

51089839



Annual Report and Accounts 2012

A day in the life of HD Audio

Registered number: SC089839



0600
ALARM GOES OFF
I can't believe how loud my alarm
is from such a small device.

Contents

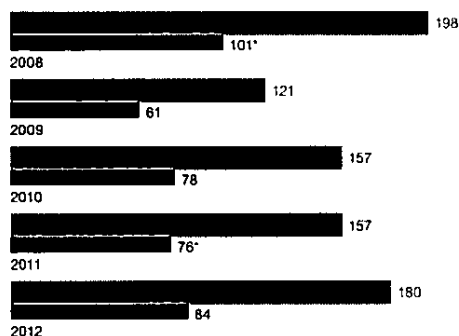
01	Key Performance Indicators
02	Chairman's Statement
04	Business Review: Strategic Update
15	Business Review: Business Description
20	Operating and Financial Review
34	Directors
36	Directors' Report
39	Corporate Governance Statement
54	Corporate Social Responsibility
56	Directors' Remuneration Report
74	Statement of Directors' Responsibilities
75	Independent Auditor's Report
76	Consolidated income statement
76	Consolidated statement of comprehensive income
77	Balance sheets
78	Consolidated statement of changes in equity
79	Statement of changes in equity (Company)
80	Statements of cash flows
81	Notes to the financial statements
128	Advisers / Contact Details

FOLLOW THE JOURNEY

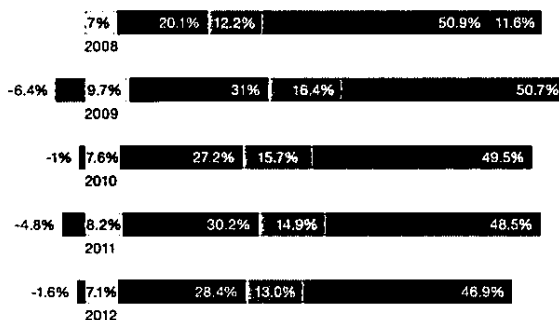
Follow the timeline and see
how Wolfson technology plays
a vital role in an everyday
couple's lifestyle.

Key Performance Indicators

ANNUAL REVENUE AND GROSS PROFIT (\$M)



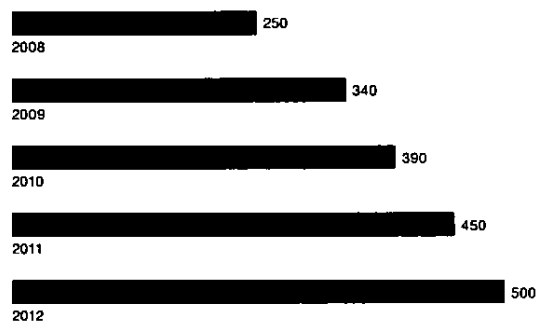
SUMMARY OF UNDERLYING* PROFIT AND COSTS (AS A % OF REVENUE)



■ Revenue (\$m) ■ Gross Profit (\$m) *Excludes exceptional charges

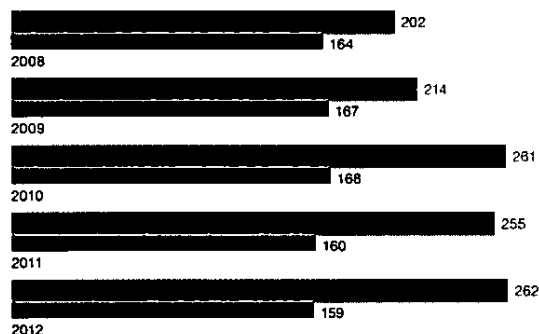
■ Gross Margin ■ Distribution and Selling Costs ■ R&D Expenses
 ■ Admin Expenses ■ Underlying Operating Profit/(loss)
 * Excludes: exceptional items, amortisation of acquired intangible assets and share-based payment charges

PATENTS: GRANTED AND PENDING



■ Cumulative number of granted and pending patents worldwide at end of year

AVERAGE NUMBER OF EMPLOYEES BY ACTIVITY



■ Sales, Distribution and Administration ■ Research & Development

Chairman's Statement

The market for HD Audio solutions is large and growing. We have significant evidence of our leadership for these audio solutions due to the large number of design-in successes.

2012 was a year of transformation and growth for Wolfson. We continued to make progress during the year with our two-pronged strategy to further develop our High Definition (HD) Audio solutions and MEMS microphones.

The market for HD Audio solutions is large and growing. We previously identified that it was necessary to reverse the former trend of integrating audio into the central processor unit (CPU) and, instead, 'dis-integrate' the audio function into a separate Audio Hub. Dis-integration of the audio function from application processors in consumer products, particularly smartphones and tablet computers, to stand-alone audio devices is becoming increasingly pervasive.

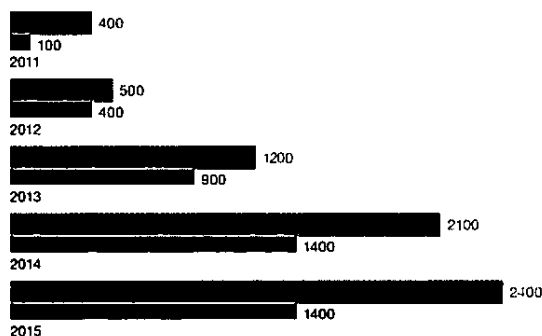
Audio Hubs remain at the heart of Wolfson's business and, in May 2012, we reinforced our position as a leader in Audio Hubs by introducing the world's first quad core HD Audio processor System-on-a-Chip (SoC), which delivers revolutionary HD Audio performance for smartphones, tablet computers and portable multimedia devices. We have significant evidence of our leadership for these audio solutions due to the large number of design-in successes across a wide range of customers.

With our growing audio solutions portfolio, Wolfson has transformed over the past three years from a component company offering individual integrated circuit products, to become an audio solutions partner of choice, working closely with customers to deliver HD Audio solutions, allowing our customers to differentiate their products and, in turn, enhance the consumer audio experience.

Wolfson's HD Audio solutions feature an Audio Hub and a mix of accompanying software algorithms to deliver the best possible audio experience. By combining our HD Audio solutions, Wolfson has uniquely established a complete 'mouth-to-ear' solution, managing the audio signal path from the microphone to the speaker or headphone driver, enabling best-in-class audio performance, and delivering one of the most complete and comprehensive HD Audio solutions on the market.

In 2011 we reported on the technology transition that is taking place in the microphone market from electret condenser microphones (ECM) to more compact micro-electro-mechanical-systems (MEMS) microphones. While the current market for MEMS microphones is small, it is predicted to grow rapidly as manufacturers of consumer electronic products, such as mobile phones and tablet computers, add multiple microphones to each device to enhance the audio function for the user. Demand for our MEMS microphones has increased significantly in 2012 and another notable achievement for the Company was the launch of the world's first high performance integrated MEMS microphone, emphasising Wolfson's leadership position with this complex technology.

DIS-INTEGRATED AUDIO AND MEMS MICROPHONE MARKET GROWTH (\$M)



Dis-integrated audio total market Compound Annual Growth Rate 61%

MEMS microphone total market Compound Annual Growth Rate 59%

■ Dis-integrated audio ■ MEMS microphones Source: iSuppli – Wolfson

In terms of financial performance, the first half of 2012 was in line with market expectations following a disappointing 2011, and we correctly forecast a stronger second half, with sustainable growth and a return to underlying profitability. I believe the financial performance will continue to improve based on the momentum of our audio solutions in our target markets, particularly mobile phones and tablet computers.

In September, we announced the retirement of David Milne as a non-executive director of the Company. As a co-founder of Wolfson and former CEO and Managing Director, David successfully led Wolfson from a start-up design house to a global semiconductor company, specialising in the design and supply of high performance audio solutions for many of the world's leading consumer electronics products. David also helped establish and develop Wolfson's renowned audio heritage and expertise, the foundations of which have remained at the heart of the Company's category-defining technology over the years. On behalf of the Board of Directors and the Company, I would like to extend my thanks to David for his outstanding contribution to the success of the Company over the past 28 years. We wish David all the very best for the future.

As we look to 2013, our priority is to continue to lead in HD Audio solutions for the consumer electronics market. We believe the HD Audio journey has some way to go, and we must continue to deliver innovative HD Audio Hubs, SoCs and MEMS microphones, and continue to lead the way in mixed-signal design, noise cancelling, sound enhancement and software solutions. We anticipate that the promising revenue growth seen in 2012 will continue into the coming year as design-in value continues to increase and our customers' new products ramp to volume manufacturing.

Finally, I would like to thank our hard-working and dedicated employees, and you, our shareholders, for your continued support.

MICHAEL RUETTIGERS
CHAIRMAN

Business Review: Strategic Update

Audio Hubs remain at the core of Wolfson's business and account for over 70% of revenues.

INTRODUCTION AND SUMMARY

2012 has been a challenging year for the semiconductor and consumer electronics industries, with an overall contraction of around 3% in the semiconductor market and zero growth in the consumer electronics market. In sharp contrast, 2012 has been a year of evolution and growth for Wolfson. The Company ended the year with revenues up in the fourth quarter by over 50% on the previous year and in 2012 overall, revenues grew by around 15% year-on-year despite the continuing poor macroeconomic backdrop.

This growth has been achieved as a result of our focus on Audio Hubs, MEMS microphones and mobile applications. A multi-year programme has transformed the Company from a 'boutique' supplier of discrete mixed-signal component parts, with a very small percentage of revenues from fast growth mobile applications (13% of revenue in 2009), to an HD Audio solutions partner delivering best-in-class HD Audio for the high volume consumer electronics products of brand-leading companies. Focusing on smartphones, tablet computers and other smart devices means high growth mobile applications now represent over 60% of revenues. The Company has evolved from developing discrete mixed-signal (predominantly analogue) devices to complex and hard-to-replicate HD Audio System-on-Chips (SoCs), which encompass leading-edge audio analogue intellectual property (IP), digital processing and sound processing software algorithms.

This transition has also required us to evolve our go-to-market approach from selling low value commodity devices to partnering with customers to design in high value, often multi-part, HD Audio solutions and influencing their end product architectures and the features they deliver to consumers.

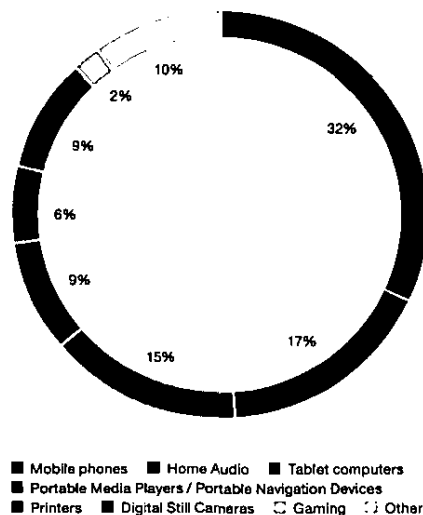
Wolfson's strategy over the past few years has been to focus on leading in the product categories of Audio Hubs, sound processing and integrated micro-electro-mechanical systems (MEMS) microphones, and the Company has made significant progress in these areas in 2012. When it was introduced three years ago, the intention behind our strategy was to exploit three emerging technology transitions in smart electronic devices:

- The dis-integration of the audio function from central processors in consumer electronics products to standalone devices like Wolfson's Audio Hubs;
- The emergence of noise cancelling and sound processing as key features in smart mobile devices;
- The replacement of traditional electret condenser microphones (ECM) with MEMS microphones and the emergence of multi-microphone applications to support complex sound processing and noise cancelling features.

These technology transitions are now fully acknowledged in the industry, with the Company's HD Audio technology now featuring in products from most of the world's brand-leading mobile phone and tablet computer manufacturers.

Wolfson continues to lead innovation in Audio Hubs and has significantly enhanced its award-winning Audio Hub family during 2012, including successfully launching the world's first quad core HD Audio SoC. This product combines high fidelity (hi-fi) audio with four powerful on-board audio processor cores, capable of delivering the most advanced audio feature set to portable multimedia devices, including smartphones and tablet computers, at very low power consumption levels. Leading-edge software and noise reduction features combine to deliver wonderfully clear and crisp voice calls, even in the noisiest environments, and deliver a true multimedia sound experience. This innovative audio solution has been received positively by our customers and we expect this to translate into some significant design-ins during 2013 and beyond.

2012: % DESIGN-INS BY APPLICATION



Audio Hubs remain at the core of Wolfson's business and account for over 70% of revenues (as shown in the chart on page 21) and 85% of design-ins. This success has been fuelled by the significant growth in smartphones and tablet computers, as they are among the first products to dis-integrate the audio function from the application processors to standalone devices: currently most of the top ten selling smartphones and tablet computers feature dis-integrated audio architectures.

We expect this audio dis-integration trend to extend to other mobile phone product tiers and consumer electronic applications over the next few years as smart devices proliferate, and this is driving a fast emerging market for standalone devices like Wolfson Audio Hubs. This market is expected to grow to more than \$2bn in the next three years at a compound annual growth rate (CAGR) of around 60% as shown in the chart on page 3 (Source: Gartner, iSuppli and Wolfson).

The MEMS microphone market is also expected to grow, with a compound annual growth rate (CAGR) of around 60% in the next three years, to around \$1.5bn as illustrated in the chart on page 3 (Source: Gartner, iSuppli and Wolfson). This growth is due to the restricted form factor in portable products such as mobile phones and tablet computers driving the technology transition from ECM to more compact MEMS microphones and the increase of multi-microphone applications where multiple microphones are used for noise cancellation or advanced audio processing.

Our MEMS microphone product line has also grown significantly during 2012 after we began to ship in high volume at the end of 2011. It accounted for 3% of our 2012 revenue and 6% of our revenue in Q4 2012. We are shipping to three major mobile device manufacturers and multiple other customers in a wide range of customer products. We are also leading innovation in MEMS microphone technology, with the introduction of the world's first high performance integrated MEMS microphone in 2012. This integrates the application-specific integrated circuit (ASIC) and the MEMS microphone transducer into a single silicon chip, making it the smallest and thinnest MEMS microphone on the market. We expect our strong MEMS microphone portfolio to gain increasing traction with our customers during 2013 and beyond.

In order to meet the objectives set out in our strategy, Wolfson has overcome some significant technology challenges in the past year, including two silicon process node changes. We are now shipping devices manufactured on 152nm and 65nm processes. This enables the addition of many new advanced sound processing software features and capabilities, all at very low power, resulting in more value added devices. These changes required increased research and development (R&D) investment, but have provided Wolfson with an industry-leading, hardware and software platform which, when combined with our pioneering MEMS microphone and headset technology, is capable of delivering unique 'mouth-to-ear' consumer audio experiences which we call our HD Audio solutions. We have also invested in our supply chain, achieved a significant milestone in 2012 by shipping our two billionth part, and have implemented a Six Sigma quality programme across the Company.

Our products are the engine of our business and design-ins to the end consumer products are the fuel. The strength of our product portfolio has been recognised by our customers and the estimated value of our design-ins was at a record level in 2012, exceeding the Company's previous record set in 2011. This has been driven by the strength of our technology and product portfolio leading to the increasing adoption of Wolfson's Audio Hub and MEMS microphone products by both existing and new customers. The overall number of design-ins for 2012 was down year-on-year to 237 (2011: 382), due to a general consolidation in our customers' product portfolios as they reacted to the adverse end market conditions by reducing the number of new product models being introduced. However, design-in value, in terms of projected eight quarter revenue, grew significantly year-on-year to record levels.

This design-in value growth has been driven by the projected higher volume from fewer new customer products being introduced and, by adding features to our Audio Hubs, we are increasing their value to our customers. Also, as a result of our new advanced HD Audio solutions, we are gaining more 'value share of board' in each end product. Our 'end-to-end' HD Audio solutions comprise Audio Hubs, multiple MEMS microphones, software and other products from our portfolio so, when selected, we increase the number of our parts being designed into each new end customer product.

This multi-part design-in trend, coupled with the increasing number of features we are adding to our Audio Hubs, means we anticipate our 'value share of board' opportunities in each end consumer product to evolve from a historical 20 cents to \$2 for our discrete audio components, to between \$5 and \$10 per end product for our full HD Audio solutions.

Achieving strong growth and returning to run rate profitability in such a challenging macroeconomic climate, while further developing our HD Audio leadership position; maintaining the pace of innovation; developing and implementing new technologies and processes; delivering world-class products on time; addressing new markets; securing design-ins, and exceeding the expectations of some of the world's most exacting customers would not be possible without the hard work, talent and dedication of the whole Wolfson team around the world. We are grateful to them all for their unwavering support, commitment and passion to deliver industry-leading HD Audio solutions to the consumer electronics market.

STRATEGY UPDATE AND BUSINESS OVERVIEW

The Company's strategy, having been reviewed by the Board during 2012, remains consistent with that stated in the 2011 Annual Report and is set out below:

The Company's goal is to continue to lead in HD Audio for consumer electronics products by:

- Leveraging our best-in-class 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
- Exploiting our technology and performance advantages in MEMS microphones to deliver the best voice and audio capture
- Enabling best-in-class low power, high performance HD Audio solutions with our drivers, converters, Audio Hubs and MEMS microphones

Wolfson's Audio Hubs provide our customers with the ability to differentiate their products with advanced audio features and to drive enhanced multimedia capability down through the product tiers. Wolfson Audio Hubs provide the ability to handle many different audio channels whilst enabling a reduction in board space for more compact products; a lower bill of materials for more competitive pricing; lower power consumption for longer battery life, which allows significantly extended playback times; and, above all, the delivery of a significantly improved hi-fi audio experience for the consumer.

Our Audio Hubs and MEMS microphones continue to be selected by brand leaders for many industry-leading consumer electronics applications. They are well-placed to benefit from the potential 4 billion consumer electronic units representing over \$5 billion of Serviceable Addressable Market (SAM) that is expected by 2015 (Sources: iSuppli, Wolfson and others).

The combination of our products, coupled with our sound processing software to provide full 'mouth-to-ear' HD Audio solutions, positions us well in an increasingly competitive market. Wolfson's HD Audio solutions uniquely combine to provide four consumer audio experiences:

■ HD Audio Voice

Software feature: Ez2 hear

Software feature: Ez2 hear Rx ANC

- Includes advanced noise cancelling techniques to enable exceptionally crisp and clear voice calls in any environment

■ HD Audio Playback

Software feature: Ez2 grouptalk

Software feature: Ez2 facetalk

- Includes many sound enhancement features, for example, 5.1 Virtual Surround Sound, base and treble boost to allow music to be enjoyed at the highest quality in any environment

■ HD Audio Capture

Software feature: Ez2 record

Software feature: Ez2 control

- Enable hi-fi audio recording on mobile devices in all environments, for example, at home, outside and even in a noisy venue like a club or concert
- Enables voice and gesture control of smart devices

■ HD Audio Share

Software feature: Ez2 listen

- Enables mobile phones, tablet computers, personal computers or televisions to be used in speaker mode for ultra-high quality mobile or internet conference calls, both 'near field' for individual face-to-face calls, or 'far field' for calls in a large conference room or living room with multiple people

We achieved this by increasing our market penetration in smartphones and tablet computers and are now shipping to most of the world's brand-leading mobile phone and tablet computer manufacturers.

PRODUCT DEVELOPMENT UPDATE

During 2012, we increased investment in research and development, resulting in the launch of 21 new products and the four HD Audio solutions (described earlier), and added new industry-leading products to Wolfson's Audio Hubs and MEMS microphone product portfolios.

In addition to launching the WM5110, the world's first quad core HD Audio processor mentioned earlier, the Company introduced the WM5102, a high performance Audio Hub with voice digital signal processor (DSP), featuring integrated noise reduction to deliver clearer, more natural sounding audio, even in the noisiest environments. Both solutions are designed primarily for the smartphone and tablet computer market, but are also applicable across most smart device applications.

As well as introducing the world's first high performance integrated MEMS microphone, we added to our MEMS microphone portfolio with the launch of the WM7121 and the WM7132. These are the first high performance top and bottom port silicon MEMS microphones from Wolfson to feature matching frequency responses, matching phase responses and matching sensitivity, making them much easier for customers to integrate into their products. These deliver outstanding HD Audio quality and highly authentic audio recordings to a wide range of consumer electronics applications including mobile phones, Bluetooth® headsets, navigation devices, gaming consoles and both digital still and digital video cameras.

Wolfson's transition from a provider of discrete mixed-signal products to delivering full HD Audio solutions to our customers, means software is becoming a major differentiator. Our sound processing software capabilities were much enhanced by the acquisition of Dynamic Hearing in the latter part of 2011 and the integration of Dynamic Hearing has been successfully completed.

Software features are already an integral part of our HD Audio solutions and are becoming increasingly important as device and solution differentiators. The software team also provides the tools and system framework to enable our customers to develop and integrate proprietary or open source applications to run independently or alongside our own sound processing software on our Audio Hubs. Wolfson continues to contribute to, and help maintain, the embedded audio and power regulation framework in the Linux kernel which is at the heart of Android and other smartphone operating systems. We will continue to invest in and build our software capabilities during 2013 and beyond.

DESIGN-IN PERFORMANCE

The growth and size of the Audio Hub and MEMS microphone market is attracting increasing competition, from both traditional competitors like Texas Instruments, Cirrus, Yamaha, Maxim and new competitors like Qualcomm, Knowles and ADI. There is fierce competition for each design slot, many of which are in flagship products of brand-leading consumer electronics companies.

Despite this extremely competitive environment, our focus on innovation, our product and technology leadership, and the strength of our product portfolio has helped drive us to another record year for design-ins. We achieved this by increasing our market penetration in smartphones and tablet computers and are now shipping to most of the world's brand-leading mobile phone and tablet computer manufacturers.

The majority of the estimated revenue value of the design-ins won in 2012 were for Audio Hub products (85%) and for MEMS microphone products (10%). This positions the Company well for further growth in revenues in both of these product lines in 2013 and for MEMS microphones revenues to become an increasing percentage of our overall business. The majority of the design-ins are in the fastest-growing consumer electronic product categories such as mobile phones, smartphones and tablet computers, and Wolfson has built strong growth momentum in these applications both from a revenue and design-in perspective.

Encouragingly, Wolfson is also achieving design-ins in its traditional markets, such as home audio, digital still cameras and portable multimedia players. However, there has been a year-on-year decline in the number of design-ins in some product application areas such as portable navigation devices and eBook readers, primarily due to the increasing convergence of these applications into other devices, such as tablet computers and the subsequent explosive growth of the tablet computer market.

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 works in tandem with the central processing unit (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.

Around 90% of estimated revenue value of design-ins achieved in 2012 was with leading consumer electronics brands. Some notable design-ins during the year include:

- Samsung for its GALAXY range of smartphones and tablet computers, including the GALAXY S III and GALAXY Note II smartphones, as well as the GALAXY Note 10.1 and GALAXY Tab 2 tablet devices together with the newly launched GALAXY camera range
- Microsoft for its new Surface tablet computer
- BlackBerry (formerly known as Research in Motion) for its BlackBerry 9790 and the BlackBerry Curve range of smartphones
- Motorola for its Droid smartphone for high-speed data 4G LTE wireless communication networks
- Nokia for its Reaction Bluetooth® Headset
- Sony for its new PS Vita gaming console
- LG for its Optimus LTE range of smartphones
- Sharp for its AQUOS PHONE st SH-07D smartphone
- iRiver for its Astell&Kern AK100 digital music player
- Fujitsu for its range of new smartphones

2013 AND BEYOND

Consumers continue to demand faster and smarter devices that can run more and more applications. This includes demanding both better quality audio and more audio enabled features, resulting in the need for more sound processing features. These factors are driving disruptive technology trends which favour Wolfson products and technologies. Our customers know that Wolfson has the solutions to meet these requirements and can deliver an outstanding audio experience to the consumer and this is helping to drive design-in success with almost every global electronics brand.

The Company is also benefiting from the trend of the Audio Hub being selected at the same time as the CPU in consumer electronics product applications, predominantly smartphones and tablet computers. As a result of this, the Audio Hub becomes a consolidated part of the end product architecture and much more difficult for the device and associated software algorithms to be replaced by a competitor.

Wolfson has also taken advantage of the technology transition of ECM to MEMS microphones and the rise of multi-microphone applications in consumer products. Our analogue and digital MEMS microphones are extremely compact with excellent audio performance and tight sensitivity tolerance which are ideal for multi-microphone applications such as noise cancellation/reduction and advanced sound processing. Our MEMS microphones have been selected by several leading consumer electronics brands and we expect this design-in activity to increase in 2013.

We remain confident that the Company can continue to grow, thanks to the solid foundation we have built with our portfolio of Audio Hubs, software algorithms and MEMS microphones, our focus on high growth markets such as smartphones and tablet computers and our record breaking design-in performance in 2012.

While 2012 has seen Wolfson's key strategic aims begin to come to fruition, and a subsequent step-up in revenue and return to run rate profitability, we believe our HD Audio journey still has some way to go, as the technology transitions driving this growth evolve from smartphones and tablet computers to other consumer end product applications and product tiers as smart devices proliferate. Although the adverse macroeconomic environment we encountered in 2012 is expected to remain a feature of 2013, we believe that as design-ins won in 2012 ramp to volume manufacturing in customers' new products, and supported by favourable technology trends, we can continue to grow revenues further in 2013.

As we look forward to 2013, our priority will be to maintain our focus on developing the next generation of audio solutions to exceed our customers' exacting expectations, grow revenues and profit, and ensure that we remain on course for further growth.

MIKE HICKEY
CHIEF EXECUTIVE OFFICER

Great immersive sounds from small devices



ISSUE

Due to the form factor of mobile phones the available space for loud speakers is limited, which can compromise the frequency response and the volume, resulting in a poor audio experience for the user when listening to music, movies or games on portable devices.

Previous solutions for this problem resulted in increased drain on the battery and added significantly to the overall product material cost. These additional costs and reduced playback hours between battery charges was unacceptable to both manufacturers and consumers.



SOLUTION

Wolfson Ez2 listen

Wolfson's solution allows the user to bring their home cinema sound system onto their portable device and bring their music, movies and games to life by increasing the output level on the small non-optimal speaker by up to 7dB without having to change the speaker. In addition, using a Wolfson audio DSP in combination with an Audio Hub allows media decode to be offloaded from the application processor, realising a 2x power saving when listening to music. This results in an improved audio experience for the user, and a cost-effective solution for the manufacturer.

A day in the life of HD Audio

Follow the journey of a day in the life of an everyday couple and how Wolfson technology plays a vital role in their lifestyle. Wolfson's HD Audio solutions make your mobile phone the centre of your world.

0600

ALARM GOES OFF

I can't believe how loud my alarm is from such a small device.

0800

CATCH A QUICK GAME

On my way to see James. I have enough time for a quick game. Sounds like I'm really in the zone.

Be heard with outstanding HD Audio conferencing

⊗ ISSUE

Conference calls from handsets are typically low quality and suffer from echo, reverberation and background noise combining with the speaker's voice to make it hard for others to hear.

✓ SOLUTION

Wolfson Ez2 grouptalk

Wolfson's solution transforms the voice capability of your handset, enabling rich, clear conference calls, without reverberation effects. It incorporates a full suite of features including Acoustic Echo Cancellation (AEC), an adaptive algorithm to track the strongest speaker, noise suppression, de-reverberation and Automatic Gain Control (AGC), which identifies and tracks the person speaking as they move around the room (up to a range of 5 metres), amplifying their voice and attenuating any background noise. This enables natural two-way conference call conversations on mobile phones or tablet computers that exceeds the quality of any office conference phone.

1100

TIME TO CALL SALLY

It's great to conference call with Sally. James and I can both chat to her at the same time.

1130

DOWNLOAD TRACK

Look up and download the album.

1200

THIS IS A GREAT SONG

Wow, the playback of this track on my phone and through my Wolfson headphones is awesome!

Experience every word, even in noisy environments

⊗ ISSUE

It is recognised that environmental background noise often destroys speech quality on mobile calls and makes it difficult to have a meaningful conversation, which normally results in a terminated call, unless both caller and listener move to quiet areas. Another annoying issue is the introduction of echo to a conversation where the person speaking can hear their voice echoing at the other end of the call, resulting in difficulty in understanding the received speech from the far end of the call. Again, this normally results in the call being terminated.

