DIALOG SEMICONDUCTOR PLC
Form 20-F
April 15, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 15, 2005

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 2004

COMMISSION FILE NUMBER 5-59311

DIALOG SEMICONDUCTOR PLC
(Exact name of Registrant as specified in its charter)

NOT APPLICABLE	ENGLAND AND WALES
(Translation of Registrant's Name Into English)	(Jurisdiction of Incorporation of Organization)

Neue Strasse 95
D-73230 Kirchheim/Teck-Nabern, Germany
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

NONE

Securities registered or to be registered pursuant to Section 12(g) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE OF WHICH REGISTERED
ORDINARY SHARES OF GBP 0.10 PER SHARE REPRESENTED BY AMERICAN DEPOSITARY SHARES ORDINARY SHARES	NASDAQ NATIONAL MARKET FRANKFURT STOCK EXCHANGE

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

NONE

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

ORDINARY SHARES 46,068,930

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the

registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 [ ] Item 18 [X]

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FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements". All statements regarding our future financial condition, results of operations and businesses, strategy, plans and objectives are forward-looking. Statements containing the words "believes", "intends", "expects" and words of similar meaning are also forward-looking. Such statements involve unknown risks, uncertainties and other factors that may cause our results, performance or achievements or conditions in the markets in which we operate to differ from those expressed or implied in such statements. These factors include, among others, product demand, the effect of general economic conditions and conditions in the semiconductor and telecommunications markets, exchange rate and interest rate movements, capital and credit market developments, the timing of customer orders and manufacturing lead times, the changes in customer order and payment patterns, the financial condition and strategic plans of our major customers, insufficient, excess or obsolete inventory, and the impact of competing products and their pricing, product development, commercialization and technological difficulties, political risks in the countries in which we operate or sale and supply constraints. It is not possible to predict or identify all such factors. Consequently, any such list should not be considered to be a complete statement of all potential risks or uncertainties. We do not assume the obligations to update forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

NOT APPLICABLE.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

NOT APPLICABLE.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We derived the following selected historical financial data from our consolidated financial statements. You should read the following selected financial data in conjunction with our consolidated financial statements and "Item 5. Operating and Financial Review and Prospects". We derived the selected historical consolidated financial information of Dialog Semiconductor Plc as of December 31, 2004, 2003, 2002, 2001 and 2000 and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 from our audited consolidated financial statements, which have been audited by KPMG Deutsche Treuhand Gesellschaft

Aktiengesellschaft Wirtschaftsprufungsgesellschaft ("KPMG"). The audited consolidated financial statements for the years ended December 31, 2004, 2003, and 2002 are included elsewhere in this annual report.

Our audited consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

	YEAR ENDED DECEMBER 31,			
(IN THOUSANDS OF EURO, EXCEPT SHARE AMOUNTS)	2004	2003	2002	
STATEMENT OF INCOME (LOSS) DATA:				
Revenues	116,044	92,893	77,104	1
Cost of sales (1)	(79,783)	(62,374)	(57,409)	(
GROSS MARGIN	36,261	30,519	19,695	
Selling and marketing expenses	(6,237)	(4,197)	(4,149)	
General and administrative expenses	(5,462)	(5,044)	(6,447)	
Research and development expenses	(29,071)	(30,590)	(34,530)	(
Amortization of goodwill and intangible assets	(1,520)	(2,073)	(1,975)	
Restructuring and related impairment charges	(59)	(1,839)	--	
OPERATING PROFIT (LOSS)	(6,088)	(13,224)	(27,406)	(
Interest income, net	1,081	757	1,121	
Foreign currency exchange gains and losses, net	(726)	(454)	(1,918)	
Recovery (write-down) of investment	54	315	11,969	(
RESULT BEFORE INCOME TAXES	(5,679)	(12,606)	(16,234)	(
Income tax benefit (expense)	(64)	(7,814)	6,026	
NET INCOME (LOSS)	(5,743)	(20,420)	(10,208)	(
Basic earnings (loss) per share	(0.13)	(0.46)	(0.23)	
Diluted earnings (loss) per share	(0.13)	(0.46)	(0.23)	
BALANCE SHEET DATA:				
Cash and cash equivalents	13,977	8,109	31,005	
Working capital (2)	67,144	71,857	56,082	
Total assets	141,959	140,471	166,073	1
Shareholders' equity	121,135	126,843	147,495	1
OTHER DATA:				
Weighted average number of shares outstanding (in thousands):				
Basic	44,025	43,951	43,888	
Diluted	44,025	43,951	43,888	

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(1) Includes provision for excess inventory of EUR 1,930 and EUR 10,689 for the years ende
2001, respectively.

(2) Current assets less current liabilities.

EXCHANGE RATE INFORMATION

The following table shows, for the dates indicated, certain information concerning the noon buying rate in New York City in Pounds Sterling as certified for customs purposes by the Federal Reserve Bank of New York, expressed in US Dollars per GBP 1.00.

PERIOD	PERIOD END	AVERAGE(1)	HIGH	LO
YEAR				
2000.....	1.50	1.52	1.65	1.
2001.....	1.45	1.44	1.51	1.
2002.....	1.61	1.50	1.61	1.
2003.....	1.78	1.64	1.78	1.
2004.....	1.92	1.83	1.95	1.
MONTH				
October 2004.....	1.83	1.81	1.84	1.
November 2004.....	1.91	1.86	1.91	1.
December 2004.....	1.92	1.93	1.95	1.
January 2005.....	1.89	1.88	1.91	1.
February 2005.....	1.92	1.89	1.92	1.
March 2005.....	1.89	1.90	1.93	1.

(1) The average of the noon buying rates on the last day of each period in question.

On April 7, 2005, the noon buying rate was $1.88 per GBP 1.00.

The following table shows, for the dates indicated, certain information concerning the noon buying rate in New York City in Euro as certified for customs purposes by the Federal Reserve Bank of New York expressed in US Dollars per EUR 1.00.

PERIOD	PERIOD END	AVERAGE(1)	HIGH	LO
YEAR				
2000.....	0.94	0.92	1.03	0.
2001.....	0.89	0.90	0.93	0.
2002.....	1.05	0.95	1.05	0.

2003.....	1.26	1.13	1.26	1.
2004.....	1.35	1.24	1.36	1.
MONTH				
October 2004.....	1.27	1.25	1.28	1.
November 2004.....	1.33	1.30	1.33	1.
December 2004.....	1.35	1.34	1.36	1.
January 2005.....	1.30	1.31	1.35	1.
February 2005.....	1.33	1.30	1.33	1.
March 2005.....	1.30	1.32	1.35	1.

(1) The average of the noon buying rates on the last day of each period in question.

On April 7, 2005, the noon buying rate was $1.29 per EUR 1.00.

B. CAPITALIZATION AND INDEBTEDNESS

NOT APPLICABLE

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

NOT APPLICABLE

D. RISK FACTORS

IN ADDITION TO OTHER INFORMATION IN THIS ANNUAL REPORT, YOU SHOULD CAREFULLY CONSIDER THE RISKS DESCRIBED BELOW BEFORE DECIDING TO INVEST IN OUR ORDINARY SHARES OR ADSS. ANY OF THESE RISK FACTORS COULD MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION OR OPERATING RESULTS. IN THAT CASE, THE TRADING PRICE OF OUR ORDINARY SHARES AND ADSS COULD DECLINE, AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT. IT IS NOT POSSIBLE TO PREDICT OR IDENTIFY ALL RELEVANT RISK FACTORS AND, THEREFORE, THE FOLLOWING LIST SHOULD NOT BE CONSIDERED TO BE A COMPLETE STATEMENT OF ALL POTENTIAL RISKS OR UNCERTAINTIES.

WE HAVE NOT BEEN PROFITABLE FOR THE LAST FOUR FISCAL YEARS, AND THERE IS NO GUARANTEE THAT WE WILL RETURN TO PROFITABILITY

While we reported an operating profit and net income for the 2000 fiscal year, we incurred net losses of EUR 5,743,000, EUR 20,420,000, EUR 10,208,000 and EUR 41,386,000 for fiscal years 2004, 2003, 2002 and 2001, respectively. We cannot assure you that our net losses will not continue or increase in the future or that we will return to being profitable. Please see "Item 3. Key Information" and "Item 5. Operating and Financial Review and Prospects" for information regarding our financial condition.

OUR REVENUES, PROFITABILITY AND GROWTH COULD DECLINE IF THE GROWTH OF THE WIRELESS COMMUNICATIONS MARKET SLOWS

We derive a substantial portion of our revenue from the wireless communications market, which experienced difficult conditions in 2001, 2002 and the first half of 2003. Our revenues from wireless communications applications accounted for 78%, 75% and 71% in the years ended December 31, 2004, 2003 and 2002. Our revenues increased 25% from EUR 92.9 million for the year ended December 31, 2003 to EUR 116.0 million for the year ended December 31, 2004 and 20% from EUR 77.1 million for the year ended December 31, 2002 to EUR 92.9 million for the year ended December 31, 2003, primarily due to new products introduced to volume production with more functionality and accordingly, higher selling

prices. Worldwide sales of cellular handsets increased in the second half of 2003 and 2004 (particularly in Asia), but we can give no assurance that this trend will continue. In future periods, conditions in the wireless communications market may fluctuate, which could result in either growth or decline. Conditions in the wireless communications market may be influenced by numerous factors, including:

- national and regional regulatory environments;
- general economic conditions;
- advances in competing telecommunication and information technologies;
- manufacturing capacity; and
- perceived health risks to cellular phone users.

Any significant constraints on the growth of, or downturns in, the wireless communications market could have a negative effect on our future revenues and profit growth.

WE MAY BECOME A PASSIVE FOREIGN INVESTMENT COMPANY

We may become a passive foreign investment company. Whether we become a passive foreign investment company will depend, among other things, upon the amount of our passive income and the value of our passive assets, the growth in our business revenues and our market value in the future. Since goodwill represents a substantial part of our non-passive assets, changes in the market value of our shares, which have been significant and could continue to be significant, can cause us to become a passive foreign investment company. If we become a passive foreign investment company, US holders would be subject to additional US taxes under special US federal income tax rules. See "Item 10. Additional Information-US Federal Income Taxation-Passive Foreign Investment Company".

IF WE ARE UNABLE TO ADAPT RAPIDLY TO CHANGING MARKETS AND TECHNOLOGY, WE MAY LOSE CUSTOMERS AND BE UNABLE TO DEVELOP NEW BUSINESS

The market in which we compete is characterized by continuous development and technological improvement. As a result, our success depends on our ability to develop new designs and products on a cost-effective, timely basis. Our future success also depends on our ability to anticipate and respond to new market trends, to rapidly implement new designs that satisfy customers' desires, and to keep abreast of technological changes within the semiconductor industry generally. If we fail to successfully design and develop new products and product enhancements that respond to technological changes and customer requirements in a timely and cost-effective manner, we may be unable to respond to competitive challenges. We could also lose customers and experience a lower demand for our products.

THE SEMICONDUCTOR INDUSTRY IS HIGHLY CYCLICAL IN NATURE, AND THIS RESULTS IN PERIODIC OVERCAPACITY

The semiconductor industry has historically been highly cyclical and, at various times, has experienced significant economic downturns characterized by production over-capacity, reduced product demand and erosion of average sale prices. We and many of our competitors have historically expanded during periods of increased demand, resulting in overcapacity. See "Item 4. Business Overview-Industry Background."

WE FACE INTENSE COMPETITION, AND IF WE ARE UNABLE TO COMPETE EFFECTIVELY, WE COULD LOSE CUSTOMERS

Many of our direct and indirect competitors are major international semiconductor companies with substantially greater technical, financial and marketing resources and name recognition. In addition, in the future we may face increased competition from smaller, niche semiconductor design companies. Further, some of our customers could decide to satisfy their applications specific integrated circuit ("ASIC") and application specific standard product ("ASSP") demands through in-house design and production. We compete with these competitors primarily on the basis of the following attributes:

- price;
- design cycle time;
- reliability;
- performance;
- customer and logistical support; and
- reputation.

Our inability to compete effectively on any of these bases or others could affect the pricing of and demand for our products. See "Item 4. Information on the Company-Competition".

THE LOSS OF ONE OF OUR PRINCIPAL FOUNDRY RELATIONSHIPS OR ASSEMBLY SERVICES OR A DELAY IN FOUNDRY OR ASSEMBLY PRODUCTION MAY RESULT IN A MATERIAL LOSS OF PRODUCTION AND REVENUES

A material production delay, limitation or other detrimental effect on production at one of our principal foundries could result in a material loss of revenue until such production is restored or until the affected product lines are transferred to another foundry. A foundry's production can be delayed, limited or detrimentally affected by, among other things:

- difficulties in the manufacturing process;
- the complexity of individual designs;
- failure of suppliers to meet delivery dates;
- shortages in raw materials or silicon impurities; and
- other factors or circumstances outside our control.

We also outsource our wafer assembly services, including bonding and packaging, to selected assemblers in Europe and Asia. If we lose one or more of our assemblers or if any assembler fails to meet its delivery dates, fails to meet quality standards set by us, limits production volumes or increases prices due to capacity constraints, we could experience significant delays and loss of production, which could result in a material loss of revenues. For more information on outsourcing of production and assembly of our products, see "Item 4. Information on the Company-Our Product Cycle-Manufacture of Wafers".

OBTAINING ACCESS TO MANUFACTURING CAPACITY AT SEMICONDUCTOR MANUFACTURING PLANTS MAY BECOME INCREASINGLY DIFFICULT AND COULD RESULT IN HIGHER COSTS AND A

MATERIAL LOSS OF REVENUES

We outsource our silicon wafer fabrication and, therefore, access to semiconductor manufacturing plants, or "fabs", is necessary to our business. Access to fabs, however, may become increasingly difficult in future years as the semiconductor industry continues to grow. If we are unable to obtain access to sufficient manufacturing capacity at fabs, we could experience significant delays or a loss of production, which could result in a material loss of revenues. Additionally, if there is a shortage of available manufacturing capacity at fabs, we may have to pay more for the manufacture of silicon wafers.

WE CURRENTLY DEPEND ON A FEW CUSTOMERS FOR A SUBSTANTIAL PORTION OF OUR REVENUES, AND THE LOSS OF ONE OR MORE OF THESE CUSTOMERS MAY RESULT IN A MATERIAL DECLINE IN OUR REVENUES

We derive a substantial portion of our revenues from a relatively small number of wireless communications manufacturers that require high performance, low cost semiconductor products. Sales to two customers individually accounted for 65% and 61% of total revenues in 2004 and 2002, respectively. Sales to one customer individually accounted for 65% of total revenues in 2003. Our revenues declined for the years ended December 31, 2002 and 2001, primarily as a result of significantly reduced revenue from one major customer. Although revenues increased in 2004 and 2003, respectively, the further loss of revenue from one or more major customers would result in a material decrease in our revenues in future periods. In addition, because we depend on a relatively small, focused customer base, we are exposed to downward pricing pressures from those customers.

PERCEIVED HEALTH RISKS RELATING TO CELLULAR HANDSETS COULD LEAD TO DECREASED DEMAND FOR ASICS

Some members of the medical community have expressed concern that the electromagnetic signals from cellular handsets may cause brain tumors, memory loss or DNA and genetic damage. The perceived or actual health risks and related publicity or litigation could reduce the demand for cellular handsets and ASICs and, thus, reduce our sales and revenues.

OUR BUSINESS, FINANCIAL CONDITION AND REPUTATION MAY BE MATERIALLY ADVERSELY AFFECTED IF OUR ASICS, OR THE ELECTRONIC SYSTEMS OF WHICH THEY ARE A PART, CONTAIN DEFECTS THAT CAUSE DAMAGE OR INJURY

Our ASICs form part of larger complex products such as cellular phones and airbag sensors. Defects in our ASICs, or in the electronic systems of which they are part, may directly or indirectly result in damage to third parties' property, physical injury or even death. If such defects occur, they may result in:

- product liability claims;
- expensive and time-consuming modifications;
- damaged customer relationships;
- damage to our reputation; and
- loss of market share.

Although we carry insurance, our insurance coverage may not cover potential claims to which we are exposed or may not be adequate to indemnify us for all potential liability. In addition, we may not have sufficient cash reserves to

cover such liabilities. If we do not have sufficient insurance or cash reserves, we may be forced to sell assets or divert cash that may have otherwise been used for capital expenditures or operating costs.

OUR PRODUCTS ARE DIFFICULT TO MANUFACTURE AND MANUFACTURING DEFECTS CAN ADVERSELY AFFECT OUR RESULTS

The manufacture of our products is a precise and complex process. The production cycle for new products is characterized by the need to achieve increasingly high yields from batches of ASICs. If we are unable to achieve increasingly high yields, or if one of our products is defective, this could result in a delay in the time it takes for our products to reach the market in quantity, a loss of customers or damage to our business reputation, which could materially affect our results of operations.

WE MAY NOT BE ABLE TO REMAIN COMPETITIVE IF WE LOSE ANY OF OUR KEY EXECUTIVES

Our success depends to a significant extent upon the continued service of our key senior executives, particularly of our management members. We rely heavily on senior management's special knowledge and its ability to maintain relationships with our key customers. If we lose any of our key senior executives, we may not be able to retain our current customers or develop business with new customers.

WE MAY NOT BE ABLE TO REMAIN COMPETITIVE IF WE CANNOT HIRE AND RETAIN QUALIFIED ENGINEERS AND SALES AND MARKETING PERSONNEL

Our future success depends on our ability to continue enhancing and introducing new generations of technology. We are therefore particularly dependent on our ability to identify, attract, motivate and retain qualified design, process and testing engineers with the requisite educational background and industry experience. Competition in the market for qualified engineers, particularly those with significant industry experience, is intense. Our ability to successfully grow will also depend on our ability to attract and retain sales and marketing personnel. The loss of the services of any of our senior engineers or our inability to attract and retain sales and marketing personnel could hurt our product development efforts or business relationships.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY AND KNOW-HOW FROM BEING COPIED OR USED BY OTHERS, OUR COMPETITORS MAY GAIN ACCESS TO ITS CONTENT AND TECHNOLOGY

We attempt to protect our trade secrets and other proprietary information through confidentiality agreements with customers, suppliers, employees and consultants and through other security measures. We also rely on copyright, trade secret and patent laws to protect our intellectual property and know-how.

If we are unable to protect our intellectual property, it may be possible for someone to copy aspects of our designs and products or to obtain and use information that we regard as proprietary.

The semiconductor industry is characterized by frequent litigation regarding intellectual property rights. Questions of infringement in the semiconductor field involve highly technical and subjective analysis. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any litigation, whether or not determined in our favor, would probably be costly and would divert the efforts and attention of our management and technical personnel from normal business operations. Adverse determinations in litigation could

result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties. Moreover, there may not be effective trade mark, copyright and trade secret protection in every country in which our technology is or may be used in the future. This would increase the possibility of infringement of our intellectual property.

THE PROFITABILITY OF OUR BUSINESS MAY BE ADVERSELY AFFECTED BY CURRENCY FLUCTUATIONS AND BY THE ECONOMIC AND LEGAL DEVELOPMENTS IN THE COUNTRIES WHERE WE CONDUCT OUR BUSINESS

We sell our products primarily in Europe, Asia and the United States. Our operations are subject to risks inherent in international business activities, including:

- general economic conditions in each country;
- costs of complying with a variety of regulatory environments;
- currency conversion risks and the effect of fluctuations in currency exchange rates;
- taxation by multiple government entities;
- tariffs and other trade barriers; and
- staffing and managing foreign operations.

