
R Eckelmann	1 November 2004	7 years & 2 months	31 October 2013
RK Graham	25 September 2003	8 years & 3 months	24 September 2012
J Grant	1 September 2011	4 months	n/a – within original 3 year term
AD Milne*	9 November 2007	4 years & 2 months	8 November 2013
M Ruettgers	1 January 2008	4 years	31 December 2013

*AD Milne served as Chief Executive Officer of the Company until 28 February 2007 and then continued to serve as an executive director until 8 November 2007 when he retired from that role. He was appointed as a non-executive director of the Company with effect from 9 November 2007.

The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours. These terms and conditions are also made available for inspection on the day of the Company's annual general meeting.

Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive Officer is clearly delineated, set out in writing and is regularly reviewed and monitored by the Board.

The Chairman is responsible for leadership of the Board and for ensuring its effectiveness. He sets the agenda for Board meetings, in consultation with the Chief Executive Officer and the Company Secretary, and is responsible for ensuring that the directors are provided with information in an accurate, clear and timely manner and the promotion of effective decision making. The Chairman is also responsible for ensuring that the interests of the Company's shareholders are safeguarded and that there is effective communication with them. In addition, the Chairman is responsible for ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. The Chairman is accountable to the Board for leading the direction of the Group's corporate strategy and for the overall supervision of the Group's policies governing the conduct of its business. The Chairman is also charged with ensuring that the directors continually update their skills and knowledge and that the performance of the Board, its committees and the individual directors are evaluated on an annual basis. The Chairman is responsible for promoting high standards of integrity, probity and corporate governance throughout the Group and particularly at Board level.

The Chief Executive Officer, JM Hickey, provides leadership to the Group to enable the successful planning and execution of the objectives and strategy agreed by the Board. The Chief Executive Officer is therefore primarily responsible for the day to day management of the Company's business. He is also responsible for: the stewardship of the Group's assets; promoting and conducting the affairs of the Group with the highest standards of integrity, probity and corporate governance; proposing and developing strategic objectives for the Group; managing the Group's risk exposures in line with Board policies; implementing the decisions of the Board; and facilitating appropriate and effective communication with shareholders.

Board Activities

There is a formal schedule of matters reserved for the Board which has been reviewed and updated since the beginning of 2011. The responsibilities of the Board include: determining and setting the strategic direction of the Group and approving the business plan and annual budget; ensuring that high standards of corporate governance are maintained; monitoring the performance of the Group; approving financing and significant capital expenditure; authorising significant transactions; reviewing the Group's systems of risk management and internal control; approving appointments to the Board and of the Company Secretary; determining the scope of delegations to Board committees; approving policies relating to directors' remuneration; dealing with the appointment and removal of the Company's principal advisers and auditors; and ensuring that a satisfactory dialogue takes place with shareholders. The Board is responsible for reviewing and approving the annual report and accounts, the interim management report and half yearly financial report and quarterly results announcements and for ensuring that these present a balanced assessment of the Group's position.

The Board delegates to management responsibility, inter alia, for: the implementation of the strategies and policies of the Group as determined by the Board; monitoring the operating and financial results against budgets; and managing and controlling the allocation of capital, human and technical resources. The Board regularly receives detailed financial and operational information in order for it to monitor the performance of the key areas of the business.

The main areas of focus for the Board during 2011 are summarised as:

Performance monitoring

- Reviewed both monthly reports and, as required, update reports during particular months, from the Chief Executive Officer and the senior management team on the key issues affecting the business
- Reviewed on a monthly basis the performance compared to the financial and non-financial metrics in the business scorecard
- Reviewed monthly financial reports from the Chief Financial Officer on performance against budget and forecast
- Reviewed monthly reports from the Chief Financial Officer on the financial position of the Group, which included treasury management
- Approved the full year 2010 and half year 2011 results announcements and quarter one and quarter three results of the Group prior to their publication
- Compiled a trading update statement which was published at the end of June 2011
- Reviewed reports on peer group comparison of results following the release of each quarter's results
- Reviewed the Company's dividend policy to ensure it was appropriate at the current time
- Approved the Group's budget for 2012 and long-range plan

Strategy formulation, implementation and monitoring

- Received regular updates from the Chief Executive Officer on progress of the 2011 Group strategy review
- Attended specific meetings with the senior management team, to review, update and challenge the 2011 strategy review
- Reviewed and approved the acquisition of Dynamic Hearing Pty Ltd which completed on 30 September 2011
- Received and reviewed competitor analyses presentations from the Chief Operating Officer, Chief Commercial Officer and the Product Line Senior Manager

Governance and risk

- Reviewed reports on governance matters, including changes arising from the introduction of the new UK Corporate Governance Code, its subsequent proposed amendment, and updates on any relevant changes in company law
- Approved the appointment of John Grant as a non-executive director of the Company
- Reviewed and approved the Group's guidelines and policies on anti-bribery and corruption which were updated in line with the introduction of the Bribery Act 2010
- Reviewed the effectiveness of the Board following the board evaluation process in 2010
- Performed regular review of the significant risks affecting the Group and conducted a risk review analysis, with the senior management team, as part of the strategy review update
- Reviewed the effectiveness of the systems of internal control and risk management for the period
- In respect of the Annual Report and Accounts 2010, ensured that procedures and confirmations were in place to establish that all directors were satisfied that the external auditors were made aware of relevant audit information
- Received reports from the chairman of each of the Board committees following each meeting of those committees

Other

- Reviewed reports from the corporate brokers / financial advisers on any shareholder feedback from meetings, with the Chief Executive Officer and Chief Financial Officer, following the full year 2010 and half year 2011 results announcements
- Approved the 2010 annual report, the 2011 half year report prior to their publication
- Approved the Notice of the 2011 Annual General Meeting prior to its publication and all directors attended the Annual General Meeting held on 21 April 2011
- Made preparations in respect of the 2012 Annual General Meeting

Attendance at Meetings

The Board requires all directors to devote sufficient time to discharge their duties effectively and to use their best endeavour to attend meetings. The Board normally meets at least eight times during the year and may meet at other times at the request of any director. The number of scheduled Board meetings and committee meetings attended by each director during the 52 week period ended 1 January 2012 was as follows:

	Scheduled Board meetings	Audit Committee meetings	Remuneration Committee meetings	Nomination Committee meetings
M Ruettgers	8 (8)	n/a	6 (6)	2 (2)
JM Hickey	8 (8)	n/a	n/a	n/a
M Cubitt	8 (8)	n/a	n/a	n/a
AD Milne	8 (8)	n/a	n/a	n/a
BM Rose*	1 (2)	n/a	n/a	n/a
RK Graham	8 (8)	5 (5)	6 (6)	2 (2)
R Eckelmann	7 (8)	5 (5)	6 (6)	2 (2)
G Collinson	8 (8)	5 (5)	6 (6)	n/a
J Grant**	3 (3)	2 (2)	n/a	n/a

(The figures in brackets indicate the total number of meetings held in the period during which the individual was a director and a member of the relevant Committee).

* resigned from the Board with effect from 21 April 2011

** appointed as a non-executive director and a member of the Audit Committee with effect from 1 September 2011

When directors were unable to attend Board meetings they were provided with all of the documentation for the meeting and were given the opportunity to provide their views to the Chairman or the Chief Executive Officer regarding the matters to be discussed. The minutes from the meeting were then provided as appropriate.

Information, Support and Development

Prior to each Board meeting an agenda, together with supporting papers, are circulated to the directors with all the necessary information. The Chief Executive Officer and the Chief Financial Officer ensure that the rest of the Board is kept aware, on a timely basis, of business issues and prospects throughout the Group.

All directors receive regular briefings which are designed to update their knowledge on a regular basis, for example in relation to the business, its technology and product developments and on legal and regulatory requirements. During the year, Board members attended the strategic review meetings where specific industry sector information was communicated. Detailed briefings were also provided to the directors during 2011 particularly in relation to the UK Corporate Governance Code, the Bribery Act 2010, and various consultations in respect of UK corporate governance matters and financial and narrative reporting.

During the year, the Chairman held meetings with the non-executive directors without the executive directors present.

All directors have access to the advice and services of the Company Secretary and to the provision of independent professional advice in furtherance of their duties at the Company's expense. The Company maintained directors' and officers' liability insurance cover throughout 2011. This insurance cover has been renewed for 2012.

An induction process is in place for any new director, tailored to the individual director's requirements in the light of his or her experience and prior industry knowledge.

Performance Evaluation

In order to comply with the Code and in an effort to strive for continual improvement in the effectiveness of the Board, its committees and the individual Board members, in 2011 the Board again applied a formal process for evaluating the performance and effectiveness of the Board, its committees and its members. This was again performed through a series of detailed questionnaires completed by the members of the Board and its committees towards the end of the year. The Board acknowledges that The UK Corporate Governance Code recommends that an external evaluation of performance of the board of FTSE 350 companies should be undertaken at least every three years. Although this Code provision does not apply to the Company, which is not in the FTSE 350 in the current reporting period nor in the prior reporting period, the Board has considered introducing external independent facilitation of the Board evaluation process, and proposes to implement the use of an external facilitator, every three years, starting in 2012 to complement and enhance the questionnaire-based Board evaluation procedures which have been adopted in prior years.

The results of the 2011 Board evaluation process were collated and reported by the Chairman so that follow up actions can be implemented. The general results of this evaluation process were communicated to the rest of the Board and any specific feedback communicated to the individual directors. Appropriate actions are then identified and taken. The Senior Independent Director conducts the annual performance evaluation of the Chairman, taking into account the views of all directors. In addition to the formal Board evaluation process, the Chairman also discusses the effectiveness and performance of directors immediately before they make themselves available for reappointment. The Notice of the 2012 Annual General Meeting confirms that performance of the directors being proposed for reappointment continues to be effective and that they each continue to show commitment to their role.

Conflicts of Interest

The Company has procedures in place to deal with conflicts of interest and believes that the procedures are operated appropriately, in accordance with the Company's Articles of Association and relevant legislation. Any decision of the Board to authorise a conflict of interest is only effective if it is agreed without the conflicted directors being included in the quorum at any meeting at which such authorisation is given, and is only effective if it is agreed without the conflicted directors voting or without their votes being counted. The Board will continue to monitor and review potential conflicts of interest on a regular basis. The Audit Committee will keep under review any conflict or potential conflict of interest situations authorised by the Board and determine whether it is appropriate for such matter to remain so authorised.

Committees of the Board

The Board has a Nomination Committee, a Remuneration Committee and an Audit Committee. The terms of reference for each committee can be found on the Investors section of the Group's website at www.wolfsonmicro.com. The Board also has a Treasury Committee.

Nomination Committee

Committee Chairman: M Ruettgers
Committee Members: RK Graham
R Eckelmann

A majority of the members of the Nomination Committee during the 52 week period were independent non-executive directors. The Nomination Committee, which meets not less than once per year, has responsibility for considering the size, structure and composition of the Board and its committees, the retirements and appointments of additional and replacement directors and makes appropriate recommendations to the Board.

In view of BM Rose stepping down as a non-executive director on 21 April 2011 and having reviewed the size, composition and structure of the Board earlier in the year, the Nomination Committee recommended the appointment of an additional independent non-executive director. A thorough recruitment process, involving the services of an executive search agency, was undertaken which involved the preparation of a description of the role, and the experience and time commitment required for the appointment. This process resulted in the appointment of J Grant as an independent non-executive director and member of the Audit Committee with effect from 1 September 2011.

The Nomination Committee considers that the current composition of the Board is satisfactory to provide the proper governance, administration and business counsel of the Company's affairs. It will continue to monitor the situation in 2012.

The other significant commitments of each non-executive director are required to be disclosed to the Board prior to his appointment and the Board is kept informed of subsequent changes to these commitments.

The Terms of Reference of the Nomination Committee were reviewed during the period and there were no significant changes to these terms.

Remuneration Committee

Committee Chairman: G Collinson
Committee Members: R Eckelmann
RK Graham
M Ruettgers

Only non-executive directors served on the Remuneration Committee in 2011 although the Chief Executive Officer is normally invited to attend meetings of this Committee.

The Remuneration Committee, which normally meets at least three times a year, has the delegated responsibility:

- for making recommendations to the Board on the policy for remuneration of executive directors and other senior management;
- for making recommendations to the Board on the shape of incentive arrangements throughout the Group;
- for reviewing the performance of executive directors and senior management; and
- for determining, within agreed terms of reference, specific remuneration packages for each of the executive directors and senior management, including pension rights, any compensation payments and the implementation of executive incentive schemes.

The Board is responsible for setting the remuneration of the non-executive directors subject to the limits contained in the Articles of Association. In accordance with the Remuneration Committee's terms of reference, no director may participate in discussions relating to his own terms and conditions of service or remuneration. During the period since the beginning of 2011 the Terms of Reference of the Remuneration Committee were reviewed, revised and approved by the Board. The revisions to these Terms of Reference did not fundamentally alter the role and responsibilities of the Remuneration Committee.

During 2011, the business discussed and considered by the Remuneration Committee included, amongst others:

- review and discussion of feedback from meetings held in early 2011 with shareholders and investor bodies which the chairman of the Committee and the Senior Independent Director attended;
- review of AGM voting guidelines, as issued by investor groups, in respect of the notice of the 2011 annual general meeting;
- approval of cash bonus payments in respect of 2010;
- assessment of the extent to which performance conditions had been achieved for those performance share plan awards which had been granted in 2008 and the performance period for those awards concluded at the end of 2010;
- review and approval for 2011 of increases in basic salaries for directors, senior management and all other employees;
- agreement of 2011 remuneration packages and setting of performance targets for 2011 performance-related remuneration for directors and senior management;

- obtaining and reviewing comparative remuneration data from external organisations;
- review of compensation structure for employees across the Group;
- review and approval of long term share-based incentive arrangements for awards in 2011;
- review and approval of the terms for the awards under the Senior Executive Deferred Bonus Plan in 2011;
- review and approval of contingent share awards in 2011 to employees, other than executive directors and senior managers;
- review and approval of cash bonus arrangements for all employees in 2011;
- approval of the terms of and grant of share option awards under The Wolfson Microelectronics Approved Save As You Earn scheme;
- review of the Company's pension arrangements including the funding position of the defined benefit pension scheme;
- review of terms, and recommendation to the Board, to obtain agreement with the trustees of the defined benefit pension scheme, that the scheme be closed to future accrual with effect from 30 April 2011 (refer to note 20 to the financial statements on page 92);
- review and approval for the policy for remuneration, in accordance with employment contracts and legislation, in respect of those employees who left the Company as a result of the restructuring in the second half of 2011 (refer to note 4 to the financial statements on page 78);
- review and updating of the Committee's Terms of Reference;
- review of best practice in remuneration policies;
- review of the "ABI Principles of Remuneration" as published in September 2011 by the Association of British Insurers;
- meetings held in December 2011 with shareholders and investor bodies which the chairman of the Committee and the Senior Independent Director attended;
- review and discussion, with the rest of the Remuneration Committee, of feedback from the meetings held in December 2011 with shareholders and investor bodies; and
- consideration of 2012 executive remuneration policy.

Further information regarding the activities of the Remuneration Committee in 2011 is included in the Directors' Remuneration Report which is set out on pages 44 to 59.

Executive directors can accept external appointments as non-executive directors of other companies and retain any fees paid to them if such an appointment does not conflict with their duties to the Company. Specific approval of the Board is required in each case. Neither of the executive directors currently hold external appointments as non-executive directors of other companies.

Audit Committee

Committee Chairman: RK Graham
 Committee Members: R Eckelmann
 G Collinson
 J Grant (from 1 September 2011)

Only independent non-executive directors serve on the Audit Committee and members of the Audit Committee have no links with the external auditors. The Board considers that the members of the Audit Committee have sufficient recent and relevant financial experience to discharge its functions. Members of this committee have considerable past employment experience in either finance or accounting roles or comparable experience in corporate activities. J Grant became a member of the Audit Committee with effect from 1 September 2011. Mr Grant serves on the audit committees of several other companies where he holds non-executive directorships, as noted on page 25.

The Audit Committee normally convenes at least three times per year and meets the external auditors at least twice a year with no executive directors present. During 2011 the Audit Committee met five times with the external auditors present at all of these meetings. The Chairman of the Board is invited to, and does, attend most meetings of the Audit Committee.

During the period since the beginning of 2011, the Terms of Reference of the Audit Committee were reviewed, revised and approved by the Board. The revisions to these Terms of Reference did not fundamentally alter the role and responsibilities of the Audit Committee.

Key responsibilities of the Audit Committee

(summarised from the Terms of Reference of the Audit Committee)

- Monitor the integrity of the Company's financial statements and the form and content of the half yearly financial report and quarterly results announcements regarding the Company's performance.
- Review significant financial reporting judgements contained in the financial statements, in the half yearly financial report and quarterly reports before their submission to the Board for approval.
- Review accounting policies, judgements and disclosures in financial reports.
- Review the adequacy of the Group's system of risk management, regulatory compliance and internal control.
- Review the Company's systems and controls for the prevention of bribery and receiving reports on any non-compliance.
- Review the Group's whistle blowing procedures to ensure that they continue to be appropriate and effective.
- Make recommendations to the Board as to the appointment or re-appointment and remuneration of the external auditors, including assessing independence and objectivity, approving their terms of engagement and reviewing the external auditor's findings and performance and overseeing the relationship with the Group's external auditors.
- Review, monitor and approve the extent of non-audit services provided by the external auditors.
- Monitor the role and effectiveness of the internal audit function, including: resourcing; annual internal audit plan; key findings; management responses; and implementation of corrective actions by management.

The Audit Committee is responsible for, amongst other things, making recommendations to the Board on the appointment of the external auditors and their remuneration. The Audit Committee considers the nature, scope and results of the auditors' work and reviews (and reserves the right to approve) any non-audit services that are to be provided by the external auditors (see reference on page 37 to Policy on Use of External Auditors for Non-audit Services). On internal controls, the Audit Committee participates in the risk review process and links this to the implications for internal controls assessment. The Audit Committee reviews the programmes of both the external auditors and the internal audit function and findings therefrom. It receives and reviews reports from management and the Group's auditors relating to the Group's annual report and accounts. The Audit Committee focuses particularly on compliance with legal requirements, accounting standards and the Listing Rules and on ensuring that the auditors have full access to accounting records and personnel to enable them to undertake their work. The ultimate responsibility for reviewing and approving the annual report and accounts remains with the Board.

During 2011, the business discussed and considered by the Audit Committee included, amongst others:

- the review of the Group's preliminary announcement of the financial results for the 52 week period ended 2 January 2011, the 2011 half yearly financial report and the quarterly results announcements prior to approval by the Board and their release;
- the consideration and review of the Group's 2010 financial statements and the 2011 half yearly financial report prior to Board approval and reviewing the relevant external auditors' detailed reports;
- monitoring the ongoing compliance with International Financial Reporting Standards, as adopted by the European Union ("adopted IFRS") by the Group and by the Company;
- the consideration and review of the appropriateness of the Group's and the Company's accounting policies in accordance with IFRS;
- the review and consideration of the significant areas of management judgement and estimate, in relation to financial reporting matters, as summarised in note 28 to the financial statements;
- the consideration and review of compliance with legal requirements and the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority;
- additional consideration of the provisions of the Bribery Act 2010 and their implications as well as considering the related "adequate procedures" guidelines issued by the Ministry of Justice;
- the review of the accounting treatment and disclosure of exceptional items on the face of the consolidated income statement within the financial statements and related note, as shown on page 62 and in note 4 to the financial statements on page 78;
- the review of the accounting treatment, in accordance with IAS 19 'Employee Benefits', of the curtailment gain in respect of the closure of the defined benefit pension scheme to future accrual with effect from 30 April 2011, as explained in note 20 to the financial statements on page 92;
- the review of the accounting treatment, in accordance with IAS 19 'Employee Benefits', of the net surplus on the defined benefit pension scheme as at 3 July 2011 (for the purposes of the half year financial statements) and as at 1 January 2012 (for the purposes of the full year financial statements);
- the review of the accounting treatment, in accordance with IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' of the liabilities of the defined benefit pension scheme as at 1 January 2012, as explained in note 20 to the financial statements on page 92;
- review of the accounting policies applied, in the consolidated financial statements of the Group, to the acquisition, on 30 September 2011, of Dynamic Hearing Pty Ltd;

- review and consideration of the appropriateness of the judgemental aspects in respect of the valuation, on a provisional basis, of the acquired intangible assets which were recognised upon the acquisition of Dynamic Hearing Pty Ltd;
- the review and update of the identification of Operating and Reportable Segments, in accordance with IFRS 8 'Operating Segments' which resulted in amendment to the basis of segmental reporting for the Group, as explained in note 3 to the 2011 financial statements on page 75;
- the review of key performance indicators;
- the review and discussion of the proposals from the external auditors and the internal audit function regarding their audit programmes for 2011 with particular regard to the assessment of internal systems and controls and assessment of the adequacy of internal controls generally;
- the approval of the audit fee and reviewing non-audit fees payable to the Group's external auditors;
- the review of reports from management on the Group's main risks and the assessment and management of those risks;
- the review of the reports from the internal audit and compliance functions and the external auditors on the Group's systems of internal control and its effectiveness, reporting to the Board on the results of the review;
- the review of the appropriateness of the Group's 'whistle blowing' policy by which employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- consideration of the Financial Reporting Council's 'Boards and risk: A summary of discussions with companies, investors and advisers' publication which was issued in September 2011;
- the review of any conflict or potential conflict of interest situations authorised by the Board and determine whether it is appropriate for such matter to remain so authorised;
- the consideration and review of non-audit services by the external auditors in accordance with the policy regarding the provision of those services;
- the monitoring and assessment of the independence of the external auditors; and
- the review of the performance of the external auditors at the beginning of 2012 which resulted in the Audit Committee recommending that a resolution for the re-appointment of KPMG Audit Plc as the Company's external auditors be proposed to shareholders at the annual general meeting in April 2012.

The Audit Committee has discussed with the external auditors their independence and has reviewed the written disclosures received from them as required by the Auditing Practices Board's International Standard on Auditing (ISA) (UK and Ireland) 260 'Communication of Audit Matters to those Charged with Governance'.

During 2011, the Audit Committee reviewed the 'Policy on the Use of External Auditors for Non-audit Services' which aims to monitor the non-audit services being provided to the Group by its external auditors. The purpose of this review was to consider whether the policy continues to be appropriate or if any amendments to the policy were required. No amendments were made to the policy as a result of this review. For any proposed non-audit work involving expenditure of more than \$50,000 the nature of the proposed non-audit work requires approval of the whole Audit Committee. Any non-audit work involving expenditure of more than \$30,000 but less than \$50,000 requires approval of the chairman of the Audit Committee with the approval of the non-audit work being reported to the Audit Committee at its next meeting. This policy should ensure that non-audit work is only undertaken by the external auditors when they are the most suited to undertake it. The policy specifically prohibits the external auditors from: making management decisions for the Group; being put in the role of advocate for the Group; or conducting any other work which is prohibited by ethical guidance. The amounts paid to the external auditors during the period for audit and other services are set out in note 5 to the financial statements on page 79. The amount of non-audit fees is not significant overall and therefore it is considered that KPMG's independence is not compromised.

The Audit Committee also monitors the arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ('whistle blowing'). A policy which was implemented and communicated to all employees several years ago, details the arrangements which are in place for the proportionate and independent investigation of such matters and for the appropriate follow up actions. This policy was reviewed by the Committee during 2011 and is considered still to be appropriate. It is included in the Employee Handbook, which was updated in 2011, and is available for reference to all employees on the Company's intranet.

Treasury Committee

The Treasury Committee is chaired by RK Graham and its other members are: the Chief Executive Officer and the Chief Financial Officer. This committee meets periodically, as required, and provides a report to the Board after each meeting. The Treasury Committee reviews the Group's overall financial risk management including specific areas such as: foreign exchange risk (and related hedging policies); interest rate risk; credit risk and liquidity management. The policies of the Group and the Company in these areas are explained in note 23 to the financial statements on pages 102 to 108. The Treasury Committee reports to, and makes recommendations to, the Board regarding these matters. During 2011, the Committee reviewed the Treasury Policy to ensure its ongoing appropriateness and adequacy and considered the hedging policy, as referred to in note 23 of the financial statements on page 102. In the fourth quarter of 2011, the Committee recommended and the Board approved the hedging, using forward foreign exchange contracts, of the majority of the US dollar to sterling exchange rate exposure, which arises on the Company's sterling denominated overhead expenditure, for the whole of the financial year 2012.

In November 2011, an independent review was conducted of the Treasury Policy and related processes and procedures to ensure that these are adequate, in line with best practice and properly controlled.

Internal control and risk management

The Board has overall responsibility for the Group's systems of internal control and risk management and for monitoring their effectiveness. The purpose of these systems is to manage, rather than eliminate, the risk of failure to achieve business objectives, and provide reasonable assurance as to the quality of management information and to maintain proper control over income, expenditure, assets and liabilities of the Group with particular reference to the risks identified. No system of control can, however, provide absolute assurance against material misstatement or loss.

The Board is also responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Group's approach to risk management is aimed at the early identification of key risks to the Group's business and the overall strategy, followed by a detailed understanding of the nature of those risks, the probability of them arising and their likely impact if they did occur. Mitigation plans are developed and implemented with the aim of reducing or removing the likelihood of risk occurring or managing the impact if the risk cannot be avoided. The management of risk, particularly a detailed understanding of the risks inherent in the business activities, markets and geographies in which the Group operates, is linked to the development and implementation of the Group's strategy.

The Board has overall responsibility for setting the risk appetite and tolerance for the Group; this is achieved by assessing risks against the corresponding business opportunities as part of the process of updating the business strategy and formally approved by the Board (see below).

In 2011, Wolfson conducted its formal risk management review processes in a manner similar to that adopted in 2010. Flowing from the annual strategic review, an updated risk register was generated by the senior management team, designed to align the strategy propositions with the corresponding risks; this reflected both a bottom up and top down analysis of opportunities and related risks. During 2011 this process involved the review of strategy, objectives and activities of the business and its risk profile in the context of the challenging trading conditions which were experienced during 2011. This updated risk register was reviewed at Audit Committee and at full Board level, and formally adopted. The risk register is reviewed quarterly by the senior management team and pertinent issues arising are reported back to the Board and/or Audit Committee to ensure the directors are aware of any change in profile and other relevant matters.

It should be noted that, in the context of the Disclosure Rules and Transparency Rules of the UK Listing Authority, section 7.1, the Audit Committee reviews the Company's internal financial controls and the Board of Directors is responsible for reviewing the wider internal control and risk management system.

The Board confirms that it has reviewed the effectiveness of the systems of internal control and risk management for the period under review and up to the date of the approval of the financial statements.

The Board has established an internal control framework consistent with the guidance issued by the Turnbull Committee. The Board seeks regular assurance to enable it to satisfy itself that risk management and internal control are functioning effectively and to ensure that they are effective in managing risks. The key elements of the systems of internal controls are as follows:

Control environment and on-going process for risk identification, evaluation and management

The Group has operational and financial controls and procedures in place. These controls include physical controls, segregation of duties, authorisation controls and reviews by management.

There is an on-going process for the identification, evaluation and management of the most significant risks faced by the Group, which includes the following: the maintenance of a corporate risk register; a defined organisational structure with appropriate delegation of authority; comprehensive financial review cycle with annual budget approved by the Board and monthly variance analysis against budget; monthly reporting to Chief Executive Officer, Chief Financial Officer and senior managers; monitoring of key performance indicators by management on a daily basis; regular meetings of the senior management team on at least a weekly basis; the capital investment process.

Risk identification

The identification of the most significant risks that face the Group is the responsibility of the Board. The Board has established a process of identifying, evaluating and managing the key commercial, financial and general risks facing the Group's business. This risk identification and review process has been in place for the period under review and up to the date of approval of the Annual Report and Accounts.

Following the extensive review performed in 2010 and again in 2011 and the update of key business risks viewed in the context of the opportunities anticipated in the strategy, the risk register is now considered to be better aligned to the strategic management priorities and reflects bottom up and top down analyses of opportunities and related risks.

As explained above, the risk register is regularly reviewed with involvement of the senior management team to ensure that changes in the Company's risk exposure are identified and understood. The Board also undertakes a regular review to analyse how the key business risks are being managed and consistent with the strategy, objectives and activities of the business and its risk profile. Regular meetings take place to review the status of actions, procedures and controls aimed to mitigate or manage the key business risks; this forms part of the balanced scorecard against which the performance of the senior management team, and the other employees within the Group, is measured. The process to regularly review the risk register, is also performed with active senior management participation, such that the directors of the Company are kept aware of the potential cost and resources involved in managing these risks and the operational management actively balance opportunities versus any associated risks.

The key business risks identified are taken into account by the Board when assessing the Group's internal controls. This regular review of risk by the directors and senior management also ensures that changes in the Company's risk exposure are identified, analysed, understood, and that mitigating action is taken to reduce this exposure to an acceptable level. The principal risks and uncertainties facing the Group are explained in the Operating and Financial Review on pages 21 to 23.

Financial reporting and monitoring of operations

In addition to features relating to control environment, summarised above, the main features of the Group's internal control and risk management systems in respect of the financial reporting processes are:

- Monthly financial information including: trading results; a cash flow statement; and operating expenses details are presented and explained, in comparison to the budget, to the Board. The trading and operating results, compared to the budget, for each functional business department are also reported to the Board each month.
- Detailed quarterly financial information is prepared and approved by the Board, for the first and third quarters of the financial year, in a similar manner to the half yearly report. This quarterly and year to date financial information is included in the first and third quarters' results announcements.
- A detailed annual budget is collated from submissions by each functional department. The budget is reviewed by the executive directors before being reviewed and approved by the Board. The annual budget is monitored on a monthly and quarterly basis and is used to monitor and control actual performance.
- Capital expenditure requirements are assessed as part of the annual budget. Strict authorisation processes are laid down for the making of capital investment commitments against the budget.
- The executive directors hold meetings on at least a weekly basis with the senior managers to review business and financial performance compared to the budget and forecasts and also to discuss operational matters including order levels compared to forecasts, product and project status and manufacturing statistics. Relevant matters arising from these meetings are reported to the Board by the respective members of the senior management team.
- A balanced scorecard was used again during 2011 to set specific business objectives for each quarter, comprising both financial and non-financial metrics which are aligned to the business strategy, and to monitor performance across the business against those objectives during each quarter in 2011. Performance against the scorecard was reported to the Board throughout the year.

