Independent Auditors’ Report to the members of Wolfson Microelectronics plc

We have audited the group and parent company financial statements (the ‘‘financial statements”) of Wolfson Microelectronics plc for the 52 week period ended 28 December 2008 which comprise the consolidated Income Statement, the group and parent company Balance Sheets, the group and parent company Cash Flow Statements, the group and parent company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors’ Remuneration Report that is described as having been audited.

This report is made solely to the company’s members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors’ responsibilities for preparing the Annual Report, the Directors’ Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors’ Responsibilities on page 51.

Our responsibility is to audit the financial statements and the part of the Directors’ Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements. The information given in the Directors’ Report includes that specific information presented in the Business Review and the Operating and Financial Review that is cross referred from the Business Review section of the Directors’ Report.

We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company’s compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group’s corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group’s and company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors’ Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors’ Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group’s affairs as at 28 December 2008 and of its profit for the 52 week period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company’s affairs as at 28 December 2008;
- the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors’ Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Edinburgh

4 February 2009

Consolidated Income Statement

For the period ended 28 December 2008

	Notes	52 weeks ended 28 December 2008 Before exceptional charges $000	52 weeks ended 28 December 2008 Exceptional charges (Note 3) $000	52 weeks ended 28 December 2008 Total $000	52 weeks ended 30 December 2007 $000
Revenue	2	198,199	-	198,199	231,601
Cost of sales		(97,402)	(3,500)	(100,902)	(109,985)
Gross profit		100,797	(3,500)	97,297	121,616
Distribution and selling costs		(25,174)	(743)	(25,917)	(24,700)
Research and development expenses		(46,014)	(127)	(46,141)	(44,409)
Administrative expenses		(14,917)	(1,980)	(16,897)	(15,621)
Operating profit	2, 4	14,692	(6,350)	8,342	36,886
Financial income	6	4,210	-	4,210	5,721
Financial expenses	6	(1,922)	-	(1,922)	(1,786)
Net financing income		2,288	-	2,288	3,935
Profit before tax		16,980	(6,350)	10,630	40,821
Income tax expense	7	(4,659)	1,695	(2,964)	(11,293)
Profit for the period attributable to equity holders of the parent		12,321	(4,655)	7,666	29,528
Basic earnings per share (cents)	8			6.52	25.08
Diluted earnings per share (cents)	8			6.50	24.78

Statements of Recognised Income and Expense

For the period ended 28 December 2008

	Group 52 weeks ended 28 December 2008 $000	Group 52 weeks ended 30 December 2007 $000	Company 52 weeks ended 28 December 2008 $000	Company 52 weeks ended 30 December 2007 $000
Actuarial (loss) / gain on defined benefit obligations	(344)	4,474	(344)	4,474
Deferred tax on net defined benefit obligations recognised in equity	96	(1,698)	96	(1,698)
Foreign currency translation differences for foreign operations	(5)	33	-	-
Effective portion of changes in fair value of cash flow hedges	(1,051)	-	(1,051)	-
Net (expense) / income recognised directly in equity	(1,304)	2,809	(1,299)	2,776
Profit for the period	7,666	29,528	13,518	32,011
Total recognised income and expense for the period	6,362	32,337	12,219	34,787

The notes on pages 56 to 99 are an integral part of these financial statements.

Balance Sheets

As at 28 December 2008

	Notes	Group As at 28 December 2008 $000	Group As at 30 December 2007 $000 (Restated)	Company As at 28 December 2008 $000	Company As at 30 December 2007 $000
ASSETS					
Property, plant and equipment	10	34,401	37,289	34,057	37,016
Intangible assets	11	40,651	45,515	3,243	3,884
Investments in subsidiaries	12	-	-	43,633	43,090
Deferred tax assets	13	-	-	-	142
Total non-current assets		75,052	82,804	80,933	84,132
Inventories	14	18,989	25,548	18,989	25,548
Trade and other receivables	15	21,222	34,496	22,354	34,340
Short-term deposits	16	79,607	73,422	79,607	73,422
Cash and cash equivalents	16	12,586	16,183	10,318	13,812
Total current assets		132,404	149,649	131,268	147,122
Total assets		207,456	232,453	212,201	231,254
EQUITY					
Issued capital	17	192	198	192	198
Share premium account	17	58,801	58,774	58,801	58,774
Capital redemption reserve	17	503	497	503	497
Hedging reserve	17	(1,051)	-	(1,051)	-
Retained earnings	17	117,885	114,399	124,676	115,517
Total equity attributable to equity holders of the parent		176,330	173,868	183,121	174,986
LIABILITIES					
Employee benefits	18	1,347	3,918	1,347	3,918
Deferred tax liabilities	13	5,345	5,595	1,048	-
Other payables	19	6,244	5,398	6,244	5,398
Total non-current liabilities		12,936	14,911	8,639	9,316
Income tax payable	7	896	3,631	991	3,818
Trade and other payables, including derivatives	19	17,294	40,043	19,450	43,134
Total current liabilities		18,190	43,674	20,441	46,952
Total liabilities		31,126	58,585	29,080	56,268
Total equity and liabilities		207,456	232,453	212,201	231,254