✓ SOLUTION

Wolfson Ez2 hear

Wolfson's solution features Ambient Noise Cancellation (ANC) technology which dramatically removes background noise and cancels up to 32 dB of stationary and non-stationary noise while still maintaining voice quality. It also features high performance AEC and an Echo Suppression engine, as well as Wolfson's unique receive path noise reduction, receive path AGC and multi-band equalisation, ensuring the best possible two-way user call experience.

1700

YES I AM GOING

I call Sally to tell her I am in for tonight, she is in a noisy bar but I can still hear her perfectly.

'Always on, always listening' voice control solution

✖ ISSUE

To activate voice control on a mobile phone the user must press a button which means that the device isn't truly 'handsfree'. Most existing solutions rely on the power-hungry application processor listening for individual trigger words, but this drains the battery quickly.

✔ SOLUTION

Wolfson Ez2 control

Wolfson offers a complete optimum solution for 'always on, always listening' voice control, meaning there is no need to press a button to activate the handsfree feature. Wolfson utilises its ultra-low power technology to ensure the power consumption for this feature is minimal, and five times better than existing market solutions, extending battery life.

1900

RUNNING LATE

I call Sally from the car to say I am running late. Luckily I can make the call handsfree with voice control so I can carry on driving.

Capturing live experiences in HD Audio quality



ISSUE

Recording using the camera function on a smartphone can be poor. Microphone noise, zoom lens noise and wind noise can destroy the recording and make playback sound terrible. The high sound pressure levels at live concerts can overpower the microphone and distort the audio recording. These factors combine to result in stereo recordings appearing mono when played back.



SOLUTION

Wolfson Ez2 record

Wolfson's solution reduces the audibility of self-generated noise from microphones, thereby minimising electrical and acoustic noise on the microphone signal path. It also reduces wind noise artefacts and zoom lens noise. Wolfson's microphones work at high sound pressure levels which minimises audio distortion and allows true stereo recording.

This results in stereo playback experience that makes the user feel they are in the front row of the concert.

1930

GOT TO RECORD THIS

We have to make sure we record the concert for James. He'd love this.

Sharing every moment in pure HD Audio



ISSUE

One-to-one video calling in noisy environments is typically of poor quality due to background noise making it difficult to hold a conversation. Acoustic echo issues can also result in a poor calling experience.



SOLUTION

Wolfson Ez2 facetaik

Wolfson's solution makes video calling in noisy environments more engaging by focusing on the caller's voice even up to one metre away using beamforming technology. It also reduces the background noise and removes annoying acoustic echo artefacts, allowing conversations to last longer and reducing the number of terminated calls.

2000

GIVE JAMES A CALL

Video call James so he can experience the great sound and a bit of the amazing atmosphere too, even though it's only on a small screen.

Business Review: Business Description

Wolfson solutions significantly improve the user experience in such consumer electronics products as mobile phones, tablet computers, portable media players, Bluetooth® headsets, hearing aids, gaming consoles, digital still cameras and televisions.

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 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, and ultra-low power audio devices to deliver HD Audio solutions for the consumer electronics market.

The Company has built a strong global reputation in audio and Wolfson solutions significantly improve the user experience in such consumer electronics products as mobile phones, tablet computers, portable media players, Bluetooth® headsets, hearing aids, gaming consoles, digital still cameras and televisions.

Last year, the Company's annual report explained that Wolfson was in the midst of a major transformation to take the lead in HD Audio and MEMS microphones. During 2012, a number of activities were progressed including:

- Wolfson further developed its award-winning Audio Hubs family with the launch of the world's first quad core HD Audio SoC;
- Wolfson progressed its industry-leading MEMS microphone technology with the launch of the world's first high performance integrated MEMS microphone;
- Wolfson transformed from a component company offering individual integrated circuits, to become an audio solutions partner of choice, working closely with customers to deliver complete 'mouth-to-ear' HD Audio solutions;
- The Company underwent two process node changes down from 180nm to 152nm, and down from 90nm to 65nm; and
- The Company's supply chain has been successfully re-engineered.

The consumer electronics industry is global and Wolfson has a worldwide customer base. Headquartered in Edinburgh, UK, Wolfson has around 450 employees working in 12 locations around the world with design, sales and engineering teams across Europe, North America, Asia and Australia.

CUSTOMERS AND COMPETITORS

Wolfson's customers are among the most exacting 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 Alpine, BlackBerry, Epson, Fujitsu, Hewlett-Packard, Lenovo, LG, Microsoft, Motorola, Nikon, Nokia, Olympus, Pioneer, Samsung, Sharp and Sony.

In 2012, market penetration increased with new products launched from major consumer electronics manufacturers featuring Wolfson products inside. During the year, a significant number of smartphone and tablet computer manufacturers have been added to Wolfson's list of valuable customers.

Wolfson's competitors vary by product line and include:

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

NEW DEVELOPMENTS

Audio Hubs remain at the heart of Wolfson's business. This has been fuelled by the explosive growth in the smart devices market, particularly in smartphones and tablet computers, as well as the significant growth in the smart converged devices market including televisions, gaming consoles and home audio, which are increasingly adopting a dis-integrated HD Audio architecture. Audio Hubs continue to 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 consumer electronic products
- less power consumption; longer battery life; extended playback
- significantly improved voice communications which, thanks to Wolfson's noise reduction and post-processing algorithms, are more intelligible, noise-tolerant and higher quality

The Company has strengthened its position as a leader in Audio Hubs by introducing the world's first quad core HD Audio SoC. This breakthrough, ultra-low power, audio solution enables quality voice conversations in any environment; an outstanding immersive multimedia experience; audio recordings that sound as though you are in a recording studio or at a concert; high quality conference calling and voice recognition and control.

Wolfson's Audio Hubs and HD Audio SoCs are complemented by the Company's MEMS microphones as well as its renowned Discrete product portfolio, including its Analogue to Digital Converters (ADCs) and Digital to Analogue Converters (DACs) featuring advanced digital filtering. In 2012, the Company launched the world's first high performance integrated MEMS microphone, featuring the application-specific Integrated circuit (ASIC) and transducer integrated in a single silicon chip. The result is a MEMS microphone solution that is 50% smaller and 25% thinner than any other microphone on the market.

Based on consumer feedback, Wolfson has developed a comprehensive range of hardware and software products that deliver HD Audio solutions. These solutions are further explained in the Strategic Review on page 6.

By combining its HD Audio offerings, Wolfson has established a complete 'mouth-to-ear' solution, uniquely managing the signal path from end-to-end, enabling best-in-class audio performance, the highest audio processing and the lowest power audio use case, to deliver the most complete and comprehensive HD Audio solution on the market.

WORLD-CLASS ENGINEERING

The process of integrated circuit development is demanding and complex and requires substantial creative input from the engineering teams. As Wolfson transitions from an analogue to a more digital world, the Company has built a substantial software engineering team to develop audio enhancing software products. This team developed the algorithms that provide noise reduction for both transmit and receive paths and sound enhancement features.

Wolfson's world-class engineering team includes design centres in Edinburgh and Newbury in the UK, Melbourne in Australia and Yokohama in Japan.

Wolfson has transitioned from 180nm to 152nm and from 90nm to 65nm process nodes for our integrated circuits. The benefits of this transition are that the devices become smaller, more cost effective, use lower power and deliver higher performance.

At the end of 2012, Wolfson had over 500 granted and pending patents throughout the world.

SALES, MARKETING AND FIELD ENGINEERING

To maintain its leadership position, Wolfson works closely with its leading 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 new product integration, verification and solution demonstrations. This ensures closer customer linkages from product definition through to market launch and on-going support.

The Company has strengthened its position as a leader in Audio Hubs by introducing the world's first quad core HD Audio SoC.

To optimise the manufacturing operation and ensure it is cost competitive, Wolfson continuously reviews its supply chain and, in 2012, the Company re-engineered its supply chain to deliver supply chain excellence and industry benchmark performance.

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, TSMC and UMC in Taiwan, and X-FAB in Germany. Most assembly and testing of products is carried out by Amkor, ASE, Unisem and SPIL. Wolfson's distribution hubs in Hong Kong and Malaysia ensure an efficient supply chain and high customer responsiveness. Wolfson sells products directly to many Original Equipment Manufacturer (OEM) customers as well as through independent distributors. Last year, Wolfson opened a new office in Taiwan and recruited a local supply chain support team. These supply chain improvements have enabled Wolfson to reduce cycle times and improve quality and cost competitiveness that customers demand.

To optimise the manufacturing operation and ensure it is cost competitive, Wolfson continuously reviews its supply chain and, in 2012, the Company re-engineered its supply chain to deliver supply chain excellence and industry benchmark performance in:

- Exceptional customer quality
- Reduced cycle times to create improved customer flexibility
- Volume scale to meet the capacity requirements of customers
- Dual-sourcing capability to ensure flexibility and continuity of supply
- Cost through advanced leading-edge technology innovation across the portfolio

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.

The Company has taken the following steps to achieve supply chain excellence:

- Minimised complexity by reducing the dependent supply chain partners to tier 1 suppliers only
- Ensured each tier 1 supply chain partner demonstrates:
 - Available capacity and growth potential to meet the needs of the Company and its customers
 - Industry-leading quality and cycle time
 - Technology roadmap alignment
- Ensured the supply chain, in terms of wafer fabrication and outsourced semiconductor assembly and test (OSAT), is geographically centralised to reduce cycle time
- Established a new distribution hub in Hong Kong to supplement the existing hub in Malaysia and further reduce cycle time

The aggressive MEMS microphone ramp to high volume manufacturing at multiple vendors during the second half of 2012 put pressure on the Company's manufacturing costs. This volume production ramp of MEMS microphones is now well underway and the capacity is now in place to cost effectively meet current and future customer demands.

BUSINESS CYCLE

The business strategy, refreshed annually, determines the technologies and IP building blocks required to keep Wolfson ahead of the technology curve. These technologies and building blocks along with the current portfolio will be used during customer discussions to determine the customers' requirements in terms of audio solutions. These audio solutions typically comprise of an audio digital signal processor (ADSP), an Audio Hub, MEMS microphones and software algorithms.

Once these customer requirements are evaluated, a business case is prepared and submitted to senior management for approval. The allocation of technical development resource and budget is the start of the Wolfson business cycle. The duration of the product design and development schedule will depend on the complexity of the device, the need to develop new IP and the need to write any new software algorithms and drivers.

In terms of hardware, the development team will design a new device and on completion, 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 evaluation will result in a design-in and Wolfson's solution will become part of the customer's new product. Typically, a design-in will generate two years' of revenue in that new product for Wolfson.

Since the introduction of the Company's 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. 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.

On receipt of the first high volume order for the part, the design-in converts to a design-win as revenue is now generated. It should be noted that the revenue, as a percentage of the bill of material (BOM) cost, for the completed printed circuit 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 design and develop the next generation device for the future revision of the customer's product, striving also to increase our '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 with most overheads below gross margin relatively fixed. Given the fabless model, there is a relatively low level of capital expenditure required. Underlying operating breakeven is achieved on a turnover of around \$190 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

Wolfson is a semiconductor company specialising in the design and supply of high performance audio solutions which meet the high quality standards expected by its customers in a manner consistent with industry-recognised environmental and ethical standards. Wolfson is certified to BS EN ISO 9001: 2008, BS EN ISO 14001: 2004 and is a Sony Green Partner.

Wolfson seeks to exceed its customer expectations by the adoption of internationally-recognised quality standards and has a policy of continuous improvement in every aspect of its business. Wolfson has a fully integrated Six Sigma programme as part of this continuous improvement policy.

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 design and development process and qualified through accelerated life testing, in line with internationally-recognised standards to ensure reliable and economic manufacturability.

RISKS AND UNCERTAINTIES

The transformation of the Company has brought new, short-term risks such as more complex products, 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 the Company strategy and operation by both the Board and the management team. These are further detailed in the Operating and Financial Review (see further details from page 24 to 33).

To maintain its leadership position, Wolfson works closely with its leading 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.

Operating and Financial Review

Revenue increased by 15% to \$179.7m (2011: \$156.9m), with a decline of 11% in the first half of 2012, followed by strong growth of 41% in the second half of the year, compared to the same periods in 2011.

Segmental Performance

AUDIO HUBS PRODUCTS

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 \$134.1m in 2012 accounted for 75% of Company revenue (2011: 67%) and increased by 27% in the year from \$105.4m in 2011 (as shown in the chart on page 21). Within this segment, Audio Hubs sold into mobile applications increased by almost 60% whilst Audio Hubs in non-mobile applications fell by 12%, reflecting the strong growth in smartphones and tablet computers, but weaker demand in most other application markets.

Gross margin for this reportable segment fell to 46.6% in 2012 from 49.8% in 2011, reflecting the product mix in 2012.

DISCRETE AND POWER PRODUCTS

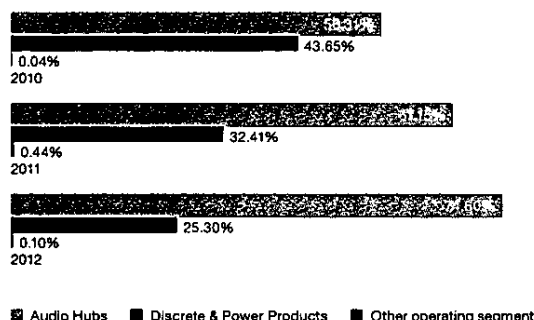
This segment comprises simpler audio products (ADCs, DACs), power management integrated circuits, imaging parts and MEMS microphones. Revenues at \$45.5m in 2012 accounted for 25% of Company revenue (2011: 32%) and declined by 11% in the year from \$50.9m in 2011. Within this segment, MEMS microphones grew tenfold, albeit from a very small base, to revenue of \$5.2m. In Q4 2012, MEMS microphones accounted for 6% of total Company revenues compared to less than 1% in Q1 2012. The other components of this segment suffered from lack of differentiation and the weakness in the general consumer electronics market and, excluding MEMS microphones, fell in the year by 20%.

Gross margin for this reportable segment increased to 47.5% in 2012 from 45.6% in 2011, helping to partly offset the fall in revenues.

OTHER PRODUCTS

Other Products 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 products rather than the sale of integrated circuit components. Revenues in both 2012 and 2011 represented less than 1% of Company revenues.

% ANNUAL REVENUE BY OPERATING SEGMENT



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 30 December 2012 are summarised in the table below. The consolidated income statement for the period is on page 76.

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

	52 week period ended 30 December 2012		52 week period ended 1 January 2012	
	\$m	% of revenue	\$m	% of revenue
Revenue	179.7		156.9	
Gross profit (IFRS)	84.2	46.9%	70.2	44.7%
Exceptional charge	-	-	5.9	3.8%
Gross profit (Underlying)	84.2	46.9%	76.1	48.5%
Overheads				
Research & Development expenses	(51.1)	29%	(47.3)	30%
Distribution and selling costs	(23.3)	13%	(23.4)	15%
Administrative expenses	(12.7)	7%	(12.9)	8%
Underlying* operating loss	(2.9)	-2%	(7.5)	-5%
Share-based compensation charges	(3.3)	2%	(3.6)	2%
Amortisation charges	(1.7)	1%	(5.5)	4%
Exceptional items:				
- recognised in cost of sales	-	-	(5.9)	4%
- recognised in overheads	-	-	(3.5)	2%
- pension (past service cost)/curtailment gain	(1.4)	1%	1.8	-1%
Operating loss	(9.3)	-5%	(24.2)	-15%
Net financing (expense)/income	(0.1)		0.1	
Loss before tax	(9.4)	-5%	(24.1)	-15%
Income tax credit	3.3		6.2	
Loss after tax	(6.1)	-3%	(17.9)	-11%
Basic and diluted loss per share (cents)	(5.2)		(15.4)	
Underlying diluted loss per share (cents)	(1.0)		(4.9)	
Average £/\$ exchange rate (\$: £1)	1.55		1.60	

*Underlying results exclude: charges for the amortisation of acquired intangible assets (2012: \$1.7m; 2011: \$5.5m) and share-based compensation charges, including associated payroll taxes (2012: \$3.3m; 2011: \$3.6m). Also, in 2012, an exceptional charge of \$1.4m is excluded (2011: net exceptional charges totalling \$7.6m are excluded). 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 22.

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 30 December 2012					
Distribution and selling costs	(23.3)	(0.6)	-	-	(23.9)
Research & Development expenses	(51.1)	(2.1)	(1.7)	-	(54.9)
Administrative expenses	(12.7)	(0.6)	-	-	(13.3)
Past service cost on defined benefit plan	-	-	-	(1.4)	(1.4)
	(87.1)	(3.3)	(1.7)	(1.4)	(93.5)
52 weeks ended 1 January 2012					
Distribution and selling costs	(23.4)	(1.0)	-	(1.9)	(26.3)
Research & 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)

OPERATING LOSS: RECONCILIATION FROM UNDERLYING TO IFRS

	52 weeks ended 30 December 2012 \$m	52 weeks ended 1 January 2012 \$m
Underlying operating loss	(2.9)	(7.5)
Share-based compensation and related payroll taxes	(3.3)	(3.6)
Amortisation of acquired intangible assets	(1.7)	(5.5)
Exceptional items	(1.4)	(7.6)
Operating loss (IFRS)	(9.3)	(24.2)

REVENUE

Company revenue increased by 15% to \$179.7m (2011: \$156.9m), with a decline of 11% in the first half of 2012, followed by strong growth of 41% in the second half of the year, compared to the same periods in 2011. As explained in the Segmental Performance section on page 20, this is the net result of strong growth in Audio Hubs and MEMS microphones, offset to some extent by weakness in Discrete and Power products. The largest customer in 2012 represented 32% of revenue (2011: 16%).

GROSS PROFIT

Company gross profit in 2012 was \$84.2m, up 11% from the previous year (2011: \$76.1m, before exceptional charges). Gross margin fell to 46.9% from 48.5% (before exceptional charges) in 2011, primarily impacted by product mix, delays in qualification of a lower cost manufacturing source for a high volume product, plus costs associated with the steep production ramp of the MEMS microphone product line. These effects are expected to reverse as 2013 progresses, with gross margin recovering strongly in the second half towards traditional levels as mix swings towards more value-added products, the lower cost manufacturing source is qualified and MEMS microphone production reaches economic scale.

OPERATING EXPENSES

Total underlying overheads, excluding amortisation of acquired intangibles, share-based compensation charges (and associated payroll taxes) and exceptional charge amounted to \$87.1m in 2012, compared to \$83.6m (before exceptional charges) in 2011, an increase of \$3.5m. Of this increase, \$2.1m relates to the full year costs of Dynamic Hearing acquired on 30 September 2011. The individual overhead categories are explained further in the following paragraphs.

The Company's continuous investment in research and development and best-in-class engineering tools is imperative to Wolfson's growth strategy and long-term competitiveness. Expenditure on research and development, excluding charges such as amortisation and share-based compensation charges, increased by 8% to \$51.1m or 29% of revenue (2011: \$47.3m or 30% of revenue). The increase in this category of costs of \$3.8m in 2012 primarily reflects the greater complexity of the products now being designed by the Company, resulting in higher mask costs on lower technology node tape-outs, software and subcontract DSP costs relating to these newer products and the full year impact of research and development costs incurred by Dynamic Hearing.

Distribution and selling expenses, excluding share-based compensation charges, were broadly flat at \$23.3m or 13% of revenue (2011: \$23.4m or 15% of revenue). This results from higher freight and packaging costs, associated with the increased revenues, offset by supply chain efficiencies.

Administrative expenses, excluding share-based compensation charges, were marginally lower in 2012, at \$12.7m or 7% of revenue (2011: \$12.9m or 8% of revenue).

OPERATING LOSS

Underlying operating loss was \$2.9m (before exceptional charge), compared to a loss of \$7.5m in 2011 before exceptional charges.

Share-based compensation charges, calculated in accordance with IFRS 2, and associated payroll taxes amounted to \$3.3m in 2012, compared to \$3.6m in 2011. The decrease reflects new share-based awards in 2012 being offset by a credit of \$2.2m recognised in respect of the lapsing of 2010 executive long-term incentive plan awards due to the non-market performance conditions not being achieved. Based on the share price as at 28 December 2012 and planned share-based awards for 2013, the share-based compensation charge in 2013, including the associated payroll taxes, is estimated to be approximately \$6m, slightly second-half weighted.

Total intangible asset amortisation charges recognised in 2012 in respect of the 2007 acquisitions, and on the Dynamic Hearing acquisition, amounted to \$1.7m (2011: \$5.5m). The charge for 2013, relating primarily to the Dynamic Hearing acquisition, is expected to be \$1.4m, spread evenly through the year.

There was an exceptional charge in 2012 of \$1.4m for the estimated cost of the enhanced transfer value offer in respect of the Company's defined benefit pension scheme. Exceptional charges in 2011 totalled a net of \$7.6m for restructuring and an inventory write-down, net of a curtailment gain of \$1.8m on the defined benefit pension scheme. The IFRS operating loss was \$9.3m in 2012 (2011: \$24.2m loss).

Financial income amounted to \$1.4m, with finance expenses of \$1.5m, resulting in net finance expense in 2012 of \$0.1m (2011: \$0.1m income). 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 (2011: \$0.2m).

TAXATION

The total effective tax rate was 35% credit (2011: 25.6% credit), primarily reflecting the benefit from additional allowances on research and development expenditure, offset by certain expenses which are not deductible for tax purposes. The effective tax rate in 2013 will benefit from the introduction of the UK Patent Box regime from 1 April 2013.

CASH FLOW & BALANCE SHEET

SUMMARISED CONSOLIDATED CASH FLOW

52 weeks ended 30 December 2012	2012 \$m	2011 \$m
Loss before tax (after exceptional items)	(9.4)	(24.1)
Depreciation & amortisation	9.5	13.7
Net finance expense/(income)	0.1	(0.1)
Earnings/(loss) before interest, tax, depreciation and amortisation	0.2	(10.5)
Share-based compensation charge	2.6	4.1
Change in working capital:		
- (increase)/decrease in inventories/receivables	(10.1)	4.2
- increase/(decrease) in payables/provisions	10.6	(18.9)
Pension curtailment gain	-	(1.8)
Payments to defined benefit pension scheme	-	(4.5)
Foreign exchange	(0.3)	0.2
Income taxes paid	-	(0.3)
Net cash flow from operating activities	3.0	(27.5)
Capital expenditure	(6.1)	(6.5)
Free cash flow	(3.1)	(34.0)
Purchase of shares by employee share trust	-	(5.4)
Proceeds from new issue shares	0.6	0.7
Deferred consideration/acquisition of subsidiary	(3.2)	(5.1)
Interest received	0.2	0.2
Foreign exchange gains/(losses)	0.1	(0.1)
Net cash outflow	(5.4)	(43.7)
Opening cash balances*	53.4	97.1
Closing cash balances*	48.0	53.4

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

Cash and short-term deposits amounted to \$48.0m at 30 December 2012 (1 January 2012: \$53.4m).

Net cash inflow from operating activities was \$3.0m (2011: \$27.5m outflow), driven by the improved trading performance and total working capital remaining broadly flat.

The Company paid \$3.2m (2011: \$0.8m) for deferred consideration as milestones were achieved on the 2007 acquisition of Sonaptic (ANC) and further payments are expected in 2013 as milestones are met.

Cash outflow on capital expenditure amounted to \$6.1m (2011: \$6.5m) and relates primarily to software licenses and IT equipment.

The value of inventory held at 30 December 2012 was \$24.7m or 65 days inventory (1 January 2012: \$22.9m or 103 days inventory). It is anticipated that inventory levels will be in the range of 70 to 100 days in 2013 in order to meet fluctuations in demand. Trade receivables amounted to \$33.9m or 49 days sales outstanding at 30 December 2012 (1 January 2012: \$25.9m or 51 days sales outstanding). It is expected that the number of days sales outstanding will average around 50 in 2013. Trade payables at 30 December 2012 amounted to \$24.3m or 52 days purchases (1 January 2012: \$16.5m or 53 days purchases). It is anticipated that the number of days purchases will average around 50 in 2013.

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 2012, there was currency hedging in place throughout the year, ranging from three to twelve months forward in time, with an average rate over the year of \$1.545 to £1 (2011: \$1.60 to £1). It is estimated that during 2012 and going into 2013, 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 2013 have been hedged at an average rate of \$1.60 to £1, resulting in an increased overheads cost of \$1.7m in 2013 over 2012 purely due to exchange rates.

SHARE REPURCHASES

Only a very small quantity of shares (1,981 shares in the Company) were purchased in 2012 by one of the employee share trusts in relation to employee share-based awards (2011: 1,422,545 ordinary shares in the Company were purchased by the employee trust at a cost of \$5.4m). 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, however this is unlikely to be before 2014.

DEFINED BENEFIT PENSION SCHEME

During the year no payments were made into the closed defined benefit pension scheme (2011: \$4.5m contributions were paid by the Company into the Scheme). As at 30 December 2012 the Company was in the middle of an Enhanced Transfer Value (ETV) offer to the 83 deferred members of the scheme and that offer closes in mid February 2013. An exceptional charge of \$1.4m has been estimated and recognised in the 2012 financial statements of the Group and Company based on the estimated take up of the ETV offer; this will be adjusted to the final figure in the 2013 financial statements. A cash payment by the Company into the Scheme of around \$1.6m is scheduled for the first quarter of 2013 in respect of this ETV exercise.

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 2012, Wolfson conducted its formal risk management review processes in a manner similar to that adopted in 2010 and in 2011. 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 regularly 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 50 to 52 in the Corporate Governance statement.

PRINCIPAL RISKS

For 2013 the main priority for the business is the continued focus on the transformation programme, successful completion of which 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 4 to 8). The main factors which might damage achievement of the Company's ambition or its ability to optimise its opportunities may be summarised thus, along with an overview of the Company's main responses and mitigating activities (which are further explained in the Business Review on pages 4 to 19) to address these risks:-

RISK

- 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.

RESPONSE/MITIGATING ACTIVITIES

- a. These programmes build on and complement Wolfson's expertise and experience in audio technology and address emerging technology transitions which are evident in the evolution of portable consumer electronics devices – currently smartphones and tablet computers. As reported in the Business Review: Strategic Update section on pages 4 to 8, the Company is making progress with its transformation strategy and has launched HD Audio Hubs products and an integrated MEMS microphone product in 2012. The further key technology and product development programmes in these product groups have significant focus for the whole Company and progress with product design and development schedules are closely monitored. The related risks of: new product specification and introductions; executing new products on schedule and technological advance are explained on pages 27 and 28.

- b. The Company is uniquely placed to provide multiple products for the complete audio chain in consumer electronics products from microphone to earpiece. Wolfson's technical leadership position in HD Audio Hubs and audio solutions have facilitated the strong design-in performance for the Company's products in 2012, as described on page 7. However it is important to ensure that Wolfson continues to work closely with its leading customers and potential customers to define new technology and new product roadmaps that meet both their current and future needs. The relationships which continue to be developed with key customers help Wolfson to be responsive to customers' current and future requirements. These customers are located in key global markets and so, therefore, are the sales teams, providing skilled technical and commercial support.

- c. As described in the 'Organisation and People' section on pages 52 and 53, Wolfson has various initiatives and policies with the aim of developing the skills, experience and performance of employees in line with the technological developments of the Company. Wolfson has built a software engineering team to develop audio enhancing software products and this team has been significantly strengthened by the integration of Dynamic Hearing following its acquisition by Wolfson towards the end of 2011. The Company is attracting appropriately skilled and experienced software engineers in view of the Wolfson's technology credentials and opportunities facing the Company within the fast moving, technology driven markets within which the Company and its customers operate.

RISK

- Major litigation, particularly claims of patent infringement, managing to derail any of the core developments or affecting customer confidence in Wolfson as a supplier.

RESPONSE/MITIGATING ACTIVITIES

The Board recognises the importance of instilling and maintaining a strong intellectual property protection programme. Wolfson owns many patents and has several patent applications pending. The Company has an Intellectual Property ('IP') Steering Committee in place to monitor and manage IP-related matters. The Committee aims to ensure a robust defence and approach on IP across the Company's technologies. The Audit Committee and the Board receives reports from this Committee.