Monitoring and corrective action

There are procedures in place to monitor the systems of risk management and internal controls. These include:

- The performance of internal audit procedures which are aligned with the areas of key business risk. The internal audit plan, covering an 18 month period is reviewed updated and approved by the Audit Committee early in each year. Reports of the findings and conclusions, from the internal audit procedures, are reviewed by the Audit Committee and the status of the implementation of the agreed actions is monitored.
- The regular review of the risk register and significant risks affecting the Group. During 2011, specific focus was given on the enhancement of the risk register to reflect changes in the business environment.
- The review of the reports from the external auditors on the Group's systems of internal control and its effectiveness.
- The Group has a Quality Management System 'QMS', which conforms to BS EN ISO 9001:2008. This lays out the fundamentals required to control all aspects of product development and delivery in support of the Group's business goals and customer satisfaction. To ensure the effectiveness of the QMS, and its ongoing compliance with the requirements of BS EN ISO 9001:2008, internal audits are conducted to a documented schedule and management review meetings are held. Third party audits are conducted by the British Standards Institution to verify continued compliance with BS EN ISO 9001:2008. Also during 2011 Wolfson enhanced its quality audit systems, notably by bringing the manufacturing subcontractors' audits within the Quality Management audit process. The status of any non-conforming reports and associated corrective actions are reported to the Quality Review Board and actively tracked to a timely closure. The scheduling of all audits is also now fully tracked through this enhanced audit management system. In order to improve the process further, it is planned to move it to the company-wide electronic data system, which will enable direct interfacing with Wolfson's other data reporting systems.

Shareholder engagement

Relationship with shareholders

The Chairman is responsible for ensuring there is an effective communication with shareholders, and the directors believe firmly in the importance of this communication. In order to provide information regarding the Group's trading and financial performance on a regular basis, the Company produces quarterly results announcements.

The Group also has a policy of maintaining an active dialogue with institutional shareholders through individual meetings with these shareholders attended by members of the Board and their participation in conference meetings and calls relating to results announcements. During 2011, meetings and telephone conference calls were held with major shareholders attended by the Chief Executive Officer and the Chief Financial Officer. After these meetings the views of these shareholders are reported to and discussed by the rest of the Board.

All non-executive directors are available to meet with major shareholders if requested. The Chairman of the board and the Senior Independent Director met with most of the Company's major shareholders during 2011. The Senior Independent Director and G Collinson, the chairman of the Remuneration Committee, met with most of the Company's major shareholders in January 2011 and in December 2011 to discuss executive remuneration policies, in the context of the Wolfson business strategy, and other governance matters.

An investor and analyst technology seminar is held by the Company every 18 to 24 months. The last one was held in May 2010 and provided a forum for management within the business to present an insight into the markets in which the Company operates and to explain and provide demonstrations of the Company's technologies and products. It is planned to hold the next technology seminar in the first half of 2012.

During the period a regular dialogue has been maintained with institutional shareholders, analysts and the financial press. Investor relations and other information is published on the Company's website at www.wolfsonmicro.com.

Annual General Meeting

Shareholders who attend the annual general meeting ("AGM") are invited to ask questions and meet with the directors informally after the meeting. The numbers of proxy votes cast in respect of each resolution are announced after the resolution has been voted on. Following the AGM in 2011, a summary of the proxy votes lodged was published on the Company's website. The Company intends to propose a separate resolution at the AGM in 2012 on each substantially separate issue and, in particular, intends to propose a resolution at the AGM relating to the Annual Report and Accounts 2011. The chairmen of the Audit, Remuneration and Nomination Committees are available to answer questions relating to the Annual Report and Accounts at the AGM.

Details of the meeting and the resolutions to be proposed together with explanatory notes are set out in the notice of the AGM. Notice of the AGM and related papers are sent to shareholders at least 20 working days before the meeting.

Organisation and people

Our people

Key to the success of Wolfson are our highly talented employees around the world. We ask a lot from our employees: innovation; passion; dedication and commitment. So in return we aim to provide them with a diverse and challenging environment. An environment where they can be developed, push boundaries and innovate, take responsibility and be rewarded for this.

Recruiting and retaining our people

We aim to attract and retain the best talent in the world across all of our functions. We continue to focus our recruitment practices to ensure we attract talent from diverse backgrounds, thereby ensuring that the Company benefits from highly skilled individuals who can add value in many ways and shape our dynamic culture. As we have been able to secure a larger number of certificates of sponsorship, we now have more bandwidth to hire from non-EU countries into all of our functions.

As explained earlier in this Annual Report, on pages 2, 8 and 19, unfortunately during the second half of 2011 it was necessary to implement a minor restructure which resulted in a small number of UK redundancies and a few losses from our overseas offices. We appreciate that this is unsettling for all employees, both for those who continue to be employed and those leaving the business. As a consequence the restructure was handled quickly and the leavers were treated with dignity and respect, receiving enhanced redundancy packages and outplacement. The reasons for the restructure and the confirmed future strategy and successes of the business were clearly communicated at the time to ensure that any disruption and concerns of employees were minimised.

Our University and Schools programme goes from strength to strength. Links with schools and higher educational establishments continue to be forged. In particular we have created additional strong links with a number of all-girls schools in order to encourage more females towards a career in science and technology. Our graduate recruitment and development programme was expanded yet again to include an internship programme. Interns were recruited into most functions during 2011 and this has helped feed our graduate hiring programme. We will continue to expand this intern programme in 2012 by recruiting interns for all functions.

During 2011 Wolfson acquired Dynamic Hearing Pty Ltd and, as a consequence, added over 20 highly skilled and motivated employees based in Melbourne, Australia. The integration of these employees into Wolfson has been actively assisted by a seconded integration manager from the Edinburgh office who was based in Melbourne for three months and by regular visits by other key Wolfson employees. This integration approach was taken to ensure that the skills, experience and technology acquired were leveraged as quickly as possible.

In keeping with the last two years, an employee opinion survey was conducted towards the end of 2011. There was a high level of participation in this survey with 75% of the employees responding. The results were analysed and benchmarked against other similar sized companies in the hi-tech sector. The results show high engagement of our employees to Wolfson with commitment and discretionary effort indices being amongst the highest scores. As in previous years the overall results are being used to initiate and drive continuous improvement projects. During 2011 particular focus was placed on updating our career ladders programme and implementing additional communication activities such as our 'coffee and chat' sessions where small groups of employees can meet informally with members of the leadership team. These projects will continue to run and anything new identified in the 2011 survey will be added to this continual push to make improvements and maintain our high engagement levels.

Wolfson supports various activities to ensure that employees can have the opportunity to also enjoy social time with their colleagues. In 2011, as with the previous two years, Wolfson took part in the Edinburgh Corporate Decathlon. Well over 100 of our employees in 2011 have taken part in various sporting events as part of this community programme raising money for many charities such as Save the Children, Cancer Research and MercyCorps.

Developing our people

The Company remains committed to developing quality leadership, technical and management capability. During 2011 we continued to invest in the development of our people through structured programmes and, through focused development activities, to create high performing teams. In particular in 2011 a 'Future Leaders' programme was launched, partly funded by Scottish Enterprise. The Company identified a number of employees as future leaders early in 2011 and at the start of the fourth quarter of 2011, launched the programme to help develop their leadership skills. The Future Leader programme is key in building leadership skills in our successor population and comprises a three part modular programme, complemented by coaching and a number of innovation challenges. Technical training also remains critical in driving the development of our people as we transition from a traditional integrated circuit component business to a systems and solutions business where additional skills are required to supplement the core competencies of integrated circuit design.

The Company continues to support professional development and professional qualifications, where relevant to the individuals' roles, and is currently supporting a number of employees in this respect.

Rewarding our people

Our remuneration packages are highly competitive and we continually review this position by using appropriate salary survey and market data which directly reflect the market in which we operate. We drive a pay for performance culture and as such our incentive plans are clearly linked to Company performance. Our "non-cash" recognition programme also provides our managers with many other forms and types of recognition so they can reward and motivate our people through one-off "thank-yous", such as a mini-breaks, vouchers for the cinema, or dinner out with family. Managers are encouraged to think about the reward ensuring that it matches the employee's interests.

Towards the end of 2010, we implemented a salary sacrifice pension arrangement which received HM Revenue & Customs approval in early 2011. All employees in the group personal pension plan elected to join the salary sacrifice arrangement. The Company gives the employees the savings from the employer's National Insurance as an additional pension contribution.

In 2011 we ran our second invitation for employees to participate in the Save As You Earn share option scheme in the UK with a 48% take up from our employees which was a great success. We review all of our benefit programmes annually, ensuring that the benefits on offer to employees in each region are competitive. During 2011 we introduced further benefits including voluntary dental insurance.

Share ownership

The Company grants annual share-based awards, on a discretionary basis, through our varying employee share schemes. These grants are also linked to employee performance and contribution. This includes the Company's all employee share option scheme and also a contingent share award scheme which, although discretionary, are used to provide option grants or contingent share awards to the Company's employees. There is also a shareholding policy which is applicable to the executive directors and senior management team, as described in the Directors' Remuneration Report on page 47.

Corporate Social Responsibility

Although the Company is accountable to its shareholders, it also recognises that it has responsibilities to other stakeholders which include employees (see pages 40 and 41), customers, suppliers, and the local communities in which it operates. The Board accepts its responsibility to be accountable to all stakeholders.

The Company is dedicated to supplying high quality products which meet the requirements of its customers in a manner consistent with high environmental and ethical standards. These principles form an integral part of the Company's management processes and operations throughout the world.

In order to maintain its high standards, Wolfson surveys potential new subcontractors for acceptable environmental and Corporate and Social Responsibility (CSR) policies of their own. Our survey format has been updated and expanded to reflect the increasing complexity of the issues. In particular, it now relies on explicit references to international regulations and standards, rather than on listing details from them. This is easier to keep up to date than the previous approach, and exploits the steadily improving worldwide understanding of those regulations and standards.

In 2011, Wolfson introduced a policy of formal management of Corporate and Social Responsibility (CSR) in respect of its manufacturing subcontractors. Good CSR standards were already a requirement for subcontractors to be added to Wolfson's Approved Suppliers List, but formalising this requirement reinforces Wolfson's commitment to CSR. It also provides the framework for annual quality audits of subcontractors to include CSR elements. The policy is based on the Electronic Industry Code of Conduct (EICC). This is a widely supported voluntary code developed by the Electronic Industry Citizenship Coalition, an organisation representing most of the major companies in the industry. The code defines CSR standards in these four areas: terms of employment; health and safety of employees; environmental responsibility; and corporate ethical behaviour. A fifth section defines a management system to ensure the effectiveness of CSR policies. There are significant advantages of Wolfson's adoption of an external standard as the basis for its policy: it has wide acceptance; it comprises a uniform industry-wide approach; and its ownership by a large international collaboration ensures comprehensive surveillance and updating.

Environment

The Company's policy is to behave in an environmentally responsible manner, consistent with and in compliance with local legislation and protocols. The Company requires its subcontractors to have BS EN ISO 14001:2004 certification, and to conform to the Montreal Protocol for substances that deplete the ozone layer, and to relevant local legislation to ensure control and / or elimination of materials recognised as hazardous. Additionally the Company recycles waste materials where possible and, where appropriate, encourages its suppliers and / or subcontractors to do likewise.

The Company attained BS EN ISO 14001:2004 certification in 2005. It has a mature environmental management system for assessing, controlling and monitoring the potential environmental impact of activities at the Company's premises and at those of its subcontractors. A programme of targets and objectives, subject to periodic review, is in place to ensure continual improvement and to prevent pollution. The Company has established an environmental training procedure for relevant staff. The Company's Environmental Policy and Environmental Manual are available for reference by all employees on the Company's intranet. The Environmental Policy is also available, on request, to the public.

The responsibility for the Company's environmental policy and management has been delegated by the Board to the Chief Executive Officer who reports back to the Board at least annually. This includes the setting of the policies of the environmental management system, its objectives and targets. The Vice President Quality is responsible for the implementation and maintenance of the environmental management system in accordance with the requirements of BS EN ISO 14001:2004. Management review meetings are held on a regular basis to monitor the performance of the environmental management system. Wolfson's Environmental Management System is maintained through internal audits reinforced by six monthly specialist consultant-supplied updates to the register of legislation. Annual internal legal and other requirements compliance audits are also performed by a specialist consultant. In order to maintain certification, Wolfson employs the British Standards Institution to conduct third party audits on a six monthly basis and a strategic review on a three year cycle.

Wolfson's primary environmental objective is the reduction of energy consumption in the Company's UK offices.

Key activities in 2011 were:

- redirection of air conditioning to provide heating for warehouse facility;
- upgraded compressors with more energy efficient systems; and
- installation of a system designed to monitor the electricity, water and gas usage at the Company's office premises in Edinburgh. The system, which was commissioned in September 2011, will provide data for 2012 improvement targets based on consumption in the fourth quarter of 2011.

Following the Carbon Reduction Commitment (CRC) registration last year, a review of criteria confirmed that Wolfson does not need to undertake any additional activities after the registration of simple information disclosure. Wolfson recognises that if any allowance sale were required, this would be due in 2012 rather than 2011 in accordance with HM Treasury Spending Review 2010.

Waste Electrical and Electronic Equipment Regulations 2006 (WEEE)

Wolfson's commitment to WEEE has entailed registration as a producer, for the Company's ANC headsets, and has joined the Transform WEEE compliance scheme. Wolfson is also registered on the National Packaging Waste Database under the Batteries Directive for batteries incorporated in the ANC headsets.

Hazardous Substances Management System (HSMS)

In 2011, Wolfson introduced a formal Hazardous Substances Management System (HSMS). Our policy with respect to hazardous substances has always been total compliance with all regulatory and customer requirements. We can demonstrate an impressive 100% record in this regard, from the timely introduction of a lead-free option for all products by 2004, through compliance with increasing customer demands for halogen-free products, to ensuring that we meet our obligations under the Registration, Evaluation, Authorisation & restriction of CHemicals (REACH) regulation now in the process of implementation. However, as the aforementioned list (by no means complete) of existing requirements indicates, the management of hazardous substances in processes and products will always increase in complexity. Our formal HSMS will support the continuation of our previous fine record. Also, as with CSR, it will facilitate selection and auditing of our subcontractors, to ensure that our record is not compromised by them.

A detailed list of Wolfson's regulatory and customer obligations with respect to hazardous substances, and particulars of our compliance with them, is published on the Company's website and regularly updated. There were two significant changes in this area in 2011. The European Union directive 2002/95/EC on the Restriction of Hazardous Substances (RoHS) and its supplements were replaced by the more stringent 2011/65/EC, commonly known as RoHS II. The main difference was a reduction in the permitted exemptions, but since Wolfson's compliance has never depended on any exemptions, this had no impact on the Company. The other change was the biannual addition of more Substances of Very High Concern (SVHCs) to REACH. Wolfson uses none of these, which means that the registration and reporting requirements in REACH do not apply to Wolfson's products.

Ethical business practices

Wolfson is a fabless semiconductor company based in the UK with subcontracted manufacturing operations overseas. The Company aims to ensure that the products which it supplies are manufactured by subcontractors to internationally recognised ethical and environmental standards and laws, such as the Electronic Industry Code of Conduct (EICC). The Company's key suppliers must confirm in writing that they meet these standards and laws. All employees are expected to behave ethically when working for the Company and this is reflected in the policies which are detailed in the Employee Handbook. Ethical business practices are integral to the Company and are reflected in the practices in relation to recruitment, disciplinary matters and grievances. The Employee Handbook underwent a full review in 2011 and was updated for new practices and legislation where necessary.

The Company has an ethics policy which has been communicated to all employees. The Company enhanced this policy in 2010 which incorporates an anti-bribery and corruption policy. The anti-bribery and corruption policy was communicated to all employees during 2011 in line with the requirements of the Bribery Act 2010.

Employees concerned about ethics within the organisation are encouraged to raise their concerns with the Human Resources department, their line manager or to follow the guidance in the Company's 'whistle blowing' policy.

Wolfson is committed to the principle of equal opportunity in employment and its internal procedures reflect this. The principle is supported by the Company's recruitment, disciplinary and grievance procedures.

At the end of 2010 and during 2011, Wolfson carried out a review of all of its employment contracts in relation to Intellectual Property and Confidentiality provisions, and implemented changes to these elements of the contracts in line with best practice and where it was felt that the Company's interests could be better protected.

Towards the end of 2011 the Company reviewed its practices in relation to the Agency Workers Directive to ensure compliance with these new requirements.

The Company recognises its legal responsibilities to ensure the well being, safety and welfare of its employees and to maintain a safe environment for visitors and any subcontractors while they are on the Company's premises. All staff are instructed on the Company's health and safety policy which can be accessed by all employees on the Company's intranet. The Vice President of Quality has responsibility, delegated by the Board, for the Company's health and safety matters.

Local Community

The Company aims to make a contribution to the communities in which it operates. The responsibility for community matters has been delegated by the Board to the Chief Executive Officer within agreed budgetary parameters. The Company has a Charity and Community Council (CCC) which comprises employees from across the business and across locations. The CCC is responsible for reviewing and proposing the charity and community activities within the agreed levels and budgets available. The CCC also approves employee charity matching and nominates different charities for Company support. There are a large number of areas where Wolfson employees have contributed to charities and local communities. Just one example in 2011 was where employees conducted a fund-raising campaign for The Castle School in Newbury, a specialist college for communication and interaction.

Wolfson has also provided donations to relief charities in 2011 which provide aid in the aftermath of natural disasters including the Japanese earthquake and tsunami in March 2011 via the global aid agency, MercyCorps.

The Company provides a scholarship programme for a number of students at Edinburgh University during their engineering degree courses and for post-graduate research fellowships. As well as providing financial support, the programme includes placements for work experience and project work within the Company.

During 2011, the Company sponsored an exhibit in the Edinburgh International Science Festival aimed at raising children's awareness and interest in science. The Company has funded events in Scottish based schools run by Generation Science for the same purpose.

In 2011, the Group supported charitable and community activities, including the scholarship programmes, with donations and sponsorships totalling \$186,000 (2010: \$324,000).

Directors' Remuneration Report

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Introduction by the Chairman of the Remuneration Committee

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for inclusion in this Annual Report and Accounts 2011.

During 2011 executive remuneration in the UK has come under increasing scrutiny with the subject of bonuses becoming increasingly controversial. This in large part is due to the wider public's increasing frustration with practices within the financial services industry. Whereas we believe that it's important that companies such as Wolfson, who operate in the globally competitive high technology industry, should not get caught inadvertently in the 'down draught' of changes that will inevitably come to the legislation on public company executive remuneration in the UK in response to the excesses of the financial sector, we do think that Wolfson must be sensitive to the public's call for restraint in executive pay. For example, although we conducted our usual thorough benchmarking exercise, to compare Wolfson's executive remuneration with its local and international peers, and this pointed to increases in line with inflation in the sector, we did not place undue weight on this view versus the assessment of the Group and individual performance.

We have considered carefully the elements of base pay and short-term incentives and rewards this year. We have decided to freeze the base salary of the executive directors and senior management at the same level as 2011. For the rest of the employees, the average increase in base salary will be below 3%, below the rate of inflation.

The discussion of the 2011 cash bonus plan also took place in the context of the sharp reduction in the demand for consumer electronics throughout the world in the second half of 2011 which played a part in the resulting flat year of revenues for Wolfson. The Company made a rapid (and painful) adjustment to its cost base in the summer and was able to avoid the worst of the crisis because of its relative strength in high growth segments of the market. Nevertheless, many shareholder expectations were missed and it is right that the contingent elements of short-term remuneration should reflect this mixed picture: so, in aggregate, taking the executive directors and senior management team as a group, the cash bonus for 2011 was only 12% of basic salary against a target of 57% and a maximum potential of 114%. At Wolfson a cash bonus continues to be just that: a bonus that is measured against objective performance goals and neither an entitlement nor effectively part of the base salary.

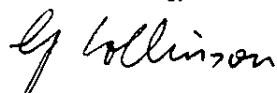
We believe that it is for Wolfson's shareholders to continue to have the most significant say on the remuneration of the executive directors and senior management. As such, in 2011, we embarked on the largest consultation with shareholders to date since the Company's flotation in 2003. The Senior Independent Director, Ross Graham, and I visited, over 14 days, 10 of the top 13 shareholders and other shareholders who represented approximately 55% of the share register at that time together with the major investor bodies. We conducted this exercise earlier than usual, during the first part of December 2011, in order to give shareholders more time to consider the initial proposals of the Remuneration Committee and to provide their feedback. The feedback received resulted in, amongst other things, a significant strengthening of the profitability underpinning of the targets in the contingent long term remuneration plans.

As described in earlier sections of this Annual Report and Accounts and summarised again in the Directors' Remuneration Report below, Wolfson continues to progress with a major strategic change and it is again within this context, that we have reviewed the performance targets and the structure of the long range incentive plans over the next three year period. We have increased the threshold and other targets for the 2012 LTIP against the 2011 LTIP awards, even though the Company's starting financial position is almost identical to that at the end of 2010. However, because these plans are share-based and clearly linked to increased shareholder value and because we continue to place emphasis on the need to translate the strategy into significant growth over the next three years in line with the real opportunities perceived as now available, we considered it right to increase the maximum potential nominal payout in the LTIP that will accrue only if all of the new performance targets are met.

For the Chief Financial Officer ('CFO') and the other senior management, the maximum potential LTIP payout is increased to 200% of basic salary paid in performance shares in three years' time compared to a maximum of 150% for the 2011 LTIP awards.

For the Chief Executive Officer ('CEO'), we feel this is also the right time to rebalance the structure of the performance related aspects of his remuneration to align his incentives and rewards better with the strategy. We have reduced his annual bonus target payout for 2012 from 100% to 67% of basic salary (with a maximum payout reduced from 200% to 133% of basic salary), bringing him closer to the bonus potential for the CFO and the rest of the management team. To balance that change we have also increased his maximum potential LTIP (three year) payout to 300% of basic salary.

Finally, we have tried to highlight the key decisions proposed on remuneration this year and shorten the supporting contextual and historical information. We hope that this increases the clarity of the report for shareholders and other stakeholders so that it can be seen how the Remuneration Committee is trying to support the healthy growth of our Company consistent with its business strategy.



Glenn Collinson
Chairman of the Remuneration Committee

6 February 2012

Executive Remuneration Philosophy, Principles and Policies

Remuneration Philosophy

Our objective is to offer remuneration packages that attract, motivate and retain highly talented individuals to promote and share in the future success of the Company. Remuneration packages are structured to meet business needs and to focus employees on their contributions to the achievement of the Company's strategic objectives and goals in a manner consistent with the Company's appetite for risk. In determining such packages and arrangements, we give full regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and associated guidance, including that from investor bodies.

We aim to offer a fair and proper reward for the efforts, skills and performance of our people that is suitably structured to reflect individual commitment, performance and level of responsibility. Whilst basic salary is structured to be competitive, all variable incentives are subject to performance requirements, thus aligning outcomes with the long term interests of our shareholders. We are happy to reward exceptional performance appropriately and to have due regard to the individual's seniority and role. However, there is no concept of being rewarded for failure. Non-performers are not rewarded through basic salary increases, bonus or share schemes and are actively managed through a clear performance management process either to improve or to exit.

The Committee considers pay levels elsewhere in the Company when determining the remuneration of directors and senior managers. The Committee assesses total expected remuneration and its shape as the basis for reviewing remuneration packages, rather than targeting their components. Remuneration packages for executive directors and senior managers are reviewed annually by the Committee. For executive directors and senior managers, the Committee thinks it appropriate to set demanding performance requirements in line with the Company's strategic objectives, and that long term incentives should be a greater part of their remuneration (if the Company is successful) as they are in a position to influence long term performance to a much greater extent than their more junior colleagues.

The Remuneration Committee also benchmarks the overall remuneration package, for the executive directors and senior management, against a peer group of similar companies in both the UK and internationally. The overall stance continues to be to ensure the overall levels of remuneration are not out of line with the median of the peer group, taking into account both the size, and growth rate of that group. This benchmarking is one of the set of tools used to determine remuneration and is not the sole driving influence.

Principles for short-term performance-related remuneration

We aim to judge performance of our people through a mixture of metrics, using a balanced scorecard approach, corresponding to our strategic objectives, and by the application of open and fair performance management for all employees. Our compensation and benefit programmes are designed to motivate desirable employee behaviour, actions and results with a view to aligning interests with those of our shareholders. The metrics we use are a mixture of challenging targets, both financial and non-financial, (such as product development and design-in success at customers). However, the more senior an individual in the Company, the higher the proportion of variable pay that is dependent on meeting financial metrics. We are very aware of the Company's need to be profitable and consider carefully the affordability of incentives and the setting of appropriate performance criteria / conditions. We also take great care to ensure that the opportunities reflected in the targets set are consistent with the Company's desired level of risk. Performance criteria, once agreed by the Committee, are rigorously applied in assessing short-term bonus payouts.

Policy for Long Term Incentive Plans (LTIPs) for Executive Directors and Senior Management

We aim to retain the best management talent, in part by rewarding the executive directors and senior management team by the award of share-based LTIPs when the Company's long range targets are met. As a further incentive to encourage the executive directors and senior management team to stretch towards exceptional (but in the Board's opinion still attainable) goals, the LTIPs are designed to extend these rewards for such exceptional performance.

The LTIPs are structured to vest three years after they are issued to encourage good decision-making over an appropriate long range time scale (consistent with product life cycles in the consumer electronics industry).

The Company has both executive performance share and share option plans but for 2011 and as proposed for 2012, the LTIPs have been limited to performance shares only. The details of these are described later in this report. The Committee selects the appropriate mix of performance shares or equivalent contingent nil cost options and share options for each year's new issue of LTIPs.

The LTIPs vest only when certain performance conditions are met after the three years. The performance conditions are selected by the Committee to be appropriate for every year's grant of new three year awards under the LTIPs. These performance conditions set the appropriate targets consistent with the Company's strategy and the overall business cycle, whilst maintaining the risk profile decided by the Board.

Policy for remuneration on termination or severance

For the executive directors, as stated on page 56, contractual notice periods are 12 months and for the senior management team they range from 6 to 12 months depending on the role.

The Committee considers and, if appropriate, approves any severance packages relating to executive directors or senior managers. In so doing we have agreed a policy of notice payments commencing from the date of resignation. Consideration of a payment in lieu of notice is only made where it is at the Company's request that the employee is not required to work their period of notice. For "bad" leavers (as defined under the relevant scheme rules) all unvested long term incentive plan awards and unpaid cash bonuses shall lapse, subject to the scheme rules. For "good" leavers (again as defined under the relevant scheme rules), where discretion may be applied to payments we generally pro rate for time and performance conditions. It is at the discretion of the Committee, subject to the relevant scheme rules, to determine whether the share-based awards (which are deemed to have vested in the circumstances) are transferred to a "good" leaver as soon as practicable or left in place until the end of the original performance period for the LTIP award.

Remuneration policies for non-executive directors

The remuneration of non-executive directors (excluding that of the Chairman) is a matter for the Chairman and the executive members of the Board.

The remuneration of the Chairman is led by the Senior Independent Director and agreed with the rest of the Board (excluding the Chairman).

No director or manager is involved in any decisions about his own remuneration.

Remuneration policies for other employees

We approve the key elements for the remuneration policies elsewhere in the Company and the principles for all incentive arrangements. In so doing, we review the consistency of remuneration levels between different grades, as well as being fair in relation to the external environment, and the actions of competitors. All bonus or incentive schemes in the Company, with the exception of our sales team, are derived from the same metrics within the balanced scorecard but potential payouts vary by grade of employee.

Linking Remuneration to the Strategy of Wolfson and the Management of Strategic Risk

The strategic re-positioning of Wolfson initiated in 2009, from being primarily a mixed-signal specialist to become a leading systems-on-chip provider of high definition audio for consumer electronics devices, is well under way, as explained in the Strategic Update section of the Business Review on pages 5 to 11. The implications of this strategy are profound. Firstly the evidence already shows that by winning a higher market share in high growth segments, the whole Company will be able to grow more rapidly than in the recent past. Secondly, by raising the perceived value that Wolfson will bring to its customers, it should reduce the risk of churn of individual major customers. Finally, because there is no acknowledged leader in the world today in the provision of 'deeply embedded' audio technologies across the consumer electronics spectrum, there is a genuine opportunity for Wolfson to move into that leadership position. The whole strategy is conceived therefore to lay the foundation for a very significant increase in the value added for its stakeholders over the longer term.

Such a bold strategy, of course, does not come without risks. For example, major new skills need to be learned in software engineering, a number of development challenges has to be overcome, new supplier relationships need to be built and the closer focus on fewer, larger customer programmes will probably increase customer concentration, thus requiring sales skills to move up a gear. All of this needs to be done within the budgetary constraints imposed by the uncertain global economic outlook over the next couple of years. Nevertheless the Board believes that those risks are manageable and are out-weighed by the reasonable potential for much more success.

It is essential that remuneration should play its part in setting the right incentives over the right time scales to reinforce management's role in making the difficult decisions to complete this strategic change. This transformation should be substantially complete over the next three years. The right approach is to place emphasis on growth with more stretching targets than in 2011, and to continue to use revenue growth as the most obvious proxy for that. Hence, the executive director and senior management long term incentive plans, for example, will continue to use revenue growth as the most important performance target.