These financial statements were approved by the Board of Directors on 4 February 2009 and were signed on its behalf by:

JM Hickey
Director

M Cubitt
Director

The notes on pages 56 to 99 are an integral part of these financial statements.

Statements of Cash Flows

For the period ended 28 December 2008

	Notes	Group 52 weeks ended 28 December 2008 $000	Group 52 weeks ended 30 December 2007 $000	Company 52 weeks ended 28 December 2008 $000	Company 52 weeks ended 30 December 2007 $000
Cash flows from operating activities					
Profit for the period		7,666	29,528	13,518	32,011
Adjustments for:					
Depreciation	10	7,552	6,289	7,414	6,202
Amortisation of intangible assets	11	6,827	4,308	2,060	2,049
Foreign exchange (gains) / losses		(1,281)	230	(1,319)	235
Financial income		(4,210)	(5,721)	(4,158)	(5,687)
Financial expenses		1,922	1,786	1,921	1,786
Equity-settled share-based payment expense		3,671	6,671	3,496	6,541
Income tax expense		2,964	11,293	4,373	11,884
		25,111	54,384	27,305	55,021
Decrease / (increase) in inventories		6,559	(3,212)	6,559	(3,212)
Decrease / (increase) in trade and other receivables		12,917	(8,338)	11,629	(9,053)
(Decrease) / increase in trade and other payables		(19,222)	19,953	(20,157)	20,509
Decrease in employee benefits		(2,562)	(2,433)	(2,562)	(2,433)
Cash generated from the operations		22,803	60,354	22,774	60,832
Income taxes paid		(6,794)	(7,830)	(6,771)	(7,760)
Net cash inflow from operating activities		16,009	52,524	16,003	53,072
Cash flows from investing activities					
Interest received		3,484	4,618	3,431	4,584
Acquisition of property, plant and equipment and intangible assets		(6,310)	(13,126)	(6,280)	(13,126)
Acquisition of subsidiaries, net of cash acquired		-	(27,875)	-	-
Investment in subsidiaries		-	-	-	(30,609)
Deferred consideration paid for acquisition of subsidiaries in prior period		(3,633)	-	(3,633)	-
Amounts placed on short-term deposits		(50,016)	(49,478)	(50,016)	(49,478)
Amounts withdrawn from short-term deposits		43,831	28,404	43,831	28,404
Net cash outflow from investing activities		(12,644)	(57,457)	(12,667)	(60,225)
Cash flows from financing activities					
Proceeds from the issue of share capital		27	2,485	27	2,485
Purchase of own shares held under trust		-	(28,086)	-	(28,086)
Purchase and cancellation of own shares		(6,661)	-	(6,661)	-
Interest paid		(94)	(42)	(93)	(42)
Net cash outflow from financing activities		(6,728)	(25,643)	(6,727)	(25,643)
Net decrease in cash and cash equivalents		(3,363)	(30,576)	(3,391)	(32,796)
Cash and cash equivalents at start of period		16,183	47,077	13,812	46,932
Effect of exchange rate fluctuations on cash held		(234)	(318)	(103)	(324)
Cash and cash equivalents at end of period	16	12,586	16,183	10,318	13,812
Cash and cash equivalents at end of period	16	12,586	16,183	10,318	13,812
Short-term deposits at end of period	16	79,607	73,422	79,607	73,422
Total cash and short-term deposits at end of period		92,193	89,605	89,925	87,234

The notes on pages 56 to 99 are an integral part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

Wolfson Microelectronics plc (the "Company") is a company domiciled and incorporated in Scotland. The consolidated financial statements for the fifty-two weeks ended 28 December 2008 comprise those of the Company and its subsidiaries (together referred to as the "Group"). The comparative period is the fifty-two weeks ended 30 December 2007.