RISK

- Being outgunned by competitors either on development of leading technologies or in the strategic engagement with major customers.

RESPONSE/MITIGATING ACTIVITIES

Since the introduction of the Company's 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 central processing unit (CPU), the audio solution is considered at the same time as the CPU is selected. 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.

The Company operates in competitive global markets which are subject to fast-paced technology advances. Wolfson has invested, and continues to invest, significant resources in research and development activities to further advance, enhance and develop its portfolio of products which aim to be technology-leading and differentiated. Standard products may involve greater risk of competitive pricing, loss of slots, inventory management risks compared to differentiated products. Therefore Wolfson's increasing portfolio of products which offer differentiating features and solutions help to reduce the extent of some of those risks. It is recognised that Wolfson's ability to compete successfully depends on factors both within and outside the Company's control, including: effective and timely development of new products (refer to page 27); product performance, specification and quality (pages 27 to 33); achieving advances in technology which anticipate and address customer requirements; pricing; technical support; customer service; industry and general macroeconomic trends.

RISK

- Product quality issues leading to loss of reputation with customers and/or product recalls.

RESPONSE/MITIGATING ACTIVITIES

Wolfson has in place quality control and other operational procedures to mitigate this risk. These include, but are not limited to: product design and development procedures and manufacturing quality procedures and controls. 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 design and development process and qualified through accelerated life testing, in line with internationally recognised standards to ensure reliable and economic manufacturability. The supply chain re-engineering programme, as outlined on pages 17 and 18, has further enhanced quality metrics and Wolfson has initiated a Six Sigma programme as part of continuous improvement policy throughout the business.

RISK

- 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.

RESPONSE/MITIGATING ACTIVITIES

The Company's fabless business model presents advantages (as described on page 17) and risks (as described on page 30). Wolfson re-engineered its supply chain in 2012 which provides several improvements including dual-sourcing capability to ensure flexibility and continuity of supply. Capacity at the manufacturing suppliers' sites and across the industry in general is kept under regular review by management. Most of the Company's main manufacturing suppliers operate from various sites and in more than one country and therefore there is considered to be more opportunity to adequately address manufacturing capacity issues if they arise. Other relevant mitigating activities include inventory management procedures and supply chain business continuity plans are kept under review. Management maintain regular monitoring of matters which may have the potential to impact capacity and/or continuity of supply within the supply chain and report on such matters to the senior management team and to the Board.

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).

Also, some of the risks might be considered as 'near term' (with potential impact over the next 12 months or so) and others as 'long term' (that could affect the fundamental value of the business).

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.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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 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.	Working with customers to understand their strategies and changing needs. As explained on page 16, Wolfson works closely with customers to define new technology and new product roadmaps that aim to meet both their current and future needs. Wolfson has sales teams and applications engineers in the key geographical areas, where customers are located, providing skilled technical and commercial support. 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 by the Company. Customers' end product launch schedules are built into Wolfson's product portfolio planning to ensure that Wolfson's product development activities produce the right products at the right time which customers require for their new end 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.	Project management professionals oversee and coordinate product development projects. Product development projects follow a phase review process with defined project gates whereby specified criteria must be satisfied before the gate is passed. There is extensive product development project milestone monitoring in place. In addition there are business scorecard metrics which are assessed each month based on achievement of key project milestones by planned dates.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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.	Wolfson invests heavily in research and development activities, including industry leading design tools, which are aligned to the product roadmap. As the Company's products transition from predominantly analogue to a higher proportion of digital and software content, Wolfson has responded by building a software engineering team to develop audio enhancing software algorithms to run on its Audio Hub family of products. The Company conducts close monitoring of industry news, trends and developments and the competitive environment.
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 4 to 8). Continuation of the trend to dis-integrate audio and related functions from the main applications processor will be key to Wolfson's success.	The disintegration of the audio function from application processors in consumer products, particularly smartphones and tablet computers, to stand-alone audio devices is becoming increasingly pervasive. This audio dis-integration trend is happening fastest in smartphones and tablet computers where currently most of the top ten selling smartphones and tablet computers have dis-integrated audio architectures. Wolfson expects this trend to extend to other mobile phone product tiers and consumer electronic applications over the next few years. This is driving a fast emerging market for stand-alone devices like Wolfson Audio Hubs that is expected to grow as described on page 5.
Winning the right design-ins at customers and being considered credible as a long term partner, technologically	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.	The Company's strong design-in performance continued in 2012, as explained on pages 6 and 7 of the Business Review. Wolfson is securing an increasing number of design-ins of multiple Wolfson products into single end consumer products, enhancing its 'value share of board' of these end products, particularly in smartphones and tablet computers. The Company is uniquely placed to provide multiple products for the complete audio chain in consumer electronics products.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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.	Consumers are demanding great audio in their portable electronic devices. This is driving: high growth markets where Wolfson has leading products and technology; and dis-integrated audio is making slots much more 'winnable' and valuable for Wolfson. The Company is focusing on high growth segments within consumer electronics (smartphones and tablet computers). Despite the challenging global economic environment, the Company is benefiting from the effects of three technology transitions: disintegration of the audio function from application processors in consumer products; the increasing number of use cases for high quality audio in smart devices such as smartphones and tablets (and potential opportunities to trickle down into other consumer electronic products); and the industry transition from ECM microphones to MEMS microphones.
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 2012 accounted for 32% of revenue (2011: 16%), with the top 10 customers accounting for 75% of revenue in 2012 (2011: 65%) and the top 20 customers accounting for 90% of revenue in 2012 (2011: 81%). 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.	New products are sampled across a range of current and potential customers to ensure no single product/single customer dependence. In addition, the Company aims to grow business across each customer account and across multiple applications in these accounts, thereby reducing dependency on any individual slot.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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, ability to offer bundled deals 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.	As Wolfson's Audio Hub devices are 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. The specifications of the Company's MEMS microphone products are class-leading. The Company conducts regular monitoring of the competitive landscape for the markets in which the Company operates.
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, MagnaChip Semiconductor, TSMC, UMC and X-FAB for the manufacture of most of its silicon wafers and Amkor, ASE, Unisem and SPIL 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 assembly and test suppliers to resolve any 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: a multi-vendor model for each stage of the manufacturing process; carrying additional buffer inventories; and second-sourcing higher volume parts. Regular senior management meetings are also held with these suppliers to ensure the Company is kept up-to-date with current trading and liquidity issues, if any, within the supply chain. To further mitigate this risk, additional capacity has been added through the recent qualification of new suppliers as part of the Company's supply chain re-engineering process, as described on pages 17 and 18.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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.	Key elements of Wolfson's innovative intellectual property are subject to granted patents or patent applications. The Company has an Intellectual Property ('IP') Steering Committee in place to monitor and manage IP-related matters. The Committee aims to ensure a robust defence and approach on IP across the Company's technologies. The Audit Committee and Board receive reports from this Committee.
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. Building the Company's software resources to meet the ever increasing demand for sound enhancement features is fundamental to achieving our aims. 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.	The 'Organisation and People' section on pages 52 and 53 describes Wolfson's policies which are relevant to addressing this risk.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
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 the Company operates 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.	In order 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 at least 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 19), 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. Cash and short-term deposits during 2012 were stable around \$50m. Short, medium and longer term forecasting of cash requirements of the business is conducted to ensure that there is sufficient funding in place to meet business demand.

RISK AREA	POTENTIAL IMPACT	OUR RESPONSE/MITIGATION
Acquisitions	The Company expects to review further potential (technology based) acquisition targets as part of its strategy and the importance of maintaining a technological lead over the competition. 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.	Due diligence and planning are conducted along with the execution of programmes designed to minimise the risk of failure for acquisitions to deliver expected results. The focus on maximising synergies and a well defined integration plan are key factors which the Company adopts in respect of managing acquisitions.
Foreign currency exposure	Refer to Treasury and Foreign Exchange section on page 24.	To manage this risk, the Group has a Treasury Policy which is explained on pages 49 and 118.

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 cyclical nature of the semiconductor industry; and overall economic conditions.

MARK CUBITT
CHIEF FINANCIAL OFFICER

Directors

MICHAEL RUETTIGERS (AGE 70)

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 53)

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 Optonics, 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 50)

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.

ROBERT LAURENCE ECKELMANN (AGE 56)

Non-executive Director

Mr Eckelmann joined the Board in November 2004 and serves on the Audit, Nomination and Remuneration Committees. On 8 June 2012, Mr Eckelmann was appointed as the Senior Independent Director. 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 currently holds a non-executive directorship at the Midis Group and, until October 2012, he also held a non-executive directorship at Emulation & Verification Engineering.

ROSS KING GRAHAM FCA (AGE 65)

Non-executive Director

Mr Graham was appointed to the Board in September 2003 and serves as a non-executive director. From September 2010 until June 2012, Mr Graham served as the Senior Independent Director and he was the chairman of the Audit Committee and a member of the Remuneration Committee until 8 June 2012. Mr Graham stood down from these positions having served almost nine years as a non-executive director of the Company thus being deemed as "not independent", in terms of the UK Corporate Governance Code, but was asked by the Board to continue to serve as a non-executive director. Mr Graham remains a member of the Nomination and Treasury 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 held, up to October 2012 (when the company was sold), a non-executive directorship at Psion plc where he acted as the senior independent director and chairman of the audit committee.

GLENN COLLINSON (AGE 49)

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 and is the chairman of the Company's Remuneration Committee. On 8 June 2012, Mr Collinson became a member of the Company's Nomination Committee. 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. Mr Collinson is also a trustee of the European Microelectronics Academy Employee Benefits Trust.

JOHN GRANT (AGE 67)

Non-executive Director

Mr Grant was appointed to the Board on 1 September 2011 and serves as a non-executive director. On 8 June 2012, Mr Grant became the chairman of the Audit Committee, having served as a member of that committee prior to that date. Mr Grant was also appointed, on 8 June 2012, as a member of the Company's Remuneration and Nomination Committees as well as chairman of the Treasury 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 Melrose plc, Pace plc and MHP S.A., in each case he also serves as chairman of their respective audit committees. He holds a BSc 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 30 December 2012.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the design, manufacture and supply of high performance audio solutions, comprising integrated circuits and related technology, for the consumer electronics market. The Business Review on pages 4 to 19 provides further details of the principal activities of the Group.

FINANCIAL

The Group's consolidated loss for the 52 week financial period ended 30 December 2012, after taxation, was \$6,076,000 (2011: \$17,886,000 loss). A financial review of the results for the 52 week period is set out on pages 20 to 33.

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 81, 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 30 December 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 1 to 33, 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 is dealt with in this Annual Report as follows:

- principal risks and uncertainties – pages 24 to 33 of the Operating and Financial Review;
- a review of the development and performance of the business and the position of the Group at 30 December 2012 – included in the Business Review on pages 4 to 19 and in the Operating and Financial Review on pages 20 to 33; and

- key performance indicators – on page 1 and on pages 4 to 24.

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 integrated circuits and related technology. The Business Review on pages 4 to 19 provides further information regarding the research and development activities conducted by the Group. The Group incurred research and development expenses of \$54.8 million in the 52 week period ended 30 December 2012 (2011: \$56.3million, after \$1.5 million exceptional charge), representing 31% of revenues (2011: 36%).

DONATIONS

The Group made no political contributions during the 52 week period ended 30 December 2012. Sponsorships and donations to UK charities amounted to \$97,000 (2011: \$186,000).

DIRECTORS

The directors who held office at 30 December 2012 and their interests in the shares of the Company at that date are set out on page 66. The interests of the directors in the share options of the Company are set out on page 68. 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.

Alastair David Milne retired as a non-executive director of the Company on 11 September 2012.

In accordance with the 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 all directors are subject to re-election at the third AGM following the AGM at which they were last elected or re-elected. Furthermore they are subject to re-election annually if they have 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 relevant AGM. However, in accordance with the UK Corporate Governance Code, the Board decided that, with effect from the AGM held on 26 April 2012, all directors would submit themselves for annual re-election by shareholders. Therefore at the forthcoming Annual General Meeting, all of the directors will retire and, being eligible, will offer themselves for re-election.

The names and biographical details for the directors who held office at 30 December 2012 are set out on pages 34 and 35 and details of directors' service contracts are set out in the Directors' Remuneration Report on pages 70 and 71.

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 74.

SHARE CAPITAL AND CONTROL

As at 30 December 2012 there were 116,643,442 ordinary shares of 0.1 pence each 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 main market of 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 holders of ordinary shares. As far as the Company is aware, as at 5 February 2013 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 employee and executive 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 26 April 2012 the shareholders granted the Company the authority to purchase, in the market, its own ordinary shares up to a maximum of 11,633,529 ordinary shares. In 2012 and in 2011 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 11,633,529 ordinary shares, expires at the conclusion of the forthcoming Annual General Meeting and shareholders will be asked to give a similar authority at the forthcoming Annual General Meeting as set out in the Notice of the Annual General Meeting which is being sent to all shareholders together with this annual report and will be published at www.wolfsonmicro.com.

SUBSTANTIAL SHAREHOLDINGS

As at 30 December 2012, the Directors are aware of the following substantial interests in the issued share capital of the Company:

	Number of ordinary shares	% of issued share capital	Nature of holding
BlackRock, Inc.	10,820,203	9.27%	Indirect
Majedie Asset Management Limited	9,133,644	7.83%	Indirect
Legal & General Group Plc	7,722,809	6.62%	Direct
JP Morgan Asset Management (UK) Ltd	6,645,896	5.70%	Indirect
Henderson Global Investors Limited	6,394,863	5.48%	Indirect (4.44%) CFD (1.04%)
Cazenove Capital Management	5,759,989	4.94%	Indirect
Threadneedle Asset Management	4,132,371	3.54%	Direct
DJ Carey	4,025,838	3.45%	Direct
Kames Capital	3,805,158	3.26%	Direct & Indirect
Investec Asset Management	3,750,000	3.21%	Direct

In the period from 31 December 2012 to 5 February 2013 the Company received a further notification, under Rule 5 of the Disclosure Rules and Transparency Rules, from the following party which therefore updated the shareholding information, as shown in the table on page 37, for this party as follows:

	Number of ordinary shares	% of issued share capital	Nature of holding
Kames Capital	3,493,565	2.99%	Direct & Indirect

EMPLOYEES

EMPLOYEE INVOLVEMENT

The Company is committed to employee involvement throughout the business and this is described on pages 52 and 53.

The Company has established offshore employee share trusts in connection with the Company's performance share plan and staff share award plan. As at 30 December 2012 these trusts held a total of 2,938,837 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 2012, one of the employee share trusts purchased a total of 1,981 ordinary shares for a total consideration of \$7,000, 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. A third invitation under this scheme was offered to UK employees in 2012. Share options were granted to employees, who wished to participate in the first and/or second and/or third share option grant from this scheme (subject to the relevant limit), on 1 September 2010, on 30 November 2011 and on 30 August 2012 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 pages 24 to 33.

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 30 December 2012, the Company had 52 days (2011: 53 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 members at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 25 April 2013 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 L. Goldsmith

JILL GOLDSMITH
COMPANY SECRETARY

Edinburgh

5 February 2013

Corporate Governance Statement

CHAIRMAN'S INTRODUCTION

On behalf of the Board, I am pleased to present the Corporate Governance Statement for the period under review. Corporate governance is not simply an exercise in compliance, but a key foundation for the 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. The Board considers this corporate governance statement, as set out on pages 39 to 55, to be important as it explains the governance of the Group and identifies how we apply The UK Corporate Governance Code's ("the Code") 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.

The UK Corporate Governance Code, as published in June 2010, contains the principles and provisions that the Board was required to consider in respect of the corporate governance practices in the Group during the 52 week period ended 30 December 2012. 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. We are pleased to confirm that we complied with the Code in respect of this period.

We believe that good governance involves ensuring that the business is being led in the right strategic direction; that the executives are leading and managing the Group effectively and are accountable; that the Group has appropriate controls in place and that risks are managed; and our actions are in the best interest of the Company's shareholders and its wider stakeholders. The activities of the Board and its Committees, as described in this statement, underpin the Company's commitment to achieving these objectives.

Ultimately, however, culture and behaviour are the real factors that create good governance – and this has to be led, by example, from the top. The Board, executives and non-executives alike, are conscious of this and strive to create the right environment for this strategy to flourish.

LEADERSHIP

The Board is accountable to the Company's shareholders for good corporate governance. 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. We acknowledge the importance of having an appropriate balance of skills, experience, independence and knowledge of the Company on the Board.

Ross Graham's period of service as a non-executive director reached nine years in September 2012 and therefore, in terms of the Code's criteria for independence, he is deemed not to be independent from that time. In order to allow for the smooth transition of Ross' roles on some of the Board committees and his position as Senior Independent Director, he stepped down from those roles from 8 June 2012. The details are provided on page 41. I thank Ross for his significant commitment, financial expertise and enthusiasm which he brought during his tenure as chairman of the Audit Committee in particular. In view of the considerable listed company and extensive financial experience which he brings to the Board, Ross was invited to continue to serve as a non-executive director following the nine year anniversary of his appointment.

In September 2012 one of our other non-executive directors, David Milne, retired from the Board. David was a founder of the Company and played a crucial role in the creation and successful development of the Company over the past 28 years from a start-up design house to a listed global semiconductor company. David has made a huge contribution to the Company and the Board in his roles as founder and Chief Executive Officer (until 28 February 2007), as an executive director (until 8 November 2007) and then as a non-executive director. The Board thanks David for his outstanding contribution to the success and development of the Company and wishes him well for the future.

EFFECTIVENESS

The Board has enhanced further its high standards of corporate governance relating to the evaluation of the Board performance and the re-election of directors. Although the Company was not in the FTSE 350 in the current or the previous reporting period, the Board believes that annual re-election promotes its accountability to shareholders. Therefore, all Board members offered themselves for re-election at the Annual General Meeting ('AGM') in 2012 and will again offer themselves for re-election at the AGM in 2013.

We report on pages 44 and 45 on the Board and Committee evaluation process carried out in 2012. For the first time, the evaluation was externally facilitated by an independent consultancy experienced in board evaluation procedures. We report on the methodology used and the outcome – the agreed actions from the recommendations have been or are being implemented. The Board will conduct an internal evaluation review process in 2013.

ACCOUNTABILITY

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, our approach to risk management and the remuneration policy. This is communicated by our on-going and regular meetings and communications with shareholders.

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. 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.

Although not effective until the Group's financial year 2013, the Board is also conscious of the revised UK Corporate Governance Code issued by the Financial Reporting Council in September 2012 ("the 2012 Code") – in particular, the 2012 Code provisions relating to: fair, balanced and understandable annual reports; greater disclosure around audit committee activities; external audit tenders (for FTSE 350 companies only); and 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 – in reality, 'diversity of thought'. In 2013 the Board will address further these aspects of the 2012 Code to ensure that it remains compliant, as far as practicable and appropriate in view of the size and complexity of the Group, with best practice and high standards of corporate governance.

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 30 December 2012.

MICHAEL RUETTIGERS
CHAIRMAN

COMPLIANCE STATEMENT

The Group has complied, throughout the 52 week period ended 30 December 2012, with the provisions of the UK Corporate Governance Code ("The Code") as issued by the Financial Reporting Council in June 2010.

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 30 December 2012. Also, throughout the 52 week period ended 30 December 2012, at least half of the board (excluding the chairman) comprised independent non-executive directors as defined in Code provision B.1.1.

In addition, by 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 is achieving higher corporate governance standards than is mandated by 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 36 to 38).

BOARD COMPOSITION AND OPERATION**BOARD COMPOSITION**

From the beginning of 2012 until 11 September 2012, the Board comprised eight directors: the Chairman, two executive directors and five non-executive directors. AD Milne resigned as a non-executive director of the Company on 11 September 2012 and from that date, and until the date of approval of this report, the Board has comprised seven directors: the Chairman, two executive directors and four non-executive directors. RK Graham was the Senior Independent Director until 8 June 2012. R Eckelmann serves as the Senior Independent Director from that date. The roles and other biographical details for the directors who held office at 30 December 2012 and until the date of approval of this Annual Report and Accounts 2012, are set out on pages 34 and 35.

The changes in the Board composition during the period since 2 January 2012 are summarised below:

Period	Number of executive directors during the period	Number of non-executive directors during the period	
		Independent*	Not Independent*
2 January to 11 September 2012	2	4	2
12 to 24 September 2012	2	4	1
From 25 September 2012	2	3	2

*as defined in Code provision B.1.1

The Board considers all of its non-executive directors to be independent in character and judgement. However, only R Eckelmann, G Collinson, and J Grant were independent in terms of Code provision B.1.1 throughout the 52 week period ended 30 December 2012, 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.

In accordance with the terms of the Code, RK Graham satisfied the independence criteria until 25 September 2012, when he had served as a non-executive director of the Company for nine years. In view of his ceasing to satisfy the Code's independence criteria, on 8 June 2012 RK Graham stepped down as the Senior Independent Director and from the Audit and Remuneration Committees. Also with effect from 8 June 2012:

- R Eckelmann became the Senior Independent Director;
- J Grant became the chairman of the Audit Committee and a member and chairman of the Treasury Committee (as it is appropriate that the chairmanship of both of these committees is held by the same independent non-executive director). Also, to address the appropriate membership constitution of the committees, J Grant became a member of both the Remuneration and Nomination Committees with effect from the same date; and
- G Collinson became a member of the Nomination Committee.

The membership of each committee of the Board during 2012 is shown on pages 45 to 49.

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 the directors serving as at 30 December 2012 are given on pages 34 and 35. 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.

RK Graham has now served as a non-executive director of the Company for more than nine years and is therefore subject to this annual re-election provision. Although it is not a requirement of the Code for "smaller companies", the Board believes that annual re-election promotes its members' accountability to our shareholders. Each director stood for re-election at the 2012 AGM and all directors were re-elected. All directors will be offering themselves for re-election at the 2013 AGM.

The non-executive directors are generally initially appointed for fixed terms of three years, subject to election and re-election by shareholders. The Group in certain circumstances may seek to retain the services of a non-executive director for periods that may be longer than is recommended by the Code due to their special experience and knowledge.

Non-executive director	Date of original appointment as a non-executive director of the Company	Length of tenure as a non-executive director of the Company as at 30 December 2012	Date term of appointment extended until (upon invitation from the Board to serve for an additional period)
G Collinson	1 September 2008	4 years & 4 months	31 August 2014
R Eckelmann	1 November 2004	8 years & 2 months	31 October 2013
RK Graham	25 September 2003	9 years & 3 months	25 April 2013
J Grant	1 September 2011	1 year & 4 months	n/a – within original 3 year term
M Ruettgers	1 January 2008	5 years	31 December 2013

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 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 2012. 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 Business Review on pages 4 to 19 provides details of the strategy of the Company and Group and explanations of the business model and activities conducted by the Group.

The Board delegates to management responsibility, inter alia, for: the implementation of the strategies and policies of the Group as determined by the Board; 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, amongst other areas, during 2012 are summarised as:

Strategy formulation, implementation and monitoring

- Received regular updates from the Chief Executive Officer on progress regarding implementation of the Group's strategy
- Attended meetings with the senior management team to review, update and challenge the strategy review, including the product development roadmap
- Regular review of competitive landscape, including analyses/presentations from the Chief Operating Officer, Chief Commercial Officer and the Portfolio Director

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 reports in advance of each Board meeting from the Chief Financial Officer on monthly and quarterly performance against budget and forecast
- Reviewed reports, in advance of each Board meeting, from the Chief Financial Officer on the financial position of the Group, which included treasury management
- Approved the full year 2011 and half year 2012 results announcements and quarter one and quarter three results of the Group prior to their publication
- 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 is appropriate at the current time
- Approved the Group's budget for 2013 and long-range plan

Governance and risk

- Reviewed reports on governance matters, including changes arising from the revision of the UK Corporate Governance Code in 2012
- Reviewed the effectiveness of the Board during the externally facilitated Board evaluation process
- 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.
- Reviewed and approved the corporate Intellectual Property Policy
- In respect of the Annual Report and Accounts 2011, 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
- Approved the visits by the chairman of the Remuneration Committee (plus another non-executive director) to major shareholders to consult on proposals for executive remuneration for 2013 and linkage to the Company's strategy (refer to page 56 for further details)

Other

- Reviewed reports from the corporate brokers/ financial advisers on shareholder feedback from meetings, with the Chief Executive Officer and Chief Financial Officer, following the full year 2011 and half year 2012 results announcements
- Approved the 2011 annual report and the 2012 half year report prior to their publication
- Approved the Notice of the 2012 Annual General Meeting prior to its publication and all directors attended the Annual General Meeting held on 26 April 2012
- Reviewed the draft contents for inclusion in the draft Annual Report and Accounts 2012, particularly in respect of Corporate Governance and the description and explanation of the Company's business model and strategy

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 30 December 2012 was as follows:

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

(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 on 11 September 2012

** a member of the Audit and Remuneration Committees until 8 June 2012

*** a member of the Nomination Committee from 8 June 2012

**** a member of the Remuneration and Nomination Committees from 8 June 2012

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.

In addition to the scheduled Board meetings noted in the table above, an annual two day strategy review was held with the Board and senior management team at which the Group's strategy, progress with the strategy and competitive positioning were reviewed in depth.

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, market analyses 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 2012 particularly in relation to the UK Corporate Governance Code (revised 2012), the Department for Business Innovation & Skills' (BIS) consultations in relation to shareholder voting rights on remuneration issues and revised remuneration reporting regulations and also the BIS consultation regarding 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 2012. This insurance cover has been renewed for 2013.

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, the Board applies a formal process for evaluating the performance and effectiveness of the Board, its committees and its members.

The Board acknowledges that the 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 was not in the FTSE 350 in the current reporting period nor in the prior reporting period, the Board considered introducing external independent facilitation of the Board evaluation process, and proposes to use an external facilitator every third year, starting in 2012, to complement and enhance the questionnaire-based Board evaluation procedures which have been adopted in prior years.

The evaluation of the Board, which is led by the Chairman, aims to be as rigorous and objective as possible. It considers the Board's strengths and weaknesses, its range and balance of skills, experience, independence and knowledge of the Company, its diversity, how the Board works together as a unit and any other factors considered relevant to its effectiveness. Individual evaluation aims to consider whether each director continues to contribute effectively and to demonstrate commitment to the role (including time commitment).

During 2012, this Board and Committee evaluation exercise was conducted with the facilitation of external advisers, ICSA Board Evaluation, who had no other connection with the Company and were not subject to any conflict of interest. The evaluation process included a series of in-depth one to one meetings with each director, within a framework of topics agreed by the Chairman. Feedback from the evaluation was provided in the form of a report which was presented by ICSA at a meeting of the Board, which then discussed the findings, ICSA recommendations and the evaluation process itself. The agreed improvement actions have been, or are in the process of being, implemented.

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 2013 Annual General Meeting confirms that performance of the directors being proposed for reappointment continues to be effective and that they 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. 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. No such conflicts existed during 2012.

COMMITTEES OF THE BOARD

The Board has a Nomination Committee, Remuneration Committee and 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:

G Collinson (from 8 June 2012)

R Eckelmann

RK Graham

J Grant (from 8 June 2012)

A majority of the members of the Nomination Committee during the 52 week period were independent non-executive directors. G Collinson and J Grant, each being independent non-executive directors, became members of the Committee from 8 June 2012. RK Graham, in terms of the Code, no longer satisfied the independence criteria from 25 September 2012 but remained a member of the Committee as there were still a majority of independent members of the Committee and the Board agreed that this Committee would continue to benefit from RK Graham's extensive business and corporate governance experience.

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. The changes to the roles and membership of the Committees of the Board, effective from 8 June 2012, as explained on page 41 were recommended by the Committee and approved by the Board.

The Nomination Committee has reviewed the size, composition and structure of the Board and considers that the current composition of the Board is appropriate to provide the proper governance, administration and business counsel of the Company's affairs.