We conduct our business primarily in Euro, which is financial statement reporting currency, and US Dollars. We may be unable to match US dollar inflows and outflows adequately, which increases our exposure to changing exchange rates. Please see "Foreign Currencies" under "Item 5. Operating and Financial Review and Prospects" for further information on the impact of exchange rates.

US-RESIDENT SHAREHOLDERS MAY FIND IT MORE DIFFICULT TO PROTECT THEIR INTERESTS THAN THEY WOULD AS SHAREHOLDERS OF A US-BASED CORPORATION

Dialog Semiconductor Plc is incorporated under the laws of England and Wales. The rights of our shareholders and the responsibilities of the members of the board of directors of a corporation under English law are different from those under US law. Furthermore, a majority of the members of our board of directors and the majority of our assets are located outside the United States. Therefore, US-resident shareholders may find it more difficult to protect their interests and enforce a judgment of a US court as compared to shareholders of a US-based corporation. In addition, it may be difficult to bring an action seeking a remedy under US securities laws in a non-US court.

OUR FUTURE OPERATING RESULTS COULD BE MATERIALLY AFFECTED IF JUDGMENTS UNDERLYING ANY OF OUR ACCOUNTING POLICIES WERE TO SIGNIFICANTLY CHANGE

A number of our accounting policies involve judgments about various factors, including our financial and operating condition, the wireless communications industry and general economic conditions. There is a reasonable likelihood that our future operating results could be materially affected if the conditions or assumptions on which our judgments are based were to significantly change. See "Item 5. Operating and Financial Review and Prospects-Critical Accounting Policies and Related Uncertainties".

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Dialog Semiconductor Plc ("Dialog" or the "Company") is a public limited company constituted under the laws of England and Wales. Our business originated from the European activities of International Microelectric Products, Inc., a US company active in the semiconductor industry. On May 20, 1985, International Microelectric Products, Inc. incorporated IMP (Europe) Limited as a private limited company registered in England and Wales. At the end of 1989 and the beginning of 1990, Daimler-Benz AG, now DaimlerChrysler AG, acquired IMP (Europe) Limited, which became part of a Daimler-Benz AG subsidiary, Temic Telefunken microelectronic GmbH, now Conti Temic microelectronic GmbH ("Conti Temic"). In March 1998, three of our major shareholders, Apax Partners & Co. Ventures Ltd. and Apax Partners & Co, Germany II L.P. (together "Apax Partners"), Adtran, Inc. ("Adtran") and Ericsson provided funding to finance our buyout of the business from Daimler-Benz AG (now DaimlerChrysler AG). These shareholders contributed approximately EUR 28.0 million in cash in exchange for ordinary shares in the amount of EUR 5.3 million, additional paid-in capital in the amount of EUR 5.3 million and cumulative redeemable preference shares in the amount of EUR 17.5 million. We then acquired our predecessor business for EUR 28.0 million. In connection with this acquisition, Apax Partners transferred some of its shares to members of management and the board of directors of our company and transferred additional shares then owned by it into the Dialog Seminonductor Plc Employee Benefit Trust (the "Trust") (a Jersey trust established to purchase our shares from and sell our shares to our employees and directors).

Our head office is located near Stuttgart, Germany and we have additional offices in Swindon, UK; Clinton, New Jersey, USA; San Diego, California, USA; Graz, Austria; Tokyo, Japan; Taipei, Taiwan; and Heidelberg and Munich, Germany. Our principal executive office is located at Neue Strasse 95, D-73230 Kirchheim/Teck-Nabern, Germany, Tel: 0049 7021 805-0. Our agent for US federal securities law purposes is Dialog Semiconductor, Inc., Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

B. BUSINESS OVERVIEW

Dialog is a fabless semiconductor company that develops and supplies power management, audio and imaging technology, delivering innovative mixed signal standard products as well as application specific IC solutions for wireless, automotive and industrial applications. A "fabless" company is one that outsources the production of silicon wafers. Our expertise in mixed signal design, with products manufactured entirely in Complimentary Metal Oxide Semiconductor ("CMOS") technology, enhances the performance and features of wireless, hand-held and portable electronic products. Our technology is also used in intelligent control circuits in automotive and industrial applications. Production of these designs is then outsourced, and the final products are returned to us for approval and testing before delivery to the customers. Our strong track record in delivering qualified and tested products directly to the world's leading wireless handset manufacturers is a result of shipping over 500 million successful audio-CODEC (a coding/decoding device) and power management chips for cellular phones. The technology that optimizes power usage, processes audio signals, and converts analog or digital data in wireless handsets is also providing competitive solutions in automotive and industrial applications. With this experience of delivering mixed signal circuits in CMOS semiconductor technology, Dialog is enabling advanced applications and features in consumer electronics products and other systems. In 2002 and 2003, we extended the reach of our technology by introducing components and systems for embedding advanced digital camera and video capability in portable electronic products. In 2003, we developed a family of devices which drive color displays in wireless handsets. These color STN (super-twisted nematic) liquid crystal display (LCD) drivers were introduced to the market and shipped in volume production during 2004. In

power management, we launched the DA9030 in May 2004, the first integrated power management IC (PMIC) to support the Wireless Intel SpeedStep(R) technology. In 2004 we also announced a long-term collaboration with Carl Zeiss, a world leader in the optical and optoelectronics industry, to develop and market modules for high quality camera phones.

INDUSTRY BACKGROUND

SEMICONDUCTORS AND MIXED SIGNAL ASICS

Semiconductors are essential building blocks in today's electronic products, including cellular telephones. Integrated circuits are complex semiconductor devices that consist of a single piece of silicon and are commonly referred to as a "chip". In the past, standard integrated circuits were placed close together to create a system that met the requirements of an application. This standardization in turn has created a foundry industry which produces "wafers", consisting of multiple identical silicon chips. In order to reduce size and costs and increase performance ASICs were developed. ASICs integrate these circuits together on one custom designed chip. A mixed signal ASIC processes both analog and digital data.

Analog circuits provide the interface between electronic systems and a variety of real world phenomena such as sound, light, and temperature. Digital devices use a series of on/off states to perform arithmetic functions that are used to process data. Due to the risk of interference, it is technically difficult to combine analog and digital circuits on a single chip. System manufacturers historically addressed mixed signal requirements using printed circuit boards that incorporated individual analog and digital components. However, in response to increasing demand for greater functionality at lower cost, system manufacturers are actively seeking solutions that contain both analog and digital functions integrated on a single chip.

OUR SOLUTION

We develop and supply mixed signal components and system level solutions for wireless communications, automotive and industrial applications. Our technology expertise addresses power management, audio-CODECs and imaging. We have developed a considerable reputation among our customers in creating innovative, customer-specific solutions in 100% CMOS technology-fully tested and delivered quickly to achieve competitive time-to-market objectives.

The customer preference for smaller and more sophisticated hand-held and portable devices with advanced capabilities such as wireless communications, digital camera, video and audio all in the same device places huge demands on the battery. Our highly integrated, single chip power management and audio devices ensure the components within a mobile phone handset or PDA make optimum use of the battery to prolong usage time, and also to provide high performance audio playback.

DESIGN EXPERTISE AND PRODUCT INNOVATION

We concentrate on designing increasingly complex mixed signal ASIC solutions and have accumulated substantial know-how in this area. We employ our know-how to respond to our customers' demands and to identify new product solutions that increase performance while lowering overall system costs.

Examples of the success of this approach can be seen in our leading market positions in audio-CODEC and power management applications.

ALTERNATIVES TO ASICS AND CMOS TECHNOLOGY

We focus our business on the design of ASICs rather than general purpose, mass-produced integrated circuits on standard chipsets. Our larger cellular phone manufacturing customers rely primarily on ASIC-based semiconductor designs to maintain their customized strategic position in the cellular phone industry, giving them more control over the design of their products than they would have if they used mass produced standard chips. Other customers tend to rely more heavily on standard baseband chipsets. We supply these customers with standard designed chips, although this is not a significant part of our business.

We supply ASICs using mainstream CMOS technology, the most widely used semiconductor manufacturing technology. Although specialist analog (bipolar, analog CMOS) as well as mixed manufacturing technologies (BiCMOS) exist for analog circuits, most chip designers use CMOS manufacturing technology because unit production costs can be up to 20-25% lower than can be achieved with alternative manufacturing technologies for the same or similar functionality. In addition, most foundries are designed to use CMOS production processes. As a semiconductor company that relies on outsourced manufacture of our chips, access to foundry capacity with comparable technology is critical to our ability to compete in the cellular communications industry. Accordingly, we do not view BiCMOS technology as a realistic alternative for our business.

COMMITMENT TO SELECTED CUSTOMERS

We have built a core of strong and growing relationships with selected high profile, high volume customers. We are a flexible partner for these customers, who increasingly demand that we, as a preferred supplier, serve as an integral part of their overall supply chain. We work with our customers to rapidly develop the appropriate technical response to changing market trends, and these collaborative relationships have become increasingly important to us.

OUR STRATEGY

We believe that increased demand for new applications and technical improvements in the wireless communications market will require handset manufacturers to rely more on the type of ASICs that we supply to achieve the cost and performance demands of the market.

Our objective is to be the leading global supplier of lowest power, highest quality, mixed signal components and system level solutions to the wireless and automotive markets. To meet these objectives, we have developed a clearly focused strategy.

REMAIN FOCUSED ON EXISTING BUSINESS MODEL

We intend to remain focused on our existing business model, which includes outsourcing silicon wafer production to foundry manufacturing plants and supplying ASICs using mainstream CMOS technology. We maintain control over our entire production process and ensure product quality through pre-shipping testing of all final products. We believe that selectively outsourcing production to foundries and assemblers minimizes the substantial cost of purchasing semiconductor production equipment and allows us to concentrate management efforts on our core competencies.

MARKET STANDARD PRODUCT SOLUTIONS

Aside from our primary focus on ASICs, we believe that we can adapt some of our

solutions to more than one customer and offer ASSPs. By engaging in basic corporate identity and brand development activities in the engineering and design community worldwide, in prior years we laid the foundations for marketing ASSPs to a broader customer base than we have previously had.

EXPAND ENGINEERING EXPERTISE

We recognize that one of our key strengths lies in the engineering expertise of our employees in design, product development and testing. Due to the increasing complexity of mixed signal design and production, it is essential to our ongoing success that we attract, develop and retain key engineering personnel. We intend to continue to meet this challenge by offering our technical staff a variety of ongoing educational and career opportunities, combined with performance incentives and by actively recruiting additional highly skilled individuals. See "-Sales and Marketing" below. One example is the announcement of the availability of a brand new range of color liquid crystal display (LCD) drivers providing real innovation for the mobile phone display market in 2004. Delivered as standard parts ready for production, the DA89xx family delivers superior color performance and low power consumption, while providing mobile phone handset makers the flexibility to customize display parameters for creating differentiation.

EXPAND RELATIONSHIPS WITH KEY INDUSTRY LEADERS

We have close relationships with a number of high volume customers, many of which are key industry leaders. We intend to continue to focus our sales and marketing efforts on a small number of high quality target customers. By strengthening these relationships and developing new ones, including with potential purchases of ASSPs, we intend to secure our involvement in developing market segments.

PROACTIVELY REFINE CUSTOMERS' SYSTEM ARCHITECTURE

We work proactively with our customers to refine their system architectures. One example of this approach is the integration of audio and power management functions onto one chip in order to increase power efficiencies and reduce product weight and size. We see particular opportunities in the expected migration to 3G wireless communications technology, which will demand more efficient use of system architectures.

SELECTIVELY EXPAND GLOBAL CAPABILITIES

We have successfully developed a strong, focused customer base in Europe and Asia. In order to support and service our growing customers, we will consider expansion through organic growth and selected acquisitions. To this end, we have established design centers in Graz, Austria and Tokyo, Japan. Also, to support our growing customer base in greater China we recently, in the first quarter of 2005, opened a new office based in Taipei, Taiwan. This means we can support our customers close to where they need us. Such direct local support is highly valued by our customers and complements their development activities. In addition to global presence, effective development work in small teams is one of the most important benefits of our business model. The individual design centers frequently exchange know-how enabling them to focus on innovative design work and, using uniform design software and IT infrastructure, drive product developments forward at multiple locations simultaneously. See "Item 5. Operating and Financial Review and Prospects-Liquidity and Capital Resources".

OUR PRINCIPAL PRODUCTS

We focus on the production and supply of mixed signal ASICs and ASSPs for the cellular communications market and, to a lesser but increasing extent, for the automotive electronics market. We also supply ASICs for other consumer and industrial applications in the lighting systems and data communications markets. Revenues from our wireless communications applications accounted for 78% of our total revenues for the year ended December 31, 2004, 75% of our total revenues for the year ended December 31, 2003 and 71% of our total revenues for the year ended December 31, 2002. Revenues from our industrial applications sector were 12% of total revenues for the year ended December 31, 2004, 16% of total revenues for the year ended December 31, 2003 and 21% of our total revenues for the year ended December 31, 2002. Revenues from our automotive applications sector were 10% of our total revenues for the year ended December 31, 2004, 9% of total revenues for the year ended December 31, 2003 and 8% of our total revenues for the year ended December 31, 2002.

Our products are categorized as follows: power management and audio ICs, camera modules, liquid crystal display drivers and ASICs.

For the year ended December 31, 2004, approximately 56% of our revenues originated from Europe (of which approximately 26% originated outside Germany), 36% originated from Asia and 8% originated from North and South America. For the year ended December 31, 2003, approximately 65% of our revenues originated from Europe (of which approximately 25% originated outside Germany), 27% originated from Asia and 8% originated from North America. For the year ended December 31, 2002, approximately 68% of our revenues originated from Europe (of which approximately 40% originated outside Germany), 24% originated from Asia and 7% originated from North America.

POWER MANAGEMENT AND AUDIO ICS

The power management subsystem within the phone controls the power supply to all of the functions in the phone ensuring power is used most efficiently and that all the functions have the optimum operating environment.

Our power management functions include Smart Mirror(TM) LDO (low dropout voltage) regulators, high efficiency buck and boost converters, programmable multiple chemistry battery chargers for all common battery technologies like NiMH, L ion and polymer. Our patented Smart Mirror(TM) technique, which we introduced in 2003, allows product designers to minimize current consumption and simplify their designs by eliminating `power-down' modes. This was first introduced in our DA9010 integrated GSM/GPRS audio and power controller. Developed in collaboration with Intel Corporation, the DA9010 provides all the necessary power management and high performance audio functions for the phone handset chip design, offering a level of integration not previously available in this class of device.

The audio part of our ICs is an important part of systems such as mobile phones, since it determines voice quality. Based on an audio CODEC (coding /decoding device), it provides the interface between analog signals (such as the human voice) and the digital data processing circuits inside the system. Our advanced audio CODEC functions have up to 24-bit capability for digital audio player algorithms like MP3 and beyond, and are based on Dialog's own digital signal processing (DSP) designs optimized for minimum power consumption and silicon area. A range of high performance analog interfaces for microphones, loudspeakers and line drivers supports these audio codecs.

In addition to standard products, our power management and audio functions are also available to customers as application specific ICs (ASICs) as we have been able to continue these two functions on a single circuit. The power management functions are also used in ASICs for automotive electronics and industrial

lighting systems.

We continue to develop new power management products such as the DA9030 and DA9011 introduced during 2004.

CAMERA MODULES

The use of camera phones and PDAs with cameras is already widespread and market analysts predict further growth in this area. Cameras are also becoming part of automotive guidance and collision avoidance systems. We have developed a range of CMOS image sensors and standalone modules for image sensing and processing, allowing manufacturers to embed high performance, high-resolution camera functionality into next generation consumer products and automotive systems.

The unique XDR(R) (extended dynamic range, one of our registered trademarks) technology in our image sensors ensures clear images are captured under widely contrasting ambient light, offering the best class of performance in low light conditions. Key features of our image sensor technology include:

- Superior video in outdoor uncontrolled lighting
- High confidence image capture
- Fast response
- Very low power and low voltage requirements
- High resolution still and streaming video modes

Our advanced embedded camera-on-a-chip products range from stand-alone CMOS image sensors to the complete module consisting of sensor, image DSP, lens, housing and connector. The high sensitivity and processing capability down to each pixel make our image sensor technology the ideal choice for automotive systems, for which near real-time response is required.

In 2004 we announced our collaboration with Carl Zeiss Corporation to initiate a program of camera module development utilizing the best of our image sensor and processing technology, and combining it with a high quality lens in an extremely small package using optics from Carl Zeiss.

LIQUID CRYSTAL DISPLAY DRIVERS

In 2004 we announced availability of a new range of color liquid crystal display (LCD) drivers providing real innovation for the mobile phone display market. Delivered as standard parts ready for production, the DA89xx family delivers superior color performance and low power consumption, while providing mobile phone handset makers the flexibility to customize display parameters for creating differentiation.

Our family of color display drivers is specially developed for the growing number of wireless handsets with high-resolution color displays and also with dual displays. The color STN (super-twisted nematic) liquid crystal display (LCD) drivers provide resolution of up to 65,000 colors, and address a demand for higher performance full color, high speed moving images using MLA (multi-line addressing) LCD technology. This ensures faster response time compared to conventional passive matrix displays, and high-speed moving images are supported while maintaining very low power consumption.

Products include the new DA8912A and DA8913A, which incorporate fully integrated graphic display memory with high speed interfaces and various power management functions to enable a single, low power chip for managing the display in next generation mobile phone handsets and portable electronic products. The devices offer fast display graphic transfer rates, supporting moving images

APPLICATION SPECIFIC ICS

Our background in developing ASIC (application specific integrated circuit) solutions for wireless, automotive and industrial products allows us to rapidly develop leading-edge application specific solutions for our customers based on proven in-house technology and the latest CAD (computer-aided design) tools.

In CELLULAR PHONES for example, we have developed over 50 different power management designs for the world's leading cellphone manufacturers. Our ASICs are becoming ever more integrated with many power management functions on the chip - such as high performance LDOs (low drop out voltage regulators), high efficiency AC-DC converters, complete battery charging circuits, programmable LED drivers and USB interfaces. For sophisticated audio capability, we have also successfully integrated audio functions on to the same chip - exploiting the complementary nature of power and audio sub-systems.

In AUTOMOTIVE ELECTRONICS, our ASICs control safety, engine management, and comfort electronics for the top automobile manufacturers. This exploits Dialog's competence in power management systems and mixed signal design, together with knowledge of integrating high performance analog circuits and high-density digital logic and high voltage circuits on a single chip in a standard CMOS process. Our partnership with leading automotive equipment suppliers has also resulted in developing chips able to connect directly to high voltage circuits of up to 40V.

In INDUSTRIAL SYSTEMS, our single chip solutions integrate high voltage low power circuits for electronic ballasts used to control fluorescent lamps. Our customers are using ASICs that integrate, for example, the functionality of power factor correction circuits, lamp management circuits, and half bridge driver. Our expertise in the integration of these circuits forms the basis of highly integrated control chips for smart power electronic systems in other applications such as computer and mobile communications systems. Dialog's solution is ideal for instances where the chip must be highly integrated yet have the ability to control high voltages intelligently using digital circuits on the same chip.

Our ASIC solutions are manufactured by leading foundry partners, with which we work in true partnership to ensure our customers can access both the latest CMOS processes, as well as foundry capacity. This enables our customers to meet both costs and time-to-market objectives for their products. We also have our own process engineers in-house to ensure our customers benefit from extracting the optimum capability from a process.