On the other hand, the management of the strategic risks identified here is best facilitated by keeping a stronger profitability underpin in place in the LTIP than was used for the 2011 LTIP awards. This should encourage, for example, the development of the right supplier relationships at the right cost base and also the strengthening of more senior sales relationships; this should then ensure that the higher value that Wolfson will deliver is fairly reflected in the price paid by those customers.

Guidelines for Shareholdings for the Executive Directors and Comparison with Actual Holdings

We would like all our senior managers to become shareholders in the Company to align further their interests with those of shareholders. Our shareholding policy was strengthened in 2010 to make it more effective by encouraging executive directors and senior managers to build up, over some time, and to maintain a holding of shares in the Company to the value of 100% and 50%, respectively, of salary. This should be achieved by the retention of 50% of the net shares from vested LTIPs, from the 2010 LTIP awards onwards. Whilst continuing to highlight this guidance we continue to believe that this is best done through mutual agreement and we do feel it right to also recognise the nature of how an individual's shareholding was accumulated. For example, where an individual invested personally to build up his or her shareholding and did not wait for LTIPs to vest, we will acknowledge that and also acknowledge the proportion of the individual's basic salary that such an investment represented at the time of that investment. We do not think that it is appropriate to mandate the deferral of cash bonuses that have already been earned because we do not want to over-emphasise this element of remuneration which is still primarily earned on one year measurement horizon, at the expense of our LTIPs which are only measured over three years.

The actual shareholding of the executive directors, as shown in the table on page 54, as of 1 January 2012 and as at 6 February 2012 were:

JM Hickey	319,106 shares
M Cubitt	72,246 shares

The CEO, JM Hickey, currently meets the Company guidelines on shareholding and holds, including the 57,775 shares held by his wife, 185% of his basic salary in Wolfson shares at the share price on 3 February 2012 of £1.60 per share.

The CFO, M Cubitt, built up his current holding by making a personal investment of £151,000 in 2007 and also, in 2010, shares were purchased to the value of £30,000 in accordance with the Deferred Bonus Plan (as shown on page 57). The purchase cost of these shares therefore represent 90% of his basic salary. Since that time, in large part due to the reduction in share price, his holding has reduced to represent 57% of his basic salary at the share price on 3 February 2012 of £1.60 per share. M Cubitt's holding would increase were he to elect to continue to hold any shares that vest from 2013 onwards from the 2010 and later LTIPs.

Summary of New Proposals for Remuneration in 2012 onwards for Executive Directors and Senior Management

2012 Basic Salary, Pension and Other Benefits

The Committee proposes that the basic salary for the CEO, CFO and the senior management will be frozen at the 2011 level well below both the rate of inflation and the average rise of up to 3%, on average, for the rest of the employees of the Company.

The basic salary will continue to be the only element of compensation which is pensionable and will be at the same proportion of basic salary as 2011.

2012 Cash Bonus Plan

For the CEO, JM Hickey, it is proposed that the cash bonus scheme for 2012 will be capped at 133.3% of basic salary. On target performance will result in a bonus of 66.7% of basic salary. This reduction is part of the rebalancing of the CEO's performance related pay and should be considered in the context of the increase in his maximum potential award under the LTIP described below.

For the CFO and senior management, it is proposed that the cash bonus scheme for 2012 will be unchanged on 2011 and capped at 100% of basic salary. On target performance will result in a bonus of 50% of basic salary.

We will continue to set challenging financial and corporate non-financial performance targets for the executive directors and senior management using a balanced scorecard approach that also forms the basis of the assessment of cash bonuses throughout the Company. For 2012 the balanced scorecard, on-target cash bonus performance criteria and the associated components of the bonus will be unchanged as follows:

Cash Bonus Plan 2012: Balanced Scorecard Targets and Associated Bonus Components

Proposed 2012 Annual Cash Bonus Targets (as % of basic salary)

	On-target cash bonus (% of base)	Maximum cash bonus (% of base)
CEO		
Metric		
1. Financial metrics	36.7%	73.3%
2. Non-Financial metrics	30.0%	60.0%
Total 2012 annual cash bonus potential	66.7%	133.3%

	On-target cash bonus (% of base)	Maximum cash bonus (% of base)
CFO and senior management		
Metric		
1. Financial metrics	27.5%	55%
2. Non-Financial metrics	22.5%	45%
Total 2012 annual cash bonus potential	50%	100%

The financial metrics include revenue, gross profit margin and underlying operating expenses.

The non-financial metrics are wide ranging, covering the activities within the most important operational departments, and include the adherence to product development schedules, the achievement of product quality targets and the achievement of customer design-in targets.

As was the case in 2011, executives will be invited to participate in 2012, in the Wolfson Microelectronics 2010 Senior Executive Deferred Bonus Plan in respect of their cash bonus payable for performance in the year 2011. The details of the operation and level of participation in this deferred bonus plan in 2011 and in 2010 are on pages 57 and 59.

2012 Long Term Share-based Incentive Plan

Similar to the policy in 2011, it is proposed that only the equivalent of contingent share awards will be used for the long term share-based incentive scheme in 2012. In fact for 2012 contingent nil cost option awards will be used instead of contingent share awards, in line with the increasingly common practice in the industry. These nil cost options have exactly the same economic value to the recipient as award shares, but give the recipient an increased degree of flexibility within an overall two year window, on when the award is taken (exercised) after, and to the extent that, the associated performance conditions (as described below) are achieved over a full three year period.

Revenue targets will remain as the main performance measures for the 2012 LTIP accompanied by underlying operating profitability underpins.

For the CFO and senior management, both the revenue targets and profitability underpins have been increased compared to the 2011 LTIP even though the starting financial position is broadly unchanged. The highest potential payout has also been increased, compared to the highest potential in the 2011 LTIP awards, from 150% of base salary to 200% in line with the Company's growth strategy.

For the CEO, to further incentivise and potentially reward exceptional growth, and in line with the Company's strategy, the highest potential payout has also been further increased to 300% of basic salary, to reflect the re-balancing of his performance related pay away from short-term cash bonus towards the long term, share-based incentive plan.

In detail the proposed performance targets which are the same for all of the executive directors and the senior management are as follows in comparison with the 2011 LTIP:

- The threshold target should be \$220m revenue in 2014 (i.e. a 11.9% compound growth rate compared to revenue in 2011) which is an increase from the 2011 LTIP threshold target of \$197m of revenue in 2013.
- The maximum target should be \$320m revenue in 2014 (i.e. a 26.8% compound growth rate compared to revenue in 2011) which is an increase from the 2011 LTIP maximum target of \$295m of revenue in 2013.
- An underlying operating profit margin underpin should be applied in 2014 of 7.5% at the threshold target of \$220m in 2014 rising linearly to an underlying operating profit margin underpin of 10% at the maximum target of \$320m revenue in 2014. The LTIP should only vest for underlying operating profit margin above this underpin at each revenue target achieved. This is an increased condition over a flat 7.5% underlying operating profit margin underpin in the 2011 LTIP.

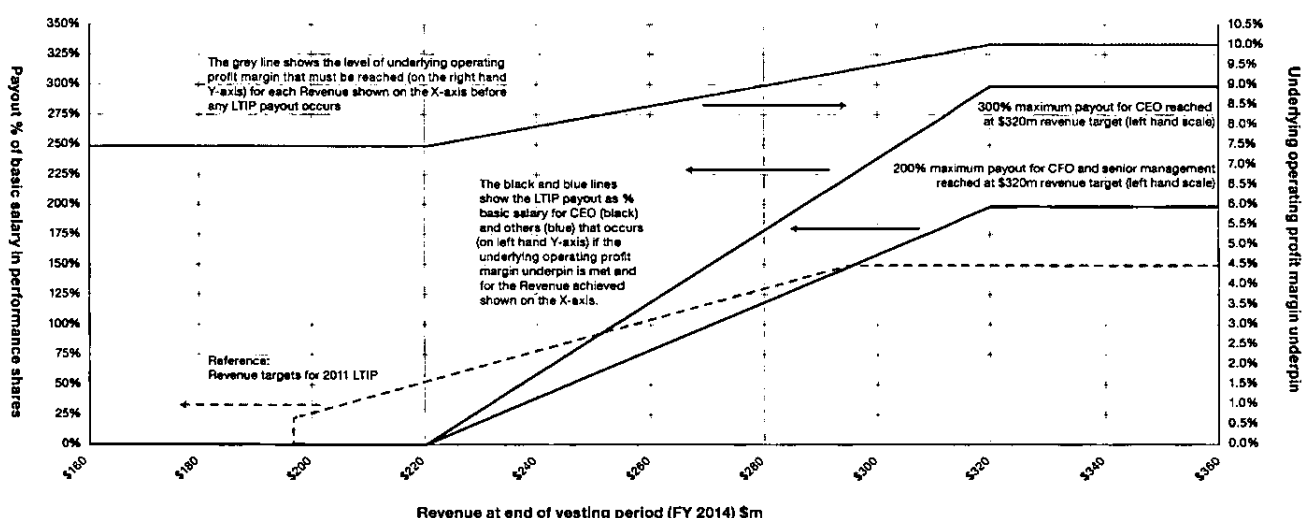
The underlying operating profit margin and revenue measures would be adjusted, as appropriate, for the effect of any acquisitions in the three year performance period.

For the CFO and senior management, the payout potential under the LTIP is as follows. Below the threshold revenue target no LTIP payout should occur. This is a change from the 2011 LTIP where a 25% of base salary LTIP payout will occur at the threshold target. At the maximum target revenue of \$320m and only if the associated underlying operating profit margin underpin of 10% is achieved or exceeded, an LTIP payout of shares equivalent to 200% of base salary (calculated using the average share price of the preceding three business days as at 15 March 2012) should occur. This is an increase from the maximum LTIP payout of 150% for the 2011 LTIP awards. Between the threshold revenue and maximum revenue targets, the payout will increase linearly with revenue but, again, will only be paid if the associated underlying operating profit margin underpin for that revenue, calculated in (c) above, is achieved or exceeded.

For the CEO the payout potential under the LTIP is as follows. Below the threshold revenue target no LTIP payout should occur. This is a change from the 2011 LTIP where a 25% of base salary LTIP payout will occur at the threshold target. At the maximum target revenue of \$320m and only if the associated underlying operating profit margin underpin of 10% is achieved or exceeded, an LTIP payout of shares equivalent to 300% of base salary (calculated using the average share price of the preceding three business days as at 15 March 2012) should occur. This is an increase from the maximum LTIP payout of 150% for the 2011 LTIP awards. Between the threshold revenue and maximum revenue targets, the payout will increase linearly with revenue but, again, will only be paid if the associated underlying operating profit margin underpin for that revenue, calculated in (c) above, is achieved or exceeded.

This is represented graphically and in comparison to the performance conditions attaching to the 2011 LTIP as:

Long Term Incentive Plan 2012: Targets and Potential Payouts



2012 Deferred Annual Bonus Plan

It is proposed that the deferred annual bonus plan, which was introduced in 2010, will again be available to the members of the senior management team, including the executive directors, in 2012. Under this plan, executive directors and senior management may elect to invest up to 50% of the net proceeds of the annual bonus scheme in Wolfson shares and hold them for three years. The Company will then match these shares 1:1 on a gross basis subject to performance targets being met. For awards granted under this Plan in 2012, these performance targets will be the same as for the awards under the 2012 LTIP described above except that the maximum amount of matching shares will be equivalent in value to 100% of the gross bonus deferred at the time of the deferral. For details regarding the historic uptake of the Deferred Annual Bonus Plan in 2010 and in 2011, please refer to page 59.

Proposals for 2012 Chairman and Non-Executive Director Remuneration

There will be no increase in the fees for the Chairman and non-executive directors in 2012.

Details of Actual Remuneration in 2011 for Executive Directors and Senior Management

The remuneration package for executive directors and the senior management team consisted of a combination of a base salary, a cash bonus scheme, a long term share-based incentive scheme, pension contributions and other benefits in kind. In 2011 the long term incentive scheme comprised only contingent share awards under the Wolfson Microelectronics 2006 Performance Share Plan (PSP). Basic salary was the only pensionable portion of the remuneration package.

For JM Hickey, 77% of the total potential remuneration package in 2011 was performance related and for M Cubitt 70% of the total potential remuneration package in 2011 was performance related, excluding the deferred share award which vested in 2011 for JM Hickey and excluding the long term cash bonus payment for M Cubitt (refer to page 52). If the deferred share award, which vested in 2011 for JM Hickey, and the long term cash bonus payment for M Cubitt are included in these calculations then for JM Hickey 51% of the total potential remuneration package in 2011 was performance related and for M Cubitt 45% of the total potential remuneration package in 2011 was performance related.

2011 Directors' Emoluments

The Directors' emoluments in respect of qualifying services of each person who served as a director during the 52 week period ended 1 January 2012 are shown below. Note that these amounts are expressed in US dollars, the Group's functional and reporting currency, though actually paid in sterling and converted at the average exchange rate used in the 52 week period ended 1 January 2012. The equivalent sterling figures are shown in the table on page 51.

<i>Directors' emoluments (US dollars)</i>	Salary / fee \$000	Bonuses \$000	Benefits \$000	Other \$000	Total 2011 \$000	Salary / fee 2010 \$000	Total 2010 \$000
Executive directors							
JM Hickey	438	89	21	–	548	412	736
M Cubitt *	319	32	17	647	1,015	291	411
Non-executive directors							
M Ruettgers	168	–	–	–	168	132	132
AD Milne	56	–	–	–	56	49	49
BM Rose**	18	–	–	–	18	64	64
RK Graham	79	–	–	–	79	62	62
R Eckelmann	69	–	–	–	69	58	58
G Collinson	70	–	–	–	70	55	55
J Grant***	21	–	–	–	21	–	–
Totals	1,238	121	38	647	2,044	1,123	1,567

* The 'other' figure in 2011 comprises a long term cash bonus which was paid in 2011, as described on page 52.

**BM Rose retired as a director of the Company on 21 April 2011.

*** J Grant was appointed as a non-executive director of the Company on 1 September 2011.

The information in this table has been audited by the Company's independent auditors.

<i>Directors' emoluments (sterling)</i>	Salary / fee £000	Bonuses £000	Benefits £000	Other £000	Total 2011 £000	Salary / fee 2010 £000	Total 2010 £000
Executive directors							
JM Hickey	274	58	13	–	345	266	472
M Cubitt*	200	21	11	401	633	188	264
Non-executive directors							
M Ruettgers	105	–	–	–	105	85	85
AD Milne	35	–	–	–	35	32	32
BM Rose**	12	–	–	–	12	41	41
RK Graham	50	–	–	–	50	40	40
R Eckelmann	43	–	–	–	43	38	38
G Collinson	44	–	–	–	44	35	35
J Grant***	13	–	–	–	13	–	–
Totals	778	79	24	401	1,280	725	1,007

* The 'other' figure in 2011 comprises a long term cash bonus which was paid in 2011, as described on page 52.

**BM Rose retired as a director of the Company on 21 April 2011.

*** J Grant was appointed as a non-executive director of the Company on 1 September 2011.

The information in this table has been audited by the Company's independent auditors.

2011 Cash Bonus Awards

The cash bonus in 2011 was discretionary and non-pensionable and applied to the Group's executive directors and senior management team. On target performance would result in a payment of a bonus of 50% of salary to each participant in the senior management team with a sliding scale of payments around this figure according to the performance actually achieved. For JM Hickey, on target performance would result in a payment of a bonus of 100% of basic salary. The overall cash bonus payment was capped at one times salary for each participant other than for JM Hickey where it was capped at two times basic annual salary.

The metrics for the executive cash bonus scheme were a mixture of financial and appropriately challenging business performance targets and followed a balanced scorecard approach with each metric having a relative weighting attached to it. The target for each metric was set at the beginning of the year in respect of each quarter in the financial year.

The targets for each metric were identical to those applied for the cash bonus arrangements for all other employees in the Group (with the exception of the sales team), although the actual bonus payouts to other employees are much less than for the executive directors and the senior management team. For the executive directors and senior management, although the targets are set, measured and monitored on a quarterly basis, the cash bonus payment is not paid until after the announcement of the audited financial results for 2011. For the rest of the employees the cash bonuses earned are paid after the end of the relevant quarter.

The relative weighting of the financial and non-financial measures was 55% financial measures and 45% non-financial measures. The financial performance measures were: revenues, gross margin and overhead costs.

In total, for the year as a whole, the financial performance measures were only partially achieved to the extent of 16% of the on target scorecard percentage (that is a payment of approximately 4.5% of salary for M Cubitt and the senior management team, or 8.9% in the case of JM Hickey). This is further analysed in the table on page 52. The non-financial performance targets, which were the same for each participant, and also for the basis of the all employee bonus arrangements (except for the sales team) were assessed as appropriately challenging and included non-financial measures taken across the whole range of the Company's activities. There were no personal objectives included as performance measures for the purposes of the cash bonus arrangements in 2011 for the executive directors and senior management team. In total, for the year as a whole, the non-financial performance measures were partially achieved to the extent of approximately 27% of the on target scorecard percentage (that is a payment of approximately 6.1% of salary for M Cubitt and the senior managers, or 12.2% in the case of JM Hickey).

The above is summarised in the following tables:

2011 Annual Cash Bonus (measured on the balanced business scorecard)

CEO	Target bonus (% of base)	% of target achieved	Bonus earned (% of base)	Bonus amount £000
Metric				
1. Financial metrics	55%	16%	8.9%	24
2. Non-Financial metrics	45%	27%	12.2%	34
Total 2011 annual cash bonus	100%		21.1%	58

CFO	Target bonus (% of base)	% of target achieved	Bonus earned (% of base)	Bonus amount £000
Metric				
1. Financial metrics	27.5%	16%	4.5%	9
2. Non-Financial metrics	22.5%	27%	6.1%	12
Total 2011 annual cash bonus	50%		10.6%	21

As disclosed in the Directors' Remuneration Reports sections of the Annual Reports and Accounts for the years 2008, 2009 and 2010, in addition to the annual cash bonus plan for 2011, a special long term cash bonus became payable to the CFO in 2011 (refer to section below for details of this long term cash bonus arrangement for the CFO).

CEO, JM Hickey: Deferred share award

As described in the Directors' Remuneration Report 2008, 2009 and 2010, a deferred award of 421,940 ordinary shares in the Company was made on 25 September 2008 in order to recruit the new CEO, JM Hickey, representing a notional value of £500,000 calculated from the share price at the time of his appointment. This award had no performance conditions attached and vested, on the completion of three years continuous service, with no notice of termination of the contract of employment served, on 8 September 2011. Because the share price on that date was £1.55125 per share this share award represented a value of £655,000 on that date. After 248,523 of the shares from this award were immediately sold by JM Hickey to pay for the income tax and national insurance contributions liabilities, which arose on the vesting of this deferred share award, the net value of the award shares at the vesting date was £269,000. The award was satisfied by shares held in the No.1 Employees' Share Trust and those shares had previously been purchased in the market by the Trust.

Long term cash bonus payment to CFO, M Cubitt, during 2011

M Cubitt also received \$647,000 (£401,000) in respect of a long term cash bonus arrangement which was paid in 2011. The net amount of this bonus received by M Cubitt, after deduction of income tax and national insurance contributions, was £193,000. It was explained in the Directors' Remuneration Report 2008, 2009 and 2010 that, in view of the changes to the composition of the executive directors of the Company which occurred during 2008 and in order to ensure an element of continuity in the executive management of the Company, the non-executive directors considered it to be important to enhance, in these exceptional circumstances, the long term incentive arrangements for M Cubitt. Therefore in 2008, the Committee and the Board approved the establishment of a deferred cash bonus award agreement between the Company and M Cubitt. Under the terms of this agreement, and subject to M Cubitt being employed by the Company at that time, M Cubitt would receive a cash bonus on 11 September 2011. The cash bonus award was equivalent to two times M Cubitt's annual basic salary at the date of payment of the bonus. This bonus is non-pensionable and was not factored into the calculation or basis of any other cash bonus scheme nor in the calculation of share award entitlements which may be based only on a factor of the amount of basic annual salary. An appropriate amount was accrued in the financial statements on a time-apportioned basis over the three year period from 11 September 2008. The terms of this cash bonus were satisfied in 2011 and therefore it became payable on 11 September 2011 and this cash bonus was then paid to M Cubitt in that month.

Pensions

The Company operates two pension schemes, one being a defined benefit scheme and the other being a defined contribution scheme. The former was closed to all new entrants after 2 July 2002. The defined benefit scheme was closed to future accrual with effect from 30 April 2011 and therefore the Company is no longer required to pay contributions in respect of future accrual.

As explained in the Directors' Remuneration Report for 2006, with effect from 5 April 2006, AD Milne became a deferred member of the defined benefit scheme and the Company ceased to make contributions to the scheme on his behalf.

JM Hickey and M Cubitt are members of the Company's Group Personal Pension Plan (GPP), a defined contribution pension scheme. The Company currently matches employee contributions up to a maximum of 6% of basic salary. With effect from 1 September 2010, the Company implemented a salary sacrifice arrangement to its GPP. 100% of eligible employees, including the executive directors, elected to join this arrangement. The salary sacrifice scheme is approved by HM Revenue and Customs. The Company also enhanced the GPP employer contributions to the scheme at the same time by passing on the employer national insurance savings created by the salary sacrifice arrangement as an additional pension contribution into each participating employee's GPP plan arrangement.

The Company contributed the following amounts to the Group Personal Pension Plan in relation to the two executive directors:

	Amount of Company contributions to Group Personal Pension Plan		Amount of Company contributions to Group Personal Pension Plan	
	2011		2010	
	\$000	£000	\$000	£000
JM Hickey	26	16	25	16
M Cubitt	26	16	17	11

The information in this table has been audited by the Company's independent auditors.

Other Benefits in Kind

Benefits are unchanged in 2011 and consist primarily of a car, private family healthcare cover and life assurance for each of the executive directors. In addition, JM Hickey receives travel costs between Edinburgh and his main place of residence in Winchester, England. The Company also pays for JM Hickey's spouse to travel a number of round trips between Edinburgh and the place of residence in England. JM Hickey was also eligible, during a three year period from the date of his appointment and ending on 8 September 2011, for a relocation allowance to move his main residence to the immediate vicinity of Edinburgh, which he elected not to take up.

Value of the 2009 Long Term Share-based Incentive Plan that is due to vest in 2012

The 2009 Long Term Incentive Plan consisted of a grant of contingent performance shares under the PSP and a grant of market value share options, to the value of 40% and 60% of basic salary respectively at the time of these awards on 19 March 2009.

The performance conditions applicable to both these PSP and share options awards, which were the same and were dependent on share price appreciation and cash conservation measures over the three year performance period 2009 to 2011, were as follows:

Half of the awards were to vest at the end of the performance period if the Company's share price had appreciated, from the share price on 4 February 2009 by more than 50% over a period of at least five consecutive business days within the performance period. The "share price" was defined as the middle market quotation, for the Company's ordinary shares, from the Daily Official List of the London Stock Exchange. This element of the 2009 LTIP performance condition was met in August 2009.

The other half of the awards were to vest if the cash and cash equivalents and short-term deposits balance, as reported in the audited balance sheet of the Group for each of the financial years 2009, 2010 and 2011, was at least equal to the balance of cash and cash equivalents and short-term deposits, net of any debt, reported in the audited consolidated balance sheet for the Group at the end of 2008, being \$92.193 million. This balance was subject to adjustment, if deemed appropriate by the Committee, for receipts and / or payments in the relevant period which are outside the normal course of the Group's and the Company's trading operations. As the cash and cash equivalents and short-term deposits balance for the Group at the end 2011, as reported in the audited consolidated balance sheet as at 1 January 2012 (on page 63) was \$53.4 million therefore less than \$70.8 million, after adjustment (as allowed in the plan) for cash payments in respect of: exceptional items; acquisitions; and pension funding, this condition was not satisfied.

The Remuneration Committee therefore concluded that the performance conditions applicable to the 2009 LTIP awards were satisfied to the extent of 50% (being achievement of the share price appreciation measure only) and therefore the value of the 2009 LTIP awards, which will vest on 19 March 2012, will be as follows:

Value of performance based LTIPs due to vest in March 2012

	Awarded on 19 March 2009: Number of shares subject to the award		% to vest	% to lapse	Number of shares / share options to vest	Value* to vest on 19 March 2012 £000
CEO (JM Hickey)						
PSP	113,043		50%	50%	56,522	90
Share option	169,565		50%	50%	84,782	58
Total value*						148
	Awarded on 19 March 2009: Number of shares subject to the award		% to vest	% to lapse	Number of shares / share options to vest	Value* to vest on 19 March 2012 £000
CFO (M Cubitt)						
PSP	76,086		50%	50%	38,043	61
Share option	114,130		50%	50%	57,065	39
Total value*						100

* Share price used, for illustrative purposes, to indicate the value at vesting date:

Share price at vest on 19th March 2012 (illustrative only, share price on 3 February 2012): £1.60

Exercise price of share options under 2009 LTIP: £0.92

Directors' Holdings of Shares and Share-based Awards under the LTIPs and other information on Directors, Advisers and Historic Total Shareholder Return
Directors' Shareholdings and other Interests in Shares of the Company

The interests of the directors, who were serving as at 1 January 2012, in the Company's ordinary shares of 0.1 pence, which excludes interests under the share option schemes, are set out below:

	At 3 January 2011 Number of ordinary shares	Shares acquired Number of ordinary shares	Shares disposed Number of ordinary shares	At 1 January 2012 Number of ordinary shares
M Ruettgens	600,000	–	(120,683)	479,317
JM Hickey	133,139	434,490	(248,523)	319,106*
AD Milne	2,839,147	–	–	2,839,147
M Cubitt	**72,246	–	–	72,246
RK Graham^	149,329	–	–	149,329
R Eckelmann	10,680	–	–	10,680
G Collinson	–	97,850	–	97,850
J Grant	–	–	–	–
	3,804,541	532,340	(369,206)	3,967,675

*Of these ordinary shares, 261,331 were held by JM Hickey and 57,775 are held by JM Hickey's wife. 24,139 of the shares held as at 3 January 2011 and as at 1 January 2012 are those purchased in 2010 by JM Hickey under the Deferred Bonus Plan (refer to page 57). During the 52 week period ended 1 January 2012, JM Hickey's deferred share award vested which comprised 421,940 shares (refer to page 52) and 248,523 of those shares were immediately sold by JM Hickey to pay for the related tax liability.

** 17,246 of these shares were purchased in 2010 by M Cubitt under the Deferred Bonus Plan (refer to page 57).

^ A trust, of which RK Graham is a trustee but not a beneficiary, held a total of 51,708 shares in the Company as at 3 January 2011 and as at 1 January 2012. These shares are not included in the table above as RK Graham does not hold a beneficial interest in those shares.

The awards granted under the PSP and the Matching Share Awards granted under the Deferred Bonus Plan are not aggregated with existing shareholdings of directors because they are subject to a vesting period and/or satisfaction of performance conditions as explained below.

Directors' potential interest in shareholdings of employee share trusts

In addition to the interests disclosed above, the executive directors are potential beneficiaries of The Wolfson Microelectronics No. 1 Employees' Share Trust and The Wolfson Microelectronics No. 2 Employees' Share Trust. They are therefore treated as having the following interests in the shares held by those trusts as at 1 January 2012:

- 1 Each executive director is interested as the holder of awards under the PSP and a matching award under the Deferred Bonus Plan in the following number of shares:

M Cubitt	275,900
JM Hickey	388,393

- 2 Each executive director is interested, as a member of the class of potential beneficiaries of The Wolfson Microelectronics No. 1 Employees' Share Trust, in 3,714,033 shares.
- 3 Each executive director is interested, as a member of the class of potential beneficiaries of The Wolfson Microelectronics No. 2 Employees' Share Trust, in 645,037 shares.

As at 6 February 2012, there had been no changes in the above shareholdings.

Holdings under Long Term Incentive Schemes

A. PSP awards

The Wolfson Microelectronics 2006 Performance Share Plan (PSP) was approved by shareholders at the Extraordinary General Meeting held on 16 February 2006. Contingent share awards, which were granted under previous years' LTIP plans, and currently held by directors are as follows:

Director	Performance period ending 31 December	Award date	Market price at date of award	As at 3 January 2011 (number)	Contingent award (number)	Vested (number)	Lapsed (number)	As at 1 January 2012 (number)	Vesting date
JM Hickey	2011	19.03.09	£0.92	113,043	–	–	–	113,043	March 2012 ^(a)
	2012	19.03.10	£1.522	70,381	–	–	–	70,381	March 2013 ^(a)
	2013	17.03.11	£2.522	–	164,056*	–	–	164,056	March 2014 ^(a)
M Cubitt	2010	30.04.08	£1.41	123,529	–	–	(123,529)	–	See note (a) below
	2011	19.03.09	£0.92	76,086	–	–	–	76,086	March 2012 ^(a)
	2012	19.03.10	£1.522	51,211	–	–	–	51,211	March 2013 ^(a)
	2013	17.03.11	£2.522	–	119,373*	–	–	119,373	March 2014 ^(a)

*These figures represent 150% of the on-target amount of shares and are therefore the maximum number of shares which can vest in accordance with the terms of these contingent share awards, if the operating profit margin underpin and exceptional level of revenue growth performance are achieved (as explained on page 48).

The information in this table has been audited by the Company's independent auditors.

No consideration was payable for any of these awards.