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

M Ruetters

RK Graham (until 8 June 2012)

J Grant (from 8 June 2012)

Only non-executive directors served on the Remuneration Committee in 2012 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 2012 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 2012, the business discussed and considered by the Remuneration Committee included, amongst others:

- review of AGM voting guidelines, as issued by investor groups, in respect of the notice of the 2012 annual general meeting;
- approval of cash bonus payments in respect of 2011;
- assessment of the extent to which performance conditions had been achieved for those performance share plan awards and share option awards which had been granted in 2009 and the performance period for those awards concluded at the end of 2011;

- obtaining and reviewing comparative remuneration data from external organisations;
- review of compensation structure for employees across the Group;
- review and approval for 2012 of increases in base salaries for employees other than the executive directors and the other members of the senior management team;
- review and approval for 2012 of the decision, in view of the Group's 2012 budget and general company practice in UK and overseas, for no increase in base salaries for the executive directors and the other members of the senior management team;
- agreement of 2012 remuneration packages and setting of performance targets for 2012 performance-related remuneration for directors and senior management;
- review and approval of long term incentive arrangements for awards in 2012;
- review and approval of the terms for the awards under the Executive Deferred Bonus Plan in 2012;
- review and approval of contingent share awards in 2012 to employees, other than executive directors and senior managers;
- review and approval of cash bonus arrangements for all employees in 2012;
- 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, to the offer of an Enhanced Transfer Value to the deferred members of the defined benefit pension scheme (refer to notes 4 and 20 to the financial statements on pages 93 and 107);
- review of the Committee's Terms of Reference;
- review of best practice in remuneration policies;
- review and consideration of the Department of Business Innovation & Skills' (BIS) consultation regarding executive remuneration regulations and compilation of a response from the Committee to the consultation;
- review and consideration of the Association of British Insurers' (ABI) 'Principles of Remuneration' published in November 2012;

- agreement of proposals to be discussed in meetings held in December 2012 with shareholders and investor bodies (which the chairman of the Committee attended accompanied, at those meetings, by the Senior Independent Director or another non-executive director) for the outline proposals for the policy and structure of executive remuneration in 2013;
- review and discussion, with the rest of the Remuneration Committee, of feedback from the meetings held in December 2012 with shareholders and investor bodies.

Further information regarding the activities of the Remuneration Committee in 2012 is included in the Directors' Remuneration Report which is set out on pages 56 to 73.

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:

J Grant (from 8 June 2012)

RK Graham (until 8 June 2012)

Committee Members:

R Eckelmann

G Collinson

J Grant (was a member of the Committee throughout 2012 and became chairman of the Committee with effect from 8 June 2012)

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 experience in finance or accounting roles or comparable experience in corporate activities.

RK Graham stepped down from being chairman and a member of the Audit Committee with effect from 8 June 2012, as explained on page 41. J Grant, having previously served as a member of the Committee, became Committee chairman from 8 June 2012. As referred to in the biography on page 35, J Grant also chairs the Audit Committee in three other companies where he holds non-executive director appointments.

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 2012 the Audit Committee met five times with the external auditors present at all of these meetings. The Chairman of the Board is invited to attend, and does attend most, meetings of the Audit Committee.

During the period since the beginning of 2012, 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 Group's system of risk management, regulatory compliance and internal control.
- Review the Company's systems and controls for the prevention of bribery and corruption and receive 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 on the appointment and remuneration of the external auditors and approve their terms of engagement; oversee the relationship with the external auditors; assess the independence of the external auditors and monitor and approve non-audit services provided by the external auditors.
- Monitor the role and effectiveness of the internal audit function, including: resourcing; setting and adherence to the 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 49 to Policy on Use of External Auditors for Non-audit Services). On internal controls, the Audit Committee participates in the process for identifying and managing risk and links the focus of internal controls and the internal audit programme to the Group's risk register. The Audit Committee reviews the programmes of both the external auditors and the internal audit function and the findings from their audits. 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 2012, the business discussed and considered by the Audit Committee included, amongst others:

- review of the Group's preliminary announcement of the financial results for the 52 week period ended 1 January 2012, the 2012 half yearly financial report and the quarterly results announcements prior to approval by the Board and their release;
- consideration and review of the Group's 2011 financial statements and the 2012 half yearly financial report prior to Board approval and reviewing the relevant external auditor's detailed reports;
- review and consideration of the statement regarding going concern in the 2011 Annual Report and Accounts in respect of the financial statements for the 52 week period ended 1 January 2012;
- monitoring ongoing compliance with International Financial Reporting Standards ("IFRS"), including consideration of the appropriateness of the Group's and the Company's accounting policies in accordance with IFRS;
- 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;
- consideration and review of compliance with legal requirements and the Listing Rules and the Disclosure Rules and Transparency Rules of the UK Listing Authority;
- considering and approving the assumptions in the annual review of potential impairment of goodwill, prior to approval by the full Board;
- review of key performance indicators;
- review and discussion of the proposals from the external auditors and the internal audit function regarding their audit programmes for 2012 with particular regard to the Group's risk register and the assessment of the adequacy of internal controls generally;
- approval of the audit fee and review and approval of non-audit fees payable to the Group's external auditors;
- consideration and assessment of information technology systems and controls;
- consideration of business continuity arrangements;
- review of the Group's intellectual property policy and arrangements for its implementation;
- review of reports from management on the Group's main risks and the assessment and management of those risks;
- review of 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;
- review of the appropriateness of the Group's 'whistle blowing' policy;
- review of any conflict or potential conflict of interest situations and determination of whether it is appropriate for any such matter to be authorised by the Board;
- consideration and review of non-audit services by the external auditors in accordance with the policy regarding the provision of those services;
- review and consideration of the Department of Business Innovation & Skills' (BIS) consultation regarding narrative reporting;
- review of draft sections for this Annual Report and Accounts 2012;
- monitoring and assessment of the independence of the external auditors; and
- review of the performance of the external auditors at the beginning of 2012, resulting in a recommendation that 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.

KPMG Audit Plc have been the Group's auditors since the period before the Company listed on the London Stock Exchange in 2003. The external auditors are required to rotate the audit partner responsible for the Group and subsidiary audits every fifth year; the current audit engagement leader has been in place since 2008 and accordingly a new audit engagement leader shall be responsible for the audit of the 2013 consolidated financial statements of the Group. The Audit Committee remains satisfied with the effectiveness of the external auditors; accordingly, the Audit Committee to date has not considered it necessary or appropriate to initiate a competitive tender for the audit.

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 2012, 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 so as to ensure that the independence of the external auditors is not compromised. *Some minor amendments were made to the policy as a result of this review.* The policy is intended to ensure that non-audit work is undertaken by the external auditors only when they are best suited to undertake it. 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 being reported to the Audit Committee at its next meeting. Any non-audit work involving expenditure of more than \$50,000 requires approval of the whole Audit Committee. The policy 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 94. 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 raise concerns about possible improprieties in financial reporting or other matters. The "Whistle Blowing" policy, which details the arrangements for the confidential and independent investigation of such matters and the appropriate follow up actions, was reviewed by the Committee during 2012 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

Committee Chairman:

J Grant (from 8 June 2012)

RK Graham (until 8 June 2012)

Committee Members:

JM Hickey

M Cubitt

RK Graham (from 8 June 2012)

RK Graham stepped down as chairman of the Treasury Committee on 8 June 2012 but continued to serve as a member (see Board Composition section on page 41 for further details). J Grant joined the Committee from 8 June 2012 and was immediately appointed Committee chairman. 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 118 to 124. The Treasury Committee reports to, and makes recommendations to, the Board regarding these matters.

During 2012, the Committee reviewed the Treasury policies to ensure their ongoing appropriateness and adequacy including the currency hedging policy, as referred to in note 23 of the financial statements on page 118. In the fourth quarter of 2012, the Committee recommended a modification to the Company's policy to extend the period of currency hedging further into the future. Under the revised policy, forward foreign exchange contracts covering the majority of the US dollar to Sterling exchange rate exposure, which arises on the Company's Sterling denominated overhead costs, will generally be put in place for twelve months ahead on a rolling basis. The previous policy was to hedge a minimum of one quarter ahead (unless otherwise approved by the Board). Under this new policy, the financial year 2013 has been hedged at an average rate of \$1.60 to £1.

As previously reported, 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 an integral part of 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 and approving the business strategy (see below).

In 2012, Wolfson conducted its formal risk management review processes in a manner similar to that adopted in 2011. 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 2012 this process involved the review of strategy, objectives and activities of the business and its risk profile in the context of the challenging macroeconomic conditions which were experienced during 2012. This updated risk register was reviewed by the Audit Committee and subsequently by the Board, and formally adopted. The risk register is reviewed regularly 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 framework for the identification, evaluation and management of the most significant risks faced by the Group. The framework includes: 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 the 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; a 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 throughout the period under review and up to the date of approval of the Annual Report and Accounts.

Following the extensive reviews performed in 2010 and 2011, and its update during 2012 (and the update of key business risks viewed in the context of the opportunities anticipated in the strategy), the risk register is considered to be well aligned to the strategic management priorities and reflects bottom up and top down analyses of opportunities and related risks.

As explained on page 50, 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 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 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 and 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 24 to 33.

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 and operational monitoring 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 the business are also reported to the Board in advance of each Board meeting.
- 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.
- Detailed analyses of (actual and forecast) design wins and revenues, by customer, and related gross margins, are compiled and reviewed by management and the Board.
- Progress on development projects, which is closely monitored by management, is an important metric in the business scorecard and updates on the status of the projects are provided at each Board meeting.
- Operational metrics are regularly monitored and key metrics are included in the business scorecard. Manufacturing requirements and supply chain capacity are kept under regular review.
- 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 2012 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 2012. 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.
- 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 it is subject to a structured Management Review process. Third party audits are conducted by the British Standards Institution to verify continued compliance with BS EN ISO 9001:2008. Wolfson continues to improve the quality audit systems with the on-going development of the internal audit resources through advanced training with ISO accredited bodies. The scheduling of all audits and subsequent activities is tracked through an electronic audit management system.
- Wolfson seeks to exceed its customers' expectations by the adoption of internationally recognised quality standards and has a policy of continuous improvement throughout its business. The Group has initiated a Six Sigma programme as part of this continuous improvement policy.

SHAREHOLDER ENGAGEMENT

RELATIONSHIP WITH SHAREHOLDERS

The Chairman is responsible for ensuring there is effective communication with shareholders, and the directors believe firmly in the importance of this communication.

The Group maintains an active dialogue with institutional shareholders through individual meetings attended by members of the Board and their participation in conference meetings and calls relating to results announcements. During 2012, the Chief Executive Officer and the Chief Financial Officer held meetings and telephone conference calls with major shareholders. 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. G Collinson, the chairman of the Remuneration Committee, accompanied by either the Senior Independent Director or one of the other non-executive directors, met with most of the Company's major shareholders in December 2012 to discuss executive remuneration policies, in the context of the Wolfson business strategy, and other governance matters.

An investor and analyst technology seminar was held in May 2012. This 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 latest technologies and products.

During the period a regular dialogue has been maintained with institutional shareholders, analysts and the financial press. Investor relations and other information are 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 2012, 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 2013 on each substantially separate issue and, in particular, intends to propose a resolution at the AGM relating to the Annual Report and Accounts 2012. 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

With around 450 permanent employees globally, it is vital that we focus on our employee value proposition, ensuring that we motivate, challenge and consequently retain these highly skilled individuals. We expect commitment, dedication and innovation from our employees and in return we support them in the development of their skills and careers through exciting, leading-edge opportunities, flexible work environments, and challenging activities.

TALENT ACQUISITION

Our strategy to attract the best talent in the world remains at the heart of our overall people strategy, and we continue to develop and drive our talent acquisition practices to ensure we attract the best people for the exciting opportunities that we have. We strive for diversity, so we benefit from highly skilled individuals who add value in many ways and complement our dynamic culture. Graduate placements, internships and our graduate hiring programme remain vital in supplementing the pipeline of talent into the Company. As such our University and Schools programme continues as a priority and we have partnered with UK Electronics Skills Foundation during 2012 to expand this programme and take advantage of UK wide engineering talent.

DEVELOPING OUR PEOPLE

The Company remains committed to developing high quality leadership, managerial and technical capability in our people. During 2012 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 our 'Future Leaders' programme which is partly funded by Scottish Enterprise has gone from strength to strength, culminating in the members of this programme presenting four key business challenges to the Board of Directors for consideration in the development of the Company's plans for 2013. For example, one of these business challenges has focussed on inspiring a culture of increased innovation, with a detailed implementation plan that is being progressed.

The Company ensures its success through knowledge sharing across all functions. Programmes, such as our 'lunch and learn' series, allow employees from all functions to share information and knowledge on their areas of expertise with their colleagues from other areas of the business. Technical training is 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. Managerial training has been supplemented in 2012 by providing our managers with access to Manager Zone, an on line learning and resource toolkit where managers can access information on a wide range of management topics. This self-paced tool provides managers with management support and development, that is always available, lending itself perfectly to a globally dispersed management group.

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.

OUR EMPLOYEE VALUE PROPOSITION

To complement our people practices we also ensure that we take action from our annual employee opinion survey results. Cross company project teams work in collaboration to design solutions for the areas where employees think we can improve, but also to take action in our areas of strength to develop these still further. We also ask our graduates to take a lead in these cross function teams ensuring that we benefit from new, fresh and exciting ideas. In 2012 we decided to run our employee opinion survey every 18 months so the next survey will be in June 2013.

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 constantly review the data sources and salary surveys which we use for appropriateness and suitability. In 2012 we removed one survey data supplier and added two others. 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 other forms and types of recognition so they can reward and motivate our people through one-off "thank-yous", such as 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 and is in keeping with the level and value of activity being rewarded.

During 2012 the Company carried out a full review of its employee benefits practices globally and, as a consequence, launched a comprehensive, all-encompassing, benefits portal in the UK called 'MyBenefits Hub'. In conjunction with this launch, a number of new benefits were also offered including an employee discount scheme linked to a range of retailers. In addition, new benefits were implemented and existing ones were enhanced in Taiwan, Korea and Japan. The Company continues this review across its remaining regions with a view to enhance and add benefits where appropriate.

Towards the end of 2012, the Company instigated an enhanced transfer value exercise for eligible deferred members of the Company's defined benefit pension scheme. The purpose of the exercise is to help reduce the liabilities of the scheme. Further details are provided on page 93. As reported in the Annual Report and Accounts 2011, this defined benefit pension scheme closed to future accrual from 30 April 2011.

In 2012 we ran our third invitation for employees to participate in the Save As You Earn share option scheme in the UK with a 23% take up from our eligible employees.

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 58.

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 52 and 53), 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 manufacturing subcontractors for acceptable environmental and Corporate and Social Responsibility (CSR) policies of their own. Our survey format refers to international regulations and standards. This exploits the steadily improving world-wide understanding of those regulations and standards.

In 2012, Wolfson introduced a review of its main suppliers' Corporate and Social Responsibility (CSR) policies into its supplier audit programme. Good CSR standards are a requirement for subcontractors to be added to Wolfson's Approved Suppliers List, but formalising this requirement reinforces Wolfson's commitment to CSR. The policy is based on the Electronic Industry Code of Conduct (EICC) which 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.

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. 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 publicly through the Company's website.

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. Wolfson's Environmental Management System is maintained through management review meetings, held on a regular basis, and by internal audits. Annual internal legal and other requirements compliance audits are also performed by a specialist consultant. Wolfson maintains certification by employing 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 2012 were:

- review and upgrade of air handling with more energy efficient systems;
- upgrade lighting systems with low energy equivalents, typically achieving a 20% reduction in energy consumption by these systems; and
- reduce waste to landfill by 15% by improved recycling.

As announced in 2012 by the UK Government, quoted companies (including companies listed on the Main Market of the London Stock Exchange) will have to measure and report levels of greenhouse gas emissions and these new regulations are planned to be introduced during 2013. The Company will aim to address the relevant aspects of these regulations.

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)

Wolfson has a formal Hazardous Substances Management System (HSMS). Our policy with respect to hazardous substances is total compliance with all regulatory and customer requirements. Our formal HSMS will support the continuation of our 100% compliance 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 have been two further updates to the Registration, Evaluation, Authorisation and restriction of CHemicals (REACH) list of Substances of Very High Concern (SVHCs). 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 specialising in the design and supply of high performance audio solutions which meet the high quality standards expected by our customers in a manner consistent with industry recognised environmental and ethical standards such as the Electronic Industry Code of Conduct (EICC). As a fabless company, Wolfson subcontracts its manufacturing operations to silicon wafer foundries and assembly and test providers that are based mainly in Asia. 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.

All employees are expected to behave ethically when working for the Company and this is reflected in the policies which are detailed extensively 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 further review in 2012 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 to incorporate a specific anti-bribery and corruption policy. The anti-bribery and corruption policy continues to be communicated to all employees, especially new joiners, 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 team or 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.

The Company takes its legal and ethical responsibilities very seriously and constantly reviews case law and new legislation to ensure that it continues to follow good and ethical practices globally.

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 Quality has responsibility, delegated by the Board, for the Company's health and safety matters.

LOCAL COMMUNITY

The Company strives 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 budget available. The CCC also approves employee charity matching and nominates different charities for Company support. Wolfson employees continue to be committed fund-raisers to a wide variety of different charitable causes, by taking part in a range of events including 5km runs, marathons, cycle-rides and sponsored silences.

Wolfson has provided community support to local Scottish schools by supporting Generation Science – the national education programme which brings science to life with a range of exciting shows and workshops delivered in the classroom. Furthermore, Wolfson provided sponsorship to RNIB's (Royal National Institute of Blind People) inaugural "Technology for Life" conference held at Glasgow Science Park in September 2012. Wolfson employees based at the office in Newbury continued to support The Castle School during 2012. The Castle School caters for young people, with a variety of complex learning difficulties, from 2 to 19 years of age. During the course of 2012, various successful and fun events were held in support of The Castle School such as a summer fundraising barbecue, a breakfast morning and a charity bowling night.

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 2013 this will be extended to supporting PhD students from both Edinburgh and Southampton Universities.

As with previous years, the Company sponsored an exhibit in the Edinburgh International Science Festival in April 2012 aimed at raising children's awareness and interest in science.

In 2012, the Group supported charitable and community activities, including the scholarship programmes, with donations and sponsorships totalling \$97,000 (2011: \$186,000).

Directors' Remuneration Report

CONTENTS

	Page
Introduction by the chairman of the Remuneration Committee	56
A. Remuneration policy report	
The principles behind our remuneration policies	57
Overview	57
Annual cash bonuses	58
Long Term Incentive Plans (LTIPs) for executive directors and senior management	58
Guidelines for desired levels of shareholdings for the executive directors and senior managers	58
Remuneration on termination or severance	58
Non-executive directors	59
All other employees	59
Linking remuneration to the strategy of Wolfson and the management of strategic risk	59
Summary of the new proposals for remuneration in 2013 for directors and senior management	60
Base salary, pension and other benefits for 2013	60
Cash bonus plan for 2013	60
Annual cash bonus deferral	61
LTIP for 2013	61
Proposals for remuneration of Chairman and non-executive directors in 2013	62
B. Remuneration implementation report	
Summary of total remuneration received by the directors in 2012	62
2012 Directors' Emoluments	63
2012 Pension Contributions	64
2012 Other benefits	64
2012 Cash bonus awards	64
Assessment of the extent of vesting of the 2010 LTIP at the end of 2012	65
Directors' holdings of shares and share-based awards under the LTIPs and other information on directors, advisers and historic share price performance	66
Directors' shareholdings and other interests in shares of the Company	66
Holdings under LTIPs	67
Deferred annual bonus plan	69
Share price performance graphs	70
Service contracts	70
Non-executive directors	70
Advisers to the Remuneration Committee	71
Comparison of actual shareholdings for the executive directors versus the Company guidelines	71
Compliance with the ABI guidelines on dilution	71
Formal role of, and composition of, the Remuneration Committee and the number of meetings in 2012	73

INTRODUCTION BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

On behalf of the Wolfson Remuneration Committee, I am pleased to present the Directors' Remuneration Report for inclusion in this Annual Report and Accounts 2012.

Wolfson made good progress during 2012 in its strategy of moving from a mixed signal generalist to an audio systems-on-chip leader. This was reflected in both improved financial performance – with 15% growth in annual revenue and a return to underlying profitability in the second half of the year as well as an increasing number of high profile design wins with leading consumer electronics manufacturers. However, this strategic change is not yet complete, and therefore we have decided not to make major changes to executive remuneration for 2013, keeping in place the incentives to drive strong growth in line with this strategy and the clear market opportunity.

Despite not recommending a change to the structure of the executive remuneration for 2013, we have once again consulted the Wolfson shareholders widely in setting the levels of base pay for 2013 and the targets for the 2013 Long Term Incentive Plan (LTIP). The Senior Independent Director, Rob Eckelmann, another of our non-executive directors, Ross Graham, and I visited 9 of the top 10 shareholders and other shareholders who, in total, represented approximately 54% of the share register together with the major investor bodies. We conducted this exercise again during the first part of December 2012, in order to give shareholders sufficient time to consider the initial proposals of the Remuneration Committee and to provide their feedback before the finalisation of this Directors' Remuneration Report. The feedback received resulted in small revisions to the proposed 2013 LTIP targets, but broad agreement with the general approach and principles adopted.

We have decided, based on the level of general price inflation and in view of market movements against our base salary freeze in 2012, to apply a 3% average increase in the base salary of the executive directors and senior management. This increase is the same as the increase in total salary budget for the rest of the employees in the Company.

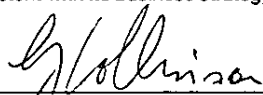
The cash bonus paid to the CEO in 2012 was 39% of base salary compared to an "on target" bonus of 66.7% of base salary (and a maximum potential bonus of 133% of base salary). The cash bonus paid to the CFO and the other members of the senior management team in 2012 was 29% of base salary compared to an "on target" bonus of 50% of base salary (and a maximum potential bonus of 100% of base salary). These bonuses have increased from the levels paid last year, in line with the improved financial performance of the Company and the meeting of key developmental objectives. The bonus levels have again been determined by objectively measuring performance against the targets set at the beginning of the year and, we believe, reflect a fair reward for the progress achieved in the major transformation programme; they are well below

the maximum bonus potential, in line with the fact that not all targets for the year were met. The structure and methodology of the annual cash bonus plan continue to be effective so we have decided that the on-target and maximum potential cash bonus for 2013 will be unchanged from 2012 – at 67% and 133% respectively for the CEO, and 50% and 100% respectively for the CFO and senior management.

The three year 2013 LTIP will continue to be paid in nil-cost options (economically equivalent to performance shares) up to the same potential maxima as last year: 300% of base salary for the CEO and 200% of base salary for the CFO and senior management. However, in line with the industry consensus view of even higher growth potential over the next few years in Wolfson's target markets, we have significantly increased the performance targets for the 2013 LTIP versus their 2012 and 2011 counterparts. These LTIPs are now established as the core of Wolfson's executive remuneration, setting growth targets that are challenging yet achievable in line with Wolfson's strategy to become a leader in audio systems-on-chip in very high growth market segments.

Wolfson participated actively in the UK Government's Department of Business, Innovation and Skill's Consultation on Revised Remuneration Reporting Regulations (June 2012). In anticipation of the changes in remuneration reporting that will result from this process in the UK, we have structured this year's report into two parts: A) Remuneration policy and B) Remuneration implementation.

I believe that Wolfson's remuneration implementation continues to be objectively measured and closely aligned to all stakeholder interests and that Wolfson's remuneration policies continue to be the right ones to help support the healthy growth of our Company consistent with its business strategy.



GLENN COLLINSON
CHAIRMAN OF THE REMUNERATION COMMITTEE
5 February 2013

A. REMUNERATION POLICY REPORT

THE PRINCIPLES BEHIND OUR REMUNERATION POLICIES

Overview

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.

The Remuneration Committee benchmarks, each year, the overall remuneration packages for the executive directors and senior management against several peer groups of similar companies in both the UK and internationally. This includes the FTSE250 and a basket of 40 high technology companies of similar size to Wolfson, selected from the USA, Europe and UK, predominately from the fabless semiconductor industry. The overall stance continues to be to ensure the overall levels of remuneration are not out of line with the median of these peer groups, taking into account both the size, and growth rate of those groups. This benchmarking is one of the set of tools used to determine remuneration set at each annual review but is not the sole driving influence.

The Committee considers pay levels elsewhere in the Company when determining the remuneration of directors and senior managers.

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 base salary increases, bonus or share schemes and are actively managed through a clear performance management process either to improve or to exit.

For executive directors and senior managers, the Committee sets demanding performance requirements in line with the Company's strategic objectives, and believes 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.

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

Annual cash bonuses

We judge short-term performance of our people and pay annual cash bonuses based on a mixture of metrics, both financial and non-financial (for example new product development, design-in, quality and operational success) using a balanced scorecard approach, corresponding to our strategic objectives. 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 pay outs.

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 and keep the executive team closely aligned with shareholders.

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 plans to retain both executive performance share and share option plans for executive share-based awards, but proposes for 2013, as in 2011 and 2012, that LTIPs be in the form of performance shares (or their equivalent nil-cost options) only. The details of these LTIP arrangements are described later in this report.

The LTIPs vest only when certain performance conditions are met after the three years. These performance conditions are selected by the Committee after full consultation with shareholders and leading shareholder bodies, to be appropriate for each 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.

The current share option plans operated by the Company were established in September 2003 and are, therefore, approaching the 10th anniversary of their adoption date after which no further awards can be granted pursuant to their terms. As a result, and in order to preserve the flexibility to grant market value share options in the future (if deemed appropriate by the Committee), the Company proposes to introduce two replacement arrangements at the 2013 Annual General Meeting (AGM), namely the

2013 Wolfson Microelectronics plc Approved Share Option Scheme and the 2013 Wolfson Microelectronics plc Unapproved Share Option Scheme.

The terms of these new plans (further details of which are set out in the Notice of the 2013 AGM) are similar to those of the 2003 schemes that they are intended to replace, save for adjustments needed to reflect changes in law and market practice.

Guidelines for desired levels of shareholdings for the executive directors and senior managers

We would like all our executive directors and senior managers to become shareholders in the Company to align further their interests with those of shareholders. Our shareholding policy was strengthened in 2010 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 their base salary. This should be achieved by the retention of 50% of the net shares from vested LTIPs, from the 2010 LTIP awards onwards, and by their voluntary participation in the annual cash bonus deferral plan also introduced in 2010 (described on page 69), together with their own investment in Wolfson shares. 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. We do not think that it is appropriate to mandate the deferral of annual cash bonuses earned because we do not want to over-emphasise this element of remuneration which is still primarily earned on a one year measurement horizon, versus our LTIPs which are measured over three years. The current shareholdings of the CEO and the CFO are described on page 71.

Remuneration on termination or severance

For the executive directors, as stated on page 70, 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 lapse, subject to the scheme rules. For "good" leavers (again as defined under the relevant scheme rules), whereas discretion may be applied to payments, we generally pro rate for time and performance conditions. It is at the discretion of the Committee, 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.

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 decision process *determining the remuneration of the Chairman is led by the Senior Independent Director and agreed with the rest of the Board (excluding the Chairman).* 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. The fees are payable in relation to: a base non-executive director fee; membership of the Audit and Remuneration Committees; positions as chairman of the Audit or Remuneration Committees and as Senior Independent Director. Fees payable to the non-executive directors in the 52 week period ended 30 December 2012 are included in the tables on page 63 and are described on page 71.

Other employees

The Remuneration Committee approves 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 competitive in relation to the external environment and the activities of competitors. All bonus and incentive schemes in the Company, with the exception of our sales team, are derived from the same metrics within the balanced scorecard, but potential pay-outs vary by grade of employee. In addition to salaries, pensions and the usual benefits in kind, the Company grants annual share-based awards, on a discretionary basis, through an employee share award scheme. These share scheme grants currently comprise a small number of contingent shares awarded to employees based upon their performance and contribution. The Company also operates a Save As You Earn (SAYE) share option scheme in which UK employees are invited to participate. We believe that these share schemes significantly help to maintain a culture where all employees are working in a way that is very well aligned to shareholder interests.