PRINCIPAL CUSTOMERS

Our principal customers are recognized wireless communications manufacturers and automotive equipment manufacturers. In light of the rapid pace of technological development and customer demand for increasingly complex functionality, our partnerships with our customers has allowed them to draw on us as an outside source of expertise. For us, the close working relationship with our customers provides an opportunity to continually develop and fine-tune market leading

technological expertise with a recognized industry leader.

We have developed long-term relationships with our customers, including Ericsson, Motorola and Siemens for wireless communications, Adtran for wireline communications applications, Bosch and Conti Temic for automotive applications and Tridonic for industrial applications.

OUR PRODUCT CYCLE

We design, develop and supply mixed signal ASICs and ASSPs. We outsource the actual manufacture of wafers and assembly to selected foundries and assemblers. Once the manufacture and assembly have been completed, all of our products are tested, the large majority in-house, before final delivery to our customers. A description of our process from design to delivery can be summarized as follows:

- design and development;
- manufacture of wafers;
- assembly;
- testing; and
- delivery.

Due to the fact that we use a fabless model, 80 to 90% of the value chain is subcontracted. Prices of raw materials have fallen over the past two years, but are expected to increase in the near future; and on average the price of raw materials related to silicon wafers and assembly vary by approximately 10% per year. However, the price of silicon wafers of already quoted products is not expected to increase. In general, wafer pricing is fairly dependent on overall capacity utilization in the foundry industry.

DESIGN AND DEVELOPMENT

Our engineering group consists of 157 professionals (as of December 31, 2004) with mixed signal ASIC experience. We use design tools from Cadence Design Systems, Inc. to increase design automation and top level simulation to identify system design incompatibilities at an early stage. Furthermore, we base our production around a standard CMOS semiconductor technology process in order to focus the design efforts more effectively. See "Manufacture of wafers" below. Aside from our primary focus on ASICs, we believe that we can adapt some of our solutions to more than one customer and offer ASSPs. By engaging in basic corporate identity and brand development activities in the engineering and design community worldwide, in prior years we laid the foundations for marketing ASSPs to a broader customer base than we have previously had.

We believe we offer our clients a significant advantage through our ability to rapidly develop mixed signal ASIC and ASSP designs. This ability has been fostered through many years of design experience and a highly skilled engineering staff. We keep track of evolving design elements through our design library database. We achieve rapid design cycles through our strategy of modifying and reusing previously designed building blocks. We use the CR16B, a 16 bit microprocessor core which we acquired under a license of indefinite duration in 2000. This core, which utilizes the CompactRISC(TM) architecture developed by National Semiconductor for embedded applications that are integrated with other functions on a single integrated circuit, provides a high performance, general purpose, flexible and power efficient platform that can be used in a wide variety of designs. This technology enables us to develop system-on-chip ("SOC") designs combining analog, digital and microcontroller

functions. We have successfully integrated circuits combining complex digital functions including eFlash, which can simultaneously handle 40V in a 0.35-u technology.

We assign dedicated design teams to each customer. These teams work closely with the customer in order to identify and develop customized system solutions. This approach builds close customer relationships and insures that each design team develops a detailed knowledge of the customer's product enabling it to rapidly develop innovative applications.

At the start of the design process, a customer typically generates a description of its requirements. We will then propose a variety of possible solutions and will also prepare a preliminary quotation outlining pricing details, time to market factors and production considerations. This preliminary quotation is usually prepared within one week of the initial request which we believe provides us with a competitive advantage.

The unit price for each IC product is fixed in the development and supply agreement and is usually dependent on the anticipated number of ICs to be delivered. Unit price is subject to negotiation between us and the customer. Generally, initial deliveries of product are sold at the highest per unit price and subsequent volume deliveries are sold at reduced unit prices.

MANUFACTURE OF WAFERS

Semiconductors can be manufactured using different process technologies. The two dominant processes in use today are bipolar and CMOS. Bipolar devices typically operate at faster speeds than CMOS devices, but CMOS devices consume less power and permit more transistors to be integrated on a single ASIC. While bipolar semiconductors were once used extensively, CMOS technology has become the more dominant of the two technologies. As a result, most CMOS processes have become standardized and the design rules necessary for manufacture are well understood in the semiconductor industry. This standardization has created an active foundry industry.

We have adopted a strategy of outsourcing our wafer production to selected foundries with a demonstrated ability to provide high quality products on tight deadlines. The principal foundries we currently use are Chartered Semiconductor Manufacturing Pte., Ltd. in Singapore ("Chartered"), X-FAB UK Ltd. ("X-FAB"), Taiwan Semiconductors Manufacturing Co., Ltd. ("TSMC") and CSMC Manufacturing Co. Ltd in China ("CSMC"). In 2004, we outsourced our wafer production as follows: approximately 39% with Chartered, 49% with TSMC, 8% with CSMC, 3% with X-FAB and 1% with other.

We aim to ensure that all steps in the manufacturing process can be provided by at least two suppliers. Before we appoint one foundry as a supplier for a specific wafer, we provide at least two foundries with technical specifications. Upon confirmation by both foundries as to the ability to manufacture such wafer, we appoint one of them; we then can use the other one as a back-up source of production in the event that the first foundry is unable to provide its services. The goal is to prevent shortage or loss of chip production due to market conditions or disasters such as foundry fires.

Since the successful manufacture of silicon wafers is critical to our reputation and profitability, we work carefully to identify suitable foundries in order to maintain continuity and security of supply for our customers. There are many factors which contribute to our selection of wafer suppliers. The principal concern is whether the foundry's process technology can be effectively used for our designs. Additionally, we will consider such factors as capacity, history, financial stability, mixed signal experience, pricing, location, customer support and reputation. Once a foundry has been selected, we then seek to secure

its supply in a variety of ways, including entering into supply contracts to fix price and reserve production capacity and, when deemed appropriate, paying a deposit to a foundry to guarantee future production capacity. We also place, when practicable, our own process engineers directly at the fab premises to resolve any potential engineering problems and to ensure both the quality and timely delivery of the finished product.

We may, from time to time, reserve capacity in a foundry. We have entered into supply agreements with Chartered and X-FAB. Under the terms of the Chartered agreement, we maintained deposits totalling $20 million with Chartered which guaranteed access to certain quantities of sub-micron wafers through fiscal 2003. These deposits were refunded to the Company in October 2003. For more information on our agreement with Chartered, see "Item 5. Operating and Financial Review and Prospects-Liquidity and Capital Resources - Off Balance sheet Arrangements and other commitments" and Note 11 to the consolidated financial statements. In 2002 we have made an advance payment of $2.5 million to guarantee access to foundry capacity with X-FAB.

ASSEMBLY

We also outsource final assembly. During the standard assembly process, a wafer is sawed, the individual chips are mounted on lead-frames and substrates and then connected via bond wires. Finally there will be an encapsulation process which protects the chip against environmental stress. There is a large group of subcontractors who service this market. We have qualified the following eight assemblers: Orient Semiconductor Electronics, Ltd (Taiwan), Carsem Semiconductor Sdn. Bhd. (Malaysia), Circuit Electronic Industries Public Co., Ltd. (Thailand), AIT Pte Limited (Singapore), ASE Inc. (Taiwan and Korea), King Yuan Electronics Co. Limited (Taiwan), Siliconware Precision Industrie Co., Ltd (Taiwan) and Hana Microelectronics Public Co.,Ltd. (Thailand). Completely assembled ASICs are returned to us for final testing before delivery to the customer. We view our quality assurance role as critical in order to ensure the success of a business model that incorporates strategic outsourcing.

TESTING

Following return of the assembled products from its assemblers, we test our products before delivery to a customer. No product is delivered to a customer unless it has been tested. This rigorous testing approach allows us to ensure overall quality control of our manufactured products. The test programs developed by our test engineers are based upon specifications determined by the individual customers and are developed in parallel with the design.

Once a testing program has been developed and the chips have been delivered from the assembly, individual batches of chips are tested in our machines. Twenty-six of our testing machines are made by Credence Systems Corporation two are made by Teradyne, Inc, and we use a display test system made by Advantest America Corporation. The machines are regularly calibrated to ensure the accuracy of the test parameters.

All our chips are tested in-house. Any chip that does not satisfy our testing criteria is discarded. We send approved chips to a tape and reel manufacturer who will then return the loaded reels to us for final packaging and delivery to the customer.

SALES AND MARKETING

At December 31, 2004, we had a direct sales staff of 22, of which eleven are based in Germany, five in the United Kingdom, two in the United States three in Japan and one in Taiwan.

We occasionally use a limited number of independent sales representatives in our coverage efforts. In 2004, we generated more than 90% of our revenues from sales directly to customers through our regional sales offices and less than 10% of our revenues from sales through representatives. Our marketing department is responsible for new market research and development, competition analysis and identifying new target applications. This ensures that we retain an application focus on the wireless communications and automotive sectors in addition to the customer focus of our sales team.

Our marketing department provides input to senior management in their development of strategic planning and business guidelines. This ensures that our strategy is focused on defined goals.

INTELLECTUAL PROPERTY

We attempt to protect our intellectual property and know-how through a combination of patents, copyrights, trade secret laws, trademarks and confidentiality agreements with our customers, suppliers, employees and consultants. In the past and to some extent at present, we have created specialized designs of mixed signal ASIC device products, which are designed according to customer specifications. As our designs are customer-specific, they remain the intellectual property of our customers, thereby limiting our ability to patent such inventions. However, where such limitations do not exist, we have begun and will continue to obtain more patents covering some basic concepts in our production fields. During the year ended December 31, 2002, we acquired a CMOS imaging patent portfolio from Sarnoff Corporation and were granted another 6 patents. In 2003 and 2004 we have been granted 29 patents. In addition, we currently have more than 150 patents and patent applications pending for various ASIC applications. We intend to apply for patents, including those for ASSPs, whenever practicable in the future. Operating in an industry in which competitive position is determined by the ability to maintain a leading edge in technology, we depend substantially on patents and new manufacturing processes.

To develop a family of color STN (super-twisted nematic) liquid crystal display (LCD) drivers, we have licensed multi-line addressing (MLA) LCD technology from both Optrex Corporation and Motif Corporation.

In addition, we license standard software from a number of vendors on standard terms. We have also licensed the CR16B 16 bit microprocessor core, a software product, from National Semiconductor. This license is of indefinite duration. While these licenses enhance our ability to design and develop IC solutions, our business does not depend on such licenses. See "Our Product Cycle-Design and Development" above.

COMPETITION

Competition in the semiconductor market is intense. There are many competitors in this market, offering products that are similar to ours and are based on similar technologies. We compete in the wireless communications market with major international semiconductor manufacturers, such as ST Microelectronics, Texas Instruments and NEC. We also compete in the automotive electronics market with major international semiconductor manufacturers, such as Motorola, ST Microelectronics, Infineon and National Semiconductor. For industrial applications, the market is very fragmented and we compete with competitors across the spectrum from small design companies to very large companies.

In general, we compete primarily on the basis of price, design cycle time,

reliability, performance, customer and logistical support and reputation. Our ability to compete successfully depends on factors both within and beyond our control, including successful and timely development of new products, availability of future-oriented manufacturing process technologies, product performance and quality, manufacturing yields and product availability, customer service, pricing, industry trends and general economic trends. Many of our direct and indirect competitors are major international semiconductor companies with substantially greater technical, financial and marketing resources and name recognition. In addition, in the future we may face increased competition from smaller, niche semiconductor design companies. Further, some of our customers could decide to satisfy their ASIC demands through in-house design and production. See "Item 3. Key Information-Risk Factors-We face intense competition, and if we are unable to compete effectively, we could lose customers".

REGULATORY MATTERS

We are subject to a comprehensive body of environmental laws, rules and regulations in each jurisdiction in which we operate. Since we have no manufacturing facilities, our management believes that we are in material compliance with all applicable environmental laws, rules and regulations. In addition, we have implemented an Environmental Management System compliant with the internationally recognized International Organization for Standardization standard, ISO 14001, requirements.

C. ORGANIZATIONAL STRUCTURE

NAME AND REGISTERED OFFICE	AREAS OF BUSINESS	COUNTRY OF INCORPORATION	PROPORTIO OWNERSHIP IN (IN %
Dialog Semiconductor GmbH	Acquisition, sale and marketing of microelectronic products, especially of ASICs	Germany	100
Dialog Semiconductor (UK) Limited	Design, development and sale of semiconductor components	England and Wales	100
Dialog Semiconductor, Inc.	Design, development and sale of semiconductor components	United States	100
Dialog Semiconductor K.K.	Design, development and sale of semiconductor components	Japan	100

D. PROPERTY, PLANTS AND EQUIPMENT

Dialog and its wholly-owned subsidiaries currently use the following properties:

LOCATION	TENURE	TERM	APPROXIMATE AREA (M2)	PRINCIPAL

Building 15 and 5C, Neue Strasse 95, Kirchheim/Teck-Nabern, Germany	Leasehold	Fixed until December 31, 2005	5,821	Company headquarters, of operation for design, marketin and testing
Industriestrasse 1, Munich/Germering, Germany	Leasehold	Five years, fixed until September 30, 2005 with option for a further five year period	530	Office operation design
Mannheimer Strasse 1, Heidelberg, Germany	Leasehold	Fixed until June 30, 2006 with option for a further five year period	481	Office operation design
Kaerntner Strasse 518, Graz-Seiersberg, Austria	Leasehold	Lease with unlimited duration, terminable by either party on three months' notice to the end of a quarter	596	Office operation design
Unit 1 Omega, Windmill Hill Business Centre, Swindon, Wiltshire, United Kingdom	Leasehold	24 years from September 29, 1986	780	Office operation marketing and de
54 Old Highway 22, Clinton, New Jersey, USA	Leasehold	Fixed until November 30, 2006, with option for a further two year period	661	Office operation marketing and de
16870 West Bernardo Drive San Diego California USA	Leasehold	Fixed until February 1, 2006, with option for a further one year period	21	Office operation
Kishimoto Bldg 10F 2-2-1, Marunouchi, Chiyodaku, Tokyo, 100-0005 Japan	Leasehold	Fixed until June 30, 2009	391	Office operation marketing and de
809 Room, No 689 Sec 5, Zhongxiao Rd Xinyi District Taipei City 110 Taiwan ROC	Leasehold	Fixed until December 31, 2005		Office operation and marketing

We do not currently own any properties. Our management believes that our leased properties and our existing design and administrative facilities are sufficient for our current requirements and provide us with flexibility to expand our facilities in accordance with our current objectives.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the audited consolidated financial statements included in this annual report. Our audited consolidated financial statements have been prepared in accordance with US GAAP.

EXECUTIVE SUMMARY

We are a global supplier of power management, audio and imaging technology, delivering innovative mixed signal standard products as well as application specific integrated circuits for wireless, automotive and industrial applications. To date, we have shipped over 500 million integrated circuits for cellular phones. We operate in intense competitive markets and our customers select us based upon numerous factors including price, design cycle time, reliability and performance. Our customers purchase our products through periodic orders made throughout the year. The prices paid for each type of product or design are generally agreed with customers on an annual basis for specified volumes of each design ordered by the customer during the year. Potential price reductions in subsequent years are typically offset by lower production costs as a result of improved yields, lower wafer costs or smaller chip sizes.

Critical success factors for us include the continued growth in the worldwide market for cellular handsets, the completion of our new designs on a timely basis, customers acceptance and implementation of our designs in large-scale production, and continued demand from our key customers for the development of new products. Partnerships with companies at all levels of business are important for our success in a market dominated by major international semiconductor companies. We rely on our fabless business model that enables us to focus our research and development activities, which are essential for us to respond to our customers' cutting edge silicon solutions requirements and also maintain our competitiveness in our market. Consequently, it is critical for us to make significant and ongoing cash expenditures to fund our research and development activities. We have also made significant investments in long-lived assets, primarily for our in-house test equipment.

We have a significant amount of liquid assets on hand, primarily from the remaining sales proceeds from the issuance of our ordinary shares in 1999 and 2000, cash generated from operations in previous years and recoveries of certain of our investments and deposits. Substantially all of our near term future cash inflows are expected to come from the sale of our products. We generally collect cash from our customers within 58 days after product delivery. However, we derive a substantial portion of our revenues from a relatively small number of wireless communications manufacturers. Sales to two customers individually accounted for 65% of total revenues in 2004. Therefore, the main action we are taking to minimize the risk of this dependency is developing new products for new customers; such new products include a range of color liquid crystal display drivers, image sensors and camera modules. Material opportunities we envision include growth in our main market, cellular handsets, based on the expected transition to 3G, and a further worldwide growth in semiconductor sales, especially in Asia. However, our revenues, profitability and growth could decline if the growth in these markets slows.

We believe that our key performance indicators are revenues, gross margin and

research and development costs, thereby being the main driver of our operating profit or loss. Accordingly, our Board of Directors and management use operating profit as a measure of performance.

RESULTS OF OPERATIONS

The following table sets forth historical consolidated statements of operations of Dialog for the fiscal years ended December 31, 2004, 2003 and 2002 in thousands of Euro and as a percentage of revenues.

	YEAR ENDED DECEMBER 31,				
	2004		2003		2
		%		%	
Revenues	116,044	100.0	92,893	100.0	77,1
Cost of sales	(79,783)	(68.8)	(62,374)	(67.2)	(57,4
GROSS MARGIN	36,261	31.2	30,519	32.8	19,6
Selling and marketing expenses	(6,237)	(5.3)	(4,197)	(4.5)	(4,1
General and administrative expenses	(5,462)	(4.7)	(5,044)	(5.4)	(6,4
Research and development expenses	(29,071)	(25.0)	(30,590)	(32.9)	(34,5
Amortization of intangible assets	(1,520)	(1.3)	(2,073)	(2.2)	(1,9
Restructuring and related impairment charges	(59)	(0.1)	(1,839)	(2.0)	-
OPERATING LOSS	(6,088)	(5.2)	(13,224)	(14.2)	(27,4
Interest income, net	1,081	0.9	757	0.8	1,1
Foreign currency exchange gains and losses, net	(726)	(0.6)	(454)	(0.5)	(1,9
Recovery (write-down) of investment	54	-	315	0.3	11,9
RESULT BEFORE INCOME TAXES	(5,679)	(4.9)	(12,606)	(13.6)	(16,2
Income tax benefit (expense)	(64)	(0.1)	(7,814)	(8.4)	6,0
NET LOSS	(5,743)	(5.0)	(20,420)	(22.0)	(10,2

YEAR ENDED DECEMBER 31, 2004 COMPARED TO
THE YEAR ENDED DECEMBER 31, 2003

REVENUES

Revenues were EUR 116.0 million for the year ended December 31, 2004 compared with EUR 92.9 million for year ended December 31, 2003. The increase of 25% in revenues primarily results from higher sales volumes in our wireless communication and automotive markets which more than offset a decline in revenues in our industrial applications sector during the period. Revenues in the wireless communications sector were EUR 90.6 million for the year ended December 31, 2004 compared with EUR 69.9 in 2003, comprising 78% and 75% of our total revenues in the years ended December 31, 2004 and 2003, respectively. Revenues from our automotive applications sector were EUR 11.9 million and EUR 7.9 million, representing 10% and 9% of our total revenues in 2004 and 2003, respectively. Revenues from our industrial applications sector were EUR 13.5 million or 12% of total revenues in 2004 and EUR 15.1 million or 16% of total revenues in 2003.