- (a) For the PSP awards granted on 30 April 2008 as part of the 2008 LTIP which were equivalent to 100% of base salary at the time, the performance conditions applicable to those PSP awards were not satisfied and therefore all of these awards lapsed on 8 February 2011 upon the announcement of the Company's financial results for the 52 week period ended 2 January 2011.
- (b) For the PSP awards granted on 19 March 2009 as part of the 2009 LTIP which were equivalent to 40% of base salary at the time, 50% will vest and 50% will lapse in 2012, as described in the section on page 53 regarding the long term incentive plans which are due to vest in March 2012.
- (c) For the PSP awards granted on 19 March 2010 which were equivalent to 40% of base salary at the time, the vesting will be decided by reference to the Company's achievement of a certain gross profit target in any consecutive four quarters during the three year period 2010 to 2012. If that target is achieved in the period then the PSP awards shall vest in full, subject to the Committee's discretion to review the vesting of the awards at the end of the three year period in light of the underlying performance of the Company at that time and subject to the rules of the 2010 LTIP. This performance condition has not yet been achieved.
- (d) The performance conditions applicable to the PSP awards which were granted on 17 March 2011, in respect of the long term incentive plan, are described on page 48 where the proposed 2012 LTIP is compared to the 2011 LTIP. These performance conditions have not yet been achieved.

B. Share Options

The 2003 Wolfson Microelectronics Executive Share Scheme is the scheme that is used to grant senior executive share options. Details of share options of those executive directors who served during the financial year are set out as follows:

Director	Share option Scheme	At 3.1.11	Exercised during year	Lapsed during year	Granted during year	At 1.1.12	Exercise price	Date from which Exercisable	Expiry Date
JM Hickey	Executive	169,565	–	–	–	169,565	£0.92	(i)	19.03.19
	Executive	105,571	–	–	–	105,571	£1.522	(ii)	19.03.20
	SAYE	5,590	–	–	–	5,590	£1.61	(iii)	31.03.14
M Cubitt	Executive	114,130	–	–	–	114,130	£0.92	(i)	19.03.19
	Executive	76,817	–	–	–	76,817	£1.522	(ii)	19.03.20
	SAYE	5,590	–	–	–	5,590	£1.61	(iii)	31.03.14

The information in this table has been audited by the Company's independent auditors.

No amounts were payable for the grant of executive share options. The SAYE share options are subject to a three year savings contract, as explained below.

- (i) For the executive share options granted on 19 March 2009 which were equivalent to 60% of base salary at the time, 50% will vest and 50% will lapse in 2012 as described in the section on page 53 regarding the long term incentive plans which are due to vest in 2012.
- (ii) For the executive share options granted on 19 March 2010, as part of the 2010 LTIP, which were equivalent to 60% of base salary at the time, the vesting will be decided by reference to the Company's achievement of a certain revenue target in any consecutive four quarters during the three year period 2010 to 2012. If that target is achieved in the period then the share option awards shall vest in full, subject to the Committee's discretion to review the vesting of the awards at the end of the three year period in light of the underlying performance of the Company at that time and subject to the rules of the 2010 LTIP. This performance condition has not yet been achieved.
- (iii) This share option grant in 2010 was made under the SAYE Scheme on the same terms as share options were granted on the same date to other eligible UK employees of the Company who chose to participate in this scheme in 2010. The exercise price of £1.61 per share for these share options represents a 20% discount to the market value of an ordinary share in the Company on the date of the invitation for this share option award. These awards are subject to a three year savings contract and therefore these share options, subject to the rules of the SAYE Scheme and the savings contract, first become exercisable on 1 October 2013. In 2011, the Company provided a further invitation to participate in the SAYE Scheme again in respect of a savings contract period of three years with options granted at a discount of 20% to the market value of an ordinary share in the Company. Due to the fact that the executive directors were already participating in the SAYE scheme to the maximum permitted level, as a result of their SAYE share options granted in 2010, they did not receive a grant of share options from the SAYE scheme in 2011.

None of the non-executive directors has share options.

During the 52 week period ended 1 January 2012, no directors exercised share options. Therefore the aggregate gains (being the difference between the market price of the Company's shares on the days on which the options were exercised and the price actually paid for the shares) made by directors on the exercise of share options during the 52 week period ended 1 January 2012 amounted to \$nil (2010: \$nil).

The highest and lowest market prices of the Company's shares during the 52 week period ended 1 January 2012 were 312 pence and 96 pence respectively. The market price at the period end was 131 pence.

Service contracts

The Company has entered into service contracts with each of its executive directors none of which is for a fixed term. Such contracts are terminable by either party giving not less than 12 months' notice. The Company may in its absolute discretion terminate the employment of any of the executive directors at any time by making a payment in lieu of notice equivalent to the director's basic salary over any unexpired period of notice.

Details of the service contracts currently in place for executive directors who have served during the 52 week period ended 1 January 2012 are as follows:

	Date of contract
JM Hickey	6 September 2008
M Cubitt	20 December 2006

Executive directors can accept appointments as non-executive directors of other companies and retain any fees paid to them if such an appointment does not conflict with their duties to the Company. Specific approval of the Board is required in each case. Neither of the executive directors currently serve as non-executive directors of other companies.

Non-executive directors

Appointment

Each of the current non-executive directors has entered into an agreement setting out the terms of his appointment with the Company. The dates of the terms of appointment that are currently in place for non-executive directors who have served during the 52 week period ended 1 January 2012 are as follows:

	Date of terms of appointment
RK Graham	25 September 2003
R Eckelmann	1 November 2004
M Ruetters	9 November 2007
AD Milne	1 December 2007 (effective 9 November 2007)
G Collinson	18 August 2008 (signed on 22 August 2008)
J Grant	18 August 2011 (signed on 23 August 2011)

The letters of appointment are for a fixed term of three years. Page 31 contains a summary of the non-executive terms of appointment which have been extended from their original three year fixed term.

All of these agreements state that either party may terminate the appointment at any time by giving to the other not less than one month's notice. Each non-executive director's appointment may be terminated at any time without compensation in accordance with the Company's articles of association or the Companies Act 2006 or if the shareholders of the Company fail to re-elect him as a director.

Remuneration policy for non-executive directors

The remuneration of the non-executive directors is determined by the Board. The non-executive directors do not participate in discussions about their own remuneration. Non-executive directors' fees are designed to be of a level to attract good quality candidates to the Board and to reflect the time commitment of directors. Fee levels are generally reviewed yearly and are set within the aggregate limits contained in the articles of association of the Company. All fees are non-pensionable and there is no other remuneration save that the Company meets allowable expenses incurred on Company business. Fees payable to the non-executive directors in the 52 week period ended 1 January 2012 are included in the tables on pages 50 and 51.

Deferred Annual Bonus Plan

The Wolfson Microelectronics 2010 Senior Executive Deferred Bonus Plan ("the Deferred Bonus Plan") was approved by shareholders at the Company's Annual General Meeting in May 2010 and the first awards were granted under this Plan on 29 June 2010 and the second awards were granted under this Plan on 14 March 2011. As described on page 50, participation in this Plan in 2010 and in 2011 by the executive directors and senior managers was not compulsory. The executive directors participated in this Plan in respect of awards granted in 2010 but decided not to participate in the Plan in 2011.

For 2010, a net amount (after tax) of up to 50% of the net bonus earned in 2009 by the executive directors and senior managers, if they elected to participate in the Plan in 2010, was applied in the acquisition of shares in the Company on behalf of those individuals by RBC cees Trustee Limited, the trustee of The Wolfson Microelectronics No. 1 Employees' Share Trust ("the Plan Trustee"). These shares in the Company are "Deferred Share Bonus Awards" in accordance with the Deferred Bonus Plan and the Plan Trustee holds these shares in the Company as bare trustee on behalf of the Plan participants. The number of shares in the Company comprising these Deferred Share Bonus Awards and held by the Plan Trustee for the executive directors are as detailed below and are included in the Directors' shareholding table on page 54. The consideration paid by the executive directors on 29 June 2010 for the Deferred Share Bonus Award shares was £1.739881 per share.

In accordance with the Plan, when the Deferred Share Bonus Awards were granted on 29 June 2010, a Matching Share Award was also granted to each of the executive directors. The Matching Share Awards were granted such that if or insofar as a target relating to the performance of the Company over a three year period is met and the participant remains employed within the group headed by the Company, the Company will then procure the transfer to the participant of a number of additional shares. The performance condition for the Matching Share Award granted in 2010 is the same as that for the PSP awards granted in 2010 as part of the long term incentive arrangements, as described on page 55 where the performance conditions for the PSPs granted under the 2010 LTIP are explained. The maximum ratio of Matching Shares to Deferred Share Bonus Awards granted in 2010 is 1 to 1, calculated by reference to the number of shares which would have been acquired for the Deferred Share Bonus Award if an equivalent gross amount (before tax) had been applied in the acquisition of shares in the Company. The Matching Share Awards granted to the executive directors are as shown in the table below. The shares subject to the Deferred Share Bonus Awards and the Matching Share Award are ordinary shares of 0.1 pence each in the Company.

	As at 3 January 2011 (number)	Granted on 14 March 2011 (number)	As at 1 January 2012 (number)	Vesting date
JM Hickey				
Deferred Share Bonus Award*	24,139	–	24,139	To be held for 3 years
Matching Share Award	40,913	–	40,913	29 June 2013
M Cubitt				
Deferred Share Bonus Award*	17,246	–	17,246	To be held for 3 years
Matching Share Award	29,230	–	29,230	29 June 2013

*the number of shares subject to the Deferred Share Bonus Awards are included in the Directors' shareholdings table on page 54 as the individual executive directors hold a beneficial interest in these shares.

The information in this table has been audited by the Company's independent auditors.

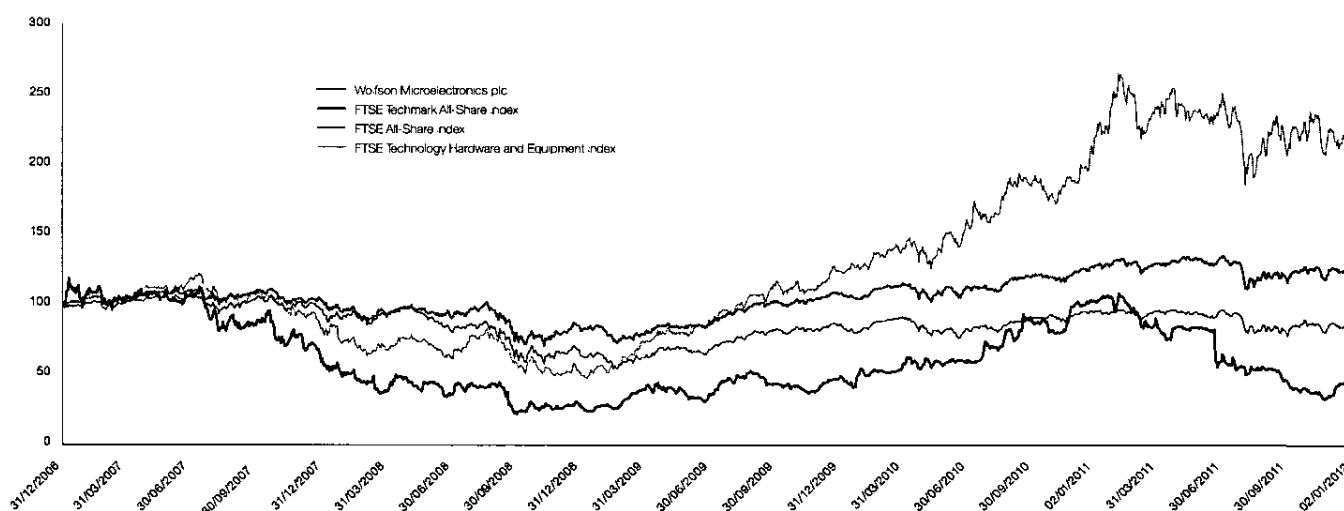
Advisers to the Committee

During 2011 the Remuneration Committee did not retain the services of any third party advisers. This policy is kept in review in light of the external regulatory environment and shareholder opinion.

Performance graphs

The following graph charts the total cumulative shareholder return of the Company over the past five years, compared to the FTSE All Share index, Techmark index and the FTSE Technology Hardware and Equipment index. The FTSE All Share index is a broad equity market index but, given the Company's technology credentials, the Techmark index or the FTSE Technology Hardware and Equipment index could be considered more relevant as a comparator.

Wolfson Microelectronics plc: total shareholder return



Compliance with the ABI Guidelines on Dilution

The Committee ensures that the aggregate of all share-based awards, using new issue shares, does not exceed the guidelines set out by the Association of British Insurers (ABI). These suggest that the number of awards requiring the issue of new shares or re-issue of treasury shares granted in respect of all share-based schemes should not exceed 10% of the current issued share capital in any rolling ten year period. The number of awards granted in respect of executive discretionary schemes needing the issue of new shares or re-issue of treasury shares should not exceed 5% of the current issued share capital in the same period.

The rules of each of the Company's discretionary share option schemes (executive and all employee) in effect since its flotation contain a limit of 10% of the issued ordinary share capital on the shares over which rights to subscribe for new shares may be granted in a rolling period of 10 years. The rules for the PSP scheme contains a similar limit and also a 5% limit over a 10 year period for this executive discretionary scheme.

Awards granted during the period from 21 October 2003 (the date of the Company's flotation) to 1 January 2012 under all the Company's discretionary share option and share-based schemes, together with the maximum number of shares that could be issued as a result of all of the Company's share-based compensation plans for 2012, where these will be satisfied using new issue shares, are within the applicable limits as shown in the table below. The PSP and the majority of all employee contingent share awards made to date are being satisfied by shares purchased in the open market by the employees share trusts.

The following table and footnotes detail the new issue shares that all the Company's share-based compensation plans have required in the past and could require in the future up to and including the 2012 plans. These new issue shares are subject to the ABI guidelines. To further help shareholders assess the Company's share-based compensation plans, the total number of shares that all of the share-based compensation plans have and could require (up to the 2012 plans) are also described, which includes both new issue shares and shares acquired on the open market and held in the employee share trusts. This total number of shares issued could be used by shareholders, along with other assumptions including historic and future share prices and share option values and likely future lapsing and vesting rates, to estimate the total economic value of the Company's share-based compensation plans.

Increase in number of ordinary shares resulting from all Company share-based compensation plans since October 2003 – calculated as a percentage of the total issued ordinary shares at the date of this report

Year of award	Executive Directors and Senior Managers	Other Employees	Total	Satisfied or to be satisfied by the issue of new shares i.e. subject to the ABI dilution limits described on page 58. This excludes 8.37% that were satisfied or will be satisfied by shares acquired on the open market and held in Employee Share Trusts ²⁸		
				Executive	Employee	Total
2004 to 2011 inclusive	5.12% ⁽¹⁾	5.45% ⁽²⁾	10.57%	1.75%	3.41%	5.16%
2012 (estimated)	2.32% ⁽²⁾	1.04% ⁽²⁾	3.36%	–	0.40%	0.40%
Total	7.44%	6.49%	13.93%	1.75%	3.81%	5.56%

Notes:

- (1) The executive directors and senior management team changed several times during 2004 to 2011. This figure is the aggregate amount awarded to all. It comprises:
- (a) 1.09% for all vested performance shares and share options (of which 0.58% have been / are to be satisfied by shares in employee share trusts), excluding those share options that lapsed and;
 - (b) 3.27% of unvested performance shares and share options under the 2009, 2010 and 2011 LTIPs (of which 2.03% to be satisfied by shares in employee share trusts); and
 - (c) 0.64% for deferred shares awarded which have not lapsed (all satisfied or to be satisfied by shares in the employee share trusts); and
 - (d) 0.12% of unvested matching performance shares under the 2010 Deferred Bonus Plan (to be satisfied by shares in employee share trusts); and
 - (e) full vesting is assumed for any unvested share awards and share options.
 - (f) the figure excludes 0.34% for the proportion of the performance shares for 2009 LTIP which will lapse upon the announcement of audited financial results for 2011 (award was to be satisfied by shares in the employee share trust);
 - (g) the figure excludes 0.43% for the proportion of the share options for 2009 LTIP which will lapse upon the announcement of audited financial results for 2011 (award was to be satisfied by new issue shares);
 - (h) this figure also excludes 0.03% for share options awarded to executive directors and senior managers in 2010 and 2011 under the Save As You Earn Scheme as this is an all employee scheme (and therefore subject to the 10% limit referred to on page 58) the effect of those share options are included in the "other employees" figure.
- (2) Assumes:
- (a) the number of awards under the 2012 LTIP and 2012 Deferred Bonus Plan, estimated using the share price as of 3 February 2012 of £1.60 per share. The number of shares awarded will depend on the share price at the actual date of award during the year.
 - (b) the take up of the 2012 Deferred Bonus Plan will be 50%. Note that the actual take up of the 2010 plan was 66% and was 14% in respect of the 2011 plan, and may therefore be less than 50% in 2012, thus reducing this figure.
 - (c) full vesting is achieved at the end of 2014 for these share awards. It proposed that the employee share trusts would be requested to satisfy these awards to the extent that they vest, subject to the trusts holding sufficient shares at the relevant vesting dates.
- This figure comprises:
- (a) 1.08% for the 2012 LTIP plan performance shares/nil cost options for the on-target performance, assumed to be satisfied by shares in employee share trusts (number of performance shares/nil cost options calculated on 100% of base salaries of participating individuals); and
 - (b) 1.21% for the 2012 LTIP plan additional performance shares/nil cost options for exceptional performance, assumed to be satisfied by shares in employee share trusts. (number of performance shares calculated up to a maximum of 200% of base salaries of participating individuals except for JM Hickey, as described on page 49); and
 - (c) 0.03% of unvested matching performance shares under the 2012 Deferred Bonus Plan (to be satisfied by shares in employee share trusts).
- (3) Comprises:
- (a) 0.27% of share options granted in 2010, and that have not lapsed, under the Save as You Earn (SAYE) scheme which would vest in 2013 (new issue shares); and
 - (b) 0.85% of share options granted in 2011 under the Save as You Earn (SAYE) scheme which would vest in 2014 (new issue shares); and
 - (c) 2.67% for all other employee share options and contingent share awards which have already vested (of which 0.46% have been or are planned to be satisfied by shares in the employee share trusts), excluding those share options that lapsed; and
 - (d) 1.66% for all other contingent share awards that have not yet vested (of which 1.58% to be satisfied by shares in employee share trusts, subject to the trusts holding sufficient shares at the relevant vesting dates).
- (4) Comprises:
- (a) 0.40% estimated for share option awards under the SAYE scheme in 2012 which would vest in 2015 (assumed to be satisfied by new issue shares); and
 - (b) 0.64% estimated for all other employee share scheme awards in 2012 (assumed to be satisfied by shares in the employee share trusts).
- (5) The employee share trusts currently hold a total of 4,359,070 ordinary 0.1 pence shares in the Company (3.75% of the issued share capital as at 1 January 2012). Further details regarding the employee share trusts are contained on page 28.

Formal Role of, and Composition of, the Remuneration Committee and Number of Meetings in 2011

The principal role of the Remuneration Committee, as delegated by the Board, is to establish the remuneration, and its composition, for the executive directors and senior management team. In so doing the Committee aims to ensure that the remuneration policy supports long term growth in shareholder value, including the implementation and achievement of the strategy of the Company in a manner that is consistent with the Company's culture and risk appetite as agreed by the Board. The Committee also provides guidance and makes recommendations to the Board on remuneration and incentive arrangements throughout the Group.

Throughout the 52 week period ended 1 January 2012, the Remuneration Committee comprised the following non-executive directors: G Collinson, RK Graham, R Eckelmann and M Ruettgers and was chaired by G Collinson. M Ruettgers is the Chairman of the Board of Directors of the Company and was independent upon his appointment to the Board on 1 January 2008. All other members of the Committee during the period were independent non-executive directors of the Company. The terms of reference of the Committee, which are reviewed annually, are published on the 'Investors' section of the Company's website at www.wolfsonmicro.com. The Committee meets at least three times a year and, as shown on page 33, there were six meetings of the Committee held in the 52 week period ended 1 January 2012. A list of some of the Committee's activities during the period is set out on pages 34 and 35.

This report was approved by the Board and is signed on its behalf by



G Collinson
Remuneration Committee Chairman

6 February 2012

Statement of Directors' Responsibilities

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

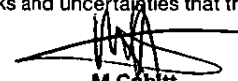
Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

To the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, comprising the Chairman's Statement, the Business Review and the Operating and Financial Review together, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.


JM Hickey
Chief Executive Officer


M Cabbitt
Chief Financial Officer

6 February 2012

Independent Auditor's Report to the Members of Wolfson Microelectronics plc

We have audited the financial statements of Wolfson Microelectronics plc for the 52 week period ended 1 January 2012 set out on pages 62 to 111. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 1 January 2012 and of the group's loss for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 29 to 41, with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures, is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 26, in relation to going concern;
- the part of the Corporate Governance Statement on pages 29 to 41 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.



M Ross

(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

Saltire Court,
20 Castle Terrace,
Edinburgh

6 February 2012

Consolidated income statement

For the period ended 1 January 2012

		52 weeks ended 1 January 2012			52 weeks ended 2 January 2011
		Before exceptional items \$000	Exceptional items (Note 4) \$000	Total \$000	\$000
Revenue	3	156,912	–	156,912	157,334
Cost of sales		(80,804)	(5,900)	(86,704)	(79,403)
Gross profit	3	76,108	(5,900)	70,208	77,931
Distribution and selling costs		(24,379)	(1,933)	(26,312)	(26,334)
Research and development expenses		(54,829)	(1,473)	(56,302)	(50,145)
Administrative expenses		(13,510)	(72)	(13,582)	(12,754)
Curtailment gain on defined benefit plan	4	–	1,829	1,829	–
Operating loss	3, 4, 5	(16,610)	(7,549)	(24,159)	(11,302)
Financial income	7	1,576	–	1,576	1,783
Financial expenses	7	(1,470)	–	(1,470)	(1,647)
Net financing income		106	–	106	136
Loss before tax		(16,504)	(7,549)	(24,053)	(11,166)
Income tax credit	8	4,167	2,000	6,167	4,574
Loss for the period attributable to equity holders of the parent		(12,337)	(5,549)	(17,886)	(6,592)
Basic loss per share (cents)	9			(15.39)	(5.71)
Diluted loss per share (cents)	9			(15.39)	(5.71)

Consolidated statement of comprehensive income

For the period ended 1 January 2012

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Loss for the period	(17,886)	(6,592)
Other comprehensive income:		
Actuarial loss on defined benefit obligations	(3,477)	(155)
Increase in defined benefit liabilities recognised in accordance with IFRIC 14 (note 20)	(1,500)	–
Unrecognised surplus on defined benefit plan	(301)	–
Deferred tax on net defined benefit items recognised in equity	1,320	41
Foreign currency translation differences for foreign operations	3	(14)
Effective portion of changes in fair value of cash flow hedges	(180)	36
Other comprehensive income for the period	(4,135)	(92)
Total comprehensive income for the period attributable to Owners of the Company	(22,021)	(6,684)

The notes on pages 67 to 111 are an integral part of these financial statements.

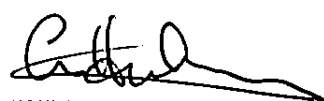
Balance sheets

As at 1 January 2012

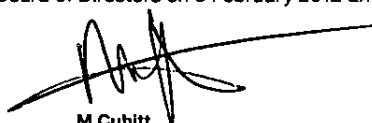
Company registered number: SC089839

		Group		Company	
		As at 1 January 2012 \$000	As at 2 January 2011 \$000	As at 1 January 2012 \$000	As at 2 January 2011 \$000
	Notes				
ASSETS					
Property, plant and equipment	11	25,907	28,642	25,451	28,330
Intangible assets	12	32,793	31,596	9,036	3,899
Investments in subsidiaries	13	–	–	43,125	44,005
Deferred tax assets	14	9,640	5,396	10,871	7,072
Total non-current assets		68,340	65,634	88,483	83,306
Inventories	15	22,901	29,117	22,891	29,117
Current tax assets	8	67	–	67	6
Trade and other receivables	16	29,667	27,056	32,561	29,990
Other investments, including derivatives	17	–	28	–	28
Short-term deposits	18	33,000	76,000	33,000	76,000
Cash and cash equivalents	18	20,409	21,083	19,665	19,364
Total current assets		106,044	153,284	108,184	154,505
Total assets		174,384	218,918	196,667	237,811
EQUITY					
Issued share capital	19	193	193	193	193
Share premium account	19	60,699	60,047	60,699	60,047
Capital redemption reserve	19	503	503	503	503
Hedging reserve	19	(152)	28	(152)	28
Retained earnings	19	80,541	105,817	98,212	121,117
Total equity attributable to equity holders of the parent		141,784	166,588	159,455	181,888
LIABILITIES					
Employee benefits	20	1,500	2,401	1,500	2,401
Other payables	21	3,851	5,461	3,729	5,350
Total non-current liabilities		5,351	7,862	5,229	7,751
Income tax payable	8	116	160	–	–
Trade and other payables, including derivatives	21	25,979	44,298	30,829	48,162
Provisions	22	1,154	10	1,154	10
Total current liabilities		27,249	44,468	31,983	48,172
Total liabilities		32,600	52,330	37,212	55,923
Total equity and liabilities		174,384	218,918	196,667	237,811

These financial statements were approved by the Board of Directors on 6 February 2012 and were signed on its behalf by:



JM Hickey
Director



M Cubitt
Director

The notes on pages 67 to 111 are an integral part of these financial statements.

Consolidated statement of changes in equity

	Attributable to owners of the Company					
	Share capital (Note 19) \$000	Share premium (Note 19) \$000	Capital redemption reserve \$000	Hedging reserve (Note 19) \$000	Retained earnings \$000	Total equity \$000
Balance at 4 January 2010	192	58,873	503	(8)	108,455	168,015
Loss for the period	-	-	-	-	(6,592)	(6,592)
<i>Other comprehensive income:</i>						
Actuarial loss on net defined benefit obligations	-	-	-	-	(155)	(155)
Deferred tax on net defined benefit obligations recognised in equity	-	-	-	-	41	41
Foreign exchange translation differences on foreign operations	-	-	-	-	(14)	(14)
Effective portion of changes in fair value of cash flow hedges	-	-	-	36	-	36
Total comprehensive income for the period ended 2 January 2011	-	-	-	36	(6,720)	(6,684)
<i>Transactions with owners of the Company recognised directly in equity:</i>						
Equity settled share-based payment transactions	-	-	-	-	2,914	2,914
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	2,898	2,898
Share options exercised by employees	1	1,174	-	-	-	1,175
Company shares acquired by employee trust	-	-	-	-	(1,730)	(1,730)
Total contributions by and distributions to owners of the Company	1	1,174	-	-	4,082	5,257
Balance at 2 January 2011	193	60,047	503	28	105,817	166,588
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 3 January 2011	193	60,047	503	28	105,817	166,588
Loss for the period	-	-	-	-	(17,886)	(17,886)
<i>Other comprehensive income:</i>						
Actuarial loss on net defined benefit obligations	-	-	-	-	(3,477)	(3,477)
Increase in defined benefit liabilities recognised in accordance with IFRIC 14	-	-	-	-	(1,500)	(1,500)
Unrecognised surplus on defined benefit plan	-	-	-	-	(301)	(301)
Deferred tax on net defined benefit items recognised in equity	-	-	-	-	1,320	1,320
Foreign exchange translation differences on foreign operations	-	-	-	-	3	3
Effective portion of changes in fair value of cash flow hedges	-	-	-	(180)	-	(180)
Total comprehensive income for the period ended 1 January 2012	-	-	-	(180)	(21,841)	(22,021)
<i>Transactions with owners of the Company recognised directly in equity:</i>						
Equity settled share-based payment transactions	-	-	-	-	4,119	4,119
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	(2,164)	(2,164)
Share options exercised by employees	-	652	-	-	-	652
Company shares acquired by employee trust	-	-	-	-	(5,390)	(5,390)
Total contributions by and distributions to owners of the Company	-	652	-	-	(3,435)	(2,783)
Balance at 1 January 2012	193	60,699	503	(152)	80,541	141,784

The notes on pages 67 to 111 are an integral part of these financial statements.

Statement of changes in equity (Company)

	Attributable to owners of the Company					
	Share capital (Note 19) \$000	Share premium (Note 19) \$000	Capital redemption reserve \$000	Hedging reserve (Note 19) \$000	Retained earnings \$000	Total equity \$000
Balance at 4 January 2010	192	58,873	503	(8)	120,791	180,351
Loss for the period	-	-	-	-	(3,868)	(3,868)
<i>Other comprehensive income:</i>						
Actuarial loss on net defined benefit obligations	-	-	-	-	(155)	(155)
Deferred tax on net defined benefit obligations recognised in equity	-	-	-	-	41	41
Effective portion of changes in fair value of cash flow hedges	-	-	-	36	-	36
Total comprehensive income for the period ended 2 January 2011	-	-	-	36	(3,982)	(3,946)
<i>Transactions with owners of the Company recognised directly in equity:</i>						
Equity settled share-based payment transactions	-	-	-	-	3,156	3,156
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	2,882	2,882
Share options exercised by employees	1	1,174	-	-	-	1,175
Company shares acquired by employee trust	-	-	-	-	(1,730)	(1,730)
Total contributions by and distributions to owners of the Company	1	1,174	-	-	4,308	5,483
Balance at 2 January 2011	193	60,047	503	28	121,117	181,888
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 3 January 2011	193	60,047	503	28	121,117	181,888
Loss for the period	-	-	-	-	(15,617)	(15,617)
<i>Other comprehensive income:</i>						
Actuarial loss on net defined benefit obligations	-	-	-	-	(3,477)	(3,477)
Increase in defined benefit liabilities recognised in accordance with IFRIC 14	-	-	-	-	(1,500)	(1,500)
Unrecognised surplus on defined benefit plan	-	-	-	-	(301)	(301)
Deferred tax on net defined benefit items recognised in equity	-	-	-	-	1,320	1,320
Effective portion of changes in fair value of cash flow hedges	-	-	-	(180)	-	(180)
Total comprehensive income for the period ended 1 January 2012	-	-	-	(180)	(19,575)	(19,755)
<i>Transactions with owners of the Company recognised directly in equity:</i>						
Equity settled share-based payment transactions	-	-	-	-	4,245	4,245
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	(2,185)	(2,185)
Share options exercised by employees	-	652	-	-	-	652
Company shares acquired by employee trust	-	-	-	-	(5,390)	(5,390)
Total contributions by and distributions to owners of the Company	-	652	-	-	(3,330)	(2,678)
Balance at 1 January 2012	193	60,699	503	(152)	98,212	159,455

The notes on pages 67 to 111 are an integral part of these financial statements.