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 generalist to becoming a leading systems-on-chip provider of high definition audio for consumer electronics devices, is now clearly beginning to deliver improved financial performance. The change is still in its relatively early stages, but the implications of this strategy for the future of Wolfson remain profound. Firstly the evidence already shows that by winning a higher market share in high growth segments, the whole Company is able to grow more rapidly than in the recent past. Secondly, by raising the perceived value that Wolfson will bring to its customers, it is reducing 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 continues therefore, the Company believes, to lay the foundation for potentially a very significant increase in the value for its stakeholders over the longer term.

Such a bold strategy, of course, does not come without risks. For example, major new skills are being acquired in software engineering, new supplier relationships are being built and the closer focus on fewer, larger customer programmes means that Wolfson is increasingly competing to become a long term partner rather than a commodity supplier. A necessarily more concentrated customer base means it will become increasingly important to continue developing the Company's sales skills to sell across multiple levels at its target customers. The Board continues to believe that those risks are manageable and are out-weighed by the potential for much more success.

It continues to be essential that remuneration play its part in setting the right incentives over the right time scales, to re-enforce management's role in making the difficult decisions to complete this strategic change.

The right approach remains to place emphasis on growth 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, management should not, of course, ignore profitability during this growth phase. Hence, profitability 'underpin' is included in long term incentive plans (and gross margin is one of the financial metrics in the balanced scorecard for the annual bonus plan). Wolfson's highly geared, fabless semiconductor business model allows much of the gross margin generated from incremental sales to fall through to the bottom line, so it is appropriate to increase the level of this profitability underpin as the revenue target itself increases from one year to the next.

The incentives we set must continue to take into account the market place in which Wolfson competes. For example, during 2012, the consensus view in the industry is that there is now even more potential for growth in Wolfson's target market segments whilst allowing for the decline in the rest of the business. It is right, therefore, that the remuneration incentives reflect this higher growth potential so we have significantly increased the performance targets for the 2013 LTIP.

The strategic transformation currently underway at Wolfson should be substantially complete over the next two to three years. Thereafter, as the strategy of Wolfson evolves, so must its remuneration policies. It is expected that, after a leadership position is established in its target markets, the emphasis will move towards maintaining model profitability and growth in shareholder value by building on that leadership position. However, in the meantime, until leadership is achieved in the target markets and whilst the opportunity remains high, it is right to continue to emphasise top line growth.

SUMMARY OF THE NEW PROPOSALS FOR REMUNERATION IN 2013 FOR DIRECTORS AND SENIOR MANAGEMENT

Base salary, pension and other benefits for 2013

The Committee proposes that the base salary for the CEO, CFO and the senior management in 2013 will rise by an average of 3% from the level in 2012. Base salaries in 2012 for the executive directors and senior managers were frozen at the 2011 level. This average rise in base salary for 2013, of 3%, will be in line with the increase in overall salary budget applicable for the rest of the employees of the Company.

The base salary will continue to be the only element of compensation which is pensionable and will be at the same proportion of base salary as 2012. Both executive directors and the majority of senior managers participate in the Company's defined contribution pension scheme. Full details of the pension scheme contributions, paid by the Company in respect of the executive directors, are shown on page 64.

Other benefits for directors including the travel allowances are described on page 64 and the categories of these other benefits are unchanged from those provided in 2012.

Cash bonus plan for 2013

For the CEO, JM Hickey, it is proposed that the cash bonus scheme for 2013 will be capped at a maximum potential of 133.3% of base salary and that the cash bonus for on-target performance will result in a bonus of 66.7% of base salary. For the CFO and senior management, it is proposed that the cash bonus scheme for 2013 will be capped at a maximum potential of 100% of base salary and that the cash bonus for on-target performance will result in a bonus of 50% of base salary. These cash bonus plans are unchanged from 2012.

For 2013 the balanced scorecard, on-target cash bonus performance criteria and the associated components of the bonus will be as follows:

Cash Bonus Plan 2013: Balanced Scorecard Targets and Associated Bonus Components

Proposed 2013 Annual Cash Bonus Targets (as % of base salary)

CEO	On-target cash bonus (% of base)	Maximum cash bonus (% of base)
Metric		
1. Financial metrics	33.3%	66.7%
2. Non-Financial metrics	33.3%	66.7%
Total 2013 annual cash bonus potential	66.7%	133.3%

CFO and senior management	On-target cash bonus (% of base)	Maximum cash bonus (% of base)
Metric		
1. Financial metrics	25.0%	50%
2. Non-Financial metrics	25.0%	50%
Total 2013 annual cash bonus potential	50%	100%

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

The non-financial metrics include adherence to product development schedules, achievement of product quality targets, operations excellence and customer design-ins.

The weighting of financial: non-financial metrics will be slightly different in 2013 at 50:50 compared to 55:45 in 2012.

Cash bonuses up to and including an on-target pay out are calculated using the full bonus scorecard as described above.

Above on-target cash bonus is calculated by multiplying the scorecard based bonus by a multiplication factor based on a revenue stretch target.

Annual cash bonus deferral

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 2013. Under this plan, executive directors and senior management may elect to invest up to 50% of the net bonus earned from the annual cash 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 2013, these performance targets will be the same as for the awards under the 2013 LTIP described below 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.

LTIP for 2013

Similar to the policy in 2012, it is proposed that contingent performance-based nil-cost option awards will be used for the long term share-based incentive scheme in 2013. These nil-cost options have exactly the same economic value to the recipient as contingent share awards, but give the recipient an increased degree of flexibility, within an overall two year window, on when the award is taken (exercised) subject to, 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 2013 LTIP accompanied by an underlying operating profitability underpin.

For the CFO and senior management, the highest potential pay out level is the same as applied for the 2012 LTIP at 200% of base salary.

For the CEO, the highest potential payout is 300% of base salary, the same as applied for the 2012 LTIP.

In detail, the proposed performance targets, which are the same for all of the executive directors and senior management, are as follows in comparison with the 2012 LTIP:

- (a) The threshold target should be \$275m revenue in 2015 (i.e. a 15% compound growth rate from 2012), which is an increase from the 2012 LTIP threshold target of \$220m of revenue in 2014.

- (b) The maximum target should be \$550m revenue in 2015 (i.e. a 45% compound growth rate from 2012), which is an increase from the 2012 LTIP maximum target of \$320m of revenue in 2014.

- (c) An underlying operating profit margin underpin of 10% should be applied in 2015. This compares to the operating profit margin underpin applicable for the 2012 LTIP of 7.5% at the threshold target of \$220m in 2014, rising linearly to 10% at the maximum target of \$320m revenue in 2014.

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:

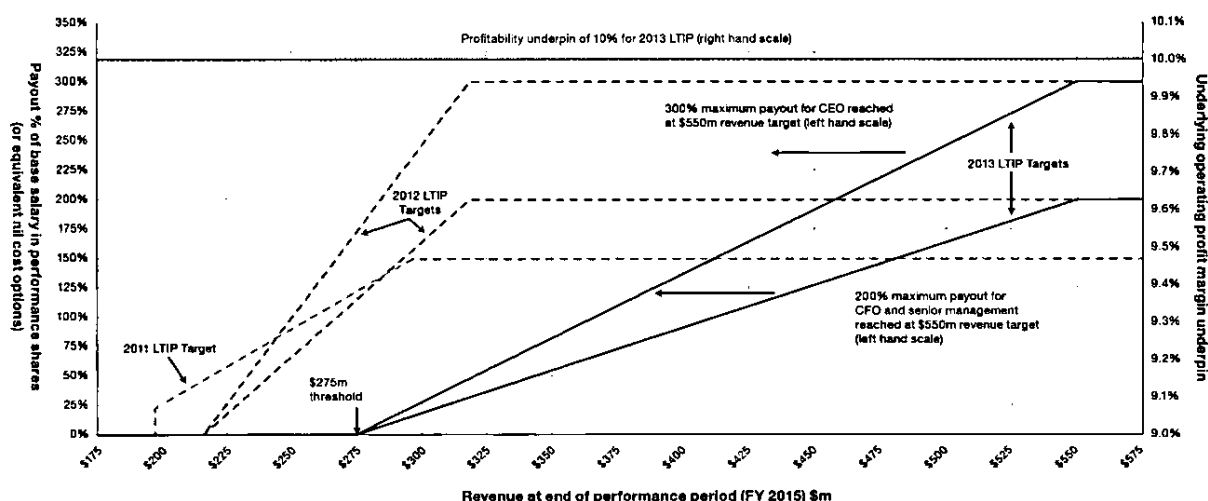
- Below the threshold revenue target ('gate') no LTIP payout should occur.
- At the maximum target revenue of \$550m and only if the associated underlying operating profit margin underpin of 10% is achieved or exceeded, an LTIP payout of shares equivalent to 200% of base salary (calculated using the average share price of the preceding three business days as at 14 March 2013) should occur.
- 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, as stated in (c) above, is achieved or exceeded.

For the CEO the payout potential under the LTIP is as follows:

- Below the threshold revenue target ('gate') no LTIP payout should occur.
- At the maximum target revenue of \$550m 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 14 March 2013) should occur.
- 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, as stated in (c) above, is achieved or exceeded.

This is represented graphically and in comparison to the performance conditions attaching to the 2011 and 2012 LTIP as:

Long Term Incentive Plan 2013: Targets and Potential Payouts



The Remuneration Committee estimates that the executive directors and senior managers collectively would receive approximately 2% of the increase in overall shareholder value if the maximum pay out occurs after the end of 2015 under the 2013 LTIP.

Proposals for Remuneration of Chairman and Non-Executive Directors in 2013

The fees for the Chairman and non-executive directors have been reviewed by the Board, excluding the non-executive directors, in relation to benchmarked data in respect of other companies of similar size and taking into account the amount of time that non-executive directors are expected to devote, in particular, to the activities of the Company's Board Committees in a year. As a result of that review, the fees for Board Committee membership and the Committee chairman will change with effect from 1 March 2013, as explained on page 71.

B. REMUNERATION IMPLEMENTATION REPORT

SUMMARY OF TOTAL REMUNERATION RECEIVED BY THE DIRECTORS IN 2012

2012 Executive Directors' Remuneration

	Base Salary £000	Pension £000	Other Benefits £000	Cash Bonus £000	LTIP £000	Total £000
CEO	276	19	13	107	181	596
CFO	201	17	11	58	122	409

The emoluments figures included in the table above are extracted from the 2012 Directors' Emoluments table, in Sterling, as shown on page 63. The figures included in the table above for LTIP are the gross values (i.e. before tax), at the vesting date of 19 March 2012, of the 2009 LTIP awards which partially vested in 2012 (refer to further details on pages 67 and 68).

The remuneration package for executive directors consisted of a combination of a base salary, pension contributions, other benefits in kind, a cash bonus scheme and a long term share-based incentive scheme. Base salary was the only pensionable portion of the remuneration package.

For JM Hickey, 80% of the total potential remuneration package in 2012 was performance related and for M Cubitt 72% of the total potential remuneration package in 2012 was performance related.

2012 Directors' Emoluments

The Directors' emoluments in respect of qualifying services of each person who served as a director during the 52 week period ended 30 December 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 relevant average exchange rate used in the 52 week period ended 30 December 2012. The equivalent sterling figures are shown in the second table below.

<i>Directors' emoluments (US dollars)</i>	Salary/fee \$000	Bonuses \$000	Benefits \$000	Other \$000	Total 2012 \$000	Salary/fee 2011 \$000	Total 2011 \$000
Executive directors							
JM Hickey*	428	169	20	–	617	438	548
M Cubitt**	311	92	17	–	420	319	1,015
Non-executive directors							
M Ruettgers	163	–	–	–	163	168	168
AD Milne***	41	–	–	–	41	56	56
RK Graham	64	–	–	–	64	79	79
R Eckelmann	71	–	–	–	71	69	69
G Collinson	68	–	–	–	68	70	70
J Grant	65	–	–	–	65	21	21
Totals	1,211	261	37	–	1,509	1,220	2,026

* The annual cash bonuses payable to the executive directors increased in 2012, compared to 2011, and accounted for the increase in total emoluments for the year for the CEO. As described on pages 56 and 64 this increase was in line with improved overall financial results.

** The emoluments figure in 2011 included a specific long term cash bonus which was paid in 2011, as described in the Directors' Remuneration Reports contained in the 2008, 2009, 2010 and 2011 Annual Reports of the Company.

*** AD Milne retired as a director of the Company on 11 September 2012.

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 2012 £000	Salary/fee 2011 £000	Total 2011 £000
Executive directors							
JM Hickey*	276	107	13	–	396	274	345
M Cubitt**	201	58	11	–	270	200	633
Non-executive directors							
M Ruettgers	105	–	–	–	105	105	105
AD Milne***	26	–	–	–	26	35	35
RK Graham	41	–	–	–	41	50	50
R Eckelmann	46	–	–	–	46	43	43
G Collinson	44	–	–	–	44	44	44
J Grant	42	–	–	–	42	13	13
Totals	781	165	24	–	970	764	1,268

* The annual cash bonuses payable to the executive directors increased in 2012, compared to 2011, and accounted for the increase in total emoluments for the year for the CEO. As described on pages 56 and 64 this increase was in line with improved overall financial results.

** The emoluments figure in 2011 included a specific long term cash bonus which was paid in 2011, as described in the Directors' Remuneration Reports contained in the 2008, 2009, 2010 and 2011 Annual Reports of the Company.

*** AD Milne retired as a director of the Company on 11 September 2012.

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

2012 Pension Contributions

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 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 base 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	
	2012		2011	
	\$000	£000	\$000	£000
JM Hickey	29	19	26	16
M Cubitt	26	17	26	16

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

2012 Other benefits

Benefits in kind are unchanged in 2012, compared to those provided in 2011, and consist primarily of a car allowance, 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. The amounts of these other benefits received by each of the executive directors are shown in the tables on page 63.

2012 Cash bonus awards

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 value of the 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 2012. 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 underlying overhead costs.

In total, for the year as a whole, the financial performance measures were only partially achieved to the extent of 51% of the on target scorecard percentage (that is a payment of approximately 14% of salary for M Cubitt and the senior management team, or 19% in the case of JM Hickey). This is further analysed in the table on page 65. 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 2012 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 67% of the on target scorecard percentage (that is a payment of approximately 15% of salary for M Cubitt and the senior management team, or 20% in the case of JM Hickey).

The above is summarised in the following tables including a breakdown of how the bonus associated with the financial measures was calculated:

2012 Annual Cash Bonus (measured on a balanced business scorecard)

CEO	Target bonus (% of base)	% of target achieved	Bonus earned (% of base)	Bonus amount £000
Metric				
1. Financial metrics	36.7%	51%	18.6%	51
<i>(of which) Revenue</i>	23.3%	63%	14.8%	41
<i>Gross Margin</i>	6.7%	13%	0.8%	2
<i>Overhead costs</i>	6.7%	45%	3.0%	8
2. Non-Financial metrics	30.0%	67%	20.0%	56
Total on target bonus as % of base	66.7%			
Total 2012 annual cash bonus			38.6%	107

CFO	Target bonus (% of base)	% of target achieved	Bonus earned (% of base)	Bonus amount £000
Metric				
1. Financial metrics	27.5%	51%	14.0%	28
<i>(of which) Revenue</i>	17.5%	63%	11.1%	22
<i>Gross Margin</i>	5.0%	13%	0.6%	1
<i>Overhead costs</i>	5.0%	45%	2.3%	5
2. Non-Financial metrics	22.5%	67%	15.0%	30
Total on target bonus as % of base	50.0%			
Total 2012 annual cash bonus			29.0%	58

The annual cash bonus plan payments above compare to £58,000 or 21.1% of base salary for the CEO and £21,000 or 10.6% of base salary for the CFO in respect of the 2011 cash bonus plan.

Assessment of the extent of vesting of the 2010 LTIP at the end of 2012

The LTIP issued in 2010 had the following performance conditions:

- In respect of the contingent share awards granted under the PSP in March 2010, which were equivalent to 40% of base salary at the time, the performance condition requires the Company's achievement of a gross profit target of \$100 million in any consecutive four quarters during the three year period 2010 to 2012. If that target was achieved in the period then the PSP awards would vest in full.
- In relation to the market value share option awards granted in March 2010, which were equivalent to 60% of base salary at the time, the performance condition requires the Company's achievement of a revenue target of \$200 million in any consecutive four quarters during the three year period 2010 to 2012. If that target was achieved in the period then the share option awards would vest in full.

The performance conditions were not achieved and therefore the contingent share awards and market value share option awards granted in March 2010, in respect of the 2010 LTIP, shall lapse.

DIRECTORS' HOLDINGS OF SHARES AND SHARE-BASED AWARDS UNDER THE LTIPs AND OTHER INFORMATION ON DIRECTORS, ADVISERS AND HISTORIC SHARE PRICE PERFORMANCE

Directors' shareholdings and other interests in shares of the Company

The interests of the directors, who were serving as at 30 December 2012, in the Company's ordinary shares of 0.1 pence, which excludes interests under the share option schemes, are set out below:

	At 2 January 2012 Number of ordinary shares	Shares acquired Number of ordinary shares	Shares disposed Number of ordinary shares	At 30 December 2012 Number of ordinary shares
M Ruettgers	479,317	-	-	479,317
JM Hickey	319,106	56,522	(29,496)	346,132*
M Cubitt	72,246	40,549	(19,853)	92,942**
RK Graham^	149,329	-	-	149,329
R Eckelmann	10,680	10,000	-	20,680
G Collinson	97,850	-	-	97,850
J Grant	-	50,000	-	50,000
	1,128,528	157,071	(49,349)	1,236,250

* Of these ordinary shares, 256,107 are held by JM Hickey, 68,525 are held by JM Hickey's wife and 21,500 are held by JM Hickey's two children. 24,139 of the shares held as at 2 January 2012 and as at 30 December 2012 are those purchased in 2010 by JM Hickey under the Deferred Bonus Plan (refer to page 69). During the 52 week period ended 30 December 2012, JM Hickey's contingent share award, from the 2009 LTIP, partially vested which comprised 56,522 shares (refer to page 67) and 29,496 of those shares were immediately sold by JM Hickey to pay for the related tax liability. During 2012 JM Hickey transferred a total of 21,500 shares to his children.

** 19,752 of these shares were purchased in 2010 and 2012 by M Cubitt under the Deferred Bonus Plan (refer to page 69). During the 52 week period ended 30 December 2012, M Cubitt's contingent share award, from the 2009 LTIP, partially vested which comprised 38,043 shares (refer to page 67) and 19,853 of those shares were immediately sold by M Cubitt to pay for the related tax liability.

^ 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 2 January 2012 and as at 30 December 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 the executive 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 30 December 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	409,418
JM Hickey	696,685

- 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 2,293,800 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 5 February 2013, there had been no changes in the above shareholdings.

Holdings under LTIPs**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 and nil cost option 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 2 January 2012 (number)	Contingent award (number)	Vested (number)	Lapsed (number)	As at 30 December 2012 (number)	Vesting date
JM Hickey	2011	19.03.09	£0.92	113,043	–	56,522	(56,521)	–	See note (a) below
	2012	19.03.10	£1.522	70,381	–	–	–	70,381	March 2013 ^(b)
	2013	17.03.11	£2.522	164,056*	–	–	–	164,056	March 2014 ^(c)
	2014	15.03.12*	£1.964	–	421,335**	–	–	421,335	March 2015 ^(d)
M Cubitt	2011	19.03.09	£0.92	76,086	–	38,043	(38,043)	–	See note (a) below
	2012	19.03.10	£1.522	51,211	–	–	–	51,211	March 2013 ^(b)
	2013	17.03.11	£2.522	119,373*	–	–	–	119,373	March 2014 ^(c)
	2014	15.03.12*	£1.964	–	204,384**	–	–	204,384	March 2015 ^(d)

* 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 below in note (c)).

** The figure for the contingent nil cost option award to JM Hickey on 15 March 2012 represents 300% (and for M Cubitt this represents 200%) 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 nil cost option awards, if the operating profit margin underpin and exceptional level of revenue growth performance are achieved (as explained on page 61)

^ The awards granted on this date comprise contingent nil cost options. All other awards in the table above are contingent share awards.

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

No consideration was payable for any of these awards.

- 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, as reported in the Directors' Remuneration Report contained in the 2011 Annual Report and Accounts, the applicable share price appreciation performance condition was achieved but the cash preservation condition was not achieved in the three year performance period. Therefore 50% of this contingent share award vested in March 2012 and 50% lapsed on 7 February 2012 upon the announcement of the Group's financial results for the 52 week period ended 1 January 2012. The value, before tax, of the total number of shares which vested from this award (based on the middle market quotation on the Daily Official List of the London Stock Exchange on the vesting date) was: £104,000 in respect of JM Hickey's award; and £70,000 in respect of M Cubitt's award.
- For the PSP awards granted on 19 March 2010, which were equivalent to 40% of base salary at the time, the vesting is decided by reference to the Company's achievement of a gross profit target of \$100 million in any consecutive four quarters during the three year period 2010 to 2012. If that target was achieved in the period then the PSP awards would 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. As described in the section on page 65, regarding the assessment of the extent of achievement of these performance conditions, these conditions were not achieved and therefore these PSP awards will lapse on 6 February 2013 upon the announcement of the Group's financial results for the 52 week period ended 30 December 2012.
- The performance conditions applicable to the PSP awards which were granted on 17 March 2011, are: firstly, an underlying operating profit margin underpin for 2013 of 7.5% (the awards will only vest for underlying operating profit margin above that level). Then there is a revenue growth target: revenue growth (compared to 2010 revenues) at the end of 2013 of gate 25% and cap at 87.5% (i.e. gate of \$197m and cap of \$295m revenues in 2013). Below the 25% growth in revenues threshold, none of the awards will vest. At 25% growth, 25% of the awards will vest. Above 25% growth, the awards will vest on a straight line scale. The awards will vest in full if growth in revenues (compared to revenues in year 2010) of at least 87.5% is achieved for the financial year 2013 (i.e. revenues of at least \$295m in the financial year 2013). These performance conditions have not yet been achieved.
- The performance conditions applicable to the contingent nil cost option awards which were granted on 15 March 2012, in respect of the long term incentive plan, are described on page 61 where the proposed 2013 LTIP is compared to the 2012 LTIP. These performance conditions have not yet been achieved. If and to the extent that these nil cost options vest at the end of the three year performance period, the award holder has two years from that time within which to exercise the options.

B. Market Value 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 02.01.12	Exercised during year	Lapsed during year	Granted during year	At 30.12.12	Exercise price	Date from which Exercisable	Expiry Date
JM Hickey	Executive	169,565	-	(84,783)	-	84,782	£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	-	(57,065)	-	57,065	£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, as part of the 2009 LTIP, which were equivalent to 60% of base salary at the time, 50% vested and 50% lapsed in 2012 as described in the section on page 67 regarding the contingent share awards which were also granted on 19 March 2009 as the other part of the 2009 LTIP. The share options which vested from this award on 19 March 2012 had a value on the vesting date (based on the closing middle market quotation price of the Company's shares on that date and after deducting the exercise price of the share options) of: £77,000 in respect of JM Hickey's award; and £52,000 in respect of M Cubitt's award. As at 30 December 2012, none of these vested share options had been exercised by the executive directors.
- (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 was to be decided by reference to the Company's achievement of a revenue target of \$200 million in any consecutive four quarters during the three year period 2010 to 2012. If that target was achieved in the period then the share option awards would 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. As described in the section on page 65, regarding the assessment of the extent of achievement of these performance conditions, these conditions were not achieved and therefore these executive share option awards will lapse on 6 February 2013 upon the announcement of the Group's financial results for the 52 week period ended 30 December 2012.
- (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 and again in 2012, the Company provided a further invitation in each of those years 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 or in 2012.

None of the non-executive directors has share options.

During the 52 week period ended 30 December 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 30 December 2012 amounted to \$nil (2011: \$nil).

The highest and lowest market prices of the Company's shares during the 52 week period ended 30 December 2012 were 230 pence and 125.25 pence respectively. The market price at the period end was 200 pence.

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, the second awards were granted under this Plan on 14 March 2011 and the third awards were granted on 15 March 2012. As described on page 61, participation in this Plan in 2010, 2011 and in 2012 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. In 2012, M Cubitt decided to participate in the Plan.

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 ees Trustee Limited, the trustee of The Wolfson Microelectronics No. 1 Employees' Share Trust ("the Plan Trustee"). Similarly, for 2012, a net amount (after tax) of up to 50% of the net bonus earned in 2011 by M Cubitt and the senior managers, if they elected to participate in the Plan in 2012, was applied in the acquisition of shares in the Company on behalf of those individuals by 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 66. The consideration paid by the executive directors on 29 June 2010 for the Deferred Share Bonus Award shares was £1.739881 per share. The consideration paid by M Cubitt on 15 March 2012 for the Deferred Share Bonus Award shares was £1.955 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. Also in accordance with the Plan, when the Deferred Share Bonus Award was granted on 15 March 2012, a Matching Share Award was also granted to M Cubitt. 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. For the Matching Share Award granted in 2010, the performance condition of the achievement of a gross profit target of \$100 million in any consecutive four quarters during the three year period following the grant of the award, is the same as that for the PSP awards granted in 2010 as part of the long term incentive arrangements, as described on page 65. The performance condition for the Matching Share Award granted in 2012 is the same as that for the PSP awards granted in 2012 as part of the long term incentive arrangements, as described on page 61, except that there is no enhanced matching for exceptional performance.

The maximum ratio of Matching Shares to Deferred Share Bonus Awards granted in 2010 and in 2012 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 2 January 2012 (number)	Granted on 15 March 2012 (number)	As at 30 December 2012 (number)	Vesting date
JM Hickey				
Deferred Share Bonus Award*	24,139	–	24,139	To be held for 3 years from date of grant 29 June 2013
Matching Share Award	40,913	–	40,913	
M Cubitt				
Deferred Share Bonus Award*	17,246	2,506	19,752	To be held for 3 years from date of grant 29 June 2013
Matching Share Award	29,230	–	29,230	29 June 2013
Matching Share Award	–	5,220	5,220	15 March 2015

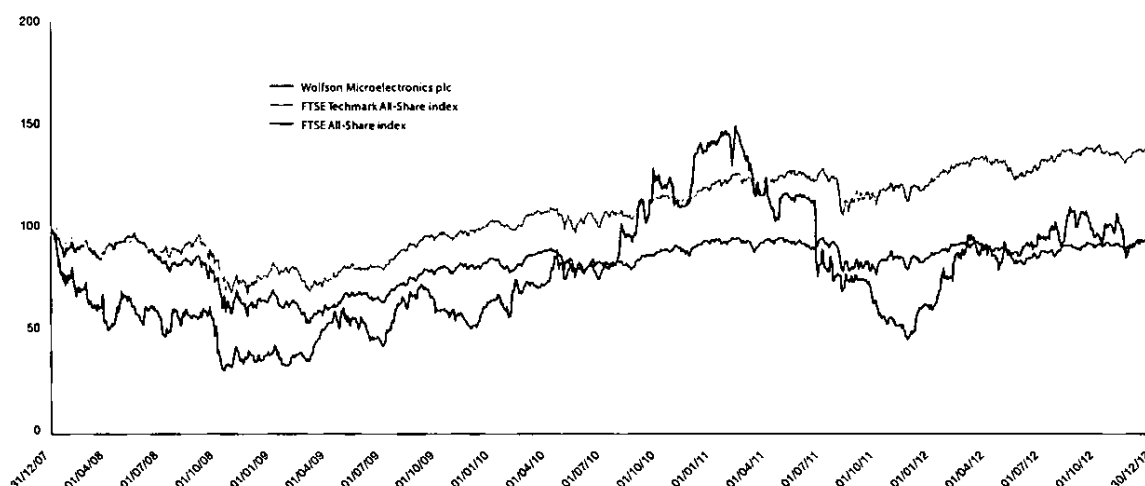
* the number of shares subject to the Deferred Share Bonus Awards are included in the Directors' shareholdings table on page 66 as the individual executive directors hold a beneficial interest in these shares.

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

Share price 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 and the Techmark index. The FTSE All Share index is a broad equity market index but, given the Company's technology credentials, the Techmark index could be considered more relevant as a comparator.