Regional growth was particularly strong in Asia where revenue increased from EUR 24.9 million (China EUR 18.2 million, other Asian countries EUR 6.7 million) to EUR 42.1 million (China EUR 19.7 million, other Asian countries EUR 22.4 million) for year ended December 31, 2003 and 2004, respectively.

Due to the shipments of new products in volume production to the market we expect revenues for the year ended December 31, 2005 to be higher than those for

the year ended December 31, 2004. However, our forward visibility with respect to customer demand is limited and a successful introduction of new products depends on the completion of new designs on a timely basis. Our revenues for 2005 will also be highly dependent on continued growth in the worldwide market for cellular handsets. We cannot give any assurance that this growth trend will continue throughout 2005.

COST OF SALES

Cost of sales consists of the costs of outsourcing production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales increased by 28% from EUR 62.4 million (67.2% of our total revenues) for the year ended December 31, 2003 to EUR 79.8 million (68.8% of our total revenues) for year ended December 31, 2004, in line with increased production volumes. In addition, as a result of introducing new products to volume production in 2004, per unit production costs increased during their ramp-up phase and also increased cost of sales as a percentage of total revenues.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions and costs associated with advertising and other marketing activities. Selling and marketing expenses increased from EUR 4.2 million for year ended December 31, 2003 to EUR 6.2 million for year ended December 31, 2004 due primarily to an increase in sales commissions incurred in connection with higher sales volumes. As a percentage of total revenues, selling and marketing expenses increased from 4.5% to 5.3%.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources, information systems and other management departments. General and administrative expenses increased from EUR 5.0 million for the year ended December 31, 2003 to EUR 5.5 million for the year ended December 31, 2004, due primarily to legal fees and other costs incurred in connection with the filing of patent applications. General and administrative expenses decreased from 5.4% of total revenues to 4.7% of total revenues resulting from the proportionally higher revenue base.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses principally consist of design and engineering related costs associated with the development of new application specific integrated circuits ("ASICs") and application specific standard products ("ASSPs"). Research and development expenses decreased 5% from EUR 30.6 million for the year ended December 31, 2003 to EUR 29.1 million for the year ended December 31, 2004. The decrease in research and development expenses primarily results from continued cost savings following the closure of our Swedish subsidiary. Research and development expenses decreased from 32.9% to 25.0% as a percentage of total revenues resulting both from the absolute decrease and the proportionately higher revenue base.

AMORTIZATION OF INTANGIBLE ASSETS

Intangible assets subject to amortization include ASIC design software, a 16-bit microcontroller, licenses and certain imaging patents. Amortization expense for the year ended December 31, 2004 was EUR 1.5 million as compared to EUR 2.1 million for the year ended December 31, 2003, a decrease of 27%. Amortization expense decreased as certain intangible assets reached the end of their useful lives.

RESTRUCTURING AND RELATED IMPAIRMENT CHARGES

In the second quarter of 2003 we closed our Swedish subsidiary. In connection with the closure of the facility, we recorded restructuring charges of EUR 1.5 million and impairment charges of EUR 0.3 million, totaling EUR 1.8 million for the year ended December 31, 2003. In 2004 we settled a lease obligation in connection with the closure and incurred additional costs of EUR 0.1 million. See Note 3 to the consolidated financial statements for further information.

OPERATING LOSS

We reported an operating loss of EUR 6.1 million for the year ended December 31, 2004 and EUR 13.2 million for the year ended December 31, 2003, a decrease of 54%. This decrease in operating loss was primarily due to a higher gross margin and lower restructuring and impairment charges in the year ended December 31, 2004.

INTEREST INCOME, NET

Interest income, net from the Company's investments (primarily short-term deposits and exchange-traded funds) increased from EUR 0.8 million for the year ended December 31, 2003 to EUR 1.1 million for the year ended December 31, 2004 reflecting higher cash equivalents and marketable securities balances during 2004.

FOREIGN CURRENCY EXCHANGE GAINS AND LOSSES, NET

Foreign currency transaction gains and losses result from amounts ultimately realized upon settlement of foreign currency transactions and from the period end remeasurement of foreign currency denominated receivables, prepaid expenses and payables into Euro. Foreign currency exchange losses, net were EUR 0.7 million for the year ended December 31, 2004 and EUR 0.5 million for the year ended December 31, 2003.

RECOVERY OF INVESTMENT

In the fourth quarter of 2001, we determined that our ability to recover the full amount of our investments in silicon supplier ESM Holding Limited ("ESM") was impaired. Accordingly we wrote off our investments in ESM. In March 2002, International Rectifier acquired ESM. As a result we were able to recover EUR 0.1 million and EUR 0.3 million for the years ended December 31, 2004 and 2003, respectively.

INCOME TAXES

Our business is subject to taxation in Germany, Japan, the United Kingdom and the United States. Our effective tax rate and tax liability are affected by a number of factors, such as the amount of taxable income or loss in these particular jurisdictions, the tax rates in these jurisdictions, tax treaties between jurisdictions, the extent to which we transfer funds between jurisdictions and income is repatriated, and future changes in law. Generally, because the tax liability for each legal entity is determined on a non-consolidated basis we may pay income taxes in these jurisdictions even though on a consolidated basis we have incurred a net loss for the period.

Income tax expense was EUR 0.1 million for the year ended December 31, 2004 compared with EUR 7.8 million income tax expense for the year ended December 31,

2003. The change in income taxes mainly reflects a valuation allowance on deferred tax assets recognized in 2003 of EUR 11.8 million primarily related to the uncertainty about the future realizability of our German tax-loss carryforwards. See Note 6 to the consolidated financial statements for further information.

NET LOSS

For the reasons described above, we reported net loss of EUR 5.7 million for the year ended December 31, 2004 compared with net loss of EUR 20.4 million for the year ended December 31, 2003.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO
THE YEAR ENDED DECEMBER 31, 2002

REVENUES

Revenues were EUR 92.9 million for the year ended December 31, 2003 compared with EUR 77.1 million for the year ended December 31, 2002. The increase of 20% in revenues is primarily due to new products introduced to volume production in the second half of 2002 with more functionality and accordingly, higher average selling prices. Our revenues for 2003 reflected the inclusion of sales of those new products. Our increased revenues in 2003 also reflect the general increase in cellular handset sales in the second half of 2003 (particularly in Asian markets). Revenues in the wireless communications business sector were EUR 69.8 million for the year ended December 31, 2003 compared with EUR 54.7 million in 2002, comprising 75% and 71% of our total revenues in the years ended December 31, 2003 and 2002, respectively. Revenues from our industrial applications business sector were EUR 12.8 million or 14% of total revenues in 2003 and EUR 13.7 million or 18% of total revenues in 2002. Revenues from our automotive applications business sector were EUR 7.9 million and EUR 6.1 million, representing 9% and 8% of our total revenues in 2003 and 2002, respectively. Other revenues were EUR 2.4 million, or 2% of total revenues, a decline of EUR 0.2 million when compared to the EUR 2.6 million, or 3% of total revenues, in 2002.

COST OF SALES

Cost of sales consists of the costs of outsourcing production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales increased by 9% from EUR 57.4 million for the year December 31, 2002 to EUR 62.4 million for the year ended December 31, 2003 in line with increased production volumes. In addition, as a result of higher production volume, our internal testing operation has been running at an increased utilization level, which in turn has decreased per unit production costs and decreased costs of sales as a percentage of total revenues. Because we have a number of products that we expect to introduce to volume production in 2004, we expect per unit costs to increase in the near term.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses consist primarily of salaries, travel expenses and costs associated with advertising and other marketing activities. Selling and marketing expenses were approximately EUR 4.2 million and EUR 4.1 million for the year ended December 31, 2003 and 2002, respectively. As a percentage of total revenues, selling and marketing expenses decreased from 5.4% to 4.5%.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources, information systems and other management departments. General and administrative expenses decreased 15.8% from EUR 6.4 million for the year ended December 31, 2002 to EUR 5.0 million for the year ended December 31, 2003, primarily as a result of the closure of our Swedish subsidiary. As a percentage of total revenues, general and administrative expenses decreased from 8.4% to 5.4%.

RESEARCH AND DEVELOPMENT

Research and development expenses consist principally of unreimbursed design and engineering related costs associated with the development of new ASICs and application specific products ("ASSPs"). Research and development expenses decreased 11% from EUR 34.5 million for the year ended December 31, 2002 to EUR 30.6 million for the year ended December 31, 2003. The decrease in research and development expenses results from cost savings following the closure of our Swedish subsidiary. Research and development expenses decreased from 44.8% to 32.9% as a percentage of revenues, resulting from the absolute decrease and the proportionately higher revenue base.

AMORTIZATION OF GOODWILL AND INTANGIBLE ASSETS

Amortization expenses for the year ended December 31, 2003 was EUR 2.1 million as compared to EUR 2.0 million for the year ended December 31, 2002, an increase of 5%. Amortization expense for intangible assets includes ASIC design software, a 16 bit microprocessor core, other intangible assets and certain imaging patents.

RESTRUCTURING AND RELATED IMPAIRMENT CHARGES

In the second quarter of 2003 we closed our Swedish subsidiary. In connection with the closure of the facility, we recorded a restructuring charge of EUR 1.5 million and impairment charges of EUR 0.3million, totaling EUR 1.8 million for the year ended December 31, 2003. Restructuring charges include termination benefits of EUR 1.0 million that were paid to all employees affected by the closing and a provision of EUR 0.5 million for estimated costs that will continue to be incurred under an executory contract for its remaining term without economic benefit to the Company. See Note 3 to the consolidated financial statements for further information.

OPERATING LOSS

We reported an operating loss of EUR 13.2 million for the year ended December 31, 2003 and EUR 27.4 million for the year ended December 31, 2002, a decrease of 52%. The decrease in operating loss was primarily due to a higher gross margin, including the absence of a provision for excess inventory (EUR 1.9 million in 2002), the impact of which was partially offset by restructuring and related impairment charges in the year ended December 31, 2003.

INTEREST INCOME, NET

Interest income, net from the Company's investments (primarily short-term deposits) was EUR 0.8 million for the year ended December 31, 2003 and EUR 1.1 million for 2002.

FOREIGN CURRENCY EXCHANGE GAINS AND LOSSES, NET

Foreign currency exchange losses, net were EUR 0.5 million for the year ended December 31, 2003 and EUR 1.9 for the year ended December 31, 2002. This

decrease was primarily due to the re-measurement of our outstanding US Dollar advance payment for two wafer suppliers, of which the most significant is Chartered Semiconductor Manufacturing Pte., Ltd. ("Chartered"). Such advance payments are classified in the balance sheet line item "Prepaid expenses". In the second quarter of 2003 we concluded that it was appropriate to account for our advance payments as "monetary assets" for the purpose re-measuring the outstanding balance into Euro, with the resulting exchange gains or losses recorded in the statement of operations. Accordingly, certain prior period amounts presented have been revised to reflect this re-measurement process. We believe that the impact of this re-measurement, using the then current exchange rates applicable for those periods impacted (rather than the historical exchange rate at the time we entered into the relevant contracts) does not have a material effect on any financial statements previously issued or on our 2003 financial statements.

RECOVERY (WRITE-DOWN) OF INVESTMENTS

In the fourth quarter of 2001, we determined that our ability to recover the full amount of our investments in silicon supplier ESM Holding Limited ("ESM") was impaired. Accordingly we wrote off our investments in ESM. In March 2002, International Rectifier acquired ESM. As a result, we were able to recover EUR 0.3 million and EUR 12.0 million for the years ended December 31, 2003 and 2002, respectively.

INCOME TAXES

The income tax expense was EUR 7.8 million for the year ended December 31, 2003 compared with EUR 6.0 million income tax benefit for the year ended December 31, 2002. The adverse change in income tax expense despite the reduction in the pretax loss in 2003 is primarily due to the EUR 11.8 million provision to recognize a valuation allowance on certain deferred tax assets.

NET LOSS

For the reasons described above, we reported net loss of EUR 20.4 million for the year ended December 31, 2003 compared with net loss of EUR 10.2 million for the year ended December 31, 2002.

TREND INFORMATION

GENERAL

The semiconductor industry in general is highly cyclical and has been subject to significant economic downturns which, at various times, have resulted in production overcapacity, reduced product demand and an accelerated erosion of average selling prices.

Revenues from our wireless communications applications accounted for 78% of our total revenues for the year ended December 31, 2004, 75% of our total revenues for the year ended December 31, 2003 and 71% of our total revenues for the year ended December 31, 2002.

According to the Semiconductor Industry Association (SIA), strong growth in sales of personal computers and wireless handsets were among the major drivers of record chip sales in 2004, evidenced by a 28% growth rate in 2004 for the total market for semiconductors (source: SIA press release, 31 January 2005, "Global semiconductor sales hit record $213 billion in 2004"). The wireless handset market saw its first real growth in 3G/WCDMA (Wideband code-division

multiple access) phones, with 20 million shipped worldwide in 2004, representing 3% of total handset sales in 2004 (source: Strategy Analytics press release, 14 February 2005,"20 Million 3G Phones Sold Worldwide in 2004"). This growth was driven by aggressive mobile operator marketing in Japan and Western Europe to encourage millions of early adopters to upgrade from their existing 2.5G devices. The top handset manufacturers in this space expect the market to more than double in size in 2005 as usability and styling is improved.

Overall wireless handset shipment growth was up last year, as a result of technological advanced features such as color screens, cameras and clamshell designs. The markets saw more clamshell handsets with dual displays, larger main displays to display content, more sophisticated and higher resolution cameras, and high quality audio. These developments were accompanied by manufacturers increasingly using additional applications and graphics processors, and continually demanding even lower power consumption in the same form factor despite incorporating more sophisticated features.

MARKET TRENDS

The biggest market trend in the industry that Dialog Semiconductor addresses is the convergence of multimedia and mobile communications. This means we will see not just camera phones or smart phones, but devices such as PDAs with integrated phone and multimedia capability. We believe there will most likely be an explosion in other mobile gaming and entertainment possibilities in the next three years, resulting from the rapid evolution of the mobile handset as we currently know it.

Camera phones alone will build on the growth of 200% in 2004 (source: In-Stat/MDR press release, 14 December 2004, "Camera Phone Market Continues to Boom - 200% Growth in Annual Shipments"). Mobile gaming services are expected to generate significant additional revenue in future years, accounting for over 4% of total wireless data revenue in the USA by 2009 (source: In-Stat/MDR press release, 7 September 2004, "Gaming to be Key Contributor to Wireless Data Usage and Revenues").

Traditional mobile phone handsets will also continue to grow, although not at as great a rate as in the boom years leading up to 2001. Gartner predicts 763 million handsets to be shipped in 2008, compared to 629 million in 2004 (source: Gartner Market Focus Report: "Semiconductors in Mobile Phones, Worldwide, 2004-2008", 24 December 2004).

In the broader consumer electronics sector, there has also been a burst of consumer interest in devices for playing back downloaded digital music. This trend is likely to fuel interest and also significant growth in portable digital music players, even with the different music download standards such as MP3, AC3 or WMA.

In automotive, complex electronics systems were in the past a feature of only the most prestigious cars. However, the growing trend among the manufacturers of lower cost cars is to add more value to their cars, making the electronics systems almost as complex as those of the top end cars. The result will be a mass market rather than niche market for complex electronics systems built in to the car.

We believe one other key trend will be the growing use of imaging electronics for driver safety features such as geographic positioning, navigation systems, blind spot detection and white lane departure systems.

GEOGRAPHIC MARKET TRENDS

We allocate our revenues to countries based on the location of the shipment destination. Changes in revenues from period to period have differed among geographical regions. As our customers have continued to increase their production in the greater China region and by adding new Asian customers, regional growth was particularly strong in Asia in 2004, where revenue increased by 69% from EUR 24.9 million for the year ended December 31, 2003 to EUR 42.1 million for the year ended December 31, 2004. Particularly in France, we experienced decline in demand for our ASIC products where revenue decreased by 58% from EUR 4.5 million for the year ended December 31, 2003 to EUR 1.9 million for the year ended December 31, 2004, due primarily to the fact that our contract with one customer based in France was not renewed upon expiration. In 2003, regional growth was particularly strong in Germany and China where revenue increased from EUR 31.5 million for the year ended December 31, 2002 to EUR 45.4 million for the year ended December 31, 2003 and from EUR 13.0 million for the year ended December 31, 2002 to EUR 18.2 million for the year ended December 31, 2003. In 2003, particularly in France, we experienced decline in demand for our ASIC products where revenue decreased from EUR 9.3 million for the year ended December 31, 2002 to EUR 4.5 million for the year ended December 31, 2003.

GROSS MARGIN TRENDS

Our gross margin decreased from 32.8% of revenues for the year ended December 31, 2003 to 31.2% of revenues for the year ended December 31, 2004. The weakening of the US dollar against the Euro and the reduction in price of wireless communication ICs were the primary factors contributing to this decrease in our gross margin.

RESEARCH AND DEVELOPMENT EXPENDITURE TRENDS

Research and development costs amounted to EUR 29.1 million in 2004, EUR 30.6 million in 2003 and EUR 34.5 million in 2002. We expect to incur research and development costs below the current level based on certain cost savings measures. Our ability to generate revenues in the long term depends on achieving technical feasibility from our research and development programs, and on customers accepting our designs and implementing them in large-scale production.

FOREIGN CURRENCY EXCHANGE RATE TRENDS

The reporting currency for our consolidated financial statements is the Euro. The functional currency for our operations is generally the applicable local currency. Accordingly, the assets and liabilities, the equity accounts and the statements of income and cash flow of companies whose functional currency is not the Euro must be translated into the reporting currency (the Euro). See Note 2 to the consolidated financial statements for further information. Changes in exchange rates also influence our results of operations. Our sales are primarily denominated in US Dollars and Euro, whereas our purchases of raw materials and manufacturing services are primarily denominated in US Dollars.

In order to hedge our foreign currency exposure, primarily the US Dollar, we attempt to match cash inflows and outflows in the same currency.

Since its introduction on January 1, 1999, the Euro has fluctuated in value against the US Dollar. From the date of its introduction through December 31, 2001, the Euro declined approximately 25% against the US Dollar. Through February 04, 2005 the Euro had recovered to 110% of its original value. Changes in the exchange rate between the Euro and other non-Euro currencies, principally the US Dollar, will affect the translation of our consolidated financial results

into Euro, and will also affect the value of any amounts that our subsidiaries distribute to us. Exchange rate changes may also affect our balance sheet. Changes in the Euro values of our assets and liabilities resulting from exchange-rate movements may cause us to record foreign currency gains and losses. We do not currently enter into forward or other derivative transactions to hedge against exchange rate fluctuations.

For the year ended December 31, 2004, 55% of our revenues were denominated in Euro and 45% were denominated in US Dollars, and 18% of our cost of sales was denominated in Euro and 82% was denominated in US Dollars. Due to the weakening of the US Dollar in the fourth quarter and a higher proportion of US Dollar-denominated revenue compared with previous quarters combined with lower than expected uptake from key customers, our revenue growth was lower in the fourth quarter compared with the first three quarters of the year.

For the year ended December 31, 2003 78% of our revenues were denominated in Euro and 22% were denominated in US Dollars, and 25% of our cost of sales was denominated in Euro and 75% was denominated in US Dollars. For the year ended December 31, 2002, 76% of our revenues were denominated in Euro, 23% were denominated in US Dollars and 1% were denominated in Pounds Sterling, and 25% of our cost of sales was denominated in Euro and 75% was denominated in US Dollars.