Statements of cash flows

For the period ended 1 January 2012

	Notes	Group		Company	
		52 weeks ended	52 weeks ended	52 weeks ended	52 weeks ended
		1 January 2012	2 January 2011	1 January 2012	2 January 2011
		\$000	\$000	\$000	\$000
Cash flows from operating activities					
Loss for the period		(17,886)	(6,592)	(15,617)	(3,868)
<i>Adjustments for:</i>					
Depreciation	11	4,485	6,681	4,289	6,495
Amortisation of intangible assets	12	9,169	7,388	4,429	2,336
Foreign exchange losses / (gains)		219	(305)	193	(213)
Financial income		(1,576)	(1,783)	(1,575)	(1,783)
Financial expenses		1,470	1,647	1,470	1,647
Equity-settled share-based payment expense		4,100	3,112	4,013	3,004
Curtailment gain on defined benefit plan		(1,829)	—	(1,829)	—
Income tax credit		(8,167)	(4,574)	(4,448)	(3,383)
		(8,015)	5,574	(9,075)	4,235
Decrease / (increase) in inventories		6,227	(17,828)	6,226	(17,828)
Increase in trade and other receivables		(2,025)	(10,255)	(2,527)	(10,097)
(Decrease) / increase in trade and other payables		(19,999)	26,476	(17,726)	26,493
Decrease in provisions and employee benefits		(3,388)	(151)	(3,388)	(151)
Cash (absorbed by) / generated from the operations		(27,200)	3,816	(26,490)	2,652
Income taxes (paid) / received		(317)	3,112	(50)	3,242
Net cash (outflow) / inflow from operating activities		(27,517)	6,928	(26,540)	5,894
Cash flows from investing activities					
Interest received		337	587	336	587
Acquisition of property, plant and equipment		(2,357)	(3,073)	(2,291)	(2,956)
Acquisition of intangible assets		(4,178)	(3,326)	(4,203)	(3,299)
Acquisition of subsidiary, net of cash acquired		(4,305)	—	(4,371)	—
Deferred consideration on acquisitions in prior period		(800)	(1,000)	(800)	(1,000)
Amounts placed on short-term deposits		(102,324)	(163,308)	(102,324)	(163,308)
Amounts withdrawn from short-term deposits		145,324	170,559	145,324	170,559
Net cash inflow from investing activities		31,697	439	31,671	583
Cash flows from financing activities					
Proceeds from the issue of share capital		652	1,175	652	1,175
Company shares acquired by employee trust		(5,390)	(1,730)	(5,390)	(1,730)
Interest paid		(95)	(86)	(95)	(86)
Net cash outflow from financing activities		(4,833)	(641)	(4,833)	(641)
Net (decrease) / increase in cash and cash equivalents		(653)	6,726	298	5,836
Cash and cash equivalents at start of period		21,083	14,519	19,364	13,689
Effect of exchange rate fluctuations on cash held		(21)	(162)	3	(161)
Cash and cash equivalents at end of period	18	20,409	21,083	19,665	19,364
Cash and cash equivalents at end of period	18	20,409	21,083	19,665	19,364
Short-term deposits at end of period	18	33,000	76,000	33,000	76,000
Total cash and short-term deposits at end of period		53,409	97,083	52,665	95,364

The notes on pages 67 to 111 are an integral part of these financial statements.

Notes to the financial statements

1. Basis of preparation

Wolfson Microelectronics plc (the "Company") is a company domiciled and incorporated in Scotland. The consolidated financial statements for the fifty-two weeks ended 1 January 2012 (referred to as "2011" for the purposes of these notes to the financial statements) comprise those of the Company and its subsidiaries (together referred to as the "Group"). The comparative period is the fifty-two weeks ended 2 January 2011.

The parent company financial statements present information about the Company as a separate entity and not about its group.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and the Operating and Financial Review on pages 4 to 23. The financial position of the Group, its cash flows and liquidity position are described within the Operating and Financial Review on pages 16 to 23. In addition, note 23 to the financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities; its exposures to credit and liquidity risk and its objectives, policies and processes for managing its capital.

The Group has considerable financial resources comprising, as at 1 January 2012: cash and cash equivalent balances of \$20.4 million and short-term deposits of \$33 million. The Group has no loans or borrowings or complex financial instruments. The Group has established relationships with a number of the leading global consumer electronics manufacturers and integrated circuits developed by the Group are designed into a range of the end products for these customers (refer to Chairman's Statement and Business Review on pages 2 to 15). The Group continues to invest in the development of new innovative products, as explained in the Business Review and Operating and Financial Review on pages 4 to 23. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

The directors have reviewed the latest forecast results and cash flow projections. After making enquiries, the directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. The financial statements for the 52 week period ended 1 January 2012 have therefore been prepared on a going concern basis.

The financial statements were authorised for issue by the directors on 6 February 2012.

(a) Statement of compliance

The financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards and its interpretations as adopted by the European Union ("adopted IFRS"). Under section 408(4) of the Companies Act 2006 the Company is exempt from the requirement to present its own income statement and its own statement of comprehensive income and related notes.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the balance sheet:

- derivative financial instruments are measured at fair value (refer to note 2(f))
- assets and liabilities recognised on acquisition as a result of business combinations are measured at fair value (refer to notes 2(e) (iv) and 2(x) (i) and (ii))

(c) Functional and presentation currency

The financial statements are presented in United States Dollars ("US dollars"), the Company's functional currency, rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of adopted IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

As permitted by IAS 1 'Presentation of financial statements', the Group has disclosed additional information in respect of exceptional items on the face of the income statement in order to aid understanding of the Group's financial performance. An item is treated as exceptional if it is considered that by virtue of its nature, scale or incidence and being of such significance that separate disclosure is required for the financial statements to be properly understood.

(e) Changes in accounting policies

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, in accordance with the accounting policy described at note 2(v). The chief operating decision-maker has been identified as the Chief Executive Officer of the Company. With effect from 3 January 2011, the Group changed the structure of its internal organisation in a manner that caused the composition of its operating and reportable segments to change. The previous operating segments of 'Pure Sound', 'Smart Power', 'True Mics' and 'Enhanced Soundware' are no longer used for internal reporting purposes. This change is explained further in note 3 to these financial statements. In accordance with IFRS 8 'Operating segments', the corresponding items of segment information disclosed for the comparative period have been re-presented and are included in note 3 to these financial statements.

1. Basis of preparation (continued)

The following new standards, amendments to standards and interpretations are mandatory for the first time for financial periods commencing on 1 January 2011.

- Revised IAS 24 'Related party disclosures', issued in November 2009, supersedes IAS 24, 'Related party disclosures' issued in 2003. The revised IAS 24 is required to be applied from 1 January 2011 and it did not have a significant impact on the related party disclosures for the Group or the Company in the current financial period.
- 'Prepayments of a Minimum Funding Requirement' (Amendments to IFRIC 14), issued in November 2009. The amendments correct an unintended consequence of IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.
- 'Improvements to International Financial Reporting Standards 2010' were issued in May 2010. The dates vary standard by standard but most are effective 1 January 2011. None of these have had a significant impact on the reported results or financial position of the Group or the Company for the current financial period.

2. Significant accounting policies

The accounting policies set out below, unless otherwise stated in note 1(e) above, have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights on exercisable shares are taken into account. Subsidiaries are included in the consolidated financial statements from the date on which control commences to the date that control ceases. All subsidiaries have 31 December 2011 as their financial year end.

The results of subsidiaries acquired or disposed of during the 52 week period ended 1 January 2012 are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(ii) Transactions eliminated on consolidation

Intragroup transactions, balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(iii) Investments in subsidiaries

Investments by the Company in subsidiaries are carried at cost less any impairment.

(b) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred. For any business combinations which had an acquisition date prior to 1 July 2009, transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

Any contingent consideration payable is measured at fair value at the acquisition date. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, for any business combinations which occur on or after 1 July 2009, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. For any business combinations which had an acquisition date prior to 1 July 2009, subsequent adjustments in the fair value of the contingent consideration are made against goodwill, except in the case of equity instruments, in which case the adjustment is made in equity.

If there is adjustment to any deferred tax assets of the acquiree subsequent to the date of acquisition this impacts the measurement of goodwill only if it occurs within the measurement period (see below) and if it results from new information about facts and circumstances that already existed at the acquisition date. If this is not the case then the impact of the recognition or remeasurement of such deferred tax assets is recognised in profit or loss.

The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

2. Significant accounting policies (continued)**(c) Foreign currency****(i) Foreign currency transactions and balances**

Transactions in currencies, other than US dollars, are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in currencies other than US dollars at the balance sheet date are translated to US dollars at the exchange rate ruling at that date. Exchange differences arising on translation are recognised in the income statement except for differences arising on qualifying cash flow hedges which are recognised directly in equity (see accounting policy (f)). Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than US dollars are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in currencies other than US dollars that are measured at fair value are retranslated to US Dollars at the date that fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of operations outside the UK, including goodwill and fair value adjustments arising on acquisition, are translated to US dollars at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations reported in other currencies are translated to US dollars at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation of opening net assets or liabilities are recognised directly in equity and reported in other comprehensive income.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognised in other comprehensive income and reported directly in equity.

(d) Property, plant and equipment**(i) Owned assets**

Items of property, plant and equipment are measured at cost less accumulated depreciation (see accounting policy (d) (ii)) and accumulated impairment losses (see accounting policy (k)).

Cost includes the expenditure that is directly attributable to the acquisition of the asset.

Where parts of an item of property, plant and equipment have different estimated useful lives, they are accounted for and depreciated as separate items of property, plant and equipment.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group or the Company. On-going repairs and maintenance expenditure is expensed as incurred.

(ii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of property, plant and equipment. Freehold land is not depreciated. The estimated useful lives are as follows:

Freehold property	25 years
Plant and equipment	1 to 5 years
Computer hardware	1 to 3 years
Furniture and fittings	10 years
Motor vehicles	4 years

The residual values and estimated useful lives, of items of property plant and equipment, are reviewed annually and are adjusted if appropriate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the net disposal proceeds with the carrying amount and are included in the income statement.

(e) Intangible assets**(i) Goodwill**

Goodwill that arises on the acquisition of subsidiaries is recognised as an intangible asset at the acquisition date. For the measurement of goodwill at initial recognition, see accounting policy (b).

Subsequent measurement

Goodwill is not amortised but is measured at cost less accumulated impairment losses (see accounting policy (k)).

(ii) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised as an expense in the income statement as incurred.

When it has been assessed that a product (including software) is technically feasible, production and sale are intended, a market exists and sufficient resources are available to complete the project, development costs thereafter are capitalised and amortised from the date of the first sale on a straight-line basis over the estimated useful life of the product. The Group believes its current process for developing products is essentially completed when products have achieved the 'Release to Production' status which confirms technical and commercial feasibility of the products to be manufactured and sold to the commercial marketplace. Development costs incurred after the establishment of technical and commercial feasibility have not been significant and, therefore, no costs have been capitalised to date. Where no internally-generated intangible asset can be recognised based on the above criteria, development expenditure is recognised as an expense in the period in which it is incurred. Expenditure incurred in relation to the maintenance and / or enhancements of existing products is not considered to be of a development nature and, accordingly, is also recognised as an expense in the income statement as incurred.

(iii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised using the straight-line method over their estimated useful lives (one to three years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software items controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are capitalised as intangible assets. Other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised using the straight-line method over their estimated useful lives (not exceeding three years).

2. Significant accounting policies (continued)**(iv) Other intangible assets**

Other intangible assets are stated at cost or, for items acquired in business combinations, at fair value as of initial recognition date or business combination date, net of amortisation and any provision for impairment. The directors are primarily responsible for determining the fair value of intangible assets acquired as part of a business combination although independent valuations are obtained for those intangible assets which are significant.

Amortisation is provided at rates so as to write off the cost or fair value, less estimated residual value, of each asset on a straight line basis over its expected useful economic life. The principal economic lives used for this purpose are:

Acquired in-process research and development	5 years
Developed technology	5 years
Existing agreements and customer relationships	2 to 3.5 years
Intellectual property rights	10 years
Technology licences	6 months to 3 years

Amortisation methods, useful lives and the estimated residual values are reviewed and adjusted, if appropriate, at each balance sheet date.

(f) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge some of its foreign currency exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges

A cash flow hedge is when a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective and presented in the hedging reserve in equity. To the extent that the hedge is ineffective, changes in fair value of the derivative are recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction occurs and affects profit or loss.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(g) Trade and other receivables

Trade and other receivables are initially stated at their fair value plus any directly attributable transaction costs. Subsequent to initial recognition, such assets are measured at amortised cost using an effective interest rate less any impairment losses (see accounting policy (k)). A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows, discounted if material. The amount of the provision is recognised in the income statement.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and selling expenses.

The cost of inventories is based on the first-in first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes raw materials, other direct costs and related overheads based on normal operating capacity.

(i) Short-term deposits

Short-term deposits comprise cash deposits held with highly credit rated financial institutions with original maturities of more than three months and up to one year.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, with original maturities of three months or less, held with banks.

(k) Impairment

The carrying amounts of the Group's actual assets, other than financial assets, inventories (see accounting policy (h)) and deferred tax assets (see accounting policy (l)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (k)(i)).

Assets, including goodwill, that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised for the amount by which the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs and then to reduce the carrying amount of the other assets in the CGU on a pro rata basis.

2. Significant accounting policies (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset or a CGU is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed subsequently.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(n) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement when services are rendered by employees.

(ii) Defined benefit plan

The Group's and the Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality credit rated bonds which are denominated in the currency in which the benefits will be paid, and that have maturity dates approximating the terms of the Group's and the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group and the Company, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group and to the Company if it is realisable during the life of the plan, or on settlement of the plan liabilities.

The movement in the net obligation in respect of the defined benefit pension plan is split between operating expenses and net financing income / (expense) in the income statement and actuarial gains and losses in other comprehensive income.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

The Group recognises immediately all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income.

(iii) Share-based payment transactions – Group and Company SHARE OPTIONS

The share option schemes allow Group employees to acquire shares of the Company.

Share options granted before 7 November 2002

No expense is recognised in respect of these options. When the share options are exercised, the proceeds received are allocated between share capital and share premium. The disclosures required by IFRS2 have been given for these options.

2. Significant accounting policies (continued)

Share options granted after 7 November 2002 and vested after 1 January 2005

IFRS 2 'Share-based payments' is effective in respect of options granted after 7 November 2002 and which had not vested as at 1 January 2005. There were no options granted after 7 November 2002 which had vested before 1 January 2005. The fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employee becomes unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

The amount recognised as an expense is adjusted to reflect the number of share options that for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. The estimates of the number of options that are expected to become exercisable are reviewed at each balance sheet date. The impact of the revision of original estimates, if any, is recognised in the income statement and a corresponding adjustment to equity. For share option awards with non-vesting conditions, the grant date fair value of the share option is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium (the balance) when the options are exercised.

PERFORMANCE SHARES

The grant date fair value of contingent performance shares awarded to directors and senior management is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the shares. The amount recognised as an expense, for awards with non-market performance conditions, is adjusted to reflect the actual number of shares that vest. For performance share awards with market vesting conditions, the grant date fair value of the performance share is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

CONTINGENT SHARES

The grant date fair value of contingent shares awarded to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the shares. The amount recognised as an expense, for awards with service and non-market performance conditions, is adjusted to reflect the actual number of shares that vest.

COMPANY SHARE OPTIONS AND OTHER SHARE-BASED AWARDS GRANTED TO SUBSIDIARIES

The charge related to the equity shares in the Company awarded under the share schemes to employees of subsidiary companies is treated as an increase in the cost of investment held by the Company in the subsidiary companies of the Group.

(iv) Bonus plans

The Group recognises a liability and an expense for cash bonuses. This expense is recognised as an employee expense. The Group recognises a liability for the amount expected to be paid under short-term cash bonus plans where contractually obliged or where there is a past practice that has created a constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(o) Employee share trusts

The Company has established two employee share trusts: "The Wolfson Microelectronics No.1 Employees' Share Trust" and "The Wolfson Microelectronics No.2 Employees' Share Trust" which are separately administered trusts that are funded by loans from the Company. The assets of these trusts comprise shares in the Company and cash balances. The Company recognises the assets and liabilities of these trusts in its own accounts and shares held by the trusts are recorded at cost as a deduction in arriving at shareholders' funds.

(p) Trade and other payables

Trade and other payables are stated at amortised cost using the effective interest rate method.

(q) Provisions

A provision is recognised if, as a result of a past event, the Group and the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group and by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(ii) Restructuring

A provision for restructuring is recognised when the Group and the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

2. Significant accounting policies (continued)

(r) Revenue

Revenue comprises the sale of goods, income for design services supplied and royalty income earned during the period and excludes sales taxes.

(i) Product revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. As well as selling directly to customers, the Group also sells its products via third party distributors on terms which provide some distributors with an unconditional right of return. Revenue from the sale of products via distributors with such return rights is currently recognised only when such distributors have themselves sold the goods to third parties. Once an appropriate and reliable track record for the level of returns has been established, revenue from sales to distributors will be recognised with reference to an estimate of returns considered likely.

(ii) Design services

Design income on specific contracts is recognised in profit or loss in proportion to the stage of completion, at the reporting date, taking into account the expected costs and time to complete. The stage of completion is assessed by reference to the project milestones achieved. Where revenue exceeds payments on account, an amount recoverable under contracts is established and included within receivables. Where payments on account exceed revenue, a payment received on account is established and included within payables.

(iii) Royalty income

Royalty income represents revenue earned under joint product development agreements and software and technology licence agreements. Such revenue is earned and income is recognised when sales of the developed product to third parties for which royalty is due are confirmed to the Group.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, expected return on defined benefit plan assets and the interest on the defined plan obligations and the unwinding of the discount on provisions and contingent consideration.

Interest income is recognised in the income statement as it accrues, using the effective rate of interest method.

(t) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Tax relief on the exercise of share options is allocated between the income statement and equity in accordance with IAS 12 'Income Taxes'.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. This includes deferred tax on share-based payments which were granted prior to 7 November 2002 and which have not been exercised. Deferred tax is recognised on temporary differences arising on the intangible assets acquired in a business combination. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset where there is a legally enforceable right of offset within the same taxation authority and where the Group intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(u) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of potentially dilutive ordinary shares, which comprise share options granted to employees.

2. Significant accounting policies (continued)**(v) Segment reporting**

An operating segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results, at gross profit level, are reviewed regularly by the Group's Chief Executive Officer to make decisions regarding resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Chief Executive Officer assesses the performance of the operating segments based on revenue and a measure of gross profit. The gross profit measurement basis excludes the effects of non-recurring expenditure from operating segments, such as restructuring costs and exceptional inventory write downs. Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Chief Executive Officer. Other information provided to the Chief Executive Officer is measured in a manner consistent with that in the financial statements.

The assets and liabilities of the Group are not reviewed by the chief operating decision-maker on a segment basis. Therefore none of the Group's assets and liabilities are segmental assets and segmental liabilities respectively and all are unallocated for segmental disclosure purposes. The segment reporting basis is reviewed by the Chief Executive Officer in view of the development of the business.

(w) New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the fifty-two week period ended 1 January 2012 (which began on 3 January 2011) and have not been early adopted by the Group:

- IFRS 9 'Financial Instruments' issued in December 2009. This addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2015 but is available for early adoption.
- Amendments to IAS 1 'Financial Statement Presentation' issued in June 2011. These amendments improve how components of other comprehensive income are presented. The new requirements are effective for annual periods beginning on or after 1 July 2012.
- Amendment to IAS 19 'Employee Benefits' issued in June 2011. The amendments will improve the recognition and disclosure requirements for defined benefit plans. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.
- IFRS 13 'Fair Value Measurement'. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

- IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities', issued in May 2011. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 'Consolidated and Separate Financial Statements'. IFRS 11 'Joint Arrangements' establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities—Non-monetary Contributions by Venturers'. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

(x) Determination of fair values

Some of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information regarding the assumptions made in determining fair values is disclosed in the notes to the financial statements which are specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values at date of acquisition.

(ii) Intangible assets

The fair value of developed technology acquired as a result of a business combination is based on the discounted royalty payments that have been avoided as a result of the developed technology being owned. For in-process research and development acquired as a result of a business combination, the fair value is estimated based either on the income method taking into account the cash flows post technological feasibility or on the cost method, taking into account the estimated current cost to recreate or duplicate the technology. The fair values of licence agreements and of customer relationships acquired as a result of a business combination are estimated based on the risk adjusted present value of the marginal cash flows derived from the agreements and relationships respectively.

(iii) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

2. Significant accounting policies (continued)

(iv) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. No disclosure of the fair value of trade and other receivables is required when the carrying amount is a reasonable approximation of fair value.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal cash flows, discounted at the market rate of interest at the reporting date.

(vi) Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected volatility and the risk free rate (based on government bonds). Service and non-market performance conditions attached to the share-based payment transactions are not taken into account in determining fair value.

The fair value of contingent shares is the market value of the Company's shares on the date of grant of the award.

The fair value of performance shares with non-market performance conditions is the market value of the Company's shares on the date of the award. For those performance shares which have market performance conditions attached, the estimated extent to which those performance shares are likely to vest are taken into account in determining fair value on the date of grant of the award.

(vii) Short-term deposits

The fair value of short-term deposits is determined based on the market interest rates at the period end for similar instruments (value and maturity) for the short-term deposits held.

3. Operating segments

Segment disclosures

The chief operating decision-maker is the Chief Executive Officer ('CEO') of the Company. The Chief Executive Officer reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Prior to 3 January 2011 the operating segments were based on the four strands of the Group's technology product portfolio: 'Pure Sound'; 'Smart Power'; 'True Mics' and 'Enhanced Soundware'. Only the 'Pure Sound' segment met the requisite quantitative thresholds and was therefore the only reportable segment.

With effect from 3 January 2011, the Group is now organised on the basis of product groups along with several central functions which are shared by all of the product groups. As a result of this change in internal organisational structure, which is also reflected in the internal reporting as used by the CEO in order to assess performance and allocate resources, the Group now has two reportable segments. These two reportable segments are the Group's Audio Hubs and Discrete and Power Products segments which are reported separately to the chief operating decision-maker to allow greater management focus on the Audio Hubs strategy. The following summary describes the operations in the Group's reportable segments:

- **Audio Hubs** – this segment includes the supply and sale of Wolfson's Audio Hubs high performance audio integrated circuit solutions. Audio Hubs are feature-rich devices which contain many of Wolfson's audio technologies combined into a single Hub device.
- **Discrete and Power Products** – this segment includes the supply and sale of integrated circuits which are discrete components, such as: Analogue-to-Digital Converters; Digital-to-Analogue Converters; and this segment also includes those components which are power management integrated circuits and the silicon microphone devices based on Micro-Electro-Mechanical Systems ('MEMS') technology.

The other operating segment does not meet any of the quantitative thresholds for determining a reportable segment in the fifty-two week period ended 1 January 2012 or in financial year 2010 and, accordingly, the relevant revenue and segment gross profits are shown as 'other operating segment'.

In accordance with IFRS 8 'Operating segments', the corresponding items of segment information disclosed for earlier periods have been re-presented and are included in the tables on page 76.

The CEO assesses the performance of the operating segments based on revenue and a measure of gross profit. Segment gross profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segment. The gross profit measurement basis excludes the effects of non-recurring expenditure from operating segments, such as restructuring costs and exceptional inventory write downs. Interest income and expenditure are not included in the result for each operating segment that is reviewed by the Chief Executive Officer. Other information provided to the CEO is measured in a manner consistent with that in the financial statements. The segment information is prepared using accounting policies consistent with those of the Group as a whole. There were no inter-segment transactions in the periods presented.

The assets and liabilities and capital expenditure of the Group are not reviewed by the chief operating decision-maker on a segment basis. Therefore none of the Group's assets and liabilities are segmental assets and segmental liabilities respectively and all are unallocated for segmental disclosure purposes.

All segments are continuing operations.

3. Operating segments (continued)

	Audio Hubs		Discrete and Power Products		Other operating segment		Total	
	2011 \$000	2010 \$000 (Re-presented)	2011 \$000	2010 \$000 (Re-presented)	2011 \$000	2010 \$000 (Re-presented)	2011 \$000	2010 \$000
Total external revenues	105,367	88,592	50,851	68,673	694	69	156,912	157,334
Reportable segment gross profit	52,432	43,437	23,174	34,425	502	69	76,108	77,931

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2011 \$000	2010 \$000 (Re-presented)
Revenues		
Total revenue for reportable segments	156,218	157,265
Total revenue for other operating segment	694	69
Consolidated revenue	156,912	157,334
Profit or loss		
Total gross profit for reportable segments	75,606	77,862
Total gross profit for other operating segment	502	69
Gross profit for segments	76,108	77,931
Exceptional charge	(5,900)	-
Gross profit	70,208	77,931
Unallocated amounts:		
Corporate overhead expenses	(92,718)	(89,233)
Other exceptional items	(1,649)	-
Operating loss for the period	(24,159)	(11,302)
Financial income	1,576	1,783
Financial expenses	(1,470)	(1,647)
Consolidated loss before income tax	(24,053)	(11,166)
Assets		
Total assets for reportable segments	-	-
Total assets for other operating segment	-	-
Goodwill and acquired intangible assets: Sonaptic	19,189	24,173
Goodwill and acquired intangible assets: Oligon	4,704	5,204
Goodwill and acquired intangible assets: Dynamic Hearing	6,764	-
Other unallocated amounts	143,727	189,541
Consolidated total assets	174,384	218,918
Liabilities		
Total liabilities for reportable segments	-	-
Total liabilities for other operating segment	-	-
Other unallocated amounts	(32,600)	(52,330)
Consolidated total liabilities	(32,600)	(52,330)

	Reportable segments totals \$000	Adjustments \$000	Consolidated totals \$000
Other material items 2011			
Financial income	-	1,576	1,576
Financial expenses	-	(1,470)	(1,470)
Capital expenditure	-	5,813	5,813
Depreciation and amortisation	-	13,654	13,654

	Reportable segments totals \$000	Adjustments \$000	Consolidated totals \$000
Other material items 2010			
Financial income	-	1,783	1,783
Financial expenses	-	(1,647)	(1,647)
Capital expenditure	-	6,472	6,472
Depreciation and amortisation	-	14,069	14,069

3. Operating segments (continued)**Geographical information**

The operating segments are managed from the United Kingdom on a worldwide basis, but operate: research and development facilities in the United Kingdom, in Japan and in Australia; subcontracted manufacturing operations mainly in South East Asia and in Europe; and sales offices in China, Japan, Korea, Taiwan and the United States of America.

In presenting the consolidated information on a geographical basis, revenue is based on the geographical location of customers. The United Kingdom is the place of domicile of the parent company, Wolfson Microelectronics plc. All of the Group's revenue originates from the United Kingdom.

Analysis of revenue by destination:*

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Japan	21,748	27,175
Asia Pacific	85,797	88,769
Americas	22,362	6,628
Europe and rest of world	27,005	34,762
Total	156,912	157,334

* Destination is defined as the location of the direct customer

The Group's revenue from customers based in the United Kingdom is \$25,718,000 in the 52 week period ended 1 January 2012 (2010: \$32,661,000).

Analysis of revenue by category:

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Revenues from:		
Products sold	155,846	156,276
Royalty income and design services	1,266	1,058
Total	156,912	157,334

Analysis of non-current assets (excluding deferred tax assets, goodwill and other intangible assets):

	Note	As at 1 January 2012 \$000	As at 2 January 2011 \$000
Japan		152	158
Asia Pacific		5,243	6,122
Americas		11	52
Europe and rest of world*		20,501	22,310
	11	25,907	28,642

*Includes the United Kingdom which had non-current assets (excluding deferred tax assets, goodwill and other intangible assets) of \$20,499,000 as at 1 January 2012 (as at 2 January 2011: \$22,308,000).

Major customer

Revenues from the largest customer of the Group in 2011, which are included primarily in revenues for the Audio Hubs segment, represent approximately \$24,544,000 (largest customer in 2010: \$31,069,000) of the Group's total revenues.

4. Exceptional items

Restructuring costs

During the 52 week period ended 1 January 2012, a total exceptional charge of \$6.978 million was recognised in the consolidated income statement in respect of restructuring costs incurred as a result of a programme initiated in the second half of the financial year to review the overhead costs of the business and the refocus of the R&D and Distribution and Selling activity. This programme increased the focus and investment in the Company's Audio Hubs product development activities whilst reducing overall costs, including measures targeting the non-R&D cost base. The total exceptional restructuring cost comprised:

- (i) operating expense of \$3.478 million, which was mainly employee termination costs (note 22); and
- (ii) an inventory write down of \$3.5 million. A review of inventory, as part of the restructuring and refocusing programme, itself prompted both by weak end user demand and customers deciding to make some products end-of-life much sooner than originally intimated to the Company highlighted \$3.5 million of older parts associated with Discrete and Power Products which were in excess of anticipated demand. The Company therefore decided to take an exceptional write down on these parts.

Exceptional inventory write down

In the course of the process to realign the Company's supply chain to better meet the Company's future product and anticipated demand requirements, involving the relocation of certain production support functions to the Far East and a streamlining of the subcontract manufacturing supply base, an inventory loss of \$2.4 million was identified. This arose as a result of unacceptably low yields at a subcontractor from production of a high volume part; the extent of inventory scrapped by the subcontractor during the year had not been properly reported at the time. Although reparation is being sought from the subcontractor concerned nothing has been anticipated for accounting purposes in the Company's 2011 financial statements.