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

The financial statements were authorised for issue by the directors on 4 February 2009.

(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 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own income statement and related notes.

(b) Basis of preparation

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

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 25.

As permitted by IAS 1: *Presentation of Financial Statements*, the Group has disclosed additional information in respect of exceptional charges 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 of such significance that separate disclosure is required for the financial statements to be properly understood.

Restatement of comparatives

During 2008, the provisional fair values of deferred tax and income tax balances (which were recognised on the aquisition in 2007 of Sonaptic Limited) were finalised, resulting in a reduction in goodwill of $523,000 and a corresponding increase in deferred tax assets ($396,000) and income taxes receivable ($127,000) (note 9).

The accounting policies set out below, unless otherwise stated, have been applied consistently to all periods presented in these financial statements.

(c) 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 business combinations are accounted for by applying the purchase method. All subsidiaries have 28 December as their financial year end.

(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.

(d) Foreign currency

(i) Functional and presentation currency

The consolidated financial statements are presented in US dollars, which is the Company's functional currency. All financial information presented has been rounded to the nearest thousand.

(ii) 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 at the balance sheet date are translated to US dollars at the foreign 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 (g)). 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.

(iii) Financial statements of foreign operations

The assets and liabilities of operations out with the UK are translated to US dollars at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations 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.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (l)).

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

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.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. A finance leased asset is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses (see accounting policy (l)). Finance leased assets are depreciated over the shorter of the lease periods and the estimated useful lives of the assets. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are accounted for as described in accounting policy (s) (ii).

(iii) Depreciation

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 disposal proceeds with the carrying amount and are included in the income statement.

(f) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and it represents the excess of the fair value of the consideration paid on acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

In determining the fair value of consideration, the fair value of equity issued is the market value of equity at the date of completion. The fair value of contingent consideration is based upon whether the directors believe any performance conditions will be met and therefore whether any further consideration will be payable.

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

(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.

Where a product is technically feasible, production and sale are intended, a market exists and sufficient resources are available to complete the project, development costs are capitalised and amortised 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 feasibility of the products to be manufactured and sold to the commercial marketplace. Development costs incurred after the establishment of technical feasibility have not been significant and, therefore, no costs have been capitalised to date. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(iii) Computer software

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

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

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

(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 such intangible assets.

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 from the date that it was available for use. The principal economic lives used for this purpose are:

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

The estimated residual values are adjusted, if appropriate, at each balance sheet date.

(g) Derivative financial instruments

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

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(h) Trade and other receivables

Trade and other receivables are stated at their fair value and subsequently at amortised cost using an effective interest rate less impairment losses (see accounting policy (l)). 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.

(i) 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.

(j) 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits held with banks.

(l) Impairment

The carrying amounts of the Group's assets, other than financial assets, inventories (see accounting policy (i)) and deferred tax assets (see accounting policy (t)), 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 (l)(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 assets is the greater of their 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. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to 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.

(m) 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.

(n) 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.

(o) 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 they are due.

(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. 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 the statement of recognised income and expense.

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

(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 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 actual number of share options that vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. 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.

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

Performance shares

The grant date fair value of contingent shares awarded to directors and senior management is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

ExSOPs

The grant date fair value of ExSOPs awarded to directors and senior management is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the shares. The fair value of the ExSOPs awarded is measured using a valuation model, taking into account the terms and conditions upon which the ExSOPs were granted.

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 in which the employees become unconditionally entitled to the shares. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing. This expense is recognised as an employee expense. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(p) Employee share trusts

The Company has established two employee share trusts: "The Wolfson Microelectronics No.1 Employee Share Trust" and "The Wolfson Microelectronics No.2 Employee 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.

(q) Trade and other payables

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

(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. Where the Group sells to its distributors, revenue from the sale of products is recognised where there are no further obligations on the Group and when the associated economic benefits are due to the Group and the turnover can be measured reliably.

(ii) Design services

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

(iii) Royalty income

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

(s) Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, expected return on defined benefit plan assets and the interest on the defined plan obligations.

Interest income is recognised in the income statement as it accrues, using the effective 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.

Current tax is the expected tax payable on the taxable income 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.

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. 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 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

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business and geographical segments.