We also have foreign currency risk with respect to our net investments in foreign subsidiaries in Japan, the United Kingdom and the United States. Foreign currency translation gains and losses with respect to these subsidiaries are included in other comprehensive income.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

Cash used for operating activities was EUR 8.6 million for year ended December 31, 2004 compared with cash provided by operating activities of EUR 7.6 million for the year ended December 31, 2003. In the year ended December 31, 2004 we used cash mainly to increase our inventory to meet previously projected forecasts of our customers. We expect this level to be reduced in the first half 2005. In the year ended December 31, 2003, our working capital (excluding cash and cash equivalents and marketable securities) had decreased primarily due to contractually required refunds of advance payments from a silicon supplier which resulted in a related operating cash inflow.

Cash provided by investing activities was EUR 14.5 for year ended December 31, 2004 compared with cash used for investing activities of EUR 30.3 million for year ended December 31, 2003. Cash provided by investing activities for the year ended December 31, 2004 consisted mostly of a net sale of marketable securities of EUR 27.4 million offset in part by the purchase of test equipment, tooling (masks), laboratory and EDP equipment of EUR 12.3 million, and the purchase of software, licenses and patents of EUR 0.7 million. Cash used for investing activities for the year ended December 31, 2003 consisted mostly of the purchase of marketable securities of EUR 45.0 million, the purchase of test equipment, tooling (masks), laboratory and EDP equipment of EUR 5.9 million, and the purchase of software, licenses and patents of EUR 1.4 million. In October 2003, we also received an early repayment of our deposit of EUR 21.7 million (USD 20 million) from Chartered.

LIQUIDITY

At December 31, 2004 we had EUR 14.0 million in cash and cash equivalents and EUR 17.5 million in marketable securities. The working capital was EUR 67.1 million.

Our primary sources of liquidity have historically been cash from operations, cash from the issuance of ordinary shares in 1999 and 2000, short-term borrowings, the recovery of the investment in ESM Limited and in 2003 the early repayment of a deposit from Chartered. As of December 31, 2004 we had no long-term debt. We expect to reduce our working capital in 2005, thereby increasing our cash and cash equivalents and marketable securities in 2005. A decrease in customer demand for our products caused by unfavorable industry conditions or an inability to develop new products in response to technological changes could materially reduce the amount of cash generated from operations.

If necessary, we have available for use a short-term credit facility of EUR 12.5 million that bears interest at a rate of EURIBOR + 0.75% per annum. At December 31, 2004 we had no amounts outstanding under this facility. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term.

CAPITAL EXPENDITURES AND INVESTMENTS

Purchases of property, plant and equipment were EUR 12.3 million for the year ended December 31, 2004 compared to EUR 5.9 million for the year ended December 31, 2003 and EUR 3.9 million for the year ended December 31, 2002. Our capital expenditures in 2004, 2003 and 2002 consisted primarily of purchasing new or replacement test systems, tooling equipment, handling systems and other equipment in the ordinary course of our business. Capital expenditures in 2004 increased over that of prior years as we upgraded eight test systems enabling us to test four ICs in a single test step, and added certain test equipment to test color display and image sensor ICs. In 2004, 2003 and 2002 we paid installments of EUR 0.3, EUR 0.8 and EUR 1.5 million, respectively, for the CMOS imaging technology and associated CMOS Active Pixel Sensor (APS) patents which we acquired in 2002. We expect capital expenditures in 2005 to be below the 2004 level.

In future periods, we may make strategic investments or acquisitions in connection with our plans to expand our business internationally.

OFF-BALANCE SHEET ARRANGEMENTS AND OTHER COMMITMENTS

We have no off-balance sheet arrangements involving variable interest entities. We lease design software, all of our office facilities, office and test equipment, and vehicles under operating leases. Future minimum lease payments under rental and lease agreements, which have initial or remaining terms in excess of one year at December 31, 2004 are as follows (EUR thousands):

	2005	2006	2007	2008	2009	The
Operating leases	8,148	6,629	6,399	6,429	3,297	

We have no long-term debt, capital lease obligations, unconditional purchase obligations or any other long-term obligations that would have a material impact on our liquidity or financial condition. We have supply agreements with various suppliers and maintain an outstanding balance of advance payment of EUR 1.2 million with one supplier, which will be refunded in proportion to our purchases of wafers. See Note 11 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND RELATED UNCERTAINTIES

We have identified the following accounting policies and related uncertainties with the accounting measures used in preparing our consolidated financial statements that we believe are essential to understanding the financial reporting risks present in the current economic environment.

RECOVERABILITY OF LONG-LIVED ASSETS

GOODWILL

At December 31, 2004, the carrying value of our goodwill is EUR 11.8 million. Since 2002, goodwill is no longer amortized, but we have, and will continue to evaluate the recoverability of our goodwill at least annually or when significant events occur or circumstances arise which indicate that the fair value of the Company may be less than its net shareholders' equity. The fair value of the Company is determined by estimating the present value of future cash flows, which we believe is a more appropriate measure to determine fair value than the Company's current market capitalization (which is based on the quoted market price of the Company's ordinary shares). For purposes of performing step 1 of the impairments test, the fair value of the entire company is determined based on expected cash flows which are derived from the Company's strategic plan and forecasts. The discount rate applied considered marketplace participant assumptions including a risk-free rate, market risk premium and a beta factor that is consistent with the Company's market peers. If it becomes necessary to change assumptions used to determine the fair value of the company, we may conclude that our ability to recover the carrying value of our goodwill is impaired. Such an impairment charge could have a material adverse impact on our future result of operations.

OTHER LONG-LIVED ASSETS

Our business is capital intensive and has required, and will continue to require, significant investments in long-lived assets, including property, plant, equipment and intangible assets (other than goodwill). At December 31, 2004, the carrying amount of our property, plant and equipment was EUR 21.2 million. As discussed in Note 2 to the consolidated financial statements, recoverability of these long-lived assets that will continue to be held and used is evaluated whenever an indication of impairment exists. Then we will compare the carrying amount of the asset or group of assets to the net undiscounted cash flows expected to be generated by the asset or group of assets. If the asset or group of assets is considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the impaired asset or group of assets exceeds its fair value.

We do not believe that our ability to recover the carrying value of our other long-lived assets has been impaired and no significant impairment charges have been recognized in any of the past three years. However, a general economic downturn and, specifically, a continued downturn in the semiconductor industry would intensify competitive pricing pressure because of overcapacity in the industry, and we could be forced to decrease production and reduce capacity. Such events could adversely affect our estimates of future net cash flows expected to be generated by our long-lived assets. It is reasonably possible that our future operating results could be materially and adversely affected by an impairment charge related to the recoverability of our long-lived assets.

USEFUL LIFE OF EQUIPMENT

In the fourth quarter of 2004, we determined that the useful life of our test

equipment should be changed to eight years. Previously, we had determined its useful life to be five years. The effect of this change in our accounting estimates resulted in a lower depreciation charge of EUR 1,349 (EUR 842, net of tax, or EUR 0.02 per share).

In determining the proper amount of annual depreciation with respect to equipment assets, management needs to make an estimate of the expected useful economic life of such assets. Ideally, the end of the useful life of an asset coincides with the close of the depreciation period.

As a result of changes in our business, we may need to determine the prospective expected useful life of assets in a period subsequent to the period in which those assets were initially put into service.

Specifically, a decision to revise our capital spending plan and invest in upgrades which extend the prospective useful lives of assets on hand, rather than replace those assets with new equipment, would result in a change in the expected remaining useful life of such upgraded assets. This change would be considered on a going-forward basis for depreciation assets. Similarly, we may gain more experience in estimating the useful lives of equipment and determine that we may be able to continue to use certain assets for a longer period of time than originally estimated when we put them into service.

REALIZABLE VALUE OF INVENTORIES

We value inventory at the lower of cost or market. We review the recoverability of inventory based on regular monitoring of the size and composition of the inventory positions, market conditions, current economic events, the pricing environment and projected future demand. This evaluation is inherently judgmental and requires material estimates, including both forecasted product demand and pricing environment, both of which may be susceptible to significant change.

Changes in estimates regarding the realizability of the carrying value of our inventory has resulted in excess inventory provision of EUR 1.9 million being charged to costs of sales in 2002. No excess inventory provision was required in 2004 and 2003. At December 31, 2004, our total inventory was EUR 29.8 million. We believe that the carrying value of our inventory will be recovered through customer consumption of goods based on their forecasts and related contractual agreements. However, the demand for our products can fluctuate significantly in response to rapid technological changes in the semiconductor and wireless communications industries. It is reasonably possible that future operating results could be materially and adversely affected if any excess inventory charges are needed.

REALIZATION OF DEFERRED TAX ASSETS

Total deferred tax assets, before the recognition of valuation allowances, were EUR 31.2 million at December 31, 2004, which include deferred tax assets of EUR 25.2 million on tax loss carryforwards. While the majority of these losses may be carried forward indefinitely, their realization is dependent on generating sufficient taxable income to utilize the losses. In December 2003, the German government enacted new tax legislation, which among other things, limits the use of German tax-loss carryforwards to 60% of the taxable income for fiscal years starting from 2004 and thereafter. We have evaluated our deferred tax asset position and the need for a valuation allowance as a result of this change in tax law. The assessment requires the exercise of judgment on the part of our management, with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other

positive and negative factors. Our assessment considered the weight given to cumulative tax losses incurred in Germany, as well as detailed forecasts of taxable income in the foreseeable future. Although we forecasted generating future taxable income, the change in tax law increased the forecasted number of additional years we had to generate such future taxable income in order to fully realize these loss carryforward benefits. Pursuant to SFAS 109 and the inherent uncertainties in projecting future taxable income, we concluded that it is more likely than not that a portion of our tax losses could not ultimately be realized. Consequently, we recognized an additional valuation allowance of EUR 1.9 million and EUR 11.8 million as of December 31, 2004 and 2003, respectively, to reduce the carrying value of our net deferred tax assets to an amount that we believed was more likely than not expected to be ultimately realized.

DIVIDENDS

We did not pay dividends in the years ended December 31, 2004, 2003 and 2002. We do not currently plan to pay dividends in the foreseeable future. See "Item 8. Dividend Policy".

INFLATION

We do not believe that inflation has had a significant effect on our operations to date.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2004, EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investment, was issued which includes new guidance for evaluating and recording other than temporary impairment losses on debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and cost method investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. While the disclosure requirements for specified debt and equity securities and cost method investments are effective for annual periods ending after December 15, 2003, the FASB Board has directed the FASB staff to delay the effective date for the measurement and recognition guidance contained in EITF No. 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. We do not expect the adoption of EITF No. 03-1 to have a material impact on our consolidated financial statements.

In November 2004, the FASB issued Statement No. 151, Inventory Costs, to amend the guidance in Chapter 4, "Inventory Pricing," of FASB Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Statement requires that those items be recognized as current-period charges. Additionally, Statement 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. We do not believe the adoption of SFAS No. 151 will have a material impact on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award based upon an option-pricing model and an estimate of the number of awards expected to vest. Compensation cost will be recognized as they vest, including related tax

effects. SFAS No. 123(R) will be effective for interim or annual reporting periods beginning on or after June 15, 2005. The statement provides for three alternate transition methods, each having a different reporting implication. We previously accounted for our stock based compensation plan using the intrinsic-value-based method based on APB Opinion No 25. Under this method, no stock-based compensation is reflected in net income (loss) (see also "Stock based compensation" in Note 2 to the consolidated financial statements). We are in the process of determining the transition method we are going to adopt and the potential impact on our financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

OVERVIEW

We rely on our board of directors to manage our business. The board, which consists of executive and non-executive directors, supervises our general management and decides upon and oversees the implementation of our central strategic and operational guidelines.

Each director is required under English law to carry out his or her functions as a director with the degree of skill and care that may reasonably be expected of a person of his or her skill and experience. Each director is obliged to act in the interests of our shareholders as a whole and should avoid allowing any conflicting interests, whether his or hers or those of the persons that appointed him or her, to influence his or her judgment in acting as a director. The board is ultimately required to manage our affairs in accordance with our memorandum and articles of association and with the requirements of local laws and regulations.

We have seven non-executive independent directors as part of our board. While these non-executive directors do not play an active role in our day to day operations, they provide the board with an independent element which brings a greater depth of skill, experience and objectivity to the making of key decisions.

We also have six vice-presidents who, together with the executive director, are responsible for our day to day business. All directors and senior management can receive service of process at the business address of the company.

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth, as of February 27, 2004, the name of each member of our board of directors and each of our senior management, their ages, the dates of their first appointments and their positions:

NAME	AGE	DATE OF APPOINTMENT	POSITION
Roland Pudelko	52	March 1998	Executive Director, CEO and President
Timothy Richard Black Anderson	44	February 1998	Non-executive Director

Michael John Glover	66	March 1998	Non-executive Director
Aidan Hughes	44	October 2004	Non-executive Director
John McMonigall	61	March 1998	Non-executive Director
Michael Risman	36	August 1999	Non-executive Director
Jan Olof Ingemar Tufvesson	66	March 1998	Non-executive Chairman
Gregorio Reyes	63	December 2003	Non-executive Director
Gary Duncan	49	October 1987	Vice-President of Engineering-Imaging
Peter Hall	53	July 1987	Vice-President of IT and Technical Support
Erwin Hopf	50	July 2002	Vice-President of Operations
Yoshihiko Kido	52	November 2001	Vice President of Japan
Martin Kloeble	45	July 1999	Vice-President of Finance and Controlling
Martin Sallenhag	36	November 2001	Director of Product Marketing
Richard Schmitz	48	January 1994	Vice-President of Engineering-Mixed Signal ICs

The following is a brief biography of each director, executive officer and senior manager named here.

ROLAND PUDELKO joined us in 1989 as managing director and has served as Executive Director, CEO and President since March 1998. Mr. Pudelko has over 20 years experience in electronics and microelectronics, primarily in management positions within the Daimler-Benz Group. During that time, he was a board member of a joint venture with the Taiwanese company, ACER, and for the TEMIC Group he was responsible for the coordination of worldwide design and engineering. Mr. Pudelko has a diploma in communication technologies. He is also the managing director of Dialog Semiconductor GmbH and our other consolidated subsidiaries.

TIMOTHY RICHARD BLACK ANDERSON joined the board of our then-holding company in 1990 and has served as a director since February 1998. Mr. Anderson has been a partner with the London law firm Reynolds Porter Chamberlain since 1989, where he specializes in business law for media and technology companies. He holds a law degree from Southampton University and is qualified as a solicitor in England and Wales.

MICHAEL JOHN GLOVER joined the board of our then-holding company in 1990 and has served as one of our directors since March 1998. Mr. Glover was a senior executive with technology based companies in the United Kingdom, Europe, the Far East and North America prior to becoming involved in private equity fund management in 1985. He has a degree in economics from the University of Birmingham. Mr. Glover currently is Managing Director of Aylestone Strategic Management Limited and serves as a director of other companies.

AIDAN HUGHES joined us as a director in October 2004. He qualified as a

chartered accountant with Price Waterhouse in the 1980s before taking senior accountant roles at Lex Service Plc and Carlton Communications Plc. He served the Sage Group Plc as finance director from 1993 until 2000. Between December 2001 and August 2004 Hughes was a director of Communisis Plc.

JOHN MCMONIGALL has served as one of our directors since March 1998. He joined Apax Partners as a director in 1990 and is currently the director responsible for investments in telecommunications, software and related fields. Between 1986 and 1990, Mr. McMonigall held a variety of senior positions at British Telecom, including managing director of the customer service division. He was also a member of the management board of British Telecom. He is currently on the board of five other public and private companies, including Crane Telecommunications Ltd, Autonomy Corporation plc and Amphion Ltd.

GREGORIO REYES joined us as a director in December 2003, and has been a private investor and management consultant since 1994 with current board positions at companies including LSI Logic Corp., Appshop, Amphion Semiconductor, Astute Networks, Future Trade Technologies, and Nuera Communications. He has held various executive positions with National Semiconductor (1962-1967), Motorola (1967-1968) and Fairchild Semiconductor (1968-1978). He was also president and CEO of National Micronetics (1981-1984), and chairman and CEO of American Semiconductor Equipment Technologies (1986-1990), and of Sunward Technologies (1990-1994).

MICHAEL RISMAN joined us as a director in August 1999, having been closely involved with our company since March 1998. He is a director at Apax Partners where he is responsible for their European IT investment activities and is a member of their International Approval Committee. Before joining Apax Partners in 1995, Mr. Risman worked for Cap Gemini as a consultant and for Jaguar Cars as a research and development engineer. He earned an MBA from Harvard Business School and an MA (Honors) degree in Electrical Engineering and Management from Cambridge University. He is also a director of Frontier Silicon (Holdings) Ltd, Red-M (Communications) Limited and Streamserve Inc.

JAN OLOF INGEMAR TUFVESSON joined the board of our then-holding company in 1990 and has served as chairman of the board since March 1998. Between 1972 and 1980 he held senior positions on the Royal Swedish Air Force Board. In 1980 he joined Ericsson where he had a number of executive roles, the last being a vice president at LM Ericsson corporate, responsible for all procurement in Ericsson and for developing relations with key suppliers. Mr. Tufvesson graduated from the Royal University of Technology in Stockholm with a masters degree in electronic engineering in 1962. Mr. Tufvesson retired from Ericsson in 1998 and is now based in Stockholm.

GARY DUNCAN joined us in October 1987 and is currently the Vice-President of Engineering-Imaging. He obtained a Higher National Certificate in electronics and mathematics in 1978 from Plymouth Polytechnic and is a chartered engineer. Before joining Dialog, Mr. Duncan held various senior engineering and management positions at Plessey and ES2 in quality and production, device engineering, design software and marketing.

PETER HALL joined us in July 1987 and is currently our Vice-President of Quality and Technical Support and is responsible for all computer systems and quality issues. Before joining Dialog he held various management and engineering positions at STC Semiconductors and MEM in Switzerland. Mr. Hall obtained his BSc (Honors) in electrical and electronic engineering in 1974 from the University of Newcastle upon Tyne, his MSc in digital techniques in 1977 from the University of Edinburgh and his MBA in technology management in 2003 from the Open University.

ERWIN HOPF joined us in July 2002 and is currently our Vice-President of Operations. He received his Diploma in physics in 1980 from the Technical University of Darmstadt. From 1980 until 2002, he held various engineering as well as research and development and production managing positions at Siemens Components and Infineon Technologies.

YOSHIHIKO KIDO joined us in March 2001 and is responsible for our Japanese operation. He was previously a consultant at Overseas Affiliates Pty. Ltd., and held management positions at General Electric, Act Japan, Seagate and Nippon Ericsson. He obtained his BA in English Language from Kanagawa University in 1976.

MARTIN KLOEBLE joined us in July 1999 as Vice-President of Finance and Controlling. He holds an MBA from the University of Stuttgart-Hohenheim and is qualified as a tax consultant (STEUERBERATER) as well as a certified public accountant in Germany (WIRTSCHAFTSPRUEFER) and in the United States (CPA). Before joining Dialog, Mr. Kloeble worked with KPMG, and was appointed a partner at the beginning of 1999.

RICHARD SCHMITZ joined us in 1994 and is currently our Vice-President of Engineering-Mixed Signal ICs. Prior to joining us, he held various design-related positions at Hewlett Packard's instruments division in Boeblingen and the Institute for Microelectronics, Stuttgart. Mr. Schmitz received a diploma in engineering for communications electronics in 1983 from the vocational college (FACHHOCHSCHULE) in Trier.