Curtailment gain on defined benefit plan

A \$1.8 million non-cash curtailment gain arose in the 52 week period ended 1 January 2012, on the closure of the defined benefit pension plan to future accrual. The plan closed to future accrual with effect from 30 April 2011 and therefore the Company is no longer required to pay contributions in respect of future accrual (note 20). Due to its size and non-recurring nature, the curtailment gain is reported separately as an exceptional item within the consolidated income statement.

There were no exceptional items recognised in the 52 week period ended 2 January 2011.

Analysis of exceptional items:

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Costs of sales – inventory write down	(3,500)	–
Distribution and selling costs	(1,933)	–
Research and development expenses	(1,473)	–
Administrative expenses	(72)	–
Total restructuring costs	(6,978)	–
Costs of sales – inventory write down	(2,400)	–
Curtailment gain on defined benefit plan	1,829	–
Total exceptional items recognised in the period	(7,549)	–

5. Operating expenses

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Operating loss is stated after charging / (crediting):		
Depreciation (note 11)	4,485	6,681
Amortisation of intangible assets (note 12)	9,169	7,388
Write down / (back) of inventories	4,544	(380)
Gain on disposal of property, plant and equipment and intangible assets	(4)	–
Loss / (gain) on foreign exchange transactions and translation	219	(305)

5. Operating expenses (continued)*Audit and non-audit fee disclosure*

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Audit of these financial statements (Group and Company)	135	139
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	11	12
Other services provided to overseas branches of the Company	9	23
Other services relating to taxation	55	63
All other services	51	89

6. Personnel expenses

	Group	
	52 weeks ended 1 January 2012 (Number)	52 weeks ended 2 January 2011 (Number)
Average number of employees, including executive directors, by activity:		
Design and development	255	261
Selling and distribution	119	127
Administration	41	41
	415	429

	Group	
	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Wages and salaries	34,055	35,946
Social security costs	4,675	4,038
Contributions to defined contribution pension plans	3,486	1,775
Defined benefit pension costs (note 20)	126	331
Equity-settled share-based payment transactions (note 20)	4,100	3,112
	46,442	45,202

Information regarding the directors' remuneration, shareholdings, share options, other share-based payments and pension arrangements is contained in the Directors' Remuneration Report on pages 44 to 59.

7. Net financing income

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Bank interest receivable	240	480
Other interest receivable	1	69
Foreign exchange gain	-	217
Expected return on defined benefit pension plan assets (note 20)	1,335	1,017
Financial income	1,576	1,783
Bank interest payable	(89)	-
Other interest payable	(6)	(75)
Notional interest arising on discounted payables	(104)	(363)
Interest on defined benefit pension obligation (note 20)	(1,271)	(1,209)
Financial expenses	(1,470)	(1,647)
Net financing income	106	136

8. Income tax credit**Current tax**

Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset. The Group has a current tax liability of \$116,000 at 1 January 2012 (2010: \$160,000) and a current tax asset of \$67,000 (2010: \$nil). The Company has a current tax asset of \$67,000 at 1 January 2012 (2010: \$6,000).

Recognised in the income statement

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Current tax (credit) / expense		
Adjustments for prior years	(67)	(137)
Overseas taxes	250	314
	183	177
Deferred tax (credit) / expense		
Origination and reversal of temporary differences	(6,842)	(5,202)
Reduction in tax rate	381	39
Adjustments for prior years	111	412
	(6,350)	(4,751)
Total income tax credit in income statement	(6,167)	(4,574)

Current and deferred tax recognised directly in other comprehensive income and in equity

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Recognised in other comprehensive income:		
Relating to net pension liability (note 14)	(1,320)	(41)
Recognised in equity:		
Relating to equity-settled transactions – deferred tax (note 14)	2,164	(2,898)
Decrease / (increase) in equity	2,164	(2,898)

The UK government's budget for 2011 announced that the UK main rate of corporation tax was reduced from 27% to 26% for the tax year commencing 1 April 2011, and a further reduction to 25% will be effective from 1 April 2012.

Deferred tax balances as at 1 January 2012 are recognised at a rate of 25% (as at 2 January 2011 : 27%).

Reconciliation of effective tax rate

	52 weeks ended 1 January 2012 %	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 %	52 weeks ended 2 January 2011 \$000
Loss before tax		(24,053)		(11,166)
Income tax credit using the UK corporation tax rate	(26.5)%	(6,374)	(28.0)%	(3,126)
Effect of tax rates in foreign jurisdictions (rate increased)	0.4%	99	1.7%	197
Non-deductible expenses	0.7%	177	0.4%	48
Research and development tax credits	(5.1)%	(1,226)	(14.5)%	(1,621)
Tax expense on share options	3.5%	846	(1.7)%	(193)
Adjustments relating to prior years	0.2%	44	2.5%	275
Tax losses recognised	(0.4)%	(114)	(1.7)%	(193)
Reduction in deferred tax rate	1.6%	381	0.3%	39
Total tax credit	(25.6)%	(6,167)	(41.0)%	(4,574)

9. Earnings per share

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Loss for the period attributable to equity shareholders (basic and diluted)	(17,886)	(6,592)
Exceptional items after tax*	5,549	–
Amortisation of acquired intangible assets*	4,031	3,816
Share-based payment expenses and related payroll taxes*	2,636	3,213
Underlying (loss) / profit for the period attributable to equity shareholders (basic and diluted)	(5,670)	437
	cents	cents
Basic loss per share	(15.39)	(5.71)
Diluted loss per share	(15.39)	(5.71)
Underlying basic (loss) / earnings per share	(4.88)	0.38
Underlying diluted (loss) / earnings per share	(4.88)	0.38

*after the tax impact of this item

The weighted average number of ordinary shares used in the calculation of basic and diluted loss/earnings per share for each period is calculated as follows:

	52 weeks ended 1 January 2012 No. of shares	52 weeks ended 2 January 2011 No. of shares
Issued ordinary shares at start of period	115,929,217	115,238,980
Effect of shares issued during the period from exercise of employee share options	269,158	232,666
Weighted average number of ordinary shares at end of period – for basic (loss) / earnings per share and diluted loss per share	116,198,375	115,471,646
Effect of dilutive share options in issue	950,498	997,276
Weighted average number of ordinary shares at end of period – for diluted earnings per share	117,148,873	116,468,922

Basic loss per share

The calculation of basic loss per share for the 52 week period ended 1 January 2012 was based on the loss attributable to equity shareholders of \$17,886,000 (52 week period ended 2 January 2011: \$6,592,000 loss) and a weighted average number of ordinary shares during the 52 week period ended 1 January 2012 of 116,198,375 (2010 : 115,471,646), calculated as shown above.

Diluted loss per share

The calculation of diluted loss per share for the 52 week period ended 1 January 2012 was based on the loss attributable to equity shareholders of \$17,886,000 (52 week period ended 2 January 2011: \$6,592,000 loss) and a weighted average number of ordinary shares during the 52 week period ended 1 January 2012 of 116,198,375 (2010 : 115,471,646), calculated as shown above.

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

Underlying basic (loss) / earnings per share

The calculation of underlying basic loss per share for the 52 week period ended 1 January 2012 was based on the loss attributable to equity shareholders, before: exceptional items, the amortisation of acquired intangible assets; and share-based payment expenses and related payroll taxes (net of tax effect), of \$5,670,000 (2010: \$437,000 profit) and a weighted average number of ordinary shares during the 52 week period ended 1 January 2012 of 116,198,375 (2010 : 115,471,646), calculated as shown above.

Underlying diluted (loss) / earnings per share

The calculation of underlying diluted loss per share for the 52 week period ended 1 January 2012 was the same as the calculation for underlying basic loss per share for that period, as described above. The calculation of underlying diluted earnings per share for the 52 week period ended 2 January 2011 was based on the profit attributable to equity shareholders, before: the amortisation of acquired intangible assets; and share-based payment expenses and related payroll taxes (net of tax effect), of \$437,000 and a weighted average number of ordinary shares during the 52 week period ended 2 January 2011 of 116,468,922, calculated as shown above.

10. Acquisition of subsidiary

On 30 September 2011, the Group acquired the entire issued share capital of Dynamic Hearing Pty Ltd ('Dynamic Hearing') for a consideration of up to approximately \$4.5 million payable in cash, of which \$4.4 million was paid in the period ended 1 January 2012. Dynamic Hearing is a provider of high quality audio processing software for personal communication devices such as mobile phones, Bluetooth headsets and hearing aids. Dynamic Hearing has developed and supplied a suite of audio enhancing transmit noise reduction and Acoustic Echo Cancellation (AEC) algorithms to run on Wolfson Microelectronics plc's Audio Hub products.

In the period from 30 September 2011 to 1 January 2012, Dynamic Hearing contributed \$0.6 million of revenue and \$0.6 million of costs to the Group's consolidated loss before taxation. Except for these revenues and costs which impacted the Group's net operating cash flows, the acquired business did not make a material contribution to the Group's post acquisition net operating cash flows, tax paid or capital expenditure. If the acquisition had occurred on 3 January 2011, it is estimated that consolidated revenue for the Group would have been \$158.8 million and consolidated loss for the Group before taxation for the 52 week period ended 1 January 2012 would have been \$24.8 million. In estimating these amounts, the directors have assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 3 January 2011.

Acquisition-related costs

The Group incurred acquisition-related costs of \$180,000 relating to external legal fees and due diligence costs. The costs have been recognised within administrative expenses in the consolidated income statement for the 52 week period ended 1 January 2012.

The following summarises the classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

Consideration transferred

	\$000
Cash consideration paid	4,371
Contingent cash consideration (note 12)	131
Total cash consideration	4,502
Settlement of pre-existing relationship	557
	5,059

Contingent consideration

The Group has agreed to pay the selling shareholders additional consideration of up to approximately \$131,000, contingent on the utilisation of pre-acquisition tax losses. The Group has included \$131,000 as contingent consideration related to this additional consideration, which approximates to its fair value at the acquisition date.

Settlement of pre-existing relationship

From 2010, Wolfson Microelectronics plc has licensed technology from Dynamic Hearing Pty Ltd and this was recognised as an intangible asset by the Company. The book values at the date of acquisition comprised the intangible asset at \$735,000 and deferred income and foreign exchange differences of \$178,000, resulting in a net adjustment on settlement of pre-existing relationships of \$557,000.

Identifiable assets acquired and liabilities assumed

	Notes	Pre-acquisition carrying amounts \$000	Fair value adjustments \$000	Recognised value on acquisition \$000
Property, plant and equipment	11	288	-	288
Intangible assets - acquired	12	-	5,046	5,046
Inventories		11	-	11
Trade and other receivables		683	-	683
Cash and cash equivalents		66	-	66
Deferred tax liabilities	14	-	(1,262)	(1,262)
Trade and other payables		(1,675)	-	(1,675)
Net identifiable assets and liabilities		(627)	3,784	3,157
Goodwill on acquisition	12			1,902
Consideration				5,059

Pre-acquisition carrying amounts of the assets and liabilities were determined based on applicable IFRS immediately before the acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values (see the description on page 83 for method used in determining fair values). The fair values of the acquired assets and liabilities have been determined on a provisional basis. If new information obtained within one year from the acquisition date about the facts and circumstances that existed at the acquisition date identifies adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised.

10. Acquisition of subsidiary (continued)

The residual excess over the net assets acquired is recognised as goodwill in the consolidated financial statements. The goodwill is attributable mainly to the skills and technical talent of Dynamic Hearing's employees, the synergies expected to be achieved from integrating the company into the Group's existing business and the value of future technologies. None of the goodwill is expected to be deductible for tax purposes. The deferred tax arising on the acquisition related to temporary differences on the intangible assets' fair values.

The intangible assets acquired as part of the acquisition of Dynamic Hearing Pty Ltd are analysed as follows:

	\$000
In-process research and development	1,672
Developed technology	2,754
Licence agreements	620
	5,046

In determining the fair values of these identifiable intangible assets, the Group applied the following methods:

In-process research and development

As at the date of acquisition, Dynamic Hearing had ongoing development projects relating to audio processing software and technology. To estimate the fair value of the technology, the cost method was used taking into account the estimated current cost to recreate or duplicate the technology. This in-process research and development is being amortised over an estimated useful economic life of five years.

Developed technology

Developed technology of \$2.8 million comprises the fair value of Dynamic Hearing's audio processing software and developed technology at the date of acquisition. To estimate the fair value of the developed technology, the relief from the royalty savings approach was used. The quantification of the risk adjusted fair value has been derived using an estimated royalty rate appropriate to the technology, applied to management's estimates of the expected revenues from the technology. This acquired developed technology is being amortised over an estimated useful economic life of five years.

Licence agreements and other customer agreements

Licence agreements and other customer agreements of \$0.6 million represent the fair value of existing third party licence and supply agreements for Dynamic Hearing's technology and software. To estimate the fair value of these agreements, the risk adjusted present value of the marginal cash flows derived from such agreements has been used. All licence and other customer agreements are being amortised over their estimated useful economic life of three years.

11. Property, plant and equipment

Group	Land and buildings \$000	Plant and machinery \$000	Computer hardware \$000	Furniture and fittings \$000	Motor vehicles \$000	Total \$000
Cost						
At 4 January 2010	18,882	36,195	7,372	3,380	174	66,003
Additions	-	1,794	993	442	-	3,229
Disposals	-	-	(303)	-	-	(303)
At 2 January 2011	18,882	37,989	8,062	3,822	174	68,929
At 3 January 2011	18,882	37,989	8,062	3,822	174	68,929
Acquisitions through business combination (note 10)	-	186	98	4	-	288
Other additions	-	331	922	223	-	1,476
Disposals	-	-	(2)	(42)	(63)	(107)
At 1 January 2012	18,882	38,506	9,080	4,007	111	70,586
Depreciation						
At 4 January 2010	2,163	25,953	4,058	1,610	125	33,909
Charge for the period	378	4,285	1,623	379	16	6,681
Disposals	-	-	(303)	-	-	(303)
At 2 January 2011	2,541	30,238	5,378	1,989	141	40,287
At 3 January 2011	2,541	30,238	5,378	1,989	141	40,287
Charge for the period	378	2,206	1,500	383	18	4,485
Disposals	-	-	(2)	(28)	(63)	(93)
At 1 January 2012	2,919	32,444	6,876	2,344	96	44,679
Net book value						
At 4 January 2010	16,719	10,242	3,314	1,770	49	32,094
At 2 January 2011	16,341	7,751	2,684	1,833	33	28,642
At 3 January 2011	16,341	7,751	2,684	1,833	33	28,642
At 1 January 2012	15,963	6,062	2,204	1,663	15	25,907

Company	Land and buildings \$000	Plant and machinery \$000	Computer hardware \$000	Furniture and fittings \$000	Motor vehicles \$000	Total \$000
Cost						
At 4 January 2010	18,882	35,980	6,905	2,809	126	64,702
Additions	-	1,794	972	346	-	3,112
Disposals	-	-	(303)	-	-	(303)
At 2 January 2011	18,882	37,774	7,574	3,155	126	67,511
At 3 January 2011	18,882	37,774	7,574	3,155	126	67,511
Additions	-	309	893	208	-	1,410
Disposals	-	-	-	-	(63)	(63)
At 1 January 2012	18,882	38,083	8,467	3,363	63	68,858
Depreciation						
At 4 January 2010	2,163	25,823	3,631	1,265	107	32,989
Charge for the period	378	4,248	1,599	265	5	6,495
Disposals	-	-	(303)	-	-	(303)
At 2 January 2011	2,541	30,071	4,927	1,530	112	39,181
At 3 January 2011	2,541	30,071	4,927	1,530	112	39,181
Charge for the period	378	2,151	1,461	294	5	4,289
Disposals	-	-	-	-	(63)	(63)
At 1 January 2012	2,919	32,222	6,388	1,824	54	43,407
Net book value						
At 4 January 2010	16,719	10,157	3,274	1,544	19	31,713
At 2 January 2011	16,341	7,703	2,647	1,625	14	28,330
At 3 January 2011	16,341	7,703	2,647	1,625	14	28,330
At 1 January 2012	15,963	5,861	2,079	1,539	9	25,451

12. Intangible assets

Group	Goodwill \$000	In-process research & development \$000	Developed technology \$000	Licence agreements \$000	Customer relationships \$000	Technology licences \$000	Computer software \$000	Total \$000
Cost								
At 4 January 2010	23,144	1,900	16,294	5,382	440	–	6,304	53,464
Additions	–	–	–	–	–	829	2,414	3,243
Disposals	–	–	–	–	–	–	(205)	(205)
Revision to deferred consideration	(125)	–	–	–	–	–	–	(125)
At 2 January 2011	23,019	1,900	16,294	5,382	440	829	8,513	56,377
At 3 January 2011	23,019	1,900	16,294	5,382	440	829	8,513	56,377
Acquisitions through business combination (note 10)	1,902	1,672	2,754	620	–	–	–	6,948
Derecognition on acquisition of subsidiary (note 10)	–	–	–	–	–	(735)	–	(735)
Other additions	–	–	–	–	–	1,040	3,297	4,337
Disposals	–	–	–	–	–	–	–	–
Revision to deferred consideration	(184)	–	–	–	–	–	–	(184)
At 1 January 2012	24,737	3,572	19,048	6,002	440	1,134	11,810	66,743
Amortisation								
At 4 January 2010	–	220	7,948	3,750	440	–	5,240	17,598
Amortisation for the period	–	500	3,260	1,540	–	51	2,037	7,388
Disposals	–	–	–	–	–	–	(205)	(205)
At 2 January 2011	–	720	11,208	5,290	440	51	7,072	24,781
At 3 January 2011	–	720	11,208	5,290	440	51	7,072	24,781
Amortisation for the period	–	500	4,758	226	–	456	3,229	9,169
Disposals	–	–	–	–	–	–	–	–
At 1 January 2012	–	1,220	15,966	5,516	440	507	10,301	33,950
Net book value								
At 4 January 2010	23,144	1,680	8,346	1,632	–	–	1,064	35,866
At 2 January 2011	23,019	1,180	5,086	92	–	778	1,441	31,596
At 3 January 2011	23,019	1,180	5,086	92	–	778	1,441	31,596
At 1 January 2012	24,737	2,352	3,082	486	–	627	1,509	32,793

Amortisation charge

The amortisation charge is recognised in the following line items in the consolidated income statement:

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Distribution and selling costs	17	19
Research and development expenses	8,744	6,989
Administrative expenses	408	380
	9,169	7,388

12. Intangible assets (continued)**Impairment testing for cash-generating units containing goodwill**

The Group reviews goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

For the purposes of this annual review, the directors reviewed the balance of goodwill, in respect of the acquisitions of Oligon Limited and Sonaptic Limited in 2007 and Dynamic Hearing Pty Limited in 2011 (note 10), for impairment in accordance with IAS 36 'Impairment of Assets'. No impairment charge was considered necessary as a result of this annual impairment review.

For the purpose of impairment testing, goodwill is allocated to the Group's operating segment which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The carrying amounts of goodwill, by cash-generating unit ('CGU'), of \$24,737,000 can be analysed as:

	As at 1 January 2012 \$000	As at 2 January 2011 \$000
<i>Analysis of goodwill:</i>		
Audio Hubs operating segment (note 3)		
Goodwill relating to Sonaptic acquisition	18,811	18,995
Goodwill relating to Dynamic Hearing acquisition (note 10)	1,902	–
	20,713	18,995
Discrete and Power Products operating segment (note 3)		
Goodwill relating to Oligon acquisition	4,024	4,024
	24,737	23,019

The recoverable amount of a segment is based on value-in-use calculations and this is compared to the carrying amount of each CGU to determine whether the respective CGUs require to be impaired. The basis applied has been deemed appropriate by the directors as it is consistent with the way in which the value of the individual CGUs is assessed by management and would be by other market participants. The method applied is to determine value-in-use by assessing the discounted pre-tax cash flows expected to be earned from specific products developed from the acquired technologies within the respective CGUs. As the two identified CGUs share many of the same risk factors the directors consider the discount rate applicable to each CGU should be the same.

These calculations cover five years of projected pre-tax cash flows, which incorporate the approved business plan and current market data regarding the relevant technologies. Management determined the financial projections based on its expectations of market developments and likely end customer demand over the five year period. The forecast revenues which are included in the projected cash flows are management's current estimates and include identified specific opportunities for the developed products containing the acquired technologies. Industry market data, regarding the projected demand for the end product applications containing the relevant technologies, has also been used by management to assess the forecast revenues.

The operating margins included in the projected cash flows reflect those deemed to be achievable in the commercial markets in which the products will be sold and have been assessed over the five year period having regard to product lifecycles and expected market demand characteristics.

Cash flows beyond the five year period are extrapolated using a terminal value multiple; terminal value having been estimated by management as three times year five cash flows.

The pre-tax discount rate applied to the cash flow projections was 21% (2010: 23%) and reflects the risks assessed by the directors as being attributable to the relevant CGUs, and takes into account an assessment of relevant risk factors and appropriate external published information.

The recoverable amounts of the CGUs exceeded the respective carrying values at the time of the impairment test.

Whilst cash flow projections are subject to inherent uncertainty, with volume estimates dependent to a large extent upon the timing of when customers ramp their own production of the relevant consumer products themselves, sensitivity analyses were conducted on the assumptions used in estimating the projected pre-tax cash flows. These sensitivities involved reducing the estimated revenues earned over the period of the cash flow projections by up to 50%, the results of which indicated that such a significant reduction of the projected cash flows from the expected level would not cause the recoverable amount of the cash generating unit to fall below the carrying amount. In addition, the effect of a change of 5 percentage points in the discount rate applied to the projected cash flows would have no impact on the carrying value of goodwill as at 1 January 2012.

The Business Review on pages 4 to 15 contains details of the progress during the period with the development of the technologies associated with the acquired businesses.

12. Intangible assets (continued)**Contingent consideration**

There are contingent cash consideration balances, which are payable in accordance with the terms of these acquisitions and are subject to the achievement of certain milestones and conditions, of \$2.5 million and \$3.4 million within current and non-current liabilities respectively as at 1 January 2012 (as at 2 January 2011: \$2.6 million and \$4.0 million respectively). These contingent cash consideration liabilities have been assessed based on the probability of their payment as at 1 January 2012 and the amounts have been discounted to their present values. During 2011 the Company paid \$0.8 million (2010: \$nil) in respect of part of the contingent cash consideration for the Sonaptic acquisition as a result of achievement of one of the milestones. Also in 2011, the contingent cash consideration amounts, in respect of the Sonaptic acquisition, were reviewed and reassessed and, as a result, the contingent cash consideration liabilities decreased by a total of \$184,000 with a corresponding reduction in goodwill (2010: \$125,000 reduction). Note 10 contains details of the contingent consideration in respect of the Dynamic Hearing acquisition in 2011.

Company	Intellectual property rights \$000	Goodwill \$000	In-process research & development \$000	Technology licences \$000	Computer software \$000	Total \$000
Cost						
At 4 January 2010	2,525	-	-	-	6,299	8,824
Additions	-	-	-	829	2,387	3,216
Disposals	-	-	-	-	(205)	(205)
At 2 January 2011	2,525	-	-	829	8,481	11,835
At 3 January 2011	2,525	-	-	829	8,481	11,835
Reclassification of investment (note 13)	-	4,024	1,180	-	-	5,204
Additions	-	-	-	1,065	3,297	4,362
Disposals	-	-	-	-	-	-
At 1 January 2012	2,525	4,024	1,180	1,894	11,778	21,401
Amortisation						
At 4 January 2010	569	-	-	-	5,236	5,805
Amortisation for the period	253	-	-	51	2,032	2,336
Disposals	-	-	-	-	(205)	(205)
At 2 January 2011	822	-	-	51	7,063	7,936
At 3 January 2011	822	-	-	51	7,063	7,936
Amortisation for the period	253	-	500	456	3,220	4,429
Disposals	-	-	-	-	-	-
At 1 January 2012	1,075	-	500	507	10,283	12,365
Net book value						
At 4 January 2010	1,956	-	-	-	1,063	3,019
At 2 January 2011	1,703	-	-	778	1,418	3,899
At 3 January 2011	1,703	-	-	778	1,418	3,899
At 1 January 2012	1,450	4,024	680	1,387	1,495	9,036

13. Investments in subsidiaries

Company	Equity investments in subsidiaries \$000	Loans to subsidiaries \$000	Total \$000
Cost			
At 4 January 2010	43,835	–	43,835
Revision to consideration for cost of investment (note 12)	(125)	–	(125)
Increase in respect of share-based payments	295	–	295
At 2 January 2011	44,005	–	44,005
At 3 January 2011	44,005	–	44,005
Reclassification of investment (see below)	(5,430)	–	(5,430)
Acquisition (note 10)	1,482	3,020	4,502
Revision to consideration for cost of investment (note 12)	(184)	–	(184)
Increase in respect of share-based payments	232	–	232
At 1 January 2012	40,105	3,020	43,125

Note 27 contains details of these subsidiaries. The movement in investments held by the Company relates to the acquisition of a subsidiary (see note 10), and to the equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes.

As the underlying business originally acquired from Oligon Limited is held directly by Wolfson Microelectronics plc, the investment in Oligon Limited has been reclassified to reflect the related assets, primarily goodwill and intangible assets (and associated deferred tax), being held and operated directly by the Company.

14. Deferred tax assets and liabilities**Recognised deferred tax assets and liabilities**

Group	Assets		Liabilities		Net	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Property, plant and equipment	(29)	(17)	1,131	1,427	1,102	1,410
Intangible assets	(276)	(308)	1,480	1,717	1,204	1,409
Employee benefits – pensions	(375)	(648)	–	–	(375)	(648)
Employee benefits – share-based payments	(1,166)	(4,853)	–	–	(1,166)	(4,853)
Tax losses	(9,644)	(2,604)	–	–	(9,644)	(2,604)
Other items	(837)	(227)	76	117	(761)	(110)
Deferred tax (assets) / liabilities	(12,327)	(8,657)	2,687	3,261	(9,640)	(5,396)
Set off of tax	2,687	3,261	(2,687)	(3,261)	–	–
Net deferred tax (assets) / liabilities	(9,640)	(5,396)	–	–	(9,640)	(5,396)

Company	Assets		Liabilities		Net	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Property, plant and equipment	–	–	1,131	1,427	1,131	1,427
Intangible assets	(276)	(308)	170	–	(106)	(308)
Employee benefits – pensions	(375)	(648)	–	–	(375)	(648)
Employee benefits – share-based payments	(1,123)	(4,837)	–	–	(1,123)	(4,837)
Tax losses	(9,644)	(2,604)	–	–	(9,644)	(2,604)
Other items	(830)	(219)	76	117	(754)	(102)
Deferred tax (assets) / liabilities	(12,248)	(8,616)	1,377	1,544	(10,871)	(7,072)
Set off of tax	1,377	1,544	(1,377)	(1,544)	–	–
Net deferred tax (assets) / liabilities	(10,871)	(7,072)	–	–	(10,871)	(7,072)

14. Deferred tax assets and liabilities (continued)**Movement in deferred tax balances during the period**

Group	Balance at 4 January 2010 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	Balance at 2 January 2011 \$000
Property, plant and equipment	1,749	(339)	-	-	1,410
Intangible assets	2,825	(1,416)	-	-	1,409
Employee benefits – pensions	(639)	32	(41)	-	(648)
Employee benefits – share-based payments	(1,613)	(342)	-	(2,898)	(4,853)
Tax losses	(77)	(2,527)	-	-	(2,604)
Other items	49	(159)	-	-	(110)
	2,294	(4,751)	(41)	(2,898)	(5,396)

	Balance at 3 January 2011 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	From business combination (note 10) \$000	Balance at 1 January 2012 \$000
Property, plant and equipment	1,410	(308)	-	-	-	1,102
Intangible assets	1,409	(1,467)	-	-	1,262	1,204
Employee benefits – pensions	(648)	1,593	(1,320)	-	-	(375)
Employee benefits – share-based payments	(4,853)	1,523	-	2,164	-	(1,166)
Tax losses	(2,604)	(7,040)	-	-	-	(9,644)
Other items	(110)	(651)	-	-	-	(761)
	(5,396)	(6,350)	(1,320)	2,164	1,262	(9,640)

Company	Balance at 4 January 2010 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	Balance at 2 January 2011 \$000
Property, plant and equipment	1,749	(322)	-	-	1,427
Intangible assets	(439)	131	-	-	(308)
Employee benefits – pensions	(639)	32	(41)	-	(648)
Employee benefits – share-based payments	(1,541)	(414)	-	(2,882)	(4,837)
Tax losses	-	(2,604)	-	-	(2,604)
Other items	23	(125)	-	-	(102)
	(847)	(3,302)	(41)	(2,882)	(7,072)

	Balance at 3 January 2011 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	Balance at 1 January 2012 \$000
Property, plant and equipment	1,427	(296)	-	-	1,131
Intangible assets	(308)	202	-	-	(106)
Employee benefits – pensions	(648)	1,593	(1,320)	-	(375)
Employee benefits – share-based payments	(4,837)	1,529	-	2,185	(1,123)
Tax losses	(2,604)	(7,040)	-	-	(9,644)
Other items	(102)	(652)	-	-	(754)
	(7,072)	(4,664)	(1,320)	2,185	(10,871)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Tax losses	2,224	1,735	-	137

Deferred tax assets have not been recognised in respect of the tax amount of these items due to continuing uncertainty over the availability of future taxable profits against which the Group can utilise the benefit.

The UK government's budget for 2011 announced that the UK main rate of corporation tax was reduced from 27% to 26% for the tax year commencing 1 April 2011, and a further reduction to 25% will be effective from 1 April 2012.

15. Inventories

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Raw materials and consumables	10,174	8,145	10,174	8,145
Work in progress	4,528	12,019	4,528	12,019
Finished goods	8,199	8,953	8,189	8,953
	22,901	29,117	22,891	29,117

In the 52 week period ended 1 January 2012 raw materials and consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$83,204,000 (52 week period ended 2 January 2011: \$78,622,000). Write downs totalling \$5,900,000 in inventory were recognised as exceptional charges in the 52 week period ended 1 January 2012 (note 4).