Wolfson Microelectronics plc: total shareholder return



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 base 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 30 December 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 serves 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 30 December 2012 are as follows:

	Date of terms of appointment
RK Graham	25 September 2003
R Eckelmann	1 November 2004
M Ruetters	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 usually for a fixed term of three years. Page 42 contains a summary of the non-executive directors' terms of appointment which have been extended from their original three year fixed term and explains that all directors now offer themselves for re-election at each Annual General Meeting of the Company.

On 11 September 2012, AD Milne resigned as a director of the Company and his terms of appointment dated 1 December 2007 terminated on that date.

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.

Fees

The following is a summary of the fees received by the non-executive directors in 2012 (the actual fees payable to each of the non-executive directors in 2012 are shown in the tables on page 63):

The fee for the Chairman of the Board was £105,000 per annum. For the other non-executive directors:

- the fee for non-executive directors: £35,000 per annum; and
- Audit and Remuneration Committee member's fee: £4,000 per annum;
- fee for chairman of Audit Committee: £5,500 per annum;
- fee for chairman of Remuneration Committee: £5,000 per annum;
- additional fee for Senior Independent Director: £5,000 per annum.

On page 41 there is an explanation of the changes in the roles of some of the non-executive directors and the composition of the committees of the Board during 2012.

With effect from 1 March 2013 the following changes to non-executive director fees will apply:

- the Audit and Remuneration Committee member's fee will increase by £1,000 to £5,000 per annum;
- the fee for the chairman of Audit Committee will be £6,500 per annum, an increase of £1,000; and
- the fee for chairman of Remuneration Committee will also be £6,500 per annum, an increase of £1,500.

All other non-executive director fees will remain unchanged at the levels applicable in 2012.

Advisers to the Remuneration Committee

During 2012 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.

COMPARISON OF ACTUAL SHAREHOLDINGS FOR THE EXECUTIVE DIRECTORS VERSUS THE COMPANY GUIDELINES

The actual shareholding of the executive directors, as shown in the table on page 66, as at 5 February 2013, were:

JM Hickey	346,132 shares
M Cubitt	92,942 shares

The CEO, JM Hickey, currently meets the Company guidelines on shareholding (as stated on page 58) and holds, including the 90,025 shares held by his wife and children, 253% of his base salary in Wolfson shares at the share price on 1 February 2013 of £2.0225 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 and 2012, shares were purchased to the value of £35,000 in accordance with the Deferred Bonus Plan (as shown on page 69). In addition M Cubitt retained the balance of the shares from the contingent share award, in respect of the 2009 LTIP which partially vested in March 2012, after sufficient shares were sold to pay for the related tax liability. The cost of the shares purchased by M Cubitt plus the retained shares from the contingent share award valued at the share price on 1 February 2013 of £2.0225 per share, therefore represent 113% of his base salary. Since the time the shares were purchased, in large part due to the reduction in share price, M Cubitt's total shareholding has reduced to represent 94% of his base salary valued at the share price on 1 February 2013 of £2.0225 per share.

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 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 ten years. The rules for the PSP scheme contain a similar limit and also a 5% limit over a ten year period for this executive discretionary scheme.

Awards granted during the period from 21 October 2003 (the date of the Company's flotation) to 30 December 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 2013, 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 employee 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 2013 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 issue (up to the 2013 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 above. This excludes 10.97% that were satisfied or will be satisfied by shares acquired on the open market and held in Employee Share Trusts ⁽⁵⁾		
				Executive	Employee	Total
2004-2012 inclusive	5.65% ⁽¹⁾	6.83% ⁽²⁾	12.48%	0.87%	3.02%	3.89%
2013 (estimated)	1.90% ⁽²⁾	0.71% ⁽⁴⁾	2.61%	–	0.23%	0.23%
Total	7.55%	7.54%	15.09%	0.87%	3.25%	4.12%

Notes:

- (1) The executive directors and senior management team changed several times during 2004 to 2012. This figure is the aggregate amount awarded to all. It comprises:
- (a) 2.38% for all vested performance shares and share options (of which 1.56% have been/are to be satisfied by shares in employee share trusts), excluding those share options that lapsed; and
 - (b) 3.21% of unvested performance shares and share options under the 2011 and 2012 LTIPs (of which 3.16% to be satisfied by shares in employee share trusts); and
 - (c) 0.06% of unvested matching performance shares under the 2010 Deferred Bonus Plan (to be satisfied by shares in employee share trusts); and
 - (d) full vesting is assumed for any unvested share awards and share options.
 - (e) the figure excludes 0.50% for the performance shares for 2010 LTIP which will lapse upon the announcement of audited financial results for 2012 (award was to be satisfied by shares in the employee share trust);
 - (f) the figure excludes 0.60% for the share options for 2010 LTIP which will lapse upon the announcement of audited financial results for 2012 (award was to be satisfied by new issue shares);
 - (g) this figure also excludes 0.03% for share options awarded to executive directors and senior managers in 2010, 2011 and 2012 under the Save As You Earn Scheme as this is an all employee scheme (and therefore subject to the 10% limit referred to above) the effect of those share options are included in the "other employees" figure.
- (2) Assumes:
- (a) the number of awards under the 2013 LTIP and 2013 Deferred Bonus Plan, estimated using the share price as of 1 February 2013 of £2.0225 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 2013 Deferred Bonus Plan will be 50%.
 - (c) full vesting is achieved at the end of 2015 for these share awards. It is 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) 0.92% for the 2013 LTIP plan nil cost options for the on-target performance, assumed to be satisfied by shares in employee share trusts (number of nil cost options calculated on 100% of base salaries of participating individuals); and
 - (b) 0.92% for the 2013 LTIP plan additional nil cost options for exceptional performance, assumed to be satisfied by shares in employee share trusts (number of nil cost options calculated up to a maximum of 200% of base salaries of participating individuals except for JM Hickey, as described on page 61); and
 - (c) 0.06% of unvested matching performance shares under the 2013 Deferred Bonus Plan (to be satisfied by shares in employee share trusts).
- (3) Comprises:
- (a) 0.16% 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) 0.78% of share options granted in 2011 under the Save as You Earn (SAYE) scheme which would vest in 2014 (new issue shares); and
 - (c) 0.12% of share options granted in 2012 under the Save as You Earn (SAYE) scheme which would vest in 2015 (new issue shares); and
 - (d) 4.88% for all other employee share options and contingent share awards which have already vested (of which 2.94% have been or are planned to be satisfied by shares in the employee share trusts), excluding those share options that lapsed; and
 - (e) 0.91% for all other contingent share awards that have not yet vested (of which 0.87% to be satisfied by shares in employee share trusts, subject to the trusts holding sufficient shares at the relevant vesting dates).
- (4) Comprises:
- (a) 0.23% estimated for share option awards under the SAYE scheme in 2013 which would vest in 2016 (assumed to be satisfied by new issue shares); and
 - (b) 0.48% estimated for all other employee share scheme awards in 2013 (assumed to be satisfied by shares in the employee share trusts).
- (5) The employee share trusts currently hold a total of 2,938,837 ordinary 0.1 pence shares in the Company (2.52% of the issued share capital as at 30 December 2012). Further details regarding the employee share trusts are contained on page 38.

**FORMAL ROLE OF, AND COMPOSITION OF,
THE REMUNERATION COMMITTEE AND THE
NUMBER OF MEETINGS IN 2012**

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.

In the period from the beginning of 2012 until 8 June 2012, the Remuneration Committee comprised the following non-executive directors: G Collinson, RK Graham, R Eckelmann and M Ruettgiers and was chaired by G Collinson. As explained on page 41, on 8 June 2012 RK Graham stepped down as a member of the Committee and J Grant became a member of the Committee. M Ruettgiers 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 2012 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 44, there were five meetings of the Committee held in the 52 week period ended 30 December 2012. A list of some of the Committee's activities during the period is set out on pages 46 and 47.

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



GLENN COLLINSON
REMUNERATION COMMITTEE CHAIRMAN

5 February 2013

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.

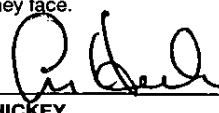
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply 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
5 February 2013


M OUBITT
CHIEF FINANCIAL OFFICER

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 30 December 2012 set out on pages 76 to 127. 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 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 30 December 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
- the information given in the Corporate Governance Statement set out on pages 39 to 55, 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

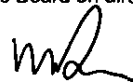
We have nothing to report in respect of the following:

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 36, in relation to going concern;
- the part of the Corporate Governance Statement on pages 39 to 55 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.



MARTIN ROSS
(SENIOR STATUTORY AUDITOR)

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

Saltire Court, 20 Castle Terrace, Edinburgh

5 February 2013

Consolidated income statement

FOR THE PERIOD ENDED 30 DECEMBER 2012

	Notes	52 weeks ended 30 December 2012			52 weeks ended 1 January 2012		
		Before exceptional charge \$000	Exceptional charge (Note 4) \$000	Total \$000	Before exceptional items \$000	Exceptional items (Note 4) \$000	Total \$000
Revenue	3	179,749	–	179,749	156,912	–	156,912
Cost of sales		(95,536)	–	(95,536)	(80,804)	(5,900)	(86,704)
Gross profit	3	84,213	–	84,213	76,108	(5,900)	70,208
Distribution and selling costs		(23,902)	–	(23,902)	(24,379)	(1,933)	(26,312)
Research and development expenses		(54,839)	–	(54,839)	(54,829)	(1,473)	(56,302)
Administrative expenses		(13,382)	–	(13,382)	(13,510)	(72)	(13,582)
Curtailment gain on defined benefit plan	4	–	–	–	–	1,829	1,829
Past service cost on defined benefit plan	4	–	(1,400)	(1,400)	–	–	–
Operating loss	3, 4, 5	(7,910)	(1,400)	(9,310)	(16,610)	(7,549)	(24,159)
Financial income	7	1,489	–	1,489	1,576	–	1,576
Financial expenses	7	(1,529)	–	(1,529)	(1,470)	–	(1,470)
Net financing (expense)/income		(40)	–	(40)	106	–	106
Loss before tax		(7,950)	(1,400)	(9,350)	(16,504)	(7,549)	(24,053)
Income tax credit	8	2,952	322	3,274	4,167	2,000	6,167
Loss for the period attributable to equity holders of the parent		(4,998)	(1,078)	(6,076)	(12,337)	(5,549)	(17,886)
Basic loss per share (cents)	9			(5.22)			(15.39)
Diluted loss per share (cents)	9			(5.22)			(15.39)

Consolidated statement of comprehensive income

FOR THE PERIOD ENDED 30 DECEMBER 2012

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Loss for the period	(6,076)	(17,886)
Other comprehensive income:		
Actuarial loss on defined benefit obligations	(477)	(3,477)
Increase in defined benefit liabilities recognised in accordance with IFRIC 14 (note 20)	–	(1,500)
Movement in unrecognised surplus on defined benefit plan	301	(301)
Deferred tax on net defined benefit items recognised in equity	10	1,320
Foreign currency translation differences for foreign operations	(2)	3
Effective portion of changes in fair value of cash flow hedges	773	(180)
Other comprehensive income for the period	605	(4,135)
Total comprehensive income for the period attributable to Owners of the Company	(5,471)	(22,021)

The notes on pages 81 to 127 are an integral part of these financial statements.

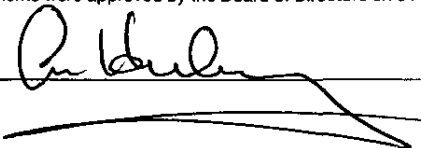
Balance sheets

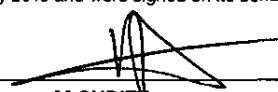
AS AT 30 DECEMBER 2012

Company registered number: SC089839

		Group		Company	
		As at 30 December 2012 \$000	As at 1 January 2012 \$000 (Restated) (Note 1.(f))	As at 30 December 2012 \$000	As at 1 January 2012 \$000
	Notes				
ASSETS					
Property, plant and equipment	11	24,142	25,907	23,725	25,451
Intangible assets	12	32,360	32,924	8,236	9,036
Investments in subsidiaries	13	-	-	44,901	43,125
Deferred tax assets	14	13,386	9,640	14,236	10,871
Total non-current assets		69,888	68,471	91,098	88,483
Inventories	15	24,702	22,901	24,702	22,891
Current tax assets	8	-	67	-	67
Trade and other receivables	16	37,805	29,667	39,884	32,561
Other investments, including derivatives	17	621	-	621	-
Short-term deposits	18	28,000	33,000	28,000	33,000
Cash and cash equivalents	18	19,974	20,409	18,046	19,665
Total current assets		111,102	106,044	111,253	108,184
Total assets		180,990	174,515	202,351	196,667
EQUITY					
Issued share capital	19	194	193	194	193
Share premium account	19	61,253	60,699	61,253	60,699
Capital redemption reserve	19	503	503	503	503
Hedging reserve	19	621	(152)	621	(152)
Retained earnings	19	77,339	80,541	94,318	98,212
Total equity attributable to equity holders of the parent		139,910	141,784	156,889	159,455
LIABILITIES					
Employee benefits	20	1,676	1,500	1,676	1,500
Other payables	21	1,622	3,982	1,580	3,729
Total non-current liabilities		3,298	5,482	3,256	5,229
Income tax payable	8	80	116	-	-
Trade and other payables, including derivatives	21	37,702	25,979	42,206	30,829
Provisions	22	-	1,154	-	1,154
Total current liabilities		37,782	27,249	42,206	31,983
Total liabilities		41,080	32,731	45,462	37,212
Total equity and liabilities		180,990	174,515	202,351	196,667

These financial statements were approved by the Board of Directors on 5 February 2013 and were signed on its behalf by:


JM HICKEY
DIRECTOR


M CUBITT
DIRECTOR

The notes on pages 81 to 127 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 (Note 19) \$000	Hedging reserve (Note 19) \$000	Retained earnings (Note 19) \$000	Total equity \$000
Balance at 3 January 2011	193	60,047	503	28	105,817	166,588
Loss for the period	-	-	-	-	(17,886)	(17,886)
Other comprehensive income:						
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)
Transactions with owners of the Company recognised directly in equity:						
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
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 2 January 2012	193	60,699	503	(152)	80,541	141,784
Loss for the period	-	-	-	-	(6,076)	(6,076)
Other comprehensive income:						
Actuarial loss on net defined benefit obligations	-	-	-	-	(477)	(477)
Movement in unrecognised surplus on defined benefit plan	-	-	-	-	301	301
Deferred tax on net defined benefit items recognised in equity	-	-	-	-	10	10
Foreign exchange translation differences on foreign operations	-	-	-	-	(2)	(2)
Effective portion of changes in fair value of cash flow hedges	-	-	-	773	-	773
Total comprehensive income for the period ended 30 December 2012	-	-	-	773	(6,244)	(5,471)
Transactions with owners of the Company recognised directly in equity:						
Equity settled share-based payment transactions	-	-	-	-	2,626	2,626
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	423	423
Share options exercised by employees	1	554	-	-	-	555
Company shares acquired by employee trust	-	-	-	-	(7)	(7)
Total contributions by and distributions to owners of the Company	1	554	-	-	3,042	3,597
Balance at 30 December 2012	194	61,253	503	621	77,339	139,910

The notes on pages 81 to 127 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 (Note 19) \$000	Hedging reserve (Note 19) \$000	Retained earnings (Note 19) \$000	Total equity \$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
	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 2 January 2012	193	60,699	503	(152)	98,212	159,455
Loss for the period	-	-	-	-	(7,138)	(7,138)
<i>Other comprehensive income:</i>						
Actuarial loss on net defined benefit obligations	-	-	-	-	(477)	(477)
Movement in unrecognised surplus on defined benefit plan	-	-	-	-	301	301
Deferred tax on net defined benefit items recognised in equity	-	-	-	-	10	10
Effective portion of changes in fair value of cash flow hedges	-	-	-	773	-	773
Total comprehensive income for the period ended 30 December 2012	-	-	-	773	(7,304)	(6,531)
<i>Transactions with owners of the Company recognised directly in equity:</i>						
Equity settled share-based payment transactions	-	-	-	-	2,940	2,940
Deferred tax on equity settled share-based payment transactions recognised in equity	-	-	-	-	477	477
Share options exercised by employees	1	554	-	-	-	555
Company shares acquired by employee trust	-	-	-	-	(7)	(7)
Total contributions by and distributions to owners of the Company	1	554	-	-	3,410	3,965
Balance at 30 December 2012	194	61,253	503	621	94,318	156,889

The notes on pages 81 to 127 are an integral part of these financial statements.

Statements of cash flows

FOR THE PERIOD ENDED 30 DECEMBER 2012

	Notes	Group		Company	
		52 weeks ended 30 December 2012 \$'000	52 weeks ended 1 January 2012 \$'000	52 weeks ended 30 December 2012 \$'000	52 weeks ended 1 January 2012 \$'000
Cash flows from operating activities					
Loss for the period		(6,076)	(17,886)	(7,138)	(15,617)
Adjustments for:					
Depreciation	11	3,945	4,485	3,708	4,289
Amortisation of intangible assets	12	5,554	9,169	4,564	4,429
Foreign exchange (gains)/losses		(283)	219	(376)	193
Financial income		(1,489)	(1,576)	(1,488)	(1,575)
Financial expenses		1,529	1,470	1,528	1,470
Equity-settled share-based payment expense		2,626	4,100	2,521	4,013
Curtailed gain on defined benefit plan		—	(1,829)	—	(1,829)
Income tax credit		(3,274)	(6,167)	(2,878)	(4,448)
		2,532	(8,015)	441	(9,075)
(Increase)/decrease in inventories		(1,801)	6,227	(1,811)	6,226
Increase in trade and other receivables		(8,266)	(2,025)	(7,452)	(2,527)
Increase/(decrease) in trade and other payables		11,769	(19,999)	11,639	(17,726)
Decrease in provisions and employee benefits		(1,154)	(3,388)	(1,154)	(3,388)
Cash generated from/(absorbed by) the operations		3,080	(27,200)	1,663	(26,490)
Income taxes (paid)/received		(31)	(317)	21	(50)
Net cash inflow/(outflow) from operating activities		3,049	(27,517)	1,684	(26,540)
Cash flows from investing activities					
Interest received		225	337	224	336
Acquisition of property, plant and equipment		(2,360)	(2,357)	(2,124)	(2,291)
Acquisition of intangible assets		(3,788)	(4,178)	(3,788)	(4,203)
Acquisition of subsidiary, net of cash acquired		—	(4,305)	—	(4,371)
Deferred consideration on acquisitions in prior period		(3,200)	(800)	(3,200)	(800)
Amounts placed on short-term deposits		(105,136)	(102,324)	(105,136)	(102,324)
Amounts withdrawn from short-term deposits		110,136	145,324	110,136	145,324
Net cash (outflow)/inflow from investing activities		(4,123)	31,697	(3,888)	31,671
Cash flows from financing activities					
Proceeds from the issue of share capital		555	652	555	652
Company shares acquired by employee trust		(7)	(5,390)	(7)	(5,390)
Interest paid		(29)	(95)	(28)	(95)
Net cash inflow/(outflow) from financing activities		519	(4,833)	520	(4,833)
Net (decrease)/increase in cash and cash equivalents		(555)	(653)	(1,684)	298
Cash and cash equivalents at start of period		20,409	21,083	19,665	19,364
Effect of exchange rate fluctuations on cash held		120	(21)	65	3
Cash and cash equivalents at end of period	18	19,974	20,409	18,046	19,665
Cash and cash equivalents at end of period	18	19,974	20,409	18,046	19,665
Short-term deposits at end of period	18	28,000	33,000	28,000	33,000
Total cash and short-term deposits at end of period		47,974	53,409	46,046	52,665

The notes on pages 81 to 127 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 30 December 2012 (referred to as "2012" 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 1 January 2012 (referred to as "2011" for the purposes of these notes to the financial statements).

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 33. The financial position of the Group, its cash flows and liquidity position are described within the Operating and Financial Review on pages 20 to 33. 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 30 December 2012: cash and cash equivalent balances of \$20.0 million and short-term deposits of \$28.0 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 19). 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 33. 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 30 December 2012 have therefore been prepared on a going concern basis.

The financial statements were authorised for issue by the directors on 5 February 2013.

(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 note 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

There are no new standards, amendments to standards and interpretations that are mandatory for the first time for financial periods commencing on 1 January 2012 that would be expected to have a material impact on the financial statements of the Group and Company.

(f) RESTATEMENT OF COMPARATIVES

During 2012, the provisional fair value of the contingent consideration in respect of the acquisition, in 2011, of Dynamic Hearing Pty Ltd was finalised, resulting in an increase in contingent consideration payable of \$131,000 and a corresponding increase of \$131,000 in goodwill. The amounts for other payables and for intangible assets at 1 January 2012 have been restated accordingly.

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 2012 as their financial year end.

The results of subsidiaries acquired or disposed of during the 52 week period ended 30 December 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.

(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.

(e) INTANGIBLE ASSETS (continued)

(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).

(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.

(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 IFRS 2 have been given for these options.

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.

(n) EMPLOYEE BENEFITS (continued)

**(iii) Share-based payment transactions
– Group and Company (continued)**

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 shares awarded 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.

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.

(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.

(r) REVENUE (continued)

(iii) Royalty income and licence 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.

Revenue from technology licences is recognised on delivery to the customer, which is when it is considered the conditions outlined below are met:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow into the Group;
- the stage of completion of the transaction as at the end of the reporting period can be measured reliably; and
- the costs incurred, or to be incurred, for the transaction can be measured reliably.

(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 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.

(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.

(v) SEGMENT REPORTING (continued)

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 30 December 2012 (which began on 2 January 2012) and have not been early adopted by the Group:

- Amendment to IAS 19 'Employee Benefits' issued in June 2011. The amendments aim to improve the recognition and disclosure requirements for defined benefit plans. The new requirements include: the immediate recognition of all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability or asset. The new requirements are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The effect of the change in calculation of the expected return on plan assets, had this change applied in 2012, would have increased the expected return on plan assets by approximately \$0.03 million but the current estimated effect for the financial year 2013 is a reduction in the expected return on plan assets of approximately \$0.2 million.
- Amendments to IAS 1 'Financial Statement Presentation' issued in June 2011. These amendments aim to improve how components of other comprehensive income are presented. The new requirements are effective for annual periods beginning on or after 1 July 2012.
- IFRS 9 'Financial instruments' issued in 2009 and in October 2010. This addresses the classification and measurement of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. The standard is not applicable until 1 January 2015.
- IFRS 13 'Fair Value Measurement' defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. 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 2014, 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.

(x) DETERMINATION OF FAIR VALUES (continued)

(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).

(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 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 the award.

(vii) Short-term deposits

The fair value of short-term deposits is determined based on the market interest rates at the year-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.

The Group has three operating segments which are based on product groups. The Group has two reportable segments which are the Group's Audio Hubs and Discrete and Power Products segments. These 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 30 December 2012 or in financial year 2011 and, accordingly, the relevant revenue and segment gross profits are shown as 'other operating segment'.

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	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Total external revenues	134,092	105,367	45,477	50,851	180	694	179,749	156,912
Segment gross profit	62,518	52,432	21,642	23,174	53	502	84,213	76,108

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

	2012 \$000	2011 \$000
Revenues		
Total revenue for reportable segments	179,589	156,218
Total revenue for other operating segment	180	694
Consolidated revenue	179,749	156,912
Profit or loss		
Total gross profit for reportable segments	84,160	75,606
Total gross profit for other operating segment	53	502
Gross profit for segments	84,213	76,108
Exceptional charge	-	(5,900)
Gross profit	84,213	70,208
Unallocated amounts:		
Corporate overhead expenses	(92,123)	(92,718)
Other exceptional items	(1,400)	(1,649)
Operating loss for the period	(9,310)	(24,159)
Financial income	1,489	1,576
Financial expenses	(1,529)	(1,470)
Consolidated loss before income tax	(9,350)	(24,053)
	2012 \$000	2011 \$000 (Restated)
Assets		
Total assets for reportable segments	-	-
Total assets for other operating segment	-	-
Goodwill and acquired intangible assets: Sonaptic	20,037	19,189
Goodwill and acquired intangible assets: Oligon	4,204	4,704
Goodwill and acquired intangible assets: Dynamic Hearing	6,040	6,895
Other unallocated amounts	150,709	143,727
Consolidated total assets	180,990	174,515
Liabilities		
Total liabilities for reportable segments	-	-
Total liabilities for other operating segment	-	-
Other unallocated amounts	(41,080)	(32,731)
Consolidated total liabilities	(41,080)	(32,731)

	Reportable segments totals \$000	Adjustments \$000	Consolidated totals \$000
Other material items 2012			
Financial income	-	1,489	1,489
Financial expenses	-	(1,529)	(1,529)
Capital expenditure	-	5,982	5,982
Depreciation and amortisation	-	9,499	9,499
	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

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 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Japan	21,972	21,748
Asia Pacific	70,895	85,797
Americas	28,438	22,362
United Kingdom	56,354	25,718
Europe and rest of world	2,090	1,287
	179,749	156,912

* Destination is defined as the location of the direct customer

Analysis of revenue by category:

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Revenues from:		
Products sold	175,664	155,646
Royalty income and design services	4,085	1,266
	179,749	156,912

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

	As at 30 December 2012 Note \$000	As at 1 January 2012 \$000
Japan	102	152
Asia Pacific	4,513	5,243
Americas	25	11
United Kingdom	19,500	20,499
Europe and rest of world	2	2
	11 24,142	25,907

Major customer

Revenues from the largest customer of the Group in 2012, which are included in revenues for the Audio Hubs segment, represent approximately \$56.9 million (largest customer in 2011: \$24.5 million) of the Group's total revenues.

4. EXCEPTIONAL ITEMS

Analysis of exceptional items:

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$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
Past service cost on defined benefit plan	(1,400)	-
Total exceptional items recognised in the period	(1,400)	(7,549)

Exceptional charge recognised in the 52 week period ended 30 December 2012

Past service cost on defined benefit plan

In November 2012, the Company initiated an Enhanced Transfer Value (ETV) offer to the 83 deferred members of the Company's defined benefit pension scheme and this offer is scheduled to close in February 2013. The ETV offer is likely to result in a cash contribution by the Company into the scheme in the first half of 2013, depending on the level of take up of the ETV offer. For accounting purposes, the Company has estimated the projected level of take up of the ETV offer and has recognised an exceptional charge of \$1.4 million, in the 52 week period ended 30 December 2012. The charge reflects the estimated cost of the ETV compared to the net IAS 19 liability for relevant deferred members of the scheme. Once the ETV offer closes the difference between this estimated cost and the actual cost of the ETVs, for those members that decide to take up the offer, will be recognised in the Company's financial statements. Further details regarding the defined benefit pension scheme are contained in note 20.

Exceptional items recognised in the 52 week period ended 1 January 2012

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 undertaken 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. 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.

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.

Curtailment gain on defined benefit plan

A \$1.8 million non-cash curtailment gain arose 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 was reported separately as an exceptional item within the consolidated income statement.

5. OPERATING EXPENSES

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
<i>Operating loss is stated after charging/(crediting):</i>		
Depreciation (note 11)	3,945	4,485
Amortisation of intangible assets (note 12)	5,554	9,169
Write (back)/down of inventories	(130)	4,544
Gain on disposal of property, plant and equipment and intangible assets	(13)	(4)
(Gain)/loss on foreign exchange transactions and translation	(283)	219

Audit and non-audit fee disclosure

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Audit of these financial statements (Group and Company)	172	135
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	15	11
Other services provided to overseas branches of the Company	8	9
Other services relating to taxation	50	55
All other services	45	51

6. PERSONNEL EXPENSES

	52 weeks ended 30 December 2012 (Number)	52 weeks ended 1 January 2012 (Number)
Average number of employees, including executive directors, by activity:		
Design and development	262	255
Selling and distribution	117	119
Administration	42	41
	421	415
	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Wages and salaries	37,331	35,619
Social security costs	4,243	4,675
Contributions to defined contribution pension plans	1,813	1,922
Defined benefit pension costs (note 20)	-	126
Equity-settled share-based payment transactions (note 20)	2,676	4,100
	46,063	46,442

Information regarding the directors' remuneration, shareholdings, share options, other share-based payments and pension arrangements is contained in the Directors' Remuneration Report on pages 56 to 73.