(w) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the 52 week period ended 28 December 2008, and have not been applied in preparing these financial statements. Those which may have a significant effect on the financial statements are:

- IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. The impact of this new standard, on the disclosure within the Group's financial statements, is currently being assessed.
- Revised IAS 23 *Borrowing Costs* will become mandatory for the 2009 financial statements of the Group and of the Company and this revised standard removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. It is not expected to have any impact on the financial statements of the Group and of the Company.
- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1 has not yet been endorsed for use in the EU. This may be mandatory for the Group's 2009 consolidated financial statements and have a significant impact on the presentation of the consolidated financial statements.
- Revised IFRS 3 *Business Combinations (2008)* incorporates the following changes that may be relevant to the Group's operations:
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction by transaction basis.

  Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and there will be no impact on prior periods in the Group's 2010 consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with a gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in the grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's and the Company's 2009 financial statements, with retrospective application. The impact of this amendment to IFRS 2, on the financial statements of the Group and of the Company, is currently being assessed.
- IFRIC 14 / IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 is not yet endorsed for use in the European Union and has not been adopted early by the Group or the Company.

(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 on the income method taking into account the cash flows post technological feasibility. The fair values of licence agreements and of customer relationships acquired as a result of a business combination are estimated based on the risk adjusted present value of the marginal cash flows derived from the agreements and relationships respectively.

(iii) Derivatives

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

(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, 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.

2. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate expenses, including administrative expenses and facilities costs.

Business segments

The Group comprises the following main business segments as at 28 December 2008:

- consumer audio products
- digital imaging applications
- portable applications

2. Segment reporting (continued)

	Notes	Consumer		Imaging		Portable		Corporate expenses (unallocated)		Group	
		2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Segment revenue		31,814	39,736	18,356	19,418	148,029	172,447	-	-	198,199	231,601
Segment result before exceptional charges		6,568	9,466	6,987	10,441	50,644	75,034	-	-	64,199	94,941
Exceptional charges		(297)	-	-	-	(3,203)	-	(2,850)	-	(6,350)	-
Segment result after exceptional charges		6,271	9,466	6,987	10,441	47,441	75,034	(2,850)	-	57,849	94,941
Unallocated expenses		-	-	-	-	-	-	(49,507)*	(58,055)*	(49,507)	(58,055)
Operating profit										8,342	36,886
Net financing income	6									2,288	3,935
Profit before tax										10,630	40,821
Income tax expense	7									(2,964)	(11,293)
Profit for the period										7,666	29,528

* Certain corporate expenses are allocated to reflect the utilisation of resources by each business segment and the balance of these expenses remains as unallocated.

	Notes	Consumer		Imaging		Portable		Unallocated		Group	
		2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000 (Restated)	2008 $000	2007 $000 (Restated)	2008 $000	2007 $000 (Restated)
Assets		-	-	-	-	39,616	44,093	167,840	188,360	207,456	232,453
Liabilities		-	-	-	-	-	-	(31,126)	(58,585)	(31,126)	(58,585)
Expenditure incurred on segment non-current assets	10,11	-	-	-	-	-	46,415	6,070	14,463	6,070	60,878

Other than the net assets acquired on the acquisition of subsidiaries in 2007 (note 9), assets and liabilities are not specifically allocated to business segments as the total assets and liabilities of the Group are utilised, managed and reported centrally across all business segments. Consequently it is not possible to provide a meaningful allocation of assets and liabilities for each business segment as this cannot be done on a reasonable basis.

All segments are continuing operations.

2. Segment reporting (continued)

Geographical segments

The business segments are managed from the United Kingdom. The Group's sales offices are located in China, Japan, Korea, Singapore, Taiwan and the United States of America. Research and development facilities are located in the United Kingdom and subcontracted manufacturing operations are located in South East Asia and in Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

		Japan		Asia Pacific		Americas		Europe & rest of world		Unallocated		Group	
	Notes	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000
Revenue from external customers		32,693	29,326	133,915	168,090	7,919	12,030	23,672	22,155	-	-	198,199	231,601

		Japan		Asia Pacific		Americas		Europe & rest of world		Unallocated		Group	
	Notes	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000	2008 $000	2007 $000 (Restated)	2008 $000	2007 $000 (Restated)
Assets		-	-	-	-	-	-	-	-	207,456	232,453	207,456	232,453
Expenditure incurred on segment non-current assets	10,11	-	-	-	-	-	-	-	-	6,070	60,878	6,070	60,878

Analysis of revenue:

	52 weeks ended 28 December 2008 $000	52 weeks ended 30 December 2007 $000
Revenues from:		
Products sold	196,572	229,934
Design services and royalty income	1,627	1,667
	198,199	231,601