16. Trade and other receivables

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade receivables	25,901	23,608	25,778	23,555
Amounts due from subsidiaries	-	-	3,471	3,611
Other receivables	562	518	328	494
Prepayments and accrued income	3,204	2,930	2,986	2,330
	29,667	27,056	32,561	29,990

The Group and Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

17. Other investments

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Current investments				
Derivatives used for hedging	-	28	-	28

The Group and Company's exposure to currency risks related to other investments are disclosed in note 23.

18. Cash and cash equivalents and short-term deposits

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Bank balances	915	5,274	184	4,224
Bank deposits	19,494	15,809	19,481	15,140
Cash and cash equivalents	20,409	21,083	19,665	19,364
Short-term deposits	33,000	76,000	33,000	76,000

The Group and Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

19. Capital and reserves**Share capital and share premium**

	As at 1 January 2012 Number of shares	As at 2 January 2011 Number of shares
In issue at start of period	115,929,217	115,238,980
Issued for cash on exercise of employee share options	379,210	690,237
In issue at end of period— fully paid	116,308,427	115,929,217

The Company's share capital comprises ordinary shares which have a nominal value of 0.1 pence per share. All issued shares are fully paid.

The holders of ordinary shares are entitled to one vote per share at meetings of the Company and are entitled to receive dividends as recommended by the directors. The holders of ordinary shares also have an unlimited right to share in the surplus remaining on a winding up after all creditors are satisfied.

During the 52 week period ended 1 January 2012, 379,210 ordinary shares of 0.1 pence (2010: 690,237 ordinary shares), which had an aggregate nominal value of £379 (\$600) (2010: £690 (\$1,000)), were issued for a total consideration of £416,617 (\$652,000) (2010: £753,392 (\$1,175,000)).

The Company did not purchase any of its own ordinary shares of 0.1 pence each in the 52 week period ended 1 January 2012 nor in the 52 week period ended 2 January 2011.

During the 52 week period ended 1 January 2012, one of the Company's employee share trusts, acquired 1,422,545 (2010: 585,663) of the Company's shares for a consideration of \$5,390,000 (2010: \$1,730,000). There were 4,359,070 of the Company's ordinary shares held by the Company's employee share trusts as at 1 January 2012 (as at 2 January 2011: 4,945,149 ordinary shares).

Options

The Company's directors, senior management and employees have been granted options over ordinary shares under employee share option schemes as follows:

	At 3 January 2011	Exercised	Granted	Lapsed	At 1 January 2012
EMI scheme	220,000	(195,000)	—	—	25,000
2003 Executive Share Scheme – A	279,055	—	—	(7,517)	271,538
2003 Executive Share Scheme – B	2,136,984	—	—	(139,089)	1,997,895
2003 All Employee Share Scheme – A	1,202,906	(68,330)	—	(81,732)	1,052,844
2003 All Employee Share Scheme – B	1,511,342	(110,709)	—	(57,606)	1,343,027
Save As You Earn (SAYE) Scheme	732,206	—	991,880	(423,645)	1,300,441
	6,082,493	(374,039)	991,880	(709,589)	5,990,745

Retained earnings reserve

The movements in this reserve for the Group and for the Company, in the 52 week period ended 1 January 2012, are shown in the statements of changes in equity on pages 64 and 65 respectively.

The cumulative foreign currency translation differences for foreign operations in the Group was \$8,000 loss as at 1 January 2012 (as at 2 January 2011: \$11,000 loss) and is included within the retained earnings reserve.

Capital redemption reserve

The balance on this reserve as at 3 January 2010 represented an amount equal to the nominal value of deferred shares which were bought back by the Company in earlier years. These deferred shares were then cancelled.

There were no movements in this reserve during the 52 week period ended 1 January 2012 nor in the 52 week period ended 2 January 2011.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions which have not yet occurred (note 23).

The amount of the recycled cash flow hedges recognised in the income statement is a gain of \$2,000 in the 52 week period ended 1 January 2012 (2010: \$19,000 gain).

20. Employee benefits**Retirement benefits schemes**

	As at 1 January 2012 \$000	As at 2 January 2011 \$000
Group and Company		
Present value of funded obligations	(26,413)	(24,244)
Fair value of plan assets	26,714	21,843
Net surplus / (liability) for defined benefit obligations	301	(2,401)
Unrecognised surplus	(301)	-
Increase in liabilities recognised in accordance with IFRIC 14	(1,500)	-
Recognised liability for defined benefit obligations	(1,500)	(2,401)

Liability for defined benefit obligations

The Group makes contributions to a UK-based defined benefit plan that provides pension benefits for UK employees upon retirement. The defined benefit plan and actuarial assumptions are based on sterling denominated assets and liabilities. The plan was closed to new entrants with effect from 2 July 2002. The plan closed to future accrual with effect from 30 April 2011 and therefore the Company is no longer required to pay contributions in respect of future accrual. The current schedule of contributions, dated 25 March 2010, sets out the contribution rates due in respect of deficit contributions. During the 52 week period ended 1 January 2012, the Company paid deficit contributions totalling \$4.5 million into the plan.

In the 52 week period ended 1 January 2012, the Company has recognised, in the income statement, the curtailment gain of \$1,829,000 which arose on the closure of the plan to future accrual (see note 4). Since the plan is now closed to future accrual and since there will no longer be regular contributions into the plan, there is some uncertainty regarding the recoverability of the net asset, being the IAS 19 net surplus on the plan as at 1 January 2012. Accordingly the surplus of \$301,000 on the defined benefit pension plan as at 1 January 2012, calculated in accordance with IAS 19, has not been recognised. The Company is targeting to completely close the scheme over the next ten years through a combination of liability reduction exercises, such as buy ins, buy outs and enhanced transfer values, all of which will likely cost more than the IAS 19 funded obligations assume.

The deficit contributions, due under the schedule of contributions dated 25 March 2010, were five annual instalments of \$1.3 million each of which the Company paid one of these instalments. The \$3.2 million other payment to the plan by the Company in 2011, was effectively a prepayment against the Company's commitment under the agreed schedule of contributions. This leaves a remaining amount of \$2.0 million due under the schedule of contributions. In accordance with IFRIC 14, the present value of this remaining commitment (being \$1.5 million) has been recognised as a liability as at 1 January 2012.

Plan assets consist of the following:

	As at 1 January 2012 \$000	As at 2 January 2011 \$000
Equity securities	9,436	10,297
Government bonds	5,369	4,310
Corporate bonds	8,291	4,343
Cash	3,618	2,827
Other assets	-	66
	26,714	21,843
Actual return on plan assets	731	2,243

Movements in the liability for defined benefit obligations

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Liability for defined benefit obligations at start of period	24,244	22,191
Current service cost (note 6)	126	331
Interest cost (note 7)	1,271	1,209
Contributions by plan participants	50	142
Curtailment gain (note 4)	(1,829)	-
Actuarial losses recognised in equity	2,693	1,139
Exchange differences	(142)	(768)
	26,413	24,244
Increase in liabilities recognised in accordance with IFRIC 14	1,500	-
Liability for defined benefit obligations at end of period	27,913	24,244

20. Employee benefits (continued)**Retirement benefits schemes (continued)***Movements in the fair value of plan assets*

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Fair value of plan assets at start of period	21,843	19,908
Contributions by the employer	4,700	482
Contributions by plan participants	50	142
Expected return on plan assets (note 7)	1,335	1,017
Actuarial (losses) / gains recognised in equity	(784)	984
Exchange differences	(430)	(690)
Fair value of plan assets at end of period	26,714	21,843

Expense / (gain) recognised in the income statement

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Current service costs	126	331
Curtailment gain: exceptional item (note 4)	(1,829)	-
Interest on obligation	1,271	1,209
Expected return on plan assets	(1,335)	(1,017)
	(1,787)	523
Exchange differences	288	(78)
	(1,479)	445

The expense / (gain) is recognised in the following line items in the income statement:

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Distribution and selling costs	26	67
Research and development expenses	71	188
Administrative expenses	29	76
Total current service costs (note 6)	126	331
Curtailment gain (note 4)	(1,829)	-
Exchange differences:		
Distribution and selling costs	58	(16)
Research and development expenses	164	(44)
Administrative expenses	66	(18)
	288	(78)
Financial income	(1,335)	(1,017)
Financial expense	1,271	1,209

Actuarial gains and losses recognised directly in equity

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Cumulative amount of actuarial losses at beginning of period	8,448	8,293
Recognised loss during the period	4,977	155
Cumulative amount of actuarial and other losses at end of period	13,425	8,448

20. Employee benefits (continued)**Retirement benefits schemes (continued)***Actuarial assumptions*

Principal actuarial assumptions at the balance sheet date:

	2011	2010
Discount rate at 1 January 2012 / 2 January 2011	4.70%	5.40%
Expected return on plan assets – Equities	7.00%	7.00%
– Corporate Bonds	4.70%	5.40%
– Government Bonds	3.00%	4.20%
– Other	0.50%	0.50%
Future salary increases	n/a	4.00%
Future pension increases	3.20%	3.60%
Inflation assumption : RPI	3.20%	3.60%
Inflation assumption : CPI	2.50%	2.90%
Mortality table : Non-pensioners	SAPS, Birth Year, Long Cohort, 1% underpin	SAPS, Birth Year, Long Cohort, 1% underpin
Mortality table : Pensioners	SAPS Light, Birth Year, Long Cohort, 1% underpin	SAPS Light, Birth Year, Long Cohort, 1% underpin

It was reported in the notes to the financial statements for the 52 week period ended 2 January 2011 that, as a result of the UK government's change from RPI to CPI for calculating statutory minimum increases in deferred pensions and pensions in payment (which was announced and was effective immediately in 2010), the Company reviewed the implications of this change for its defined benefit pension scheme in respect of the accounting treatment in accordance with IAS 19 'Employee Benefits'. With effect from 2010, the appropriate inflation assumption for revaluation in deferment for the Company's defined benefit pension scheme is based on CPI rather than RPI.

The expected long-term rate of return on assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories.

Assumptions regarding future mortality are based on published statistics and mortality tables. The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above and in the following table. The current longevity underlying the values of the liabilities in the defined benefit plan are as follows:

	As at 1 January 2012 Years	As at 2 January 2011 Years
Life expectancy at retirement for current pensioners		
Males	24.6	24.4
Females	26.1	25.9

Life expectancy at retirement for current member aged 45

Males	24.7	24.5
Females	27.3	27.1

Historical information

	As at 1 January 2012 \$000	As at 2 January 2011 \$000	As at 3 January 2010 \$000	As at 28 December 2008 \$000	As at 30 December 2007 \$000	As at 31 December 2006 \$000
Present value of defined benefit obligations	(26,413)	(24,244)	(22,191)	(14,382)	(22,533)	(24,291)
Fair value of plan assets	26,714	21,843	19,908	13,035	18,615	14,034
Net surplus / (deficit) in the plan	301	(2,401)	(2,283)	(1,347)	(3,918)	(10,257)
Unrecognised surplus	(301)	–	–	–	–	–
Increase in liabilities recognised in accordance with IFRIC 14	(1,500)	–	–	–	–	–
Recognised liability for defined benefit obligations	(1,500)	(2,401)	(2,283)	(1,347)	(3,918)	(10,257)
	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000	2006 \$000
Experience adjustments arising on plan liabilities	(64)	(105)	(323)	788	314	(394)
Experience adjustments arising on plan assets	(604)	1,226	2,241	(5,221)	(244)	400

20. Employee benefits (continued)

Retirement benefits schemes (continued)

The Group and Company expect to pay between \$nil and \$1.5 million in contributions to this plan in 2012, dependant on the extent to which the Company conducts liability reduction exercises. The Company has no constructive obligations in relation to the defined benefit plan, although the next actuarial valuation, based on the 1 March 2012 position, may require future additional payments in accordance with the next Schedule of Contributions.

Share-based payments

At 1 January 2012, the Group and the Company had the following share-based payment arrangements:

Share option plans

In the years prior to 2008, the Group had a share option programme that entitled directors, senior management and other employees to purchase shares in the Company. Grants have been made of share options in the period from 1995 to June 2008. During the 52 week period ended 2 January 2011, share options were granted to executive directors and senior management as part of the 2010 long term incentive scheme arrangements (page 55). In accordance with those share option schemes, options are exercisable at the market price of the shares at the date of grant. Additionally, there were 28 separate grants of share options to employees before 7 November 2002. The recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions of IFRS 1 and IFRS 2.

The table in note 19 on page 91 summarises the share options, by scheme, granted, exercised and lapsed in the 52 week period ended 1 January 2012.

The 2003 Wolfson Microelectronics plc Executive Share Scheme (Part A and Part B)

This share option scheme has two parts: one which is approved by HM Revenue and Customs so as to provide tax qualified options (Part A) and the other not so approved (Part B). Options under this scheme are only granted to executive directors and senior management and are subject to performance conditions. Options can only be granted from this scheme at an exercise price which is not less than the market value of the Company's ordinary 0.1 pence shares at the time of grant. No consideration is payable for awards from this scheme. The fair value of share options granted from this scheme is measured based on a Black-Scholes model. In 2010 share option grants were made from this scheme to the executive directors and to senior managers as part of the long term incentive arrangements. Further details are included in the Directors' Remuneration Report on pages 44 to 59. No share options were granted from this scheme in 2011. The share option awards granted in 2010 have non-market related performance conditions and therefore the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations. For the 2009 share option awards granted from this scheme as part of the long term incentive arrangements for executive directors and senior management, there is a market and a non-market related vesting condition which have equal weighting. Further details of this plan are contained on pages 55 and 56 of the Directors' Remuneration Report.

The Wolfson Microelectronics Approved SAYE Scheme

This is a savings-related share option scheme which was established in 2010 and was approved by shareholders at the Annual General Meeting in May 2010 and then by HM Revenue and Customs. The scheme is currently open to all eligible employees in the United Kingdom and provides for the grant of share options linked to savings contracts lasting for three or five years. The share options can be granted at a discount of up to 20% of the market value of an ordinary share in the Company. The number of shares over which options are granted is related to the amount of savings made by the employee under the savings contract. In 2011, as in 2010, the invitation to participate in the SAYE Scheme was in respect of a savings contract period of three years with options granted at a discount of 20% to the market value of an ordinary share in the Company. The fair value of share options granted from this scheme is measured based on a Black-Scholes model and takes into account an estimate of the extent to which a non-vesting condition will fail to be met by the participants during the savings contract period.

Other share-based award plans

The Wolfson Microelectronics 2006 Performance Share Plan

This long term incentive plan was approved by shareholders, at an Extraordinary General Meeting on 16 February 2006. The first grant of contingent share awards was made on 10 March 2006 to executive directors and senior management as part of a long term incentive plan and further awards were made to senior management in September and October 2006. During 2007, 2008, 2009, 2010 and 2011, further grants of contingent shares were made to executive directors and senior management as part of the long term incentive arrangements. Further details are included in the Directors' Remuneration Report on pages 44 to 59. No consideration was paid for any of these awards. The fair value is determined by reference to the market value of the shares at the date of grant. The contingent share awards granted in the period until 2010 and also in 2011 have non-market related vesting conditions and therefore the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations. For the 2009 contingent share awards granted from this scheme as part of the long term incentive arrangements for executive directors and senior management, there is a market and a non-market related vesting condition which have equal weighting. Further details of this plan are contained on page 55 of the Directors' Remuneration Report.

20. Employee benefits (continued)

Share-based payments (continued)

The Wolfson Microelectronics 2008 Staff Performance Share Plan

In 2008 the Company established a staff share scheme, The Wolfson Microelectronics 2008 Staff Performance Share Plan, which allows the grant of contingent share awards to employees, the vesting of those shares being dependent on the individual remaining an employee of the Group throughout the specified period. Awards from this scheme can only be satisfied from shares held in the employee share trusts, which have been purchased in the market, rather than by new issue shares. No amounts are payable by the employees in respect of the grant of these contingent share awards. The Company issued contingent share awards from this scheme to employees during 2008. No awards were granted from this scheme in 2009, in 2010 or in 2011.

The fair value is determined by reference to the market value of the shares at the date of grant. The contingent share awards have non-market related vesting conditions and therefore the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations. For the awards made in 2008, the contingent share awards vested on the date three years after the date of grant, subject to the award holder having remained an employee within the Group throughout that period unless the award holder left employment within the Group as a result of one of the specified circumstances defined in the rules of the Scheme.

The Wolfson Microelectronics 2009 Staff Share Award Plan

In 2009 the Company established this staff share scheme, (formerly named The Wolfson Microelectronics 2009 Staff Performance Share Plan), which allows the grant of contingent share awards to employees (excluding directors), the vesting of those shares being dependent on the individual remaining an employee of the Group throughout the specified period. This scheme was approved by the shareholders of the Company at the Annual General Meeting in May 2010. Awards from this scheme prior to May 2010 can only be satisfied from shares held in the employee share trusts, which have been purchased in the market, rather than by new issue shares. In accordance with this share scheme, no amounts are payable by the employees in respect of the grant of these contingent share awards. The Company issued contingent share awards from this scheme to employees during 2009, 2010 and 2011.

The fair value is determined by reference to the market value of the shares at the date of grant. The contingent share awards have non-market related vesting conditions and therefore the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

For the awards made in 2009, 2010 and 2011, the contingent share awards will vest in three equal tranches on each anniversary of the grant date over a three year period such that the third tranche vests on the date three years after the date of award subject to the award holder remaining an employee within the Group throughout that vesting period unless the award holder leaves employment within the Group as a result of one of the specified circumstances defined in the rules of the Scheme.

The Wolfson Microelectronics 2010 Senior Executive Deferred Bonus Plan

This deferred bonus plan was approved by shareholders at the Company's Annual General Meeting in May 2010 and the first awards were granted under this Plan on 29 June 2010. As described on page 57, participation in this Plan in 2010 and in 2011 by the executive directors and senior managers was not compulsory. For both 2010 and 2011, up to 50% of the net (after tax) bonus earned in 2009 and 2010 respectively by those executive directors and senior managers who elected to participate in the Plan was applied in the acquisition of shares in the Company. If those shares are held for three years, the Company will match them 1:1 on a gross basis subject to the achievement of a specified non-market related performance condition. The fair value of the contingent matching share awards is determined by reference to the market value of the shares at the date of grant. The contingent matching share awards granted in 2011 and 2010 have non-market related vesting conditions and therefore the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

20. Employee benefits (continued)**Share-based payments (continued)****Share option plans**

The terms and conditions of the share option grants which were outstanding at any time during the 52 week period ended 1 January 2012 are as follows, whereby all options are settled by the physical delivery of shares:

Grant date / employees entitled	Number of options	Vesting conditions	Contractual life of options
1. Option grant to directors, senior management and employees at 20 March 2002	220,000	Three years of service	10 years
2. Option grant to employees at 30 July 2004	333,035	Four years of service*	10 years
3. Option grant to directors and senior management at 30 July 2004	119,805	Employed during vesting period and increase of RPI plus 15% per annum in EPS in 2006 over EPS in 2003 (there is a sliding scale for lower performance)	10 years
4. Option grant to employees at 10 March 2005	231,645	Four years of service*	10 years
5. Option grant to directors and senior management at 10 March 2005	169,719	Three years of service and increase of RPI plus 15% per annum in EPS in 2007 over EPS in 2004 (there is a sliding scale for lower performance)	10 years
6. Option grant to employees at 10 March 2005	5,000	Four years of service*	10 years
7. Option grant to employees at 7 September 2005	20,000	Four years of service*	10 years
8. Option grant to employees at 23 November 2005	10,000	Four years of service*	10 years
9. Option grant to employees at 16 March 2006	490,250	Four years of service*	10 years
10. Option grant to employees at 2 May 2006	13,000	Four years of service*	10 years
11. Option grant to employees at 19 June 2006	2,000	Four years of service*	10 years
12. Option grant to employees at 24 August 2006	160,000	Four years of service*	10 years
13. Option grant to employees at 25 September 2006	40,000	Four years of service*	10 years
14. Option grant to employees at 26 October 2006	17,000	Four years of service*	10 years
15. Option grant to employees at 27 November 2006	40,000	Four years of service*	10 years
16. Option grant to employees at 5 February 2007	56,000	Three years of service**	10 years
17. Option grant to employees at 5 February 2007	645,433	Three years of service**	10 years
18. Option grant to employees at 5 February 2007	432,810	Employed during vesting period of one year and to the extent that specific business performance objectives are achieved in the financial year 2007	10 years
19. Option grant to employees at 5 February 2007	3,983	Three years of service**	10 years
20. Option grant to employees at 5 February 2007	3,080	Employed during vesting period of one year and to the extent that specific business performance objectives are achieved in the financial year 2007	10 years
21. Option grant to employees at 6 August 2007	10,000	Three years of service**	10 years
22. Option grant to employees at 5 September 2007	123,800	Three years of service**	10 years
23. Option grant to employees at 7 November 2007	25,000	Three years of service**	10 years
24. Option grant to employees at 5 December 2007	10,000	Three years of service**	10 years
25. Option grant to employees at 6 March 2008	25,000	Three years of service**	10 years
26. Option grant to employees at 9 June 2008	13,200	Three years of service**	10 years
27. Option grant to executive directors and senior management at 19 March 2009	1,195,427	Employed during the three year performance period. Performance conditions are a share price appreciation target and cash conservation (each measure having 50% weighting). Details of these performance conditions are included on pages 53 and 56 of the Directors' Remuneration Report	10 years
28. Option grant to senior management at 2 September 2009	42,553	Employed during the three year performance period. Performance conditions are a share price appreciation target and cash conservation (each measure having 50% weighting).	10 years
29. Option grant to executive directors and senior management at 19 March 2010	888,535	Employed during the three year performance period. Performance conditions are non-market related. Details of these performance conditions are included on page 56 of the Directors' Remuneration Report.	10 years
30. Option grant to employees at 19 March 2010	4,012	Three years of service**	10 years
31. Option grant to executive directors, senior management and employees at 1 September 2010	732,206	Three years of service and subject to a three year Sharesave savings contract in accordance with the approved SAYE scheme	3.5 years
32. Option grant to senior management and employees at 30 November 2011	991,880	Three years of service and subject to a three year Sharesave savings contract in accordance with the approved SAYE scheme	3.5 years

* 25% of the options granted can be exercised one year after the grant date and then, by equal monthly instalments, thereafter for the next three years.

**One third of the options granted can be exercised one year after the grant date, a further third on the second anniversary of the grant date and the final third of the options granted can be exercised on the third anniversary of the grant date

20. Employee benefits (continued)**Share-based payments (continued)**

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)	Number of options
	52 weeks ended 1 January 2012	52 weeks ended 1 January 2012	52 weeks ended 2 January 2011	52 weeks ended 2 January 2011
Outstanding at the beginning of the period	204.4	6,082,493	209.5	5,436,074
Lapsed during the period	179.6	(709,589)	259.2	(267,777)
Exercised during the period	123.4	(374,039)	112.4	(711,004)
Granted during the period	90.0	991,880	156.2	1,625,200
Outstanding at the end of the period	193.4	5,990,745	204.4	6,082,493
Exercisable at the end of the period	278.5	2,898,874	271.8	3,207,027

The options outstanding at 1 January 2012 have an exercise price in the ranges as summarised below:

Exercise price range	Number of options outstanding at 1 January 2012	Weighted average remaining contractual life (years)
20 to 75 pence	25,000	0.2
90 to 92 pence	2,085,244	5.4
127.75 to 152.2 pence	919,557	8.1
161 to 186 pence	703,595	2.8
204.5 to 224 pence	446,631	2.8
256 to 293.42 pence	1,132,905	5.1
304 to 479 pence	677,813	4.3
	5,990,745	5.1

The weighted average share price during the 52 week period ended 1 January 2012 was 197.1 pence per share (52 week period ended 2 January 2011: 192.2 pence per share).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model.

Fair value of share options and assumptions	Directors 2011	Directors 2010	Senior Management 2011	Senior Management* 2010	Other employees 2011	Other employees* 2010
Fair value at measurement date (pence)	-	56	26.5	56	26.5	60
Share price (pence)	-	150.75	104.5	150.75	104.5	201
Exercise price (pence)	-	152.2	90.0	152.2	90.0	161
Expected volatility	-	53.1%	45.0%	53.1%	45.0%	53.0%
Option life (weighted average life)	-	3	3	3	3	3
Expected dividends	-	Nil	Nil	Nil	Nil	Nil
Risk free interest rate (based on UK government bonds)	-	1.89%	2.16%	1.89%	2.16%	1.70%

* as there were a number of separate option grants during the period the assumptions included in the table are the weighted average figures across all of these option grants in the period.

20. Employee benefits (continued)**Share-based payments (continued)**

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information.

For share options granted in 2011 and for those share options granted to employees in 2010, the requirement that the employee has to save in order to accumulate funds to pay for the exercise cost of the share options, in accordance with the Save As You Earn Scheme, is a non-vesting condition. This feature has been incorporated into the fair value at grant date by applying a discount to the valuation obtained. The discount has been determined by estimating the probability that the employee will stop saving based on historic behaviour.

The share options granted in 2010 to senior management and directors have non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

The Wolfson Microelectronics plc 2006 Performance Share Plan

The fair value of the contingent shares is the market value of the Company's shares on the date of the award.

	Number of contingent performance shares	Weighted average fair value (pence)
Outstanding as at 3 January 2011	2,555,366	122.7
Awarded in the period	1,491,808	241.2
Vested in the period	(19,370)	136.9
Lapsed in the period	(1,044,925)	152.4
Outstanding as at 1 January 2012	2,982,879	171.5

Deferred share awards

Deferred award of ordinary shares in the Company were made on 25 September 2008 to an executive director, as disclosed in the Directors' Remuneration Report on page 52.

The fair value of the contingent shares is the market value of the Company's shares on the date of the award.

	Number of contingent shares	Weighted average fair value (pence)
Outstanding as at 3 January 2011	421,940	117.0
Vested in the period	(421,940)	117.0
Awarded in the period	-	-
Outstanding as at 1 January 2012	-	-

The Wolfson Microelectronics plc 2010 Senior Executive Deferred Bonus Plan

Contingent matching share awards were granted under this scheme on 29 June 2010 and on 14 March 2011 to the executive directors and senior managers. Further information regarding this Plan and the details of the awards made to the executive directors are contained in the Directors' Remuneration Report on page 57. The fair value of the contingent matching shares is the market value of the Company's shares on the date of the award. There are non-market related performance and vesting conditions attaching to these awards.

	Number of contingent performance shares	Weighted average fair value (pence)
Outstanding as at 3 January 2011	125,385	172.25
Awarded in the period	21,206	263.00
Vested in the period	-	-
Lapsed in the period	(10,076)	218.15
Outstanding as at 1 January 2012	136,515	182.96

20. Employee benefits (continued)**Share-based payments (continued)***The Wolfson Microelectronics plc 2008 Staff Performance Share Plan*

The fair value of the contingent shares is the market value of the Company's shares on the date of the award.

	Number of contingent shares	Weighted average fair value (pence)
Outstanding as at 3 January 2011	648,204	138.9
Awarded in the period	-	-
Vested in the period	(839,677)	138.8
Lapsed in the period	(8,527)	141.0
Outstanding as at 1 January 2012	-	-

The Wolfson Microelectronics plc 2009 Staff Share Award Plan

The fair value of the contingent shares is the market value of the Company's shares on the date of the award.

	Number of contingent shares	Weighted average fair value (pence)
Outstanding as at 3 January 2011	2,096,366	118.1
Awarded in the period	688,731	231.5
Vested in the period	(929,399)	110.1
Lapsed in the period	(263,931)	137.3
Outstanding as at 1 January 2012	1,591,767	146.7

Employee expenses

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Share options granted in 2006	-	(7)
Share options granted in 2007	-	25
Share options granted in 2008	1	6
Share options granted in 2009	(107)	242
Share options granted in 2010	730	281
Share options granted in 2011	12	-
Performance shares awarded in 2008	6	(1,109)
Performance shares awarded in 2009	(59)	493
Performance shares awarded in 2010	557	443
Performance shares awarded in 2011	966	-
Contingent shares awarded in 2008	133	474
Contingent shares awarded in 2009	194	899
Contingent shares awarded in 2010	700	1,089
Contingent shares awarded in 2011	784	-
Deferred shares awarded in 2008	183	258
Deferred shares awarded in 2009	-	18
Total share-based payment expense recognised in personnel expenses (note 6)	4,100	3,112

The total share-based payment expense for the Group for the 52 weeks ended 1 January 2012 of \$4,100,000 (52 weeks ended 2 January 2011: \$3,112,000) includes a credit of \$19,000 (2010:\$198,000 expense) in respect of non-equity settled share-based payments.

The total share-based payment expense recognised in the income statement of the Company in the 52 weeks ended 1 January 2012 was \$4,013,000 (52 weeks ended 2 January 2011: \$3,004,000).

21. Trade and other payables

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Non-current liabilities				
Other payables	3,851	5,461	3,729	5,350
Current liabilities				
Trade payables	16,544	33,430	16,506	33,428
Amounts due to subsidiaries	-	-	5,706	4,066
Derivatives used for hedging (note 23)	152	-	152	-
Non-trade payables	4,448	4,137	3,641	3,998
Accruals	4,189	6,275	4,178	6,214
Deferred income	646	456	646	456
	25,979	44,298	30,829	48,162

The Group and Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

22. Provisions

Group and Company	Onerous contracts \$000	Restructuring \$000	Total \$000
	\$000	\$000	\$000
Balance at 3 January 2011	10	-	10
Provisions made in the period	-	3,478	3,478
Provisions used in the period	(10)	(2,324)	(2,334)
Balance at 1 January 2012	-	1,154	1,154
	\$000	\$000	\$000
Current	-	1,154	1,154
Non-current	-	-	-
	-	1,154	1,154

Restructuring

During the 52 week period ended 1 January 2012, a provision of \$3,478,000 was made, following the announcement of the plan in the second half of 2011, to cover the costs associated with the programme initiated in the second half of the financial year to review the overhead costs of the business and the refocus of the R&D and distribution and selling activity. As explained in note 4 to these financial statements, the restructuring costs mainly include employee termination costs. An amount of \$2,324,000 was charged against the provision in 2011. The restructuring is expected to be completed in the first half of 2012.