B. COMPENSATION

We pay non-executive directors who are not associated with any of our principal shareholders GBP 5,000 to GBP 35,000.

We reimburse all of our directors for their reasonable travel expenses incurred in connection with attending meetings of the board or committees thereof. Under certain circumstances, directors are also eligible to receive stock options.

The following table sets out the amount of remuneration paid by us and our subsidiaries to each of our directors for services rendered during the year ended December 31, 2004.

		COMPENSATION (IN EU	
NAME	POSITION	BASE SALARY	BONUS
Roland Pudelko	Executive Director, CEO and President	279,105	33,334
Tim Anderson(1)	Non-executive Director	7,366	-
Michael Glover	Non-executive Chairman of the Audit Committee	51,565	-
Aidan Hughes	Non-executive Director (since October 1, 2004)	11,050	
John McMonigall	Non-executive Director	29,466	-
Gregorio Reyes	Non-executive Director	44,198	-
Michael Risman	Non-executive Director	29,466	-
Jan Tufvesson	Non-executive Chairman	51,565	-
		503,781	33,334

(1) Tim Anderson is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered during the 2004 fiscal year amounted to EUR 211,683.

The aggregate compensation for our CEO and senior management for 2004 was EUR 1,409,404.

All of our employees participate in a quarterly profit-based bonus scheme, which pays out if we achieve our agreed financial goals.

A further bonus is available to our sales employees and senior management via our Management By Objectives "MBO" program.

Under this program, each sales person is annually assigned a number of objectives which specifically target achieving design-wins from selected customers within a set period of time. These objectives are established by senior management with input from the marketing department. We assess the performance of each sales person against these objectives half-yearly and annually.

For senior management, key business objectives for their respective departments are set and agreed by the board of directors. Performance is measured formally on an annual basis and also via quarterly progress reviews.

STOCK OPTIONS

As of March 22, 2005, our directors and senior management held 1,116,400 options for our ordinary shares which entitle the holders to acquire 1,116,400 shares. The following table gives stock option information for the Company's directors and senior management.

DIRECTORS AND SENIOR MANAGEMENT	OPTIONS HELD	EXPIRATION DATE	EXERCISE PRICE
Roland Pudelko	150,000	February 21, 2009	GBP 0.20
	34,530	May 6, 2009	GBP 0.40
	132,920	July 28, 2009	GBP 0.60
	200,000	November 20, 2013	EUR 3.45
Gary Duncan	50,000	February 21, 2009	GBP 0.20
	17,210	May 6, 2009	GBP 0.40
	26,440	July 28, 2009	GBP 0.60
	50,000	November 20, 2013	EUR 3.45
Peter Hall	60,000	February 21, 2009	GBP 0.20
	17,210	May 6, 2009	GBP 0.40
	26,440	July 28, 2009	GBP 0.60
	50,000	November 20, 2013	EUR 3.45
Erwin Hopf	40,000	June 30, 2012	EUR 1.48

	20,000	November 20, 2013	EUR	3.45
Yoshihiko Kido	50,000	November 20, 2013	EUR	3.45
Martin Kloeble	45,000	July 28, 2009	GBP	0.80
	50,000	November 20, 2013	EUR	3.45
Martin Sallenhag	30,000	November 20, 2013	EUR	3.45
Richard Schmitz	210	May 6, 2009	GBP	0.40
	16,440	July 28, 2009	GBP	0.60
	50,000	November 20, 2013	EUR	3.45
	1,116,400			

C. BOARD PRACTICES

TERM OF OFFICE AND RETIREMENT BY ROTATION

Our articles of association currently provide that one-third (or a number nearest to one-third) of the directors shall retire at every annual general meeting; but if any director has at the start of the annual general meeting been in office for more than three years since his or her last appointment or re-appointment, he or she shall retire. A director who retires at an annual general meeting may, if willing to act, be re-appointed.

SERVICE AGREEMENTS

Our CEO and President, Roland Pudelko, has entered into a service agreement with us that is of unlimited duration. The agreement is terminable by either party on 12 months' notice. In addition, our shareholders are entitled to dismiss Mr. Pudelko by virtue of an ordinary resolution at any time, without prejudice to his right to remuneration. Such dismissal is considered termination of the contract at the next possible deadline.

Each of our vice-presidents has entered into a service agreement with us and our subsidiaries. The service agreements are all of unlimited duration. In the cases of Gary Duncan, Peter Hall and Erwin Hopf, their agreements are terminable by either party to the agreement on six months' written notice to the other. Richard Schmitz's agreement is terminable by either party on three months' notice to the end of a calendar quarter. Yoshihiko Kido's agreement has no time limit and can be terminated by either party on three months' notice in writing. Martin Kloeble's agreement is terminable subject to German statutory provisions for termination. Martin Sallenhag's agreement is terminable subject to Swedish statutory provisions for termination. None of the service agreements contain provisions subjecting us to onerous obligations in the case of early termination.

BOARD COMMITTEES

We have established an Audit Committee of the board of directors which reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters, including the selection of our auditors, the scope of the annual audits, fees to be paid to the auditors, the performance of our independent auditors and our accounting practices. Our Audit Committee consists of Messrs. Glover, Hughes and Tufvesson.

The Company's Compensation Committee of the board of directors determines the

salaries and incentive compensation of our CEO and senior management and provides recommendations for the salaries and incentive compensation of other employees and consultants. The Compensation Committee also administers our various compensation, stock and benefit plans. Our Compensation Committee consists of Messrs. Glover, Reyes and Tufvesson. None of the members of this Committee was our employee at any time during 2004.

The Nomination Committee of the Board of Directors reviews the board structure, size and composition and makes recommendations to the Board. The Nomination Committee is responsible, amongst other things, for identifying and nominating board candidates for approval by the Board. The Nomination Committee comprises Messrs. Glover, Tufvesson and Reyes.

EXEMPTIONS FROM LISTING STANDARDS

We rely on an exemption from the quorum requirement as set forth under Nasdaq Marketplace Rule 4350(f). This exemption was granted to Dialog on 1 August 2000. In lieu of following this quorum requirement, Dialog's articles of association provides for quorum for any general meeting that is no less than two persons present in person or by proxy entitled to vote on the business to be transacted, which is in accordance with law, rule, regulation, and generally accepted business practices in Dialog's home country of England and Wales.

D. EMPLOYEES

At December 31, 2004, we employed 296 full-time employees not including trainees/apprentices, of which 204 were based in Germany, 55 in the United Kingdom, 22 in the United States, 8 in Austria, 6 in Japan and 1 in Taiwan. Of the total number, 156 were engaged in engineering (including design and product engineering) and 85 were engaged in production (including logistics, quality and testing). The average number of employees in 2004 was 282 compared to 273 in 2003 and 285 in 2002.

E. SHARE OWNERSHIP

As of March 22, 2005, our directors and senior management held 1,398,535 shares.

DIRECTORS AND SENIOR MANAGEMENT	NUMBER	PERCENT OF SHARES BENEFICIALLY OWNED
Roland Pudelko	320,405	*
Timothy Richard Black Anderson	75,166	*
Michael John Glover(1)	195,000	*
Gregorio Reyes	35,000	*
Jan Olof Ingemar Tufvesson(2)	175,062	*
Michael Risman	1,172	*
Gary Duncan	162,105	*
Peter Hall	162,415	*
Martin Kloeble	180,000	*
Richard Schmitz	92,210	*
	1,398,535	

* Less than 1%

(1) Includes (i) 40,000 shares owned directly by Mr. Michael John Glover, (ii) 90,000 shares owned by Linda Diane Glover, (iii) 5,000 shares owned by

Matthew James Glover and (iv) 60,000 shares held by Timothy Thornton Jones as trustee for Linda Diane Glover and the sons of Michael John Glover.

(2) Includes (i) 157,062 shares owned by Mr. Tufvesson and (ii) 18,000 shares held by members of his family.

EMPLOYEE SHARE PURCHASE PLAN

On March 26, 1998, in connection with the acquisition of the Company, we and our then majority owner, Apax Partners, adopted a Subscription and Shareholders Agreement under which employees and directors were invited at the discretion of the Board, to purchase up to 3,456,890 ordinary shares of the Company from Apax Partners or an established Dialog Semiconductor Plc Employee Benefit Trust (the "Trust"). The purchase price of the shares was equal to their estimated fair value on the date the employee or director subscribed for those shares. During the first quarter of 1999, the Trust acquired the remaining 668,800 ordinary shares from Apax Partners, which were not sold to employees or directors for purposes of distributing them to employees under the Employee Stock Purchase Plan or for distribution in connection with the exercise of employee stock options.

On September 24, 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at (pound)0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

At December 31, 2004, the Trust continued to hold 2,001,559 shares, equaling the remaining balance of the acquired 668,800 shares and the 2,000,000 shares acquired in 2004 .

SHARE OPTION SCHEME

All of our employees and full time executive directors and employees of any of our consolidated subsidiaries who are required to devote substantially the whole of their working time to us and/or any of our subsidiaries are eligible to be granted options under our share option scheme, at the discretion of the board. The scheme was established on August 7, 1998. As at December 31, 2004, a total of 8,129,811 shares may be issued under the scheme. See Note 17 to the consolidated financial statements. As of December 31, 2004 we had granted options to purchase 3,299,406 shares. These options are exercisable at prices ranging from (pound)0.20 to EUR 8.00 per share depending on the date of grant and what type of option they are (see below). The options generally expire 10 years after the date of grant.

Eligible employees and directors may be invited by the board to apply for options. Employees and directors who wish to take up the invitation will have a period of 14 days (or such longer period as the board determines) to then apply for an option. No payment will be required in applying for an option. Options may be offered by the board within 42 days of the day on which we announce the annual or semi-annual results or in exceptional circumstances when approved by the board.

The scheme provides for the grant of three categories of options:

- short options, which may be exercised, if at all, within two years of the date of grant;

- long options, which may be exercised within five years of the date of

grant; and

- incentive stock options which are options granted to a US employee which complies with the relevant terms of the United States Internal Revenue Code of 1986.

Options granted have not been subject to date to a performance condition (such as the achievement of pre-determined financial targets), although the rules allow the board to make the exercise of an option subject to the satisfaction of objective performance conditions.

Options entitle the option holder to acquire shares at a price per share determined by the board. Such price may not be less than the greater of:

- the nominal value of a share;
- the market value of a share at the date of grant; or
- for US participants, who own 10% or more of the total combined voting power of any company of the group, 110% of the market value of a share on the date of grant.

Fifty percent of the shares comprised in a short option may be exercised on the first anniversary of the date of grant. Twenty percent of the shares comprised in a long option may be exercised on each anniversary of the date of grant together with any unexercised portion from previous years.

An incentive stock option held by a US participant owning 10% or more of the total voting power of our company or our consolidated subsidiaries may not be exercised later than five years after the date of grant. For all other option holders, options may be exercised before the tenth anniversary of the date of grant, at the end of which period they will lapse.

Unless the option holder is dismissed for cause or has filed for bankruptcy he or she has one calendar month or such longer period as the board determines from the date of termination of employment in which to exercise options. Otherwise, any options held will lapse immediately upon termination of employment.

In the event of the death of an option holder, his or her personal representatives may exercise any subsisting option in the period of 12 months from the date of death.

In the event that an option holder, other than an option holder holding an incentive stock option, retires in accordance with the contractual retirement age or otherwise at 65, any subsisting options may be exercised within the period of six months following the date of retirement. Holders of incentive stock options must exercise any subsisting options within the period of one month following the date of retirement.

Where the option holder leaves our employment in circumstances of injury, disability, redundancy within the meaning of the UK Employment Rights Act 1996, the company for which the option holder works ceases to be a member of the Dialog Semiconductor group or the business for which the option holder works is transferred out of the Dialog Semiconductor group, options will be exercisable in the period of six months (three months in respect of incentive stock options) following termination of employment, whether or not any performance conditions which apply to them have been satisfied. In the event of a takeover, reconstruction or amalgamation of our company, options may be exercised in the period of six months following such event. Alternatively, options may be exchanged for options over shares in an acquiring company provided that the new

option confers a right to acquire a number of new shares that have the same total market value as the subsisting option, the total amount payable by a participant is the same under the new option as under the subsisting option, and the new option is exercisable in the same manner as the corresponding subsisting option. In practice the six month period can be shortened by the compulsory acquisition procedure under Section 429 of the Companies Act 1985 on a takeover. In the event of a voluntary winding up of the company the options may be exercised within three months of the passing of a winding up resolution.

In the event of any rights or capitalization issue, sub-division, consolidation, or reduction of our share capital, the board may (subject to auditors' confirmation) adjust the number of shares subject to options and the price payable on their exercise provided that (1) the option price for a share is not less than its nominal value; and (2) the total price for the option has not been materially altered.

Other than options granted to German participants (which are fully transferable), options are not transferable and may only be exercised by the option holder or his or her personal representatives. Shares allotted or transferred under the share option scheme will rank pari passu with shares of the same class then in issue (except in respect of entitlements arising prior to the date of allotment).

No options may be granted over shares under the share option scheme which would, when combined with options granted over shares under any other scheme operated by us or any of our consolidated subsidiaries, exceed 15%, after issue, of the Company's issued share capital.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Apax Partners own 8,460,793 of our ordinary shares or 18.4%. Apax Partners act as Manager of Apax Funds Nominees Limited and Managing General Partner of Apax Germany II L.P., respectively. Apax Funds Nominees Limited holds shares as a nominee for certain other Apax Venture Capital Limited Partnerships. Prior to the secondary offering in June 2000, Apax Partners owned 18,091,170 of our ordinary shares or 41.2%. Apax Partners' voting rights do not differ from the rights of other shareholders.

Adtran, through its wholly-owned subsidiary ADFI, Inc., owns 2,520,960 ordinary shares or 5.5%. Prior to the secondary offering in June 2000, Adtran owned 5,305,810 ordinary shares or 12.6%. Adtran's voting rights do not differ from the rights of other shareholders.

UNITED STATES SHAREHOLDERS

Clearstream Banking AG ("Clearstream") and a nominee of Clearstream holding two shares are the current holders of record of the company's shares. Clearstream issues bearer rights to these shares to financial institutions who are participants in Clearstream and through whom beneficial owners (including US beneficial owners) hold our shares. Due to the secrecy laws of some of the jurisdictions (including Germany) in which the participants of Clearstream are located, these participants may not be obligated to disclose information regarding beneficial ownership of our shares pursuant to Section 198 of the Companies Act 1985 or the Nasdaq Europe regulations. Consequently, we are unable to identify the US beneficial owners of these shares.

B. RELATED PARTY TRANSACTIONS

Timothy Anderson, a member of the Board, is also a partner in the law firm

Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered during the three year period ended December 31, 2004, December 31, 2003 and December 31, 2002 amounted to EUR 211,684, EUR 162,241 and EUR 267,884, respectively.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 18: Financial Statements" and the Notes thereto.

LEGAL PROCEEDINGS

Neither we nor any of our consolidated subsidiaries are involved in litigation or arbitration proceedings that could have a substantial impact on our financial position or the financial position of any of our consolidated subsidiaries. We have not been involved in such litigation or arbitration proceedings in the past two years, nor, to the best of our knowledge, are such proceedings pending or threatened against us or any of our consolidated subsidiaries. However, as is the case with many companies in the semiconductor industry, we may from time to time receive communications alleging possible infringement of intellectual property rights of others. Irrespective of the validity of such claims, we could incur significant costs with respect to the defense of such claims which could have a material adverse effect on our business, results of operations or financial condition. See "Item 3: Risk Factors--If we are unable to protect our intellectual property and know-how from copy or use by others, our competitors may gain access to our content and technology".

DIVIDEND POLICY

We have never declared or paid any dividends. We currently intend to retain all available earnings generated by our operations for the development and growth of our business. As a result, we do not anticipate paying any dividends in the foreseeable future. You should also refer to "Item 5: Operating and Financial Review and Prospects-Liquidity".

B. SIGNIFICANT CHANGES

NOT APPLICABLE

ITEM 9. THE OFFER AND LISTING

The German stock exchange (XETRA/Frankfurter Wertpapierborse) and Nasdaq are the principal trading markets for our ordinary shares and ADSs.

Dialog is listed in the Prime Standard segment of the Frankfurt Stock Exchange and therefore has to comply with the requirements of the Prime Standard:

- quarterly reporting;
- application of international accounting standards (IFRS, international financial reporting standard, or US GAAP);
- publication of a financial calendar listing the most important corporate events;
- at least one analysts' conference per year; and
- use of the English language for current reporting and for ad-hoc disclosures required under the German Securities Trading Act.

MARKET PRICES

The following table sets forth, for the periods indicated, the highest and lowest closing market quotations for the shares from the Frankfurter Wertpapierborse (XETRA) and Nasdaq.

DEUTSCHE BORSE (FRANKFURT STOCK EXCHANGE)	ORDINARY SHARES	
	HIGH EURO	LOW EURO
ANNUAL HIGHS AND LOWS		
2000	72.50	6.86
2001	10.85	2.75
2002	8.82	0.70
2003	4.39	0.82
2004	4.49	1.63
QUARTERLY HIGHS AND LOWS		
2003		
First quarter	1.31	0.82
Second quarter	1.64	0.85
Third quarter	3.28	1.56
Fourth quarter	4.39	2.90
2004		
First quarter	4.49	3.48
Second quarter	4.09	2.69
Third quarter	3.09	2.46
Fourth quarter	2.94	1.63
MONTHLY HIGHS AND LOWS		
2004		
October	2.94	2.57
November	2.67	2.50
December	2.57	1.63
2005		
January	1.81	1.58
February	1.98	1.44
March	2.28	1.78

On April 7, 2005 the closing market quotation for our shares on the Frankfurt Stock Exchange (XETRA) was EUR 1.94.

NASDAQ(1)	ADSs	
	HIGH DOLLAR	LOW DOLLAR

ANNUAL HIGHS AND LOWS		
2000 (from June 29)	54.88	6.25
2001	9.69	2.49
2002	7.55	0.64
2003	5.52	0.95
2004	5.66	2.29
QUARTERLY HIGHS AND LOWS		
2003		
First quarter	1.68	0.95
Second quarter	1.93	0.95
Third quarter	3.80	1.80
Fourth quarter	5.52	3.45
2004		
First quarter	5.66	4.40
Second quarter	5.00	2.29
Third quarter	3.75	3.01
Fourth quarter	3.57	2.29
MONTHLY HIGHS AND LOWS		
2004		
October	3.57	3.08
November	3.54	3.19
December	3.42	2.29
2005		
January	2.45	2.10
February	2.59	1.93
March	3.03	2.33

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(1) Our shares were first listed on Nasdaq on June 29, 2000.

On April 7, 2005 the closing market quotation for our shares on Nasdaq was $2.41.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

NOT APPLICABLE.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Incorporated by reference to our Registration Statement on Form F-1, which was filed with the Securities and Exchange Commission on June 27, 2000.

C. MATERIAL CONTRACTS

SUPPLY AGREEMENT WITH CHARTERED SEMICONDUCTOR MANUFACTURING PTE., LTD.