7. NET FINANCING (EXPENSE)/INCOME

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Bank interest receivable	207	240
Other interest receivable	1	1
Foreign exchange gain	35	-
Expected return on defined benefit pension plan assets (note 20)	1,246	1,335
Financial income	1,489	1,576
Bank interest payable	(18)	(89)
Other interest payable	(1)	(6)
Notional interest arising on discounted payables	(252)	(104)
Interest on defined benefit pension obligation (note 20)	(1,258)	(1,271)
Financial expenses	(1,529)	(1,470)
Net financing (expense)/income	(40)	106

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 \$80,000 at 30 December 2012 (2011: \$116,000) and a current tax asset of \$nil (2011: \$67,000). The Company has a current tax asset of \$nil at 30 December 2012 (2011: \$67,000).

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Recognised in the income statement		
Current tax (credit)/expense		
Adjustments for prior years	(78)	(67)
Overseas taxes	117	250
	39	183
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	(3,842)	(6,842)
Reduction in tax rate	849	381
Adjustments for prior years	(320)	111
	(3,313)	(6,350)
Total income tax credit in income statement	(3,274)	(6,167)
	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Current and deferred tax recognised directly in other comprehensive income and in equity		
Recognised in other comprehensive income:		
Relating to net pension liability (note 14)	(10)	(1,320)
Recognised in equity:		
Relating to equity-settled transactions – deferred tax (note 14)	(423)	2,164
(Increase)/decrease in equity	(423)	2,164

The UK government's budget for 2012 announced that the UK main rate of corporation tax rate was reduced from 26%, for the tax year ending 31 March 2012, to 24% for the tax year commencing 1 April 2012 and a further reduction to 23% will be effective from 1 April 2013.

Deferred tax balances as at 30 December 2012 are recognised at a rate of 23% (as at 1 January 2012: 25%).

8. INCOME TAX CREDIT (continued)**Reconciliation of effective tax rate**

	52 weeks ended 30 December 2012 %	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 %	52 weeks ended 1 January 2012 \$000
Loss before tax		(9,350)		(24,053)
Income tax credit using the UK corporation tax rate	(24.5)%	(2,291)	(26.5)%	(6,374)
Effect of tax rates in foreign jurisdictions (rate increased)	0.9%	83	0.4%	99
Non-deductible expenses	2.3%	213	0.7%	177
Research and development tax credits	(12.2)%	(1,140)	(5.1)%	(1,226)
Tax (credit)/expense on share-based payments	(2.1)%	(193)	3.5%	846
Adjustments relating to prior years	(4.2)%	(398)	0.2%	44
Tax losses recognised	(4.5)%	(418)	(0.4)%	(114)
Reduction in deferred tax rate	9.3%	870	1.6%	381
Total tax credit	(35.0)%	(3,274)	(25.6)%	(6,167)

9. EARNINGS PER SHARE

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Loss for the period attributable to equity shareholders (basic and diluted)	(6,076)	(17,886)
Exceptional items after tax*	1,078	5,549
Amortisation of acquired intangible assets*	1,308	4,031
Share-based payment expenses and related payroll taxes*	2,500	2,636
Underlying loss for the period attributable to equity shareholders (basic and diluted)	(1,190)	(5,670)
	cents	cents
Basic loss per share	(5.22)	(15.39)
Diluted loss per share	(5.22)	(15.39)
Underlying basic loss per share	(1.02)	(4.88)
Underlying diluted loss per share	(1.02)	(4.88)

* after the tax impact of this item

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

	52 weeks ended 30 December 2012 No. of shares	52 weeks ended 1 January 2012 No. of shares
Issued ordinary shares at start of period	116,308,427	115,929,217
Effect of shares issued during the period from exercise of employee share options	168,804	269,158
Weighted average number of ordinary shares at end of period – for basic loss per share and diluted loss per share	116,477,231	116,198,375
Effect of dilutive share options in issue	989,619	950,498
Weighted average number of ordinary shares at end of period – for diluted earnings per share	117,466,850	117,148,873

9. EARNINGS PER SHARE (continued)

BASIC LOSS PER SHARE

The calculation of basic loss per share for the 52 week period ended 30 December 2012 was based on the loss attributable to equity shareholders of \$6,076,000 (52 week period ended 1 January 2012: \$17,886,000 loss) and a weighted average number of ordinary shares during the 52 week period ended 30 December 2012 of 116,477,231 (2011: 116,198,375), calculated as shown on page 96.

DILUTED LOSS PER SHARE

The calculation of diluted loss per share for the 52 week period ended 30 December 2012 was based on the loss attributable to equity shareholders of \$6,076,000 (52 week period ended 1 January 2012: \$17,886,000 loss) and a weighted average number of ordinary shares during the 52 week period ended 30 December 2012 of 116,477,231 (2011: 116,198,375), calculated as shown on page 96.

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 PER SHARE

The calculation of underlying basic loss per share for the 52 week period ended 30 December 2012 was based on the loss attributable to equity shareholders, before: the exceptional charge, the amortisation of acquired intangible assets and share-based payment expenses and related payroll taxes (net of tax effect), of \$1,190,000 (2011: \$5,670,000 loss) and a weighted average number of ordinary shares during the 52 week period ended 30 December 2012 of 116,477,231 (2011: 116,198,375), calculated as shown on page 96.

UNDERLYING DILUTED LOSS PER SHARE

The calculation of underlying diluted loss per share for the 52 week period ended 30 December 2012 was the same as the calculation for underlying basic loss per share for that period, as described above. 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.

10. ACQUISITION OF SUBSIDIARY IN PRIOR PERIOD

There were no acquisitions or other business combinations undertaken by the Group in the 52 week period ended 30 December 2012. During the prior 52 week period ended 1 January 2012, the Group acquired (on 30 September 2011) the entire issued share capital of Dynamic Hearing Pty Ltd ('Dynamic Hearing'). 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.

At 1 January 2012, the accounting for this acquisition was determined on a provisional basis. In the period from 2 January to 30 September 2012 a final adjustment was made but only in respect of the fair value of the contingent consideration recognised; no adjustments were assessed as being required to the provisional fair values of the assets and liabilities acquired. The adjustment to the contingent consideration was recognised as if it has occurred at the date of acquisition.

The Group paid \$4.4 million in cash as consideration for this acquisition in the period ended 1 January 2012.

CONTINGENT CONSIDERATION

In accordance with the terms of the acquisition, the Group agreed to pay the selling shareholders of Dynamic Hearing additional consideration which is contingent on the utilisation of pre-acquisition tax losses. The Group provisionally estimated the fair value of the contingent consideration, at the acquisition date, at \$131,000. In the period to 30 September 2012, the Group finalised the assessment of the fair value of the consideration to take into account circumstances which existed at the date of acquisition. This resulted in an increase in the fair value of the contingent consideration of \$131,000 so that the total contingent consideration recognised is \$262,000. As a result of this increase in the fair value of the contingent consideration, there is corresponding increase in goodwill (note 12). The comparative figures in the Group balance sheet have been restated.

None of the contingent consideration was paid in the period from the acquisition date to 30 December 2012.

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

10. ACQUISITION OF SUBSIDIARY IN PRIOR PERIOD (continued)

Consideration:	\$000
Cash consideration paid in the period ended 1 January 2012	4,371
Contingent cash consideration –restated fair value	262
Total cash consideration	4,633
Settlement of pre-existing relationship	557
	5,190

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.

	Pre-acquisition carrying amounts \$000	Fair value adjustments \$000	Recognised final value on acquisition \$000
Identifiable assets acquired and liabilities assumed			
Property, plant and equipment	288	–	288
Intangible assets – acquired	–	5,046	5,046
Inventories	11	–	11
Trade and other receivables	683	–	683
Cash and cash equivalents	66	–	66
Deferred tax liabilities	–	(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 (restated) (note 12)			2,033
Consideration (restated)			5,190

As a result of the finalisation of the assessment of the fair value of the contingent consideration, as explained above, the goodwill on acquisition increased by \$131,000 to \$2,033,000 and the consideration also increased by that amount to \$5,190,000.

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 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
At 2 January 2012	18,882	38,506	9,080	4,007	111	70,586
Additions	-	931	1,108	179	-	2,218
Disposals	-	-	-	-	(51)	(51)
Effect of movement in exchange rates	-	-	-	-	3	3
At 30 December 2012	18,882	39,437	10,188	4,186	63	72,756
Depreciation						
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
At 2 January 2012	2,919	32,444	6,876	2,344	96	44,679
Charge for the period	378	1,748	1,463	350	6	3,945
Disposals	-	-	-	-	(51)	(51)
Effect of movement in exchange rates	-	-	10	27	4	41
At 30 December 2012	3,297	34,192	8,349	2,721	55	48,614
Net book value						
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
At 2 January 2012	15,963	6,062	2,204	1,663	15	25,907
At 30 December 2012	15,585	5,245	1,839	1,465	8	24,142

Company	Land and buildings \$000	Plant and machinery \$000	Computer hardware \$000	Furniture and fittings \$000	Motor vehicles \$000	Total \$000
Cost						
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
At 2 January 2012	18,882	38,083	8,467	3,363	63	68,858
Additions	-	880	976	126	-	1,982
Disposals	-	-	-	-	-	-
At 30 December 2012	18,882	38,963	9,443	3,489	63	70,840
Depreciation						
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
At 2 January 2012	2,919	32,222	6,388	1,824	54	43,407
Charge for the period	378	1,666	1,354	305	5	3,708
Disposals	-	-	-	-	-	-
At 30 December 2012	3,297	33,888	7,742	2,129	59	47,115
Net book value						
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
At 2 January 2012	15,963	5,861	2,079	1,539	9	25,451
At 30 December 2012	15,585	5,075	1,701	1,360	4	23,725

12. INTANGIBLE ASSETS

Group	Goodwill (restated) \$000	In-process research & development \$000	Developed technology \$000	Licence agreements \$000	Customer relationships \$000	Technology licences \$000	Computer software \$000	Total (restated) \$000
Cost								
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
Acquisition (restated on completion of review of provisional fair values) (note 10)	131	-	-	-	-	-	-	131
Derecognition on acquisition of subsidiary (note 10)	-	-	-	-	-	(735)	-	(735)
Other additions	-	-	-	-	-	1,040	3,297	4,337
Revision to deferred consideration	(184)	-	-	-	-	-	-	(184)
At 1 January 2012	24,868	3,572	19,048	6,002	440	1,134	11,810	66,874
At 2 January 2012	24,868	3,572	19,048	6,002	440	1,134	11,810	66,874
Additions	-	-	-	-	-	726	3,038	3,764
Revision to deferred consideration	1,226	-	-	-	-	-	-	1,226
At 30 December 2012	26,094	3,572	19,048	6,002	440	1,860	14,848	71,864
Amortisation								
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
At 1 January 2012	-	1,220	15,966	5,516	440	507	10,301	33,950
At 2 January 2012	-	1,220	15,966	5,516	440	507	10,301	33,950
Amortisation for the period	-	585	1,021	127	-	705	3,116	5,554
At 30 December 2012	-	1,805	16,987	5,643	440	1,212	13,417	39,504
Net book value								
At 3 January 2011	23,019	1,180	5,086	92	-	778	1,441	31,596
At 1 January 2012	24,868	2,352	3,082	486	-	627	1,509	32,924
At 2 January 2012	24,868	2,352	3,082	486	-	627	1,509	32,924
At 30 December 2012	26,094	1,767	2,061	359	-	648	1,431	32,360

Amortisation charge

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

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Distribution and selling costs	48	17
Research and development expenses	5,130	8,744
Administrative expenses	376	408
	5,554	9,169

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 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 \$26,094,000 can be analysed as:

	As at 30 December 2012 \$000	As at 1 January 2012 \$000 (restated)
<i>Analysis of goodwill:</i>		
Audio Hubs operating segment (note 3)		
Goodwill relating to Sonaptic acquisition	20,037	18,811
Goodwill relating to Dynamic Hearing acquisition (note 10)	2,033	2,033
	22,070	20,844
Discrete and Power Products operating segment (note 3)		
Goodwill relating to Oligon acquisition	4,024	4,024
	26,094	24,868

The recoverable amount of each CGU (which reflect the two segments outlined above) 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 20% (2011: 21%) 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.

12. INTANGIBLE ASSETS (continued)**IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL (continued)**

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 30 December 2012.

The Business Review on pages 4 to 19 contains details of the progress during the period with the development of the technologies associated with the acquired businesses.

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 \$3.2 million and \$1.1 million within current and non-current liabilities respectively as at 30 December 2012 (as at 1 January 2012: \$2.5 million and \$3.4 million respectively). These contingent cash consideration liabilities have been assessed based on the probability of their payment as at 30 December 2012 and the amounts have been discounted to their present values. During 2012 the Company paid \$3.2 million (2011: \$0.8 million) in respect of part of the contingent cash consideration for the Sonaptic acquisition as a result of achievement of some of the milestones. Also in 2012, the contingent cash consideration amounts, in respect of the Sonaptic acquisition, were reviewed and reassessed and, as a result, the contingent cash consideration liabilities increased by a total of \$1,226,000 with a corresponding increase in goodwill (2011: \$184,000 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 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
At 2 January 2012	2,525	4,024	1,180	1,894	11,778	21,401
Additions	-	-	-	726	3,038	3,764
Disposals	-	-	-	-	-	-
At 30 December 2012	2,525	4,024	1,180	2,620	14,816	25,165
Amortisation						
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
At 2 January 2012	1,075	-	500	507	10,283	12,365
Amortisation for the period	253	-	500	705	3,106	4,564
Disposals	-	-	-	-	-	-
At 30 December 2012	1,328	-	1,000	1,212	13,389	16,929
Net book value						
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
At 2 January 2012	1,450	4,024	680	1,387	1,495	9,036
At 30 December 2012	1,197	4,024	180	1,408	1,427	8,236

13. INVESTMENTS IN SUBSIDIARIES

Company	Equity investments in subsidiaries \$000	Loans to subsidiaries \$000	Total \$000
Cost			
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
At 2 January 2012	40,105	3,020	43,125
Adjustment to contingent consideration (note 12)	1,226	-	1,226
Increase in cost of investment (note 10)	131	-	131
Increase in respect of share-based payments	419	-	419
At 30 December 2012	41,881	3,020	44,901

Note 27 contains details of these subsidiaries. The movement, in the 52 week period ended 30 December 2012, in investments held by the Company relates to the revision of the contingent consideration for the cost of the Company's investment in Sonaptic Limited and to the equity shares in the Company awarded to the employees of the subsidiaries of the Group under the Group's share schemes. The other increase in cost of the investments held by the Company relates to the increase in the fair value of the contingent consideration payable in respect of the acquisition of a subsidiary in 2011 (see note 10).

As the underlying business originally acquired from Oligon Limited is held directly by Wolfson Microelectronics plc, the investment in Oligon Limited was reclassified in the 52 week period ended 1 January 2012 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	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Property, plant and equipment	(37)	(29)	1,382	1,131	1,345	1,102
Intangible assets	(753)	(276)	963	1,480	210	1,204
Employee benefits – pensions	(385)	(375)	-	-	(385)	(375)
Employee benefits – share-based payments	(1,458)	(1,166)	-	-	(1,458)	(1,166)
Tax losses	(12,299)	(9,644)	-	-	(12,299)	(9,644)
Other items	(844)	(837)	45	76	(799)	(761)
Deferred tax (assets)/liabilities	(15,776)	(12,327)	2,390	2,687	(13,386)	(9,640)
Set off of tax	2,390	2,687	(2,390)	(2,687)	-	-
Net deferred tax assets	(13,386)	(9,640)	-	-	(13,386)	(9,640)

Company	Assets		Liabilities		Net	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Property, plant and equipment	-	-	1,382	1,131	1,382	1,131
Intangible assets	(753)	(276)	41	170	(712)	(106)
Employee benefits – pensions	(385)	(375)	-	-	(385)	(375)
Employee benefits – share-based payments	(1,423)	(1,123)	-	-	(1,423)	(1,123)
Tax losses	(12,299)	(9,644)	-	-	(12,299)	(9,644)
Other items	(844)	(830)	45	76	(799)	(754)
Deferred tax (assets)/liabilities	(15,704)	(12,248)	1,468	1,377	(14,236)	(10,871)
Set off of tax	1,468	1,377	(1,468)	(1,377)	-	-
Net deferred tax assets	(14,236)	(10,871)	-	-	(14,236)	(10,871)

14. DEFERRED TAX ASSETS AND LIABILITIES (continued)**MOVEMENT IN DEFERRED TAX BALANCES DURING THE PERIOD**

Group	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)

	Balance at 2 January 2012 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	Balance at 30 December 2012 \$000
Property, plant and equipment	1,102	243	-	-	1,345
Intangible assets	1,204	(994)	-	-	210
Employee benefits – pensions	(375)	-	(10)	-	(385)
Employee benefits – share-based payments	(1,166)	131	-	(423)	(1,458)
Tax losses	(9,644)	(2,655)	-	-	(12,299)
Other items	(761)	(38)	-	-	(799)
	(9,640)	(3,313)	(10)	(423)	(13,386)

Company	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)

	Balance at 2 January 2012 \$000	Recognised in profit or loss \$000	Recognised in other comprehensive income \$000	Recognised in equity \$000	Balance at 30 December 2012 \$000
Property, plant and equipment	1,131	251	-	-	1,382
Intangible assets	(106)	(606)	-	-	(712)
Employee benefits – pensions	(375)	-	(10)	-	(385)
Employee benefits – share-based payments	(1,123)	177	-	(477)	(1,423)
Tax losses	(9,644)	(2,655)	-	-	(12,299)
Other items	(754)	(45)	-	-	(799)
	(10,871)	(2,878)	(10)	(477)	(14,236)

UNRECOGNISED DEFERRED TAX ASSETS

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

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Tax losses	1,700	2,224	-	-

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 2012 announced that the UK main rate of corporation tax rate was reduced from a rate of 26%, for the tax year commencing 1 April 2011, to 24% for the tax year commencing 1 April 2012 and a further reduction to 23% will be effective from 1 April 2013.

15. INVENTORIES

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Raw materials and consumables	9,282	10,174	9,282	10,174
Work in progress	4,641	4,528	4,641	4,528
Finished goods	10,779	8,199	10,779	8,189
	24,702	22,901	24,702	22,891

In the 52 week period ended 30 December 2012 raw materials and consumables and changes in finished goods and work in progress recognised as cost of sales amounted to \$95,035,000 (52 week period ended 1 January 2012: \$83,204,000).

16. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Trade receivables	33,949	25,901	32,976	25,776
Amounts due from subsidiaries	-	-	3,470	3,471
Other receivables	718	562	438	328
Prepayments and accrued income	3,138	3,204	3,000	2,986
	37,805	29,667	39,884	32,561

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	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Current investments				
Derivatives used for hedging	621	-	621	-

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	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Bank balances/(overdraft)	1,816	915	(100)	184
Bank deposits	18,158	19,494	18,146	19,481
Cash and cash equivalents	19,974	20,409	18,046	19,665
Short-term deposits	28,000	33,000	28,000	33,000

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 30 December 2012 Number of shares	As at 1 January 2012 Number of shares
In issue at start of period	116,308,427	115,929,217
Issued for cash on exercise of employee share options	335,015	379,210
In issue at end of period- fully paid	116,643,442	116,308,427

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 30 December 2012, 335,015 ordinary shares of 0.1 pence (2011: 379,210 ordinary shares), which had an aggregate nominal value of £335 (\$540) (2011: £379 (\$600)), were issued for a total consideration of £349,555 (\$555,000) (2011: £416,617 (\$652,000)).

The Company did not purchase any of its own ordinary shares of 0.1 pence each in the 52 week period ended 30 December 2012 nor in the 52 week period ended 1 January 2012.

During the 52 week period ended 30 December 2012, one of the Company's employee share trusts, acquired 1,981 (2011: 1,422,545) of the Company's shares for a consideration of \$7,000 (2011: \$5,390,000). There were 2,938,837 of the Company's ordinary shares held by the Company's employee share trusts as at 30 December 2012 (as at 1 January 2012: 4,359,070 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 2 January 2012	Exercised	Granted	Lapsed	At 30 December 2012
EMI scheme	25,000	(25,000)	-	-	-
2003 Executive Share Scheme - A	271,538	(18,901)	-	(105,298)	147,339
2003 Executive Share Scheme - B	1,997,895	(281,059)	-	(500,961)	1,215,875
2003 All Employee Share Scheme - A	1,052,844	(20,882)	-	(204,776)	827,186
2003 All Employee Share Scheme - B	1,343,027	(5,000)	-	(372,543)	965,484
2010 Save As You Earn (SAYE) Scheme	1,300,441	(15,865)	136,000	(204,660)	1,215,916
	5,990,745	(366,707)	136,000	(1,388,238)	4,371,800

RETAINED EARNINGS RESERVE

The movements in this reserve for the Group and for the Company, in the 52 week period ended 30 December 2012, are shown in the statements of changes in equity on pages 78 and 79 respectively.

The cumulative foreign currency translation differences for foreign operations in the Group was \$10,000 loss as at 30 December 2012 (as at 1 January 2012: \$8,000 loss) and is included within the retained earnings reserve.

CAPITAL REDEMPTION RESERVE

The balance on this reserve as at 2 January 2011 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 30 December 2012 nor in the 52 week period ended 1 January 2012.

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 \$955,000 in the 52 week period ended 30 December 2012 (2011:\$2,000 gain).

20. EMPLOYEE BENEFITS**RETIREMENT BENEFITS SCHEMES**

Group and Company	As at 30 December 2012 \$000	As at 1 January 2012 \$000
Present value of funded obligations	(31,142)	(26,413)
Fair value of plan assets	30,966	26,714
Net (liability)/surplus for defined benefit obligations	(176)	301
Unrecognised surplus	-	(301)
Increase in liabilities recognised in accordance with IFRIC 14	(1,500)	(1,500)
Recognised liability for defined benefit obligations	(1,676)	(1,500)

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. A full actuarial valuation was carried out at 1 March 2009 and updated to 30 December 2012 by a qualified actuary, independent of the Company. The major assumptions used by the actuary are shown on page 109. 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. In the 52 week period ended 1 January 2012, the Company 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). The deficit contributions due under the schedule of contributions dated 25 March 2010 were all paid as part of the contribution paid by the Company in 2011. A revised schedule of contributions, dated 14 August 2012, has since been put in place. Under this revised schedule, the Company will pay deficit contributions of \$0.5 million by 28 February 2014 and \$1.3 million by 28 February 2015. During the 52 week period ended 30 December 2012, the Company did not pay any deficit contributions into the plan as none were due to be paid in that period. Therefore the total amount due under the current schedule of contributions is \$1.8 million as at 30 December 2012. In accordance with IFRIC 14, the present value of this remaining commitment (being \$1.5 million) was recognised as a liability as at 30 December 2012. There was a similar commitment at 1 January 2012 in respect of the schedule of contributions in place at that date.

The Company and the Trustees of the Plan have agreed on an outline funding policy which will aim to eliminate £1 million of buyout deficit every year, either by means of liability reduction measures, contributions, or both. 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.

Enhanced Transfer Value offer

In November 2012, the Company initiated an Enhanced Transfer Value (ETV) offer to the 83 deferred members of this scheme and this offer is scheduled to close in February 2013. Details of the accounting treatment of this ETV offer are contained in note 4.

Plan assets consist of the following:

	As at 30 December 2012 \$000	As at 1 January 2012 \$000
Equity securities	6,357	9,436
Government bonds	-	5,369
Corporate bonds	16,107	8,291
Cash	3,092	3,618
Other assets	5,410	-
	30,966	26,714
Actual return on plan assets	3,088	551

20. EMPLOYEE BENEFITS (continued)

RETIREMENT BENEFITS SCHEMES (continued)

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Movements in the liability for defined benefit obligations		
Liability for defined benefit obligations at start of period	26,413	24,244
Current service cost (note 6)	-	126
Interest cost (note 7)	1,258	1,271
Contributions by plan participants	-	50
Curtailment gain (note 4)	-	(1,829)
Actuarial losses recognised in equity	2,319	2,693
Exchange differences	1,152	(142)
	31,142	26,413
Increase in liabilities recognised in accordance with IFRIC 14	1,500	1,500
Liability for defined benefit obligations at end of period	32,642	27,913
Movements in the fair value of plan assets		
	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Fair value of plan assets at start of period	26,714	21,843
Contributions by the employer	-	4,700
Contributions by plan participants	-	50
Expected return on plan assets (note 7)	1,246	1,335
Actuarial gains/(losses) recognised in equity	1,842	(784)
Exchange differences	1,164	(430)
Fair value of plan assets at end of period	30,966	26,714
Expense/(gain) recognised in the income statement		
	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Current service costs	-	126
Curtailment gain: exceptional item (note 4)	-	(1,829)
Interest on obligation	1,258	1,271
Expected return on plan assets	(1,246)	(1,335)
	12	(1,767)
Exchange differences	(12)	288
	-	(1,479)

20. EMPLOYEE BENEFITS (continued)**RETIREMENT BENEFITS SCHEMES (continued)**

The expense/(gain) is recognised in the following line items in the income statement:

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Distribution and selling costs	-	26
Research and development expenses	-	71
Administrative expenses	-	29
Total current service costs (note 6)	-	126
Curtailment gain (note 4)	-	(1,829)
Exchange differences:		
Distribution and selling costs	(2)	58
Research and development expenses	(7)	164
Administrative expenses	(3)	66
	(12)	288
Financial income	(1,246)	(1,335)
Financial expense	1,258	1,271
	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Actuarial gains and losses recognised directly in equity		
Cumulative amount of actuarial losses at beginning of period	13,425	8,448
Recognised loss during the period	477	4,977
Cumulative amount of actuarial and other losses at end of period	13,902	13,425

Actuarial assumptions

Principal actuarial assumptions at the balance sheet date:

	2012	2011
Discount rate at 30 December 2012 / 1 January 2012	4.30%	4.70%
Expected return on plan assets – Equities	7.00%	7.00%
– Corporate bonds	4.30%	4.70%
– Government bonds	3.00%	3.00%
– Cash	0.50%	0.50%
– Diversified growth fund	7.00%	n/a
Future salary increases	n/a	n/a
Future pension increases	3.00%	3.20%
Inflation assumption: RPI	3.10%	3.20%
Inflation assumption: CPI	2.40%	2.50%
Mortality table: Non-pensioners	SAPS, Birth Year, CMI 2009, 1.5% p.a. long-term improvement	SAPS, Birth Year, Long Cohort, 1% underpin
Mortality table: Pensioners	SAPS Light, Birth Year, CMI 2009, 1.5% p.a. long-term improvement	SAPS Light, Birth Year, Long Cohort, 1% underpin

20. EMPLOYEE BENEFITS (continued)**RETIREMENT BENEFITS SCHEMES (continued)**

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 in page 109 and in the following table. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:

	As at 30 December 2012 (Years)	As at 1 January 2012 (Years)
Life expectancy at retirement for current pensioners		
Males	24.3	24.6
Females	25.3	26.1
Life expectancy at retirement for current member aged 45		
Males	24.8	24.7
Females	27.0	27.3

Historical information

	As at 30 December 2012 \$000	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
Present value of defined benefit obligations	(31,142)	(26,413)	(24,244)	(22,191)	(14,382)	(22,533)
Fair value of plan assets	30,966	26,714	21,843	19,908	13,035	18,615
Net (deficit)/surplus in the plan	(176)	301	(2,401)	(2,283)	(1,347)	(3,918)
Unrecognised surplus	-	(301)	-	-	-	-
Increase in liabilities recognised in accordance with IFRIC 14	(1,500)	(1,500)	-	-	-	-
Recognised liability for defined benefit obligations	(1,676)	(1,500)	(2,401)	(2,283)	(1,347)	(3,918)
	2012 \$000	2011 \$000	2010 \$000	2009 \$000	2008 \$000	2007 \$000
Experience adjustments arising on plan liabilities	(310)	(64)	(105)	(323)	788	314
Experience adjustments arising on plan assets	2,023	(604)	1,226	2,241	(5,221)	(244)

The Group and Company expect to pay around \$1.6 million in contributions to this plan in 2013, dependant on the extent to which the Company conducts liability reduction exercises. The next actuarial valuation (when completed), based on the 1 March 2012 position, may require future additional payments in accordance with the next Schedule of Contributions.