23. Financial instruments and financial risk management

The Group's principal financial instruments as at 1 January 2012 comprise cash and cash equivalents and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations. In addition, during 2011, the Company entered into forward foreign exchange contracts some of which remain in place as at 1 January 2012.

During 2011, the Company entered into forward foreign exchange contracts each quarter to hedge a large proportion of the Company's structural exposure to fluctuations in the US dollar to Sterling exchange rate for the following quarter (see 'Currency risk' section below). During the final quarter of 2011, the Board of Directors of the Company decided that forward foreign exchange contracts should be entered into by the Company in order to hedge a large proportion of the US dollar to Sterling exchange rate exposure, which arises on Sterling denominated overhead expenditure, for financial year 2012.

The Group does not hold or issue derivative financial instruments for trading purposes.

Exposure to market risk (which includes currency and interest rate risk) and credit risks arises in the normal course of the Group's business.

The Group has a Treasury Committee which is chaired by RK Graham and its other members are the Chief Executive Officer and the Chief Financial Officer. This Committee meets periodically, as required, and it reviews the Group's overall financial risk management including specific areas, such as foreign exchange risk, interest rate risk, credit risk and liquidity management. The Committee reports to and makes recommendations to the Board regarding these matters.

Financial risk management objectives and policies

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The management of market risk involves the control of market risk exposures within acceptable parameters, while optimising the return having regard to risk.

Currency risk

The Group operates internationally and is exposed to currency risk on purchases, sales and cash and cash equivalents that are denominated in a currency other than United States dollars. The currencies giving rise to this risk are primarily Pounds Sterling, Yen and Euros. Foreign exchange risk arises from transactions, recognised assets and liabilities and net investments in foreign operations.

In financial periods prior to 2008, the Group did not use foreign exchange contracts to hedge its currency risk. This policy was reviewed during 2008 and resulted in the Company deciding to enter into forward foreign exchange contracts primarily to hedge some of the Company's exposure to fluctuations in the US dollar to Sterling exchange rate in 2009. During 2009, 2010 and 2011, the Company entered into forward foreign exchange contracts each quarter to hedge a large proportion of the Company's structural exposure to fluctuations in the US dollar to Sterling exchange rate for the following quarter. The forward foreign exchange contracts, in place as at 1 January 2012, have a maturity of one to twelve months from that date. As at 1 January 2012, the Group (and the Company) have hedged its estimated foreign currency exposure in respect of its Sterling denominated overhead costs over the following twelve months. The forward foreign exchange contracts, in place as at 1 January 2012, are designated cash flow hedges, in accordance with the accounting policy at note 2 (f).

The majority of the Group's revenue and cost of sales are denominated in US dollars. Approximately 30% (2010: 30% approximately) of the Group's operating costs, other than cost of sales, are denominated in US dollars. The vast majority of the operating expenses are denominated in Pounds Sterling.

For those monetary assets and liabilities held in currencies other than US dollars, the Group ensures that the net exposure is kept to an acceptable level by selling or buying foreign currencies at spot rates where necessary to address short-term imbalances.

The Group has investments in foreign operations whose net assets are exposed to currency translation risk. This currency exposure arising from the net assets of the Group's foreign operations is not significant and there is currently no requirement for borrowings, therefore this exposure is not managed through borrowings denominated in the relevant foreign currencies.

23. Financial instruments and financial risk management (continued)**Market risk (continued)**

		Group		Company	
		2011	2010	2011	2010
Financial assets and financial liabilities by currency	Notes	\$000	\$000	\$000	\$000
US dollar trade and other receivables	18	27,777	25,470	30,981	28,424
Other currencies – trade and other receivables	18	1,890	1,586	1,580	1,566
US dollar cash and cash equivalents	18	18,681	15,875	18,387	15,174
Sterling cash and cash equivalents	18	1,157	6,208	1,145	6,054
Other currencies – cash and cash equivalents	18	571	(1,000)	133	(1,864)
US dollar short-term deposits	18	33,000	76,000	33,000	76,000
Sterling derivatives used for hedging	17	–	28	–	28
Other currencies - trade and other payables	21	(7,916)	(10,718)	(8,238)	(11,348)
US dollar trade and other payables	21	(21,762)	(39,041)	(26,168)	(42,164)
Sterling derivatives used for hedging	21	(152)	–	(152)	–

The following significant exchange rates applied during the periods:

	Average rate		Spot rate at balance sheet date	
	2011	2010	2011	2010
	\$	\$	\$	\$
GBP 1:	1.5988	1.5483	1.5494	1.5599
EUR 1:	1.3906	1.3334	1.2921	1.3390
JPY 1:	0.0125	0.0113	0.0130	0.0123
AUD 1:	1.0290	0.9184	1.0221	0.9974

Interest rate risk

The Group and Company earn interest from bank deposits and they hold money market deposits with highly credit rated financial institutions. During 2011, the Group and Company have held cash on deposits with a range of maturities from one to nine months. This can vary in view of changes in US and UK interest rates and the Group and Company's cash requirements.

The Group and the Company's cash and cash equivalents are subject to floating interest rates. As the maturities of bank deposits are less than one year, they are classified as floating rate financial assets.

Sensitivity analysis (Group and Company)

At 1 January 2012, it is estimated that a general increase of one percentage point in interest rates would improve the Group's and the Company's result before tax by approximately \$500,000 (as at 2 January 2011: \$900,000).

It is estimated that a decrease of one cent in the US dollar / Sterling exchange rate would have improved the Group's result before tax by approximately \$300,000 for the 52 week period ended 1 January 2012 (2010: \$300,000). There were forward foreign exchange contracts in place during 2010, 2011, as at as at 2 January 2011 and as at 1 January 2012.

It is estimated that a decrease of one cent in the US dollar / Sterling exchange rate would have increased the fair value of liabilities for derivatives used for hedging as at 1 January 2012 by approximately \$300,000 (as at 2 January 2011: \$75,000 decrease in fair value of assets for derivatives used for hedging).

23. Financial instruments and financial risk management (continued)**Credit risk**

The Group has no significant concentrations of credit risk. The exposure to credit risk is mitigated by selling to a diverse range of customers and, where necessary, obtaining either letters of credit or payments in advance. The Group establishes a specific allowance for impairment if a loss is estimated in respect of trade and other receivables.

Counterparties for cash and short-term deposits are limited to financial institutions which have a high credit rating. The Group has policies that limit the amount of credit exposure to any financial institution and these have been reviewed regularly during the period.

Exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Therefore the maximum exposure to credit risk at the reporting date was:

	Notes	Group		Company	
		2011 \$000	2010 \$000	2011 \$000	2010 \$000
Trade and other receivables	18	29,667	27,056	32,561	29,990
Cash and cash equivalents	18	20,409	21,083	19,665	19,364
Short-term deposits	18	33,000	76,000	33,000	76,000
		83,076	124,139	85,226	125,354

The maximum exposure to credit risk for trade receivables at the reporting date by geographical region was:

	2011 \$000	2010 \$000
Japan	3,225	14,652
Asia Pacific	12,907	2,872
Americas	8,605	327
Europe and rest of world	1,164	5,757
	25,901	23,608

Impairment losses

The aged profile of trade receivables at the reporting date was:

	Gross 2011 \$000	Impairment 2011 \$000	Gross 2010 \$000	Impairment 2010 \$000
Not past due	15,799	–	19,557	–
Past due 0 to 30 days	8,239	–	3,863	–
Past due 31 to 60 days	1,453	–	239	(51)
Past due 61 to 90 days	464	(54)	102	(102)
More than 90 days	93	(93)	106	(106)
	26,048	(147)	23,867	(259)

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2011 \$000	2010 \$000
Balance at start of the period	259	278
Written off against irrecoverable trade receivable	(112)	(19)
Impairment loss recognised	–	–
Balance at end of the period	147	259

The allowance in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the trade receivable directly.

Based on past experience, the Group believes that no further impairment allowance is necessary in respect of trade receivables which are past due.

23. Financial instruments and financial risk management (continued)**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group regularly reviews its cash flow requirements on a rolling quarterly basis. Short-term US dollar deposits are placed with financial institutions which have a high credit rating. The deposits are placed so that at least one deposit matures each month.

As at 1 January 2012 the Group had cash and cash equivalents of \$20,409,000 (as at 2 January 2011: \$21,083,000) and short-term deposits of \$33,000,000 (as at 2 January 2011: \$76,000,000).

Until March 2011 the Company had an undrawn committed multi-option facility up to a maximum principal amount of \$30 million. This facility expired and was not renewed.

Maturity analysis

There are amounts totalling \$5.9 million (2010: \$6.6 million) included in non-trade payables of which \$2.5 million falls due within one year and \$3.4 million in one to three years from the balance sheet date. These balances are the contingent consideration amounts as at 1 January 2012 relating to acquisitions of subsidiaries made in 2007 and in 2011.

The following are the contractual maturities of financial liabilities. The disclosure shows the gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement (for example forward foreign exchange contracts):

	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000
Group as at 1 January 2012						
Non-derivative financial liabilities						
Trade and other payables*	(29,678)	(30,113)	(24,717)	(1,200)	(4,014)	(182)
Derivative financial liabilities						
Forward foreign exchange contracts used for hedging:						
Outflow	(152)	(46,466)	(23,242)	(23,224)	-	-
Inflow	-	46,314	23,180	23,134	-	-
	(29,830)	(30,265)	(24,779)	(1,290)	(4,014)	(182)

* Excludes derivatives (shown separately)

	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000
Group as at 2 January 2011						
Non-derivative financial liabilities						
Trade and other payables	(49,759)	(50,193)	(42,165)	(2,204)	(5,411)	(413)
	(49,759)	(50,193)	(42,165)	(2,204)	(5,411)	(413)
Company as at 1 January 2012						
Non-derivative financial liabilities						
Trade and other payables*	(34,406)	(34,841)	(29,549)	(1,200)	(4,014)	(78)
Derivative financial liabilities						
Forward foreign exchange contracts used for hedging:						
Outflow	(152)	(46,466)	(23,242)	(23,224)	-	-
Inflow	-	46,314	23,180	23,134	-	-
	(34,558)	(34,993)	(29,811)	(1,290)	(4,014)	(78)

* Excludes derivatives (shown separately)

	Carrying amount \$000	Contractual cash flows \$000	6 months or less \$000	6 to 12 months \$000	1 to 2 years \$000	2 to 5 years \$000
Company as at 2 January 2011						
Non-derivative financial liabilities						
Trade and other payables	(53,512)	(53,946)	(46,029)	(2,204)	(5,392)	(321)
	(53,512)	(53,946)	(46,029)	(2,204)	(5,392)	(321)

23. Financial instruments and financial risk management (continued)**Liquidity risk (continued)**

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss.

	Carrying amount \$000	Expected cash flows \$000	6 months or less \$000	6 to 12 months \$000
Group and Company as at 1 January 2012				
Forward foreign exchange contracts:				
Assets / (liabilities)	(152)	(152)	(62)	(90)
Group and Company as at 2 January 2011				
Forward foreign exchange contracts:				
Assets	28	89	89	-

Fair Values

The basis of determining fair values is disclosed in note 2 (x). The fair values together with the carrying amounts shown in the balance sheet are as follows:

Group	Notes	Carrying amount 2011 \$000	Fair value 2011 \$000	Carrying amount 2010 \$000	Fair value 2010 \$000
Trade and other receivables	16	29,667	29,667	27,056	27,056
Cash and cash equivalents	18	20,409	20,409	21,083	21,083
Short-term deposits	18	33,000	33,000	76,000	76,000
Trade and other payables*	21	(29,678)	(29,678)	(49,759)	(49,759)
Forward foreign exchange contracts used for hedging:					
Assets	17	-	-	28	28
Liabilities	21	(152)	(152)	-	-
		53,246	53,246	74,408	74,408
Analysed as:					
Loans and receivables		62,667	62,667	103,056	103,056
Cash and cash equivalents		20,409	20,409	21,083	21,083
Financial assets at fair value		-	-	28	28
Financial liabilities at fair value		(152)	(152)	-	-
Trade and other payables*		(29,678)	(29,678)	(49,759)	(49,759)
		53,246	53,246	74,408	74,408

* Excludes derivatives (shown separately)

Company	Notes	Carrying amount 2011 \$000	Fair value 2011 \$000	Carrying amount 2010 \$000	Fair value 2010 \$000
Trade and other receivables	16	32,561	32,561	29,990	29,990
Cash and cash equivalents	18	19,665	19,665	19,364	19,364
Short-term deposits	18	33,000	33,000	76,000	76,000
Trade and other payables*	21	(34,406)	(34,406)	(53,512)	(53,512)
Forward foreign exchange contracts used for hedging:					
Assets	17	-	-	28	28
Liabilities	21	(152)	(152)	-	-
		50,668	50,668	71,870	71,870
Analysed as:					
Loans and receivables		65,561	65,561	105,990	105,990
Cash and cash equivalents		19,665	19,665	19,364	19,364
Financial assets at fair value		-	-	28	28
Financial liabilities at fair value		(152)	(152)	-	-
Trade and other payables*		(34,406)	(34,406)	(53,512)	(53,512)
		50,668	50,668	71,870	71,870

* Excludes derivatives (shown separately)

23. Financial instruments and financial risk management (continued)**Fair values (continued)**

The following section summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table on page 106, other than for financial instruments set out in note 2 (x):

Trade and other receivables / payables

All trade and other receivables and payables, except for \$3.9 million included in other payables (2010: \$5.5 million), have a remaining life of less than one year. The nominal amount is deemed to reflect the fair value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where the carrying amounts of short-term receivables and payables approximate to their fair values, these fair values are not required to be disclosed separately in the fair value hierarchy tables below.

Group and Company as at 1 January 2012	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Forward foreign exchange contracts used for hedging	21	–	(152)	–	(152)
Contingent consideration		–	–	(5,856)	(5,856)
Total liabilities		–	(152)	(5,856)	(6,008)

Group and Company as at 2 January 2011	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Forward foreign exchange contracts used for hedging	17	–	28	–	28
Total assets		–	28	–	28
Forward foreign exchange contracts used for hedging		–	–	–	–
Contingent consideration		–	–	(6,605)	(6,605)
Total liabilities		–	–	(6,605)	(6,605)

The following table contains a reconciliation from the balances at the start and end of the period for fair value measurements in Level 3 of the fair value hierarchy.

	2011 \$000	2010 \$000
Balance at start of the period	(6,605)	(7,584)
Amounts of consideration paid in the period	800	1,000
Total gains and losses recognised in profit or loss	(104)	(146)
Revision to contingent consideration recognised in goodwill (note 12)	184	125
Arising from business combination (note 10)	(131)	–
Balance at end of the period	(5,856)	(6,605)

The change in the value of contingent consideration of \$104,000 recognised in the 52 week period ended 1 January 2012 relates to the unwinding of the notional interest and is recognised as part of the finance cost in the consolidated income statement (note 7). The change in the value of contingent consideration of \$184,000, recognised as an adjustment to goodwill (note 12) in the 52 week period ended 1 January 2012, relates to the reassessment in the period of the timing and probability of payment of the consideration.

23. Financial instruments and financial risk management (continued)**Capital Management**

The Board's policy is to maintain a strong balance sheet so as to maintain investor, customer, and creditor and market confidence and to sustain the future development of the business. The Group and the Company are equity financed and have no debt financing and the directors view the 116 million ordinary shares in issue (see note 19) as the principal capital being managed in the business. The Company has been equity financed since October 2003 when the Company listed its ordinary 0.1 pence shares on the London Stock Exchange with the principal purpose to increase the Company's equity capital, to create a public market in its ordinary shares and strengthen the Company's balance sheet, in order to provide increased security and confidence to the Company's customers and suppliers in a sector known for its underlying trading volatility.

Purchase of own shares

As a matter of policy, the Company may from time to time purchase its own shares on the market, the timing of these purchases depends on market prices. The Company will only purchase its own shares when, in the light of market conditions prevailing at the time, the Board believes that the effect of such purchases is in the best interest of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account before the Company purchases its own shares. At the Annual General Meeting held on 21 April 2011 the shareholders granted the Company the authority to purchase, in the market, its own ordinary shares up to a maximum of 11,597,313 ordinary shares. In 2011 and in 2010, the Company did not purchase any of its own shares. This policy will be reviewed by the Board on a regular basis.

Dividends

The Company's current policy, which is kept under regular review, is to retain future earnings for the development and expansion of the business. Payment of any future dividends will be at the discretion of the Board after taking into account various factors, including the Company's current and future cash requirements, development plans and operating results.

Management of cash and cash equivalents and short-term deposit balances

The \$24.1 million loss reported before tax for the 52 week period ended 1 January 2012 (\$11.2 million loss for the 52 week period ended 2 January 2011), reduces to a loss before interest, tax, depreciation and amortisation ('EBITDA') of \$10.5 million once non-cash depreciation and amortisation are added back, compared to an EBITDA profit of \$2.8 million in 2010. Non-cash share-based compensation amounted to \$4.1 million in 2011 against \$3.1 million in 2010. With revenues flat year on year, trade and other receivables and inventories reduced by \$4.2 million. Trade payables and provisions reduced by \$18.8 million reflecting the reversal of unusually high supplier payables balances at the end of 2010, resulting in a net working capital outflow of \$14.6 million in 2011. After payments totalling \$4.5 million into the defined benefit pension scheme (refer to note 20), purchase of Company shares by the employee share trust of \$5.4 million, acquisition and milestone payments of \$5.1 million, capital expenditure of \$6.5 million and various other small cash movements, the total cash, cash equivalents and short-term deposits balance decreased by \$43.7 million to \$53.4 million as at 1 January 2012 (as at 2 January 2011: \$97.1 million) (see also page 20 in the Operating and Financial Review and the Group's Cash Flow Statement on page 66).

24. Operating leases

Total non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
<i>Expiring in:</i>				
Less than one year	986	177	725	47
Between one and five years	2,113	3,011	1,644	2,480
More than five years	259	1,228	259	1,228
	3,358	4,416	2,628	3,755

None of these leases includes contingent rentals.

During the 52 week period ended 1 January 2012, \$1,604,000 was recognised as an expense in the consolidated income statement in respect of operating leases (52 week period ended 2 January 2011: \$1,514,000).

25. Capital Commitments

As at 1 January 2012, the Group had entered into contracts to purchase property, plant and equipment and computer software for \$6,889,000 (2010: \$569,000) of which \$1,889,000 is expected to be settled in 2012, \$2,500,000 in 2013 and \$2,500,000 in 2014.

26. Related parties

Identity of related parties

The Company has a related party relationship with its subsidiaries (see notes 13 and 27), with the employee share trusts (see notes 19 and 20) and with its directors.

Transactions with key management personnel

Key management personnel compensation

In addition to their salaries, the Group and Company also provide non-cash benefits to executive directors and contribute to a defined contribution pension plan on their behalf. The executive directors also participate in the Group's share option schemes and other long term incentive plans (see note 20). Details of the directors' remuneration are contained in the Directors' Remuneration Report on pages 44 to 59.

Key management personnel compensation, in respect of the executive and non-executive directors of the Company, comprised:

	52 weeks ended 1 January 2012 \$000	52 weeks ended 2 January 2011 \$000
Short-term employee benefits (page 50)	2,044	1,567
Post employment benefits (page 53)	52	42
Share-based payments (fair value)	420	507
	2,516	2,116

Key management personnel and director transactions

Directors of the Company and their immediate relatives control 3.41% of the voting ordinary shares of the Company. Information regarding the directors' shareholdings and share options is contained in the Directors' Remuneration Report on pages 54 and 55.

G Collinson was appointed as a non-executive director of the Company on 1 September 2008. From April 2005 to July 2007, G Collinson served as a non-executive director of Sonaptic Limited and he was also a shareholder of Sonaptic Limited. G Collinson held 6,667 'A' ordinary shares in Sonaptic Limited. Wolfson Microelectronics plc acquired the entire issued share capital of Sonaptic Limited on 23 July 2007. G Collinson received initial consideration of \$279,208 (net of professional fees and charges) at the time of acquisition, from Wolfson Microelectronics plc and, following the release of the amount of initial consideration held in escrow on 29 January 2009, a further \$22,240 (net of professional fees and charges). The terms of the acquisition were such that contingent consideration was payable to the shareholders of Sonaptic Limited. Therefore, as part of the consideration for his shares held in Sonaptic Limited as at the date of acquisition, G Collinson is entitled to receive, subject to the achievement of specific business milestones, a proportion of the contingent consideration from Wolfson Microelectronics plc in accordance with the terms of the share purchase agreement entered into on 23 July 2007 between the Company and the selling shareholders of Sonaptic Limited. In the 52 week period ended 1 January 2012, \$7,026 of contingent consideration was paid to G Collinson by the Company. No amounts of contingent consideration were paid to G Collinson by the Company in the 52 week period ended 2 January 2011. G Collinson did not and will not participate in any discussion nor final decisions by the Board regarding the achievement of milestones and payment of contingent consideration.

Other related party transactions

During the 52 week period ended 1 January 2012, subsidiaries earned commission income from the Company of \$12.2 million (2010: \$12.2 million) and the Company provided management services to the subsidiaries totalling \$2.7 million (2010: \$2.9 million). The Company provided a loan of \$3.02 million to Wolfson Microelectronics Australia Holding Pty Ltd during the 52 week period ended 1 January 2012 and none of that loan was repaid during the period. As explained in note 10, Wolfson Dynamic Hearing Pty Ltd joined the Group following its acquisition on 30 September 2011. In the period from 1 October 2011 to 1 January 2012, the Company continued to license technology from Dynamic Hearing and incurred costs, primarily relating to that licence of \$0.4 million during the period from 1 October 2011. As at 1 January 2012 the Company owed the subsidiaries \$5,706,000 (2010: \$4,066,000) and \$3,471,000 was owed by the subsidiaries (2010: \$3,611,000 owed by the subsidiaries). No dividends were received from the subsidiaries in 2011 or in 2010.

There are two employee share trusts: The Wolfson Microelectronics No.1 Employees' Share Trust ('the No.1 Trust') and The Wolfson Microelectronics No. 2 Employees' Share Trust. These trusts received loans from the Company totalling \$5,389,000 in the 52 week period ended 1 January 2012 (52 week period ended 2 January 2011: \$1,692,000), the trusts repaid \$nil of these loans (2010: \$nil) and as at 1 January 2012, \$38,846,000 of these loans were outstanding (as at 2 January 2011: \$33,457,000). During the 52 week period ended 1 January 2012 the No.1 Trust purchased 1,422,545 (2010: 585,663) of the Company's ordinary shares, for a total consideration of \$5,390,000 (2010:\$1,730,000), for the purposes of fulfilling awards under The Wolfson Microelectronics 2006 Performance Share Plan, The Wolfson Microelectronics 2009 Staff Share Award Plan and to satisfy certain share option awards (note 20). There were 4,359,070 of the Company's ordinary shares held by the Company's employee share trusts as at 1 January 2012 (as at 2 January 2011: 4,945,149 ordinary shares).

27. Group entities

Significant subsidiaries

	Notes	Country of incorporation	Principal activity	Ownership Interest	
				2011 %	2010 %
Wolfson Microelectronics, Inc.	13	United States of America	Sales agency	100	100
Wolfson Microelectronics Pte. Ltd	13	Singapore	Sales agency	100	100
Sonaptic Limited	13	England	Research & development	100	100
Wolfson Dynamic Hearing Pty Ltd	10, 13	Australia	Development of sound enhancement software & technology	100	-
Wolfson Microelectronics Australia Holding Pty Ltd	13	Australia	Holding company	100	-

Sonaptic Limited has three wholly owned subsidiaries: Sonaptic, Inc (incorporated in the United States of America); Wolfson Microelectronics KK (incorporated in Japan); and Wolfson Microelectronics Korea Limited (incorporated in South Korea). The principal activity of each of these companies is sales agency.

All of these companies are included in the consolidated financial statements of Wolfson Microelectronics plc from the date on which control commenced.

28. Accounting estimates and judgements

The Board considered the relevance, selection, implications and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The criteria for assessing the accounting for development expenditure are set out in the accounting policy at note 2(e) (ii).

Key sources of estimation uncertainty

Impairment testing for cash-generating units containing goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2 (k). The carrying amount of goodwill as at 1 January 2012 is shown in note 12. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates for the timing and amount of projected cash flows (note 12). The effect of reducing the estimated revenues earned over the period of the cash flow projections by up to 50%, indicate that such a significant reduction of the projected cash flows from the expected level would not cause the recoverable amount of the cash-generating unit to fall below the carrying amount. In addition, the effect of a change of 5 percentage points in the discount rate applied to the projected cash flows would have no impact on the carrying value of goodwill as at 1 January 2012.

Fair values of other intangible assets acquired in business combinations

Intangible assets acquired in business combinations are stated at fair value at the date of the business combination. As explained in accounting policy at note 2(e) (iv), the directors are primarily responsible for determining the fair value of intangible assets acquired as part of a business combination although independent valuations are obtained for those intangible assets which are significant. The methods for determining the fair values of these assets are explained in note 2(x) (ii) and these methods require the use of estimates. While the directors consider that the bases of these fair values are appropriate, alterations in these estimates at the time of determining the fair values of these assets may materially affect the carrying amount recognised for these intangible assets. The carrying amount of intangible assets acquired in business combinations during 2011 and in 2007 are shown in the "in-process research & development", "developed technology", "licence agreements" and "customer relationships" categories within note 12.

Inventories

Inventories are stated at the lower of cost and net realisable value. Some items included in inventories are written down to their net realisable value based on assumptions about future demand and market conditions. If actual market conditions are less favourable than those projected by management, then inventory may be required to be written down by additional amounts. The carrying amount of inventories as at 1 January 2012 is shown in note 15. The effect of writing down 1% of the Group's inventory as at 1 January 2012 would be a charge of \$0.23 million in the income statement. The assessment of whether an inventory write down is required is dependent on the circumstances prevailing at the time of that assessment.

28. Accounting estimates and judgements (continued)

Employee post-employment benefits – defined benefit pensions

The determination of the Group's obligations and expense for defined benefit pensions is dependent on the selection, by the Board of Directors, of assumptions used by the pension scheme actuary in calculating these amounts. The assumptions applied are described in note 20 and include, amongst others, discount rate, expected return on plan assets and mortality rates. While the directors consider that the assumptions are appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect the amount of the Group's future pension obligations, actuarial gains and losses included in the statement of comprehensive income in future years and the future personnel expenses. The carrying amount of the liability for defined benefit obligations as at 1 January 2012 is shown in note 20. It is estimated that a 0.1% decrease in the discount rate, with all other assumptions remaining unchanged, would cause the present value of defined benefit pension obligations as at 1 January 2012 to increase by approximately \$0.7 million.

Share-based payments

The Group's share-based payments expense is based on the fair value of the share-based awards. The estimation of the fair values for share-based payments is dependent, in respect of share options, on the selection by the Board of Directors of assumptions applied in the valuation model. The assumptions applied are described in note 20 and include, amongst others, expected volatility, the weighted average expected life of the instruments and the risk free rate. While the directors consider that the assumptions are appropriate, changes in these assumptions may materially affect the amount of the expense recognised for share-based payments. The share-based payments expense recognised in the 52 weeks ended 1 January 2012 is shown in note 20.

In accordance with the accounting policy 2(n)(iii), the amount recognised as a share-based payment expense is adjusted during the vesting period to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. During the vesting period, it is therefore necessary to make an assessment of the extent to which such share-based payments are likely to vest. While the directors consider that such estimated assessments are appropriate, changes in these assessments during the vesting period may materially affect the amount of the expense recognised for share-based payments in a particular accounting period.

Contingent consideration

The amount of contingent consideration that is recognised as being payable, as part of business combinations, is dependent upon assumptions regarding the timing and probability of payment of the consideration. Where the amount and payment of the consideration is dependent on the achievement of specified milestones it is necessary to assess the likelihood and timing of those milestones being achieved. Contingent consideration was payable by the Group upon the acquisitions, in 2007, of Oligon Limited and of Sonaptic Limited and also upon the acquisition in 2011 of Dynamic Hearing Pty Limited (note 10). As at 1 January 2012, a total of \$5.9 million is included in other payables, \$2.5 million of which is within current liabilities and \$3.4 million in non-current liabilities in respect of the remaining balance of the contingent consideration for those acquisitions. While the directors consider that the assumptions regarding the timing and probability of payment of the consideration are appropriate, significant changes in these assumptions may materially affect the liability for contingent consideration, with a corresponding change to goodwill (in respect of the contingent consideration for the Oligon Limited and of Sonaptic Limited acquisitions) or with a corresponding amount recognised in profit or loss (in respect of the contingent consideration for the acquisition of Dynamic Hearing Pty Limited). It is estimated that if the probability of one of the milestones being achieved altered by 10% then the liability for contingent consideration would change by approximately \$0.2 million.

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Equiniti offers a portfolio service which gives shareholders online access to more information on their investments including balance movements and indicative share prices. See www.shareview.co.uk for further details.

For UK shareholders wishing to deal in their shares in Wolfson Microelectronics plc, one option is to use an internet and telephone dealing service available through Equiniti Financial Services Limited. At the time of printing, commission on internet dealing for certificated holdings is 1.5% with a minimum charge of £30.00. Commission on telephone dealing for certificated holdings is 1.5% on trade sizes of up to £50,000 and 0.2% on any balance over £50,000 with a minimum charge of £35.00. For internet sales, log on to www.shareview.co.uk/dealing. For telephone sales, call 0845 603 7037 between 8.00 a.m. and 4.30 p.m. Monday to Friday. You will need your shareholder reference number shown on your share certificate.

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