Until October 2003, we maintained a deposit of $20 million with Chartered which was classified in the balance sheet line item "Deposits". Under the terms of our supply agreement dated June 30, 2000, the deposit guaranteed access to certain quantities of sub-micron wafers through fiscal 2003 and several generations of process technologies ranging from current products at 0.60u and 0.35u and will extend down to, and beyond 0.18u technologies. In October 2003, we received the repayment of the deposit from Chartered. In addition, we had paid $20 million as advance payments for future wafer deliveries, of which we received a $10 million refund from Chartered in 2001. At December 31, 2003 the outstanding balance of the advance payments was classified in the balance sheet under "Prepaid expenses". In 2004 all remaining advance payments were refunded to the company in proportion to our purchases of wafers from Chartered. On October 25, 2001,

the Securities and Exchange Commission granted our request for confidential treatment with respect to wafer prices, lot quantities and related proprietary data contained in the supply agreement. We entered into a temporary modification of this agreement on December 18, 2001 pursuant to which we received the $10 million refund. Concurrently with the filing of this Form 20-F in 2001, we requested confidential treatment of aspects of this amendment agreement analogous to those for which the Securities and Exchange Commission granted a request for confidential treatment on October 25, 2001.

D. EXCHANGE CONTROLS

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of dividends or other payments to non-UK residents or to US holders of our securities except as otherwise set forth below in "Taxation". There are no limitations under our articles of association restricting voting or shareholding.

E. TAXATION

The following is a discussion of the material tax consequences to holders of our shares or ADSs under the present laws of the United Kingdom and the United States. The discussion addresses only persons who hold shares or ADSs as capital assets. It does not address the tax treatment of persons subject to special rules. Among those are banks, securities dealers, insurance companies, tax-exempt entities, partnerships, holders of 10 percent or more of our voting shares, persons holding shares as part of a hedge, straddle, conversion or constructive sale transaction, US holders using a functional currency other than the US Dollar, persons resident or ordinarily resident in the United Kingdom for UK tax purposes and persons holding shares or ADSs in connection with a trade or business conducted in the United Kingdom or some other place outside their country of residence. The summary also does not discuss the tax laws of particular states or localities in the United States and other countries.

This summary does not consider your particular tax circumstances. It is not a substitute for tax advice. WE URGE YOU TO CONSULT YOUR OWN TAX ADVISORS ABOUT THE TAX CONSEQUENCES TO YOU OF HOLDING OUR SHARES OR ADSs IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES.

As used in this summary, "US holder" means a beneficial owner of shares or ADSs that is (1) an individual who is a US citizen or resident, (2) a corporation, partnership or other business entity organized under the laws of the United States or its political subdivisions, (3) a trust subject to the control of a US person and the primary supervision of a US court and (4) an estate the income of which is subject to US federal income tax regardless of its source.

UK TAXATION

DIVIDENDS

Under current UK taxation legislation, no tax is required to be withheld at source from cash dividend payments by Dialog. See "US Federal Income Taxation--Distributions" below for a discussion of the treatment of dividend payments by Dialog under the UK-US Income Tax Treaty.

CAPITAL GAINS

If you are not resident or ordinarily resident in the UK then, subject to the comments below, you will not be liable for UK tax on capital gains realized on the disposal of a share or ADS unless, at the time of the disposal, you carry on

a trade, including a profession or vocation, in the UK through a branch or agency and the share or ADS you dispose of is, or has been, held or acquired for the purposes of that trade or branch or agency carried on by you in the UK.

A US holder who is an individual and who has on or after March 17, 1998 ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of shares or ADSs during that period may be liable on his or her return to the UK to UK tax on chargeable gains, subject to any available exemption or relief, notwithstanding that he or she is not resident or ordinarily resident in the UK at the time of the disposal.

UK INHERITANCE TAX

Shares or ADSs are assets situated in the UK for the purposes of UK inheritance tax. Subject to the discussion of the UK-US estate tax treaty in the next paragraph, shares or ADSs beneficially owned by an individual US holder will be subject to UK inheritance tax on the death of the individual or, if the shares or ADSs are the subject of a lifetime gift that constitutes a chargeable transfer, including a transfer at less than full market value, by such individual. UK inheritance tax is not chargeable on gifts to individuals or to accumulation and maintenance or disabled trusts made more than seven years before the death of the donor. Special rules apply to shares or ADSs held in a settlement.

A share or ADS held by an individual US holder whose domicile is determined to be the US for purposes of the UK-US Estate Tax Treaty, and who is not a national of the UK, will not be subject to UK inheritance tax on the individual's death or on a lifetime transfer of the share or ADS except where the share or ADS:

- is part of the business property of a UK permanent establishment of an enterprise; or

- pertains to a UK fixed base of an individual used for the performance of independent personal services.

The estate tax treaty provides a credit against US federal tax liability for the amount of any tax paid in the UK in a case where the share or ADS is subject both to UK inheritance tax and to US federal estate or gift tax.

On 23 February 2000, the Inland Revenue indicated that the US and UK Governments had scheduled negotiations for revisions to their estate and gift tax treaty. However, as of the date of this annual report no such negotiations have taken place.

UK STAMP DUTY AND STAMP DUTY RESERVE TAX

No stamp duty or stamp duty reserve tax ("SDRT") will be payable on the transfer of existing shares which are held, and which continue to be held, in Clearstream.

No UK stamp duty will be payable on the transfer of an ADS provided that any instrument of transfer remains at all times outside the UK and is not executed in or brought into the UK. An agreement to transfer an ADS will not give rise to SDRT.

No stamp duty or SDRT will be payable on a cancellation of an ADS provided that the underlying shares continue to be held within Clearstream Banking AG.

US FEDERAL INCOME TAXATION

If the obligations contemplated by the deposit agreement are performed in accordance with their terms, US holders of ADSs will be treated as the owners of the shares represented by those ADSs for US federal income tax purposes.

DISTRIBUTIONS

Subject to the "Passive Foreign Investment Company" discussion below, dividends paid with respect to shares or ADSs will be included in the gross income of a US holder as ordinary dividend income from foreign sources to the extent paid from Dialog's earnings and profits as determined under US federal income tax principles. Distributions in excess of earnings and profits will be treated first as a return of capital to the extent of the US holder's tax basis in the shares or ADSs and then as a capital gain. Dividends will not be eligible for the dividends-received deduction available to corporations. Dividends received by noncorporate US holders, however, will be taxed at the same preferential rate allowed for long-term capital gains if (i) Dialog qualifies for benefits under the new UK-US income tax treaty and (ii) the US holder satisfies certain holding period and other requirements. Dialog will qualify for benefits under the new UK-US income tax treaty as long as its shares are regularly and sufficiently traded on NASDAQ.

Dividends paid in Euro will be includable in income in a US Dollar amount based on the exchange rate in effect on the day received by the shareholder or the depositary whether or not the payment is converted into Dollars at that time. Gain or loss recognized on a subsequent conversion of Euro for a different amount will be US source ordinary income or loss.

During a twelve-month transition period under the new UK-US income tax treaty (which ends on 30 April 2004), an eligible US shareholder that elects the benefits of the old UK-US treaty may be entitled to a foreign tax credit for UK withholding tax in an amount equal to the tax credit payment that the US shareholder is entitled to receive from the UK Inland Revenue under the old treaty. At current rates, a dividend of (pound)90 entitles an eligible US shareholder claiming benefits under the old treaty to a payment of (pound)10 offset by a UK withholding tax of (pound)10. Because the tax credit payment and the withholding tax offset each other, the Inland Revenue neither makes the payment nor collects the tax. The offsetting payments nevertheless have tax significance because an electing US shareholder must include the tax credit payment in its income and may claim a foreign tax credit for the UK withholding tax (subject to otherwise applicable limitations on foreign tax credits). To make the election, a US shareholder (or where the US shareholder is a partnership, each eligible US partner) must file a completed US Internal Revenue Service Form 8833 with its US federal income tax return for the relevant year. US shareholders cannot claim UK tax credit payments under the new UK-US treaty after the transition period. You should consult your own tax advisors about the consequences of the new treaty in light of your particular circumstances.

DISPOSITIONS

Subject to the "Passive Foreign Investment Company" discussion below, US holders will recognize capital gain or loss on the sale or other disposition of the shares or ADSs in an amount equal to the difference between the amount realized on the sale or other disposition and the US holder's basis in the shares or ADSs. Such gain or loss will be long term capital gain or loss if the US holder has held the shares or ADSs for more than one year at the time of the sale or other disposition. Long term capital gain recognized by an individual is subject to taxation at a maximum rate of 20 per cent. Deductions for capital losses are subject to limitations. Any gain or loss will be treated as arising from US sources.

A US holder that receives Euro upon sale or other disposition of the shares will realize an amount equal to the US Dollar value of the Euro on the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A US holder will have a tax basis in the Euro received equal to the US Dollar amount received. Any gain or loss realized by a US holder on a subsequent conversion of Euro into US Dollars will be US source ordinary income or loss.

PASSIVE FOREIGN INVESTMENT COMPANY

Dialog may become a passive foreign investment company ("PFIC") for US federal income tax purposes. A non-US company is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (1) at least 75% of its gross income is passive income or (2) at least 50% of the average value of its assets is attributable to assets that produce or are held to produce passive income. Whether Dialog becomes a PFIC will depend, among other things, upon the amount of its passive income and the value of its passive assets, the growth in its business revenues and its market value in the future. Since goodwill represents a substantial part of its non-passive assets, changes in the market value of Dialog's shares, which have been significant and could continue to be significant, could cause Dialog to become a PFIC.

If Dialog were a PFIC in any year during which a US holder owned the shares or ADSs, the US holder would be subject to additional taxes on any excess distributions received from Dialog and any gain realized from the sale or other disposition of the shares or ADSs, regardless of whether Dialog continued to be a PFIC. A US holder has an excess distribution to the extent that distributions on the shares or ADSs during a taxable year exceed 125% of the average amount received during the three preceding tax years or, if shorter, the US holder's holding period. A US holder may realize gain on the shares or ADSs not only through a sale or other disposition, but also by pledging the shares or ADSs as security for a loan or entering into certain constructive disposition transactions. To compute the tax on excess distributions or any gain (1) the excess distribution or the gain is allocated ratably over the US holder's holding period, (2) the amount allocated to the current year and any year before Dialog became a PFIC is taxed as ordinary income in the current year, and (3) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

If Dialog were a PFIC and then ceased to be a PFIC, a US holder may avoid the continued application of the tax treatment described above by electing to be treated as if it sold its shares on the last day of the last taxable year in which Dialog were a PFIC. Any gain is recognized and subject to tax under the rules described above. Loss is not recognized. The US holder's basis in its shares is increased by the amount of gain recognized on the sale.

If Dialog becomes a PFIC in any tax year, a US holder of the shares or ADSs could avoid some of the tax consequences just described by electing to mark the shares or ADSs to market annually. Any gain from marking the shares or ADSs to market or from disposing them will be ordinary income. A US holder will recognize loss from marking the shares or ADSs to market, but only to the extent of its unreversed gains from marking them to market. Loss from marking shares or ADSs to market will be ordinary, but loss on disposing of them will be capital loss except to the extent of unreversed gains.

A US holder of shares or ADSs will not be able to avoid the tax consequences described above by electing to treat Dialog Semiconductor Plc as a qualified electing fund ("QEF") because Dialog does not intend to prepare the information

that US holders would need to make a QEF election.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Distributions on the shares or ADSs and proceeds from sale of the shares or ADSs paid in the United States (or by certain persons outside the United States) will be reported to the US Internal Revenue Service unless the shareholder (1) is a corporation, (2) provides a properly executed US Internal Revenue Service Form W-8 BEN or (3) otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number. The amount of any backup withholding tax will be allowed as a credit against the shareholder's United States federal income tax liability and the shareholder may claim a refund of any excess amounts..

F. DIVIDENDS AND PAYING AGENTS

NOT APPLICABLE.

G. STATEMENT BY EXPERTS

NOT APPLICABLE

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and other information with the Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of the material may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. The Commission also maintains a web site at HTTP://WWW.SEC.GOV that contains reports, proxy statements and other information regarding registrants that file electronically with the Commission. Our annual reports and some other information submitted by us to the Commission may be accessed through this web site.

I. SUBSIDIARY INFORMATION

NOT APPLICABLE

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a matter of policy, we do not engage in derivatives trading, derivatives market-making or other speculative activities. See "Item 5: Operating and Financial Review and Prospects-Foreign Currencies" and Note 19 to the consolidated financial statements.

During 2000 to hedge the foreign currency exposure with respect to the $20 million of deposits with Chartered, we purchased foreign currency forward contracts to effectively change the US Dollar deposits into Euro (EUR 21.7 million) upon the expected return of the deposit as of December 31, 2003. These deposits were refunded to us in October 2003. Upon receipt of the deposit, we

settled our currency hedging position related to this deposit and recognized a loss of EUR 71,000 in the consolidated statement of operations. See Note 19 to the consolidated financial statements.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

NOT APPLICABLE.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

NOT APPLICABLE.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

NOT APPLICABLE.

ITEM 15. CONTROLS AND PROCEDURES

As of the end of the period covered by this annual report, we carried out an evaluation, under the supervision and with the participation of our senior management, including Executive Director, CEO and President Roland Pudelko and Vice-President of Finance and Controlling Martin Kloeble, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 of the U.S. Securities Exchange Act of 1934. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in this Form 20-F is recorded, processed, summarized and reported in a timely manner. In designing and evaluating the disclosure controls and procedures, management has considered the needs of the Company in light of its size and industry, and has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, rather than absolute, assurance of achieving the desired control objectives. Based upon that evaluation, our management, including Mr. Pudelko and Mr. Kloeble, concluded that our disclosure controls and procedures are effective in the accumulation and timely communication of material information relating to the Company as required to be included in periodic SEC filings.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board has determined that we have at least two audit committee financial experts, as defined in Form 20-F of the U.S. Securities Exchange Act, 1934, serving on our audit committee. These experts are Messrs. Glover and Hughes, who are independent as such term is defined in the listing standards applicable to us.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics ("Code of Business Conduct and Ethics") applicable to our officers, directors and employees, pursuant to the requirements of the Sarbanes-Oxley Act of 2002. The text of our Code of Business Conduct and Ethics is provided on our Internet website (www.dialog-semiconductor.com).

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

AUDIT FEES

The aggregate fees billed for professional services rendered by the principal

accountant, KPMG, for the audit of our financial statements or services normally provided by the auditor in connection with statutory and regulatory filings were EUR 174,000 for the year ended December 31, 2004, and EUR 169,000 for the year ended December 31, 2003.

AUDIT-RELATED FEES

There were no assurance or related services performed by KPMG which were reasonably related to the performance of the audit or review of our financial statements and not reported under "--Audit Fees" above, for the year ended December 31, 2004 or for the year ended December 31, 2003. As such, aggregate fees billed for such services in these years were nil.

TAX FEES

The aggregate fees billed for professional services rendered by KPMG for tax compliance, tax advice, and tax planning were EUR 110,000 for the year ended December 31, 2004, and EUR 65,000 for the year ended December 31, 2003. Tax fees are fees for professional services rendered by KPMG for tax compliance, tax advice on actual or contemplated transactions, tax consulting associated with international transfer prices, and expatriate employee tax services.

ALL OTHER FEES

There were no products or services provided by KPMG, other than those reported above under "--Audit Fees" and "--Tax Fees," for the year ended December 31, 2003, or for the year ended December 31, 2004. As such, aggregate fees billed for such services in these years were nil.

AUDIT COMMITTEE APPROVAL

Our Audit Committee nominates and engages our independent auditors to audit our financial statements. In 2003 our Audit Committee also adopted a policy requiring management to obtain the Committee's approval before engaging our independent auditors to provide any other audit or permitted non-audit services to us or our subsidiaries. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the Audit Committee pre-approves annually a catalog of specific Tax Consulting Services that may be performed by our auditors. 100% and 79% of the tax services referred to under "Tax Fees" above were pre-approved by the Audit Committee in 2004 and 2003, respectively.

All other services that are not included in the catalog require pre-approval by the Audit Committee's chairman on a case-by-case basis. The chairman of our Audit Committee is not permitted to approve any engagement of our auditors if the services to be performed either fall into a category of services that are not permitted by applicable law or the services would be inconsistent with maintaining the auditors' independence.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We rely on an exemption from the listing standard for audit committees as set forth under Nasdaq Marketplace Rule 4350(d)(2). This exemption was granted to Dialog on 1 August 2000. We do not believe that our reliance on this exemption would materially adversely affect the ability of our audit committee to act independently and to satisfy other requirements of Rule 10A-3 of the U.S. Securities Exchange Act of 1934. In lieu of following this requirement on audit committee composition, Dialog's audit committee consists of two independent members in accordance with law, rule, regulation, and generally accepted business practices in Dialog's home country of England and Wales.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

See the Consolidated Financial Statements and the Notes thereto.

ITEM 19. EXHIBITS

1.1 Memorandum and Articles of Association of Dialog Semiconductor Plc. (1)

2.1 Form of Deposit Agreement among Dialog Semiconductor Plc, The Bank of New York as depositary, and holders and beneficial owners from time to time of ADRs issued thereunder.(1)

3.1 Not applicable.

4.1 Supply Agreement with Chartered Semiconductor Manufacturing Pte., Ltd. dated June 30, 2000.(2)(3)

4.2 Amendment Agreement with Chartered Semiconductor Manufacturing Pte., Ltd. dated December 18, 2001. (4) (5)

5.1 Not applicable.

6.1 Not applicable.

7.1 Not applicable.

8.1 See "Item 4: Information on the Company- C. Organizational Structure".

9.1 Not applicable.
10.1 Not applicable.

11.1 Not Applicable.

12.1 Rule 13a-14(a) Certification of the Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

12.2 Rule 13a-14(a) Certification of the Vice-President of Finance and Controlling of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

13.1 Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.(6)

13.2 Section 1350 Certification of Vice-President of Finance and Controlling of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.(6)

14.1 Not applicable.

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(1) Previously filed as an exhibit to the Company's Registration Statement

on Form F-1, filed with the Securities and Exchange Commission on June 27, 2000 and incorporated herein by reference.

(2) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for 2000, filed with the US Securities and Exchange Commission on June 4, 2001 and incorporated herein by reference.

(3) On October 25, 2001, the US Securities and Exchange Commission granted our request for confidential treatment of the commercially sensitive material in this contract.

(4) Previously filed as an exhibit to the Company's Annual Report on Form 20-F for 2002, filed with the US Securities and Exchange Commission on February 27, 2003 and incorporated herein by reference.

(5) The US Securities and Exchange Commission granted our request for confidential treatment of the commercially sensitive material in this contract.