20. EMPLOYEE BENEFITS (continued)

SHARE-BASED PAYMENTS

At 30 December 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 and then to directors and senior management (only in relation to long term incentive scheme arrangements) in 2009 and 2010. 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. During the financial years 2011 and 2012, no market value share options were granted to executive directors and senior management as part of the long term incentive scheme arrangements as contingent share awards or contingent nil cost options were granted in respect of the long term incentive scheme arrangements in those years (further details are included in the Directors' Remuneration Report on pages 56 to 73).

In the years 2010, 2011 and 2012 share option awards were granted to UK employees from the Approved Save As You Earn share option scheme.

The table in note 19 on page 106 summarises the share options, by scheme, granted, exercised and lapsed in the 52 week period ended 30 December 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 and in previous years, 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 56 to 73. No share options were granted from this scheme in 2011 and 2012. As explained on page 65 and 68 of the Directors' Remuneration Report, 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. Further details of this plan are contained on page 68 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 the financial year 2012, as in 2011 and 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 share awards were made to executive directors and senior management as part of the long term incentive arrangements. In 2012, contingent nil cost option awards were granted to executive directors and senior management in respect of the long term incentive arrangements. Further details are included in the Directors' Remuneration Report on pages 56 to 73. 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 and the contingent nil cost option awards granted in the financial years 2011 and 2012 respectively 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 was a market and a non-market related vesting condition which had equal weighting. Further details of this plan are contained on page 67 of the Directors' Remuneration Report.

20. EMPLOYEE BENEFITS (continued)

SHARE-BASED PAYMENTS (continued)

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 69, participation in this Plan in 2010, in 2011 and in 2012 by the executive directors and senior managers was not compulsory. For 2010, 2011 and 2012, up to 50% of the net (after tax) bonus earned in 2009, 2010 and 2011 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 2012, 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.

The Wolfson Microelectronics 2009 Staff Share Award Plan

In 2009 the Company established this employee 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, 2011 and 2012.

The fair value of the contingent share awards 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, 2011 and 2012, the contingent share awards will vest in three equal tranches on each anniversary of the grant date over a 3 year period such that the third tranche vests on the date 3 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 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 have been granted from this scheme since 2008.

The fair value of contingent share awards from this Plan 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 is 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.

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 30 December 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	25,000	Three years of service	10 years
2. Option grant to employees at 30 July 2004	301,826	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	200,315	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 16 March 2006	462,750	Four years of service*	10 years
9. Option grant to employees at 2 May 2006	11,000	Four years of service*	10 years
10. Option grant to employees at 19 June 2006	2,000	Four years of service*	10 years
11. Option grant to employees at 24 August 2006	155,000	Four years of service*	10 years
12. Option grant to employees at 25 September 2006	40,000	Four years of service*	10 years
13. Option grant to employees at 26 October 2006	17,000	Four years of service*	10 years
14. Option grant to employees at 27 November 2006	40,000	Four years of service*	10 years
15. Option grant to employees at 5 February 2007	56,000	Three years of service**	10 years
16. Option grant to employees at 5 February 2007	597,655	Three years of service**	10 years
17. Option grant to employees at 5 February 2007	402,850	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
18. Option grant to employees at 5 February 2007	3,983	Three years of service**	10 years
19. 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
20. Option grant to employees at 6 August 2007	10,000	Three years of service**	10 years
21. Option grant to employees at 5 September 2007	9,400	Three years of service**	10 years
22. Option grant to employees at 7 November 2007	15,000	Three years of service**	10 years
23. Option grant to employees at 5 December 2007	10,000	Three years of service**	10 years
24. Option grant to employees at 6 March 2008	22,000	Three years of service**	10 years
25. Option grant to employees at 9 June 2008	7,000	Three years of service**	10 years
26. Option grant to executive directors and senior management at 19 March 2009	1,093,364	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 67 and 68 of the Directors' Remuneration Report.	10 years
27. 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
28. Option grant to executive directors and senior management at 19 March 2010	843,992	Employed during the three year performance period. Performance conditions are non-market related. Details of these performance conditions are included on page 65 of the Directors' Remuneration Report.	10 years
29. Option grant to employees at 19 March 2010	4,012	Three years of service**	10 years
30. Option grant to executive directors, senior management and employees at 1 September 2010	308,561	Three years of service and subject to a three year Sharesave savings contract in accordance with the approved SAYE scheme	3.5 years
31. 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
32. Option grant to senior management and employees at 30 August 2012	136,000	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 30 December 2012	52 weeks ended 30 December 2012	52 weeks ended 1 January 2012	52 weeks ended 1 January 2012
Outstanding at the beginning of the period	193.4	5,990,745	204.4	6,082,493
Lapsed during the period	192.4	(1,388,238)	179.6	(709,589)
Exercised during the period	118.5	(366,707)	123.4	(374,039)
Granted during the period	154.0	136,000	90.0	991,880
Outstanding at the end of the period	198.8	4,371,800	193.4	5,990,745
Exercisable at the end of the period	256.9	2,456,490	278.5	2,898,874

The options outstanding at 30 December 2012 have an exercise price in the ranges as summarised below:

Exercise price range	Number of options outstanding at 30 December 2012	Weighted average remaining contractual life (years)
90 to 92 pence	1,307,955	3.6
127.75 to 154 pence	870,707	6.5
161 to 186 pence	492,010	1.8
204.5 to 256 pence	382,690	1.8
258 to 293.42 pence	799,125	4.1
304 to 479 pence	519,313	3.4
	4,371,800	3.9

The weighted average share price during the 52 week period ended 30 December 2012 was 191.8 pence per share (52 week period ended 1 January 2012: 197.1 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 2012	Directors 2011	Senior Management 2012	Senior Management 2011	Other employees 2012	Other employees 2011
Fair value at measurement date (pence)	-	-	56.0	26.5	56.0	26.5
Share price (pence)	-	-	209.25	104.5	209.25	104.5
Exercise price (pence)	-	-	154.0	90.0	154.0	90.0
Expected volatility	-	-	41.9%	45.0%	41.9%	45.0%
Option life (weighted average life)	-	-	3	3	3	3
Expected dividends	-	-	Nil	Nil	Nil	Nil
Risk free interest rate (based on UK government bonds)	-	-	0.49%	2.16%	0.49%	2.16%

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 to employees in 2012, in 2011 and 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, in respect of the long term incentive plan arrangements, 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 share awards and the contingent nil cost options granted from this Plan is the market value of the Company's shares on the date of the award.

	Number of contingent performance shares/contingent performance nil cost options	Weighted average fair value (pence)
Outstanding as at 2 January 2012	2,982,879	171.5
Awarded in the period	2,552,863	190.9
Vested in the period	(518,063)	102.7
Lapsed in the period	(687,907)	112.3
Outstanding as at 30 December 2012	4,329,772	200.6

Deferred share awards

A deferred award of ordinary shares in the Company was made on 25 September 2008 to an executive director, as disclosed in the Directors' Remuneration Report sections of the 2008, 2009, 2010 and 2011 Annual Report and Accounts. The deferred share award vested in 2011. No further deferred share awards are outstanding at 30 December 2012.

The fair value of the contingent shares was 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 2 January and 30 December 2012	-	-

The Wolfson Microelectronics plc 2010 Senior Executive Deferred Bonus Plan

Contingent matching share awards were granted under this scheme on 29 June 2010, on 14 March 2011 and on 15 March 2012 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 69. 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 2 January 2012	136,515	182.96
Awarded in the period	5,220	191.25
Vested in the period	-	-
Lapsed in the period	(1,500)	172.25
Outstanding as at 30 December 2012	140,235	183.38

20. EMPLOYEE BENEFITS (continued)**SHARE-BASED PAYMENTS (continued)****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 2 January 2012	1,591,767	146.7
Awarded in the period	534,458	191.8
Vested in the period	(872,459)	128.6
Lapsed in the period	(189,052)	156.9
Outstanding as at 30 December 2012	1,064,714	183.8

The Wolfson Microelectronics plc 2008 Staff Performance Share Plan

The fair value of the contingent shares granted from this Plan 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 2 January and at 30 December 2012	-	-

Employee expenses

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Share options granted in 2008	-	1
Share options granted in 2009	(4)	(107)
Share options granted in 2010	(285)	730
Share options granted in 2011	166	12
Share options granted in 2012	14	-
Performance shares awarded in 2008	-	6
Performance shares awarded in 2009	(97)	(59)
Performance shares awarded in 2010	(757)	557
Performance shares awarded in 2011	1,131	966
Performance shares awarded in 2012	1,008	-
Contingent shares awarded in 2008	-	133
Contingent shares awarded in 2009	16	194
Contingent shares awarded in 2010	174	700
Contingent shares awarded in 2011	580	784
Contingent shares awarded in 2012	730	-
Deferred shares awarded in 2008	-	183
Total share-based payment expense recognised in personnel expenses (note 6)	2,676	4,100

The total share-based payment expense for the Group for the 52 weeks ended 30 December 2012 of \$2,676,000 (52 weeks ended 1 January 2012: \$4,100,000) includes an expense of \$50,000 (2011:\$19,000 credit) 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 30 December 2012 was \$2,571,000 (52 weeks ended 1 January 2012: \$4,013,000).

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2012 \$000	2011 \$000 (Restated)	2012 \$000	2011 \$000
Non-current liabilities				
Other payables	1,622	3,982	1,580	3,729
Current liabilities				
Trade payables	24,326	16,544	24,251	16,506
Amounts due to subsidiaries	-	-	5,766	5,706
Derivatives used for hedging (note 23)	-	152	-	152
Non-trade payables	4,929	4,448	4,372	3,641
Accruals	7,938	4,189	7,471	4,178
Deferred income	509	646	346	646
	37,702	25,979	42,206	30,829

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	Restructuring \$000	Total \$000
Balance at 2 January 2012	1,154	1,154
Provisions made in the period	-	-
Provisions used in the period	(1,154)	(1,154)
Balance at 30 December 2012	-	-

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 undertaken in the second half of that financial year to the review of 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 in 2011 mainly included employee termination costs. The restructuring was completed in 2012 with an amount of \$1,154,000 charged against the provision in 2012 (2011: \$2,324,000).

23. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments as at 30 December 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 2012, the Company entered into forward foreign exchange contracts some of which remain in place as at 30 December 2012.

In 2012, a large proportion of the Company's structural exposure to fluctuations in the US dollar to Sterling exchange rate (see 'Currency risk' section below) was hedged by the Company entering into forward foreign exchange contracts during the final quarter of 2011. During the 2012, the Board of Directors of the Company decided that forward foreign exchange contracts should be entered into by the Company up to twelve months forward in order to hedge a large proportion of the US dollar to Sterling exchange rate exposure, which arises on Sterling denominated overhead expenditure.

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 now chaired by J Grant since RK Graham stepped down as chairman on 8 June 2012. RK Graham continues to serve as a member of the Treasury Committee, 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. In 2012, the Group (and the Company) hedged its estimated foreign currency exposure in respect of its Sterling denominated overhead costs over the financial year. As at 30 December 2012, the Group (and the Company) have hedged its estimated foreign currency exposure in respect of its Sterling denominated overhead costs over the following ten months. The forward foreign exchange contracts, in place as at 30 December 2012, have a maturity of one to ten months from that date. The forward foreign exchange contracts, in place as at 30 December 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% (2011: 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)**Currency risk (continued)**

		Group		Company	
		2012	2011	2012	2011
		\$000	\$000	\$000	\$000
Financial assets and financial liabilities by currency		Notes	(Restated)		
US dollar trade and other receivables	16	35,463	27,777	37,852	30,981
Other currencies – trade and other receivables	16	2,342	1,890	2,032	1,580
US dollar cash and cash equivalents	18	18,463	18,681	18,045	18,387
Sterling cash and cash equivalents	18	(357)	1,157	(377)	1,145
Other currencies – cash and cash equivalents	18	1,868	571	378	133
US dollar short-term deposits	18	28,000	33,000	28,000	33,000
Sterling derivatives used for hedging	17	621	–	621	–
Other currencies – trade and other payables	21	(11,355)	(8,047)	(10,479)	(8,238)
US dollar trade and other payables	21	(27,969)	(21,762)	(33,307)	(26,168)
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	
	2012 \$	2011 \$	2012 \$	2011 \$
GBP 1:	1.5807	1.5988	1.6154	1.5494
EUR 1:	1.2857	1.3906	1.3217	1.2921
JPY 1:	0.0125	0.0125	0.0116	0.0130
AUD 1:	1.0314	1.0290	1.0371	1.0221

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 2012, the Group and Company have held cash on deposits with a range of maturities from one to six 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 30 December 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 1 January 2012: \$500,000).

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 30 December 2012 (2011: \$300,000). There were forward foreign exchange contracts in place during 2011, 2012, as at 1 January 2012 and as at 30 December 2012.

It is estimated that a decrease of one cent in the US dollar/Sterling exchange rate would have decreased the fair value of assets for derivatives used for hedging as at 30 December 2012 by approximately \$300,000 (as at 1 January 2012: \$300,000 increase in the fair value of liabilities 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	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Trade and other receivables	16	37,805	29,667	39,884	32,561
Cash and cash equivalents	18	19,974	20,409	18,046	19,665
Short-term deposits	18	28,000	33,000	28,000	33,000
		85,779	83,076	85,930	85,226

The maximum exposure to credit risk for trade receivables at the reporting date by geographical region was:

	2012 \$000	2011 \$000
Japan	1,944	3,225
Asia Pacific	16,294	12,907
Americas	9,071	8,605
Europe and rest of world	6,640	1,164
	33,949	25,901

Impairment losses

The aged profile of trade receivables at the reporting date was:

	Gross 2012 \$000	Impairment 2012 \$000	Gross 2011 \$000	Impairment 2011 \$000
Not past due	25,890	–	15,799	–
Past due 0 to 30 days	6,039	(2)	8,239	–
Past due 31 to 60 days	1,279	(2)	1,453	–
Past due 61 to 90 days	756	(11)	464	(54)
More than 90 days	127	(127)	93	(93)
	34,091	(142)	26,048	(147)

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2012 \$000	2011 \$000
Balance at start of the period	147	259
Written off against irrecoverable trade receivable	(5)	(112)
Impairment loss recognised	–	–
Balance at end of the period	142	147

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 usually placed so that at least one deposit matures each month.

As at 30 December 2012 the Group had cash and cash equivalents of \$19,974,000 (as at 1 January 2012: \$20,409,000) and short-term deposits of \$28,000,000 (as at 1 January 2012: \$33,000,000).

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 \$4.3 million (2011: \$5.9 million) included in non-trade payables of which \$3.2 million (2011: \$2.5 million) falls due within one year and \$1.1 million (2011: \$3.4 million) in one to three years from the balance sheet date. These balances are the contingent consideration amounts as at 30 December 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):

Group as at 30 December 2012	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
Non-derivative financial liabilities						
Trade and other payables	(39,324)	(42,521)	(36,213)	(3,400)	(2,728)	(180)
	(39,324)	(42,521)	(36,213)	(3,400)	(2,728)	(180)
Group as at 1 January 2012						
Non-derivative financial liabilities						
Trade and other payables* (restated)	(29,809)	(30,244)	(24,717)	(1,200)	(4,145)	(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	-	-
	(29,961)	(30,396)	(24,779)	(1,290)	(4,145)	(182)
* Excludes derivatives (shown separately)						
Company as at 30 December 2012	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
Non-derivative financial liabilities						
Trade and other payables	(43,786)	(46,983)	(40,717)	(3,400)	(2,703)	(163)
	(43,786)	(46,983)	(40,717)	(3,400)	(2,703)	(163)
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)	(29,611)	(1,290)	(4,014)	(78)
* Excludes derivatives (shown separately)						

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 30 December 2012				
Forward foreign exchange contracts:				
Assets/(liabilities)	621	684	616	68
Group and Company as at 1 January 2012				
Forward foreign exchange contracts:				
Assets/(liabilities)	(152)	(152)	(62)	(90)

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 2012 \$000	Fair value 2012 \$000	Carrying amount 2011 \$000 (Restated)	Fair value 2011 \$000 (Restated)
Trade and other receivables	16	37,805	37,805	29,667	29,667
Cash and cash equivalents	18	19,974	19,974	20,409	20,409
Short-term deposits	18	28,000	28,000	33,000	33,000
Trade and other payables*	21	(39,324)	(39,324)	(29,809)	(29,809)
Forward foreign exchange contracts used for hedging:					
Assets	17	621	621	-	-
Liabilities	21	-	-	(152)	(152)
		47,076	47,076	53,115	53,115
Analysed as:					
Loans and receivables		65,805	65,805	62,667	62,667
Cash and cash equivalents		19,974	19,974	20,409	20,409
Financial assets at fair value		621	621	-	-
Financial liabilities at fair value		-	-	(152)	(152)
Trade and other payables*		(39,324)	(39,324)	(29,809)	(29,809)
		47,076	47,076	53,115	53,115

* As at 1 January 2012, excludes derivatives (shown separately)

Company	Notes	Carrying amount 2012 \$000	Fair value 2012 \$000	Carrying amount 2011 \$000	Fair value 2011 \$000
Trade and other receivables	16	39,884	39,884	32,561	32,561
Cash and cash equivalents	18	18,046	18,046	19,665	19,665
Short-term deposits	18	28,000	28,000	33,000	33,000
Trade and other payables*	21	(43,786)	(43,786)	(34,406)	(34,406)
Forward foreign exchange contracts used for hedging:					
Assets	17	621	621	-	-
Liabilities	21	-	-	(152)	(152)
		42,765	42,765	50,668	50,668
Analysed as:					
Loans and receivables		67,884	67,884	65,561	65,561
Cash and cash equivalents		18,046	18,046	19,665	19,665
Financial assets at fair value		621	621	-	-
Financial liabilities at fair value		-	-	(152)	(152)
Trade and other payables*		(43,786)	(43,786)	(34,406)	(34,406)
		42,765	42,765	50,668	50,668

* As at 1 January 2012, 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 122, 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 \$1.6 million included in other payables (2011: \$4.0 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 30 December 2012	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Forward foreign exchange contracts used for hedging	17	–	621	–	621
Total assets		–	621	–	621
Forward foreign exchange contracts used for hedging		–	–	–	–
Contingent consideration	12	–	–	(4,265)	(4,265)
Total liabilities		–	–	(4,265)	(4,265)

Group 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 (restated)	10, 12	–	–	(5,987)	(5,987)
Total liabilities		–	(152)	(5,987)	(6,139)

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	12	–	–	(5,856)	(5,856)
Total liabilities		–	(152)	(5,856)	(6,008)

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.

	Group		Company	
	2012 \$000	2011 \$000 (Restated)	2012 \$000	2011 \$000
Balance at start of the period	(5,987)	(6,605)	(5,856)	(6,605)
Amounts of consideration paid in the period	3,200	800	3,200	800
Total gains and losses recognised in profit or loss (note 7)	(252)	(104)	(252)	(104)
Revision to contingent consideration recognised in goodwill (note 12)	(1,226)	184	(1,226)	184
Arising from business combination (note 10)	–	(262)	(131)	(131)
Balance at end of the period	(4,265)	(5,987)	(4,265)	(5,856)

The change in the value of contingent consideration of \$252,000 recognised in the 52 week period ended 30 December 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 \$1,226,000, recognised as an adjustment to goodwill (note 12) in the 52 week period ended 30 December 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 116.6 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 26 April 2012 the shareholders granted the Company the authority to purchase, in the market, its own ordinary shares up to a maximum of 11,633,529 ordinary shares. In 2012 and in 2011, 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 \$9.4 million loss reported before tax for the 52 week period ended 30 December 2012 (\$24.1 million loss for the 52 week period ended 1 January 2012), improves to a profit before interest, tax, depreciation and amortisation ('EBITDA') of \$0.2 million once non-cash depreciation and amortisation are added back, compared to a loss before interest, tax, depreciation and amortisation of \$10.5 million in 2011. Non-cash share-based compensation amounted to \$2.6 million in 2012 against \$4.1 million in 2011. With revenues in 2012 being 15% higher than for the year 2011, a resulting increase in trade and other receivables and inventories of \$10.1 million, also trade payables and provisions increased by a net \$10.6 million to support the increased level of sales in 2012, resulting in a net working capital inflow of \$0.5 million in 2012. After milestone payments of \$3.2 million, capital expenditure of \$6.1 million and various other small cash movements, the total cash, cash equivalents and short-term deposits balance decreased by \$5.4 million to \$48.0 million as at 30 December 2012 (as at 1 January 2012: \$53.4 million) (see also pages 23 and 24 in the Operating and Financial Review and the Consolidated Cash Flow Statement on page 80).

24. OPERATING LEASES

Total future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<i>Expiring in:</i>				
Less than one year	407	986	402	725
Between one and five years	2,808	2,113	1,029	1,644
More than five years	-	259	-	259
	3,215	3,358	1,431	2,628

None of these leases includes contingent rentals.

During the 52 week period ended 30 December 2012, \$2,220,000 was recognised as an expense in the consolidated income statement in respect of operating leases (52 week period ended 1 January 2012: \$1,604,000).

25. CAPITAL COMMITMENTS

As at 30 December 2012, the Group had entered into contracts to purchase property, plant and equipment and computer software for \$7,815,000 (2011: \$6,889,000) of which \$4,089,000 is expected to be settled in 2013, \$3,559,000 in 2014 and \$167,000 in 2015.

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 56 to 73.

Key management personnel compensation, in respect of the executive and non-executive directors of the Company, comprised:

	52 weeks ended 30 December 2012 \$000	52 weeks ended 1 January 2012 \$000
Short-term employee benefits (page 63)	1,509	2,044
Post-employment benefits (page 64)	55	52
Share-based payments (fair value)	284	420
	1,848	2,516

Key management personnel and director transactions

Directors of the Company and their immediate relatives control 1.1% 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 66 and 68.

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 30 December 2012, \$28,105 of contingent consideration was paid to G Collinson by the Company (2011: \$7,026). 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 30 December 2012, subsidiaries earned commission income from the Company of \$11.9 million (2011: \$12.2 million) and the Company provided management services to the subsidiaries totalling \$2.7 million (2011: \$2.7 million). The Company provided a loan of \$3.02 million to its wholly owned subsidiary, Wolfson Microelectronics Australia Holding Pty Ltd, in 2011 and none of that loan was repaid in 2011 nor in 2012. Interest receivable by the Company on that loan amounted to \$0.3 million in 2012 (2011: \$0.1 million).

As explained in note 10, Wolfson Dynamic Hearing Pty Ltd joined the Group following its acquisition on 30 September 2011. The Company continued to license technology from Wolfson Dynamic Hearing and incurred costs, primarily relating to that license and development activities of \$1.7 million during the 52 week period ended 30 December 2012 (\$0.4 million during the period from 1 October 2011 to 1 January 2012).

As at 30 December 2012 the Company owed its subsidiaries \$5,766,000 (2011: \$5,706,000) and \$3,470,000 was owed by the subsidiaries (2011: \$3,471,000 owed by the subsidiaries). No dividends were received from the subsidiaries in 2012 or in 2011.

26. RELATED PARTIES (continued)**OTHER RELATED PARTY TRANSACTIONS (continued)**

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 ('the No.2 Trust'). These trusts did not receive additional loans from the Company in the 52 week period ended 30 December 2012 (52 week period ended 1 January 2012: \$5,389,000 received by the Trusts from the Company), the Trusts repaid \$nil of the loans (2011: \$nil) and as at 30 December 2012, \$38,846,000 of these loans were outstanding (as at 1 January 2012: \$38,846,000). During the 52 week period ended 30 December 2012 the No.1 Trust purchased 1,981 (2011: 1,422,545) of the Company's ordinary shares, for a total consideration of \$7,000 (2011:\$5,390,000), 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 2,938,837 of the Company's ordinary shares, in total, held by the No.1 and the No.2 Trusts as at 30 December 2012 (as at 1 January 2012: 4,359,070 ordinary shares).

27. GROUP ENTITIES**SIGNIFICANT SUBSIDIARIES**

	Notes	Country of incorporation	Principal activity	Ownership interest	
				2012 %	2011 %
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	100
Wolfson Microelectronics Australia Holding Pty Ltd	13	Australia	Holding company	100	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 30 December 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 30 December 2012.

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 30 December 2012 is shown in note 15. The effect of writing down 1% of the Group's inventory as at 30 December 2012 would be a charge of \$0.2 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)

KEY SOURCES OF ESTIMATION UNCERTAINTY (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 financial expenses. The carrying amount of the liability for defined benefit obligations as at 30 December 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 30 December 2012 to increase by approximately \$0.8 million.

As explained in note 4 and note 20, in November 2012 the Company initiated an Enhanced Transfer Value (ETV) offer to the deferred members of the Company's defined benefit pension scheme and this offer is scheduled to close in February 2013. The exceptional charge and corresponding liability which has been recognised in the 2012 financial statements of the Group and the Company is based on the Board of Directors' estimate of the projected level of take up of the ETV offer. While the directors consider that the estimate is appropriate, based on general levels of take up experienced by other companies for ETV offers; the terms of the offer; indications to date from some of the deferred members regarding their intentions to accept or decline the offer, significant differences in the level and profile of the actual take up of the ETV offer may materially affect the liability and related charge.

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 30 December 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 30 December 2012, a total of \$4.3 million is included in other payables, \$3.2 million of which is within current liabilities and \$1.1 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.

Advisers

PRINCIPAL BANKERS

The Royal Bank of Scotland plc
36 St Andrew Square
Edinburgh
EH2 2YB
United Kingdom

AUDITORS

KPMG Audit Plc
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG
United Kingdom

LEGAL ADVISERS

Shepherd & Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL
United Kingdom

REGISTRAR

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
United Kingdom

Equiniti can be contacted by shareholders, regarding general enquiries, on the following helpline telephone numbers: for UK-based shareholders please call 0871 384 2664*; for shareholders out with the UK please call +44 (0)121 415 7047.

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 £40.00. 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 £45.00. 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.

*Calls to this number cost 8 pence per minute plus network extras. Lines are open between 8.30 a.m. and 5.30 p.m. Monday to Friday.

Contact Details

REGISTERED NUMBER: SC089839

UNITED KINGDOM

REGISTERED OFFICE:

Wolfson Microelectronics plc
Westfield House
26 Westfield Road
Edinburgh
EH11 2QB
United Kingdom

Tel: +44 (0)131 272 7000
Fax: +44 (0)131 272 7001
Email: info@wolfsonmicro.com

OTHER UNITED KINGDOM OFFICE:

Wolfson Microelectronics plc
Derby House, Newbury Business Park
London Road
Newbury
RG14 2PZ
United Kingdom

NORTH AMERICA

USA

Wolfson Microelectronics, Inc.
10001 North De Anza Boulevard
Suite 301
Cupertino
California 95014
USA

ASIA PACIFIC

JAPAN

Wolfson Microelectronics KK
23F Sky Building
2-19-12 Takashima
Nishi-ku
Yokohama 220-0011
Japan

Wolfson Microelectronics KK
1-1-27-309 Kitahama
Chuo-ku
Osaka 541-0041
Japan

TAIWAN

Wolfson Microelectronics plc
2F, No. 39, Alley 20
Lane 407, Sec. 2
Tiding Boulevard
Neihu District
Taipei 114
Taiwan

KOREA

Wolfson Microelectronics Korea Limited
1 and 2, 12th Floor, Alpha Tower
645 Sampyeong-dong
Bundang-gu,
Sungnam-si, Gyeonggi-do, 463-400
South Korea

CHINA

Wolfson Microelectronics plc
Room 7J, Tower C, NEO Building
Futian District
Shenzhen 518048
China

Wolfson Microelectronics plc
6E, Crystal Century Tower
No. 567 Wei Hai Road
Shanghai 200041
China

AUSTRALIA

Wolfson Dynamic Hearing Pty Ltd
2 Chapel Street
Richmond
Victoria 3121
Australia

www.wolfsonmicro.com

a passion for great audio™