(6) A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F, and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DIALOG SEMICONDUCTOR PLC

By: /s/ Roland Pudelko

Roland Pudelko
Executive Director, Chief Executive Officer and President

FINANCIAL INFORMATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2003

Consolidated Balance Sheets as of December 31, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Shareholders' Equity for the years ended

December 31, 2004, 2003 and 2002

Notes to the Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Dialog Semiconductor Plc:

We have audited the accompanying consolidated balance sheets of Dialog Semiconductor Plc and subsidiaries (the "Company") as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dialog Semiconductor Plc and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Stuttgart, Germany
February 21, 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftspruefungsgesellschaft

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Operations

(in thousands, except per share data)	Notes	2004	2004
Revenues	20	$157,100	EUR 116,044
Cost of sales	5	(108,010)	(79,783)
GROSS MARGIN		49,090	36,261

Selling and marketing expenses		(8,444)	(6,237)
General and administrative expense		(7,394)	(5,462)
Research and development expenses		(39,356)	(29,071)
Amortization and intangible assets		(2,058)	(1,520)
Restructuring and related impairment charges	3	(80)	(59)
OPERATING LOSS		(8,242)	(6,088)
Interest income, net		1,463	1,081
Foreign currency exchange gains and losses, net		(983)	(726)
Recovery of investment	4	73	54
Result before income taxes		(7,689)	(5,679)
Income tax (expense) benefit	6	(86)	(64)
NET LOSS		(7,775)	(5,743)
Loss per share:			
Basic and diluted		(0.18)	(0.13)
WEIGHTED AVERAGE NUMBER OF SHARES (IN THOUSANDS):			
Basic and diluted		44,025	44,025

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Balance Sheets

(in thousands)	Notes	Dec. 31, 2004	Dec. 31
ASSETS			
Cash and cash equivalents		$18,922	EUR 13
Trade accounts receivable, net	8	32,540	24
Inventories	9	40,335	29
Marketable securities	10	23,749	17

Deferred taxes	6	950	
Prepaid expenses	11	834	
Other current assets		380	
TOTAL CURRENT ASSETS		117,710	86
Property, plant and equipment, net	12	28,752	21
Intangible assets	13	5,775	4
Goodwill	13	15,956	11
Deposits	11	263	
Deferred taxes	6	22,270	16
Prepaid expenses	11	1,458	1
TOTAL ASSETS		192,184	141
LIABILITIES AND SHAREHOLDERS' EQUITY			
Trade accounts payable		20,888	15
Accrued expenses	14	4,175	3
Income taxes payable		12	
Deferred taxes	6	9	
Other current liabilities		1,726	1
TOTAL CURRENT LIABILITIES		26,810	19
Deferred taxes	6	1,381	1
TOTAL LIABILITIES		28,191	20
Ordinary Shares	15	9,515	7
Additional paid-in capital		228,497	168
Accumulated deficit		(72,323)	(53
Accumulated other comprehensive loss		(1,294)	
Employee stock purchase plan shares		(402)	
SHAREHOLDERS' EQUITY		163,993	121

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	192,184	141

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(in thousands)	2004	2004	2003	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(7,775)	EUR (5,743)	EUR (20,420)	E
Adjustments to reconcile net loss to net cash provided by (used for)				
operating activities:				
Recovery of investment	(73)	(54)	(315)	
Provision for excess inventory	-	-	-	
Restructuring and related impairment charges	(444)	(328)	613	
Depreciation of property, plant and equipment	15,570	11,501	12,545	
Amortization intangible assets	2,058	1,520	2,073	
Losses on disposals of fixed assets	199	147	253	
Increase in deferred tax asset valuation allowance	-	-	10,237	
Other changes in deferred taxes	24	18	(1,984)	
Changes in current assets and liabilities:				
Trade accounts receivable	(13,128)	(9,697)	1,691	
Inventories	(22,408)	(16,552)	1,265	
Prepaid expenses	1,844	1,362	5,382	
Trade accounts payable	11,204	8,276	(2,846)	
Accrued expenses	(104)	(77)	(258)	
Income taxes payable	(12)	(9)	(107)	
Other assets and liabilities	1,401	1,035	(541)	
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(11,644)	(8,601)	7,588	

CASH FLOWS FROM INVESTING ACTIVITIES:			
Recovery of investment	73	54	315
Purchases of property, plant and equipment	(16,680)	(12,321)	(5,901)
Purchases of intangible assets	(914)	(675)	(1,410)
Investments and deposits received (made)	(27)	(20)	21,670
Purchases of marketable securities	(67,243)	(49,670)	(44,998)
Sale of marketable securities	104,360	77,087	-
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	19,569	14,455	(30,324)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Costs for issuance of shares	(28)	(21)	-
Sale of employee stock purchase plan shares	40	30	37
Other	-	-	-
CASH PROVIDED BY FINANCING ACTIVITIES	12	9	37
CASH PROVIDED BY (USED FOR) OPERATING, INVESTING AND FINANCING ACTIVITIES	7,937	5,863	(22,699)
Effect of foreign exchange rate changes on cash and cash equivalents	7	5	(197)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,944	5,868	(22,896)
Cash and cash equivalents at beginning of period	10,978	8,109	31,005
CASH AND CASH EQUIVALENTS AT END OF PERIOD	18,922	13,977	8,109

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

			ACCUMULATED OTHER COMPREHENSI		
	ORDINARY	ADDITIONAL PAID-IN	ACCUMULATED	CURRENCY TRANSLATION	AVAILABLE FOR SALE	DERIV FINAN

(in thousands of EUR)	SHARES	CAPITAL	DEFICIT	ADJUSTMENT	SECURITIES	INSTR
BALANCE AT DECEMBER 31, 2001	6,737	168,788	(17,051)	(270)	--	
Net loss	--	--	(10,208)	--	--	
Other comprehensive loss	--	--	--	(287)	--	(
TOTAL COMPREHENSIVE LOSS						
Cost of issuance of shares in 2000	--	(44)	--	--	--	
Sale of employee stock purchase plan shares	--	37	--	--	--	
BALANCE AT DECEMBER 31, 2002	6,737	168,781	(27,259)	(557)	--	(
Net loss	--	--	(20,420)	--	--	
Other comprehensive income (loss)	--	--	--	(366)	(61)	
TOTAL COMPREHENSIVE LOSS						
Sale of employee stock purchase plan shares	--	14	--	--	--	
BALANCE AT DECEMBER 31, 2003	6,737	168,795	(47,679)	(923)	(61)	
Net loss	--	--	(5,743)	--	--	
Other comprehensive income (loss)	--	--	--	(5)	33	
TOTAL COMPREHENSIVE LOSS						
New issuance of shares	291	(22)	--	--	--	
Sale of employee stock purchase plan shares	--	9	--	--	--	
BALANCE AT DECEMBER 31, 2004	7,028	168,782	(53,422)	(928)	(28)	

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of EUR, unless otherwise stated)

1. GENERAL

A) DESCRIPTION OF BUSINESS

Dialog Semiconductor Plc and subsidiaries ("Dialog" or the "Company") is a fabless semiconductor company that develops and supplies power management, audio and imaging technology, delivering innovative mixed signal standard products as well as application specific IC solutions for wireless, automotive and industrial applications. The company's expertise in mixed signal design, with products manufactured entirely in CMOS technology, enhances the performance and features of wireless, hand-held and portable electronic products. Its technology is also used in intelligent control circuits in automotive and industrial applications. Production of these designs is then outsourced, and the final products are returned to Dialog for approval and testing before delivery to the customers.

B) VULNERABILITY DUE TO CERTAIN SIGNIFICANT CONCENTRATIONS

The Company's future results of operations involve a number of risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from historical results include, but are not limited to, the highly cyclical nature of both the semiconductor and wireless communications industries, dependence on certain customers and the ability to obtain adequate supply of sub-micron wafers.

The Company's products are generally utilized in the cellular communications and automotive industries. The Company generates a substantial portion of its revenue from the wireless communications market, which accounted for 78%, 75% and 71% of the Company's total revenue for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company's revenue base is diversified by geographic region and by individual customer. Changes in foreign currency exchange rates influence the Company's results of operations. The Company's sales are primarily denominated in Euros and US dollars whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars (see Note 19 for a description of the Company's hedging activities). The Company also has foreign currency exchange risks with respect to its net investments in foreign subsidiaries in Japan, the United Kingdom and the United States. Fluctuations in these currencies could significantly impact the Company's reported results from operations.

The Company depends on a relatively small number of customers for a substantial portion of its revenues, and the loss of one or more of these customers may result in a significant decline in future revenue. During 2004 and 2002, two customers individually accounted for more than 10% of the Company's revenues. Total revenues from these two customers were EUR 75,651 and EUR 46,746 or 65% and 61% in 2004 and 2002, respectively. Net receivables from these two customers were EUR 15,724 at December 31, 2004. During 2003, one customer individually accounted for more than 10% of the Company's revenue. Total revenue from this customer was EUR 60,192 or 65%. Net receivables from this customer were EUR 9,414 at December 31, 2003. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

C) BASIS OF PRESENTATION
The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). All amounts herein are shown in thousands of Euro ("EUR") and for the year 2004 are also presented in U.S. Dollars ("$"), the latter being unaudited and presented solely for convenience of the reader at the rate of EUR 1 = $1.3538, the Noon Buying Rate of the Federal Reserve Bank of New York on December 31, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Investments in Affiliated Companies
The consolidated financial statements include Dialog Semiconductor Plc and all of its owned subsidiaries:

NAME	REGISTERED OFFICE	PARTICIPATION
Dialog Semiconductor GmbH	Kirchheim/Teck - Nabern, Germany	100%

Dialog Semiconductor (UK) Limited	Swindon, UK	100%
Dialog Semiconductor Inc	Clinton, New Jersey, USA	100%
Dialog Semiconductor KK	Tokyo, Japan	100%

All intercompany accounts and transactions are eliminated in consolidation.

CASH AND CASH EQUIVALENTS
Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less.

MARKETABLE SECURITIES
Marketable securities at December 31, 2004 and 2003 consist of exchange traded funds and at December 31, 2003 also debt securities that are classified as available-for-sale and are accounted for on the basis of the settlement date and recorded at fair value as determined by the most recently quoted market price of each security at the balance sheet date. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary will result in an impairment, which is charged to earnings. Interest income is recognized when earned.

INVENTORIES
Inventories are valued at the lower of cost or market. Cost, which includes direct materials, labor and overhead plus indirect overhead, is determined using the first-in, first-out (FIFO) or weighted average cost methods.

TRADE ACCOUNTS RECEIVABLE
Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts quarterly. Management, considering current information and events regarding the customers' ability to repay their obligations, considers the collectibility of a trade account receivable to be impaired when it is probable that the Company will be unable to collect all amounts due according to the sales terms. When a trade receivable is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows. Any credit losses are included in the allowance for doubtful accounts through a charge to bad debt expense. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. In the profit and loss account, impairment losses are included in sales and marketing expenses. Recoveries of trade receivables previously written-off are recorded when received. Reversals of impairment losses, if any, would be included in other operating income. The Company does not have any off-balance-sheet credit exposure related to its customers.

OTHER CURRENT ASSETS
Other current assets include tax refunds receivable at December 31, 2004 and 2003. It also included interest receivable at December 31, 2003.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

EQUIPMENT	USEFUL LIFE
Test equipment	3 to 8 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	3 to 13 years

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over fair value of net assets of businesses acquired. Purchased intangible assets with estimable useful lives primarily consist of licenses, software, customer lists and patents and are recorded at acquisition cost less accumulated amortization. Intangible assets other than goodwill are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 17 years.

Goodwill is tested annually for impairment and more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent the carrying amount exceeds the asset's fair value. Prior to the adoption of SFAS 142 in 2002, goodwill and assembled workforce were amortized over their estimated useful life.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with SFAS 144, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or group of assets to future undiscounted net cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or group of asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

FOREIGN CURRENCIES

The functional currency for the Company's operations is generally the applicable local currency. Accordingly, the assets and liabilities of companies whose functional currency is other than the Euro are included in the consolidation by translating the assets and liabilities into the reporting currency (the Euro) at the exchange rates applicable at the end of the reporting year. Equity accounts are measured at historical rates. The statements of income and cash flows are translated at the average exchange rates during the year. Translation gains or losses are accumulated as a separate component of shareholders' equity. Foreign currency transaction gains and losses are included in financial income, net at each reporting period. They result from amounts ultimately realized upon settlement of foreign currency transactions and from the period end

re-measurement of foreign currency denominated monetary assets and liabilities into the functional currency of the respective entity. The exchange rates of the more important currencies against the Euro used in preparation of the consolidated financial statements were as follows:

CURRENCY	DEC 31, 2004	DEC, 31, 2003	2004	2003	2002
	EUR 1 =	EUR 1 =	EUR 1 =	EUR 1 =	EUR 1 =
Great Britain	0.71	0.70	0.68	0.69	0.63
Japan	139.83	133.68	134.46	130.93	118.05
United States	1.36	1.25	1.24	1.13	0.94

REVENUE RECOGNITION
Substantially all of the Company's revenue is derived from the sale of its products. Product revenue, net of discounts, is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price of the transaction is fixed and determinable, and collectibility is reasonably assured.

PRODUCT-RELATED EXPENSES
Cost of sales consist of the costs of outsourcing production and assembly, personnel costs and applicable overhead and depreciation of test and other equipment. Provisions for estimated product warranty are recorded in cost of sales at the time the related sale is recognized. Expenditures for advertising and sales promotion and for other sales-related expenses are charged to marketing expenses as incurred. Shipping and handling costs amounting to EUR 313 (2003: EUR 251; 2002: EUR 221) are recorded within selling expenses.

INCOME TAXES
Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years, in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records deferred tax valuation allowances, if any, to reduce the deferred tax assets to amounts, which will more likely than not be realized.

STOCK-BASED COMPENSATION
The Company has a stock-based employee compensation plan that is accounted for using the intrinsic-value-based method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under this method, no stock-based compensation cost is reflected in net income (loss), as all options granted by the plan had an exercise price equal to market value of the underlying common stock on the date of grant. SFAS 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee

compensation. As allowed by SFAS 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS 123, as amended by SFAS 148, Accounting for Stock-Based Compensation-Transition and Disclosure. The following table illustrates the effect on net loss if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

	2004	2003	2002
Net loss, as reported:	(5,743)	(20,420)	(10,208)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(847)	(601)	(1,166)
Pro forma net loss	(6,590)	(21,021)	(11,374)
Earnings (loss) per share			
Basic - as reported	(0.13)	(0.46)	(0.23)
Basic - pro forma	(0.15)	(0.48)	(0.26)
Diluted - as reported	(0.13)	(0.46)	(0.23)
Diluted - pro forma	(0.15)	(0.48)	(0.26)

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company operates internationally, giving rise to exposure to changes in foreign currency exchange rates. The Company applies SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149, which provides guidance on accounting for all derivative instruments, and for hedging activities. Derivative financial instruments are recorded at their fair value and included in other current assets or other current liabilities.

EARNINGS (LOSS) PER SHARE

Earnings (loss) per share has been computed using the weighted average number of outstanding ordinary shares for each year. Because the Company reported a net loss in each of the years in the three-year period ended December 31, 2004, only basic per share amounts have been presented for those years. Had the Company reported net income in 2004, 2003 and 2002, the weighted average number of shares outstanding would have potentially been diluted by 1,309,406 and 962,184 and 2,634,382 stock options, respectively (not assuming the effects of applying the treasury stock method).

USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and judgments include the recoverability of the carrying value of goodwill and other long-lived assets, the realizability of deferred income tax assets and inventories, and the fair value of stock-based employee compensation awards. Actual results may differ from those estimates. In the fourth quarter of 2004,

the company determined that the useful life of its test equipment is eight years. Previously the useful life had been determined to be five years. The effect of this change in accounting estimates resulted in a lower depreciation of EUR 1,349 (EUR 842, net of tax, or EUR 0.02 per share).

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2004, EITF No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investment, was issued which includes new guidance for evaluating and recording other than temporary impairment losses on debt and equity securities accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and cost method investments, as well as new disclosure requirements for investments that are deemed to be temporarily impaired. While the disclosure requirements for specified debt and equity securities and cost method investments are effective for annual periods ending after December 15, 2003, the FASB Board has directed the FASB staff to delay the effective date for the measurement and recognition guidance contained in EITF No. 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The Company does not expect the adoption of EITF No. 03-1 to have a material impact on its consolidated financial statements.

In November 2004, the FASB issued Statement No. 151, Inventory Costs, to amend the guidance in Chapter 4, "Inventory Pricing," of FASB Accounting Research Bulletin No. 43, Restatement and Revision of Accounting Research Bulletins. Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Statement requires that those items be recognized as current-period charges. Additionally, Statement 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The company does not believe the adoption of SFAS No. 151 will have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award based upon an option-pricing model and an estimate of the number of awards expected to vest. Compensation cost will be recognized as they vest, including related tax effects. SFAS No. 123(R) will be effective for interim or annual reporting periods beginning on or after June 15, 2005. The statement provides for three alternate transition methods, each having a different reporting implication. The company previously accounted for its stock based compensation plan using the intrinsic-value-based method based on APB Opinion No 25. Under this method, no stock-based compensation is reflected in net income (loss) (see also "Stock based compensation" in this note 2 to the consolidated financial statements). The Company is in the process of determining the transition method it is going to adopt and the potential impact on the financial statements.

3. RESTRUCTURING AND RELATED IMPAIRMENT CHARGES

Restructuring and related asset impairment charges are comprised of EUR 59 restructuring charges for the year ended December 31, 2004 and of EUR 1,554 restructuring charges and EUR 285 impairment charges totaling EUR 1,839 for the year ended December 31, 2003.

RESTRUCTURING CHARGES

In the first quarter of 2003 the Company decided to close the Swedish subsidiary. Restructuring charges incurred in 2003, include termination benefits that were paid to all employees affected by the closing of EUR 1,076 and a

provision for estimated costs that will continue to be incurred under an operating lease for the building for its remaining term without economic benefit to the Company of EUR 478. In the first quarter of 2004 the Company settled its building lease obligation in connection with the closure and recognized an additional charge of EUR 59. The contractual termination benefits were accounted for in accordance with SFAS 88. The provision for the operating lease was recorded at its estimated fair value in accordance with SFAS 146.

The pretax amounts for the restructuring charges are comprised of the following:

(in thousands of EUR)	TERMINATION COSTS	TERMINATION COSTS	TOTAL
Liability balance at January 1, 2003	-	-	-
Initial charges	834	346	1,180
Additional charges	242	132	374
Payments made	(1,076)	(150)	(1,226)
Liability balance at December 31, 2003	-	328	328
Additional charges	-	59	59
Payments made	-	(387)	(387)
Liability balance at December 31, 2004	-	-	-

ASSET IMPAIRMENT CHARGES

As a result of the closure of the Swedish facility, certain long-lived assets with a net carrying value of EUR 158 have been abandoned and certain prepaid expenses of EUR 127 no longer provided any future benefit to the Company. Accordingly, impairment charges totaling EUR 285 were recognized for the year ended December 31, 2003, to write-off these assets.

4. RECOVERY OF INVESTMENT

In the fourth quarter of 2001, the Company determined that its ability to recover the full amount of its investments in silicon supplier ESM was impaired. Accordingly the Company wrote off the investments in ESM. In March 2002, ESM was acquired by International Rectifier. As a result, the Company was able to subsequently recover EUR 12.0 million, EUR 0.3 million and EUR 0.1 million of its total investment in ESM in 2002, 2003 and 2004.

5. OTHER DISCLOSURES TO THE STATEMENTS OF OPERATION

Result before income taxes is stated after charging:

(in thousands of EUR)	2004	2003	2202
Depreciation of property, plant and equipment	11,501	12,545	12,834
Amortization of intangible assets	1,520	2,073	1,975
Personnel costs	21,622	21,197	20,193
Cost of sales: provision for excess inventory	-	-	1,930

6. INCOME TAXES

Loss before income taxes consists of the following:

(in thousands of EUR)	2004	2003	2002
Germany	(3,079)	(6,323)	(11,376)
Foreign	(2,600)	(6,283)	(4,858)
	(5,679)	(12,606)	(16,234)

Benefit (provision) for income taxes are as follows:

(in thousands of EUR)	2004	2003	2002
Current taxes:			
Germany	-	250	43
Foreign	(38)	(91)	1,685
Deferred taxes:			
Germany	-	(8,287)	3,941
Foreign	(26)	314	357
	(64)	(7,814)	6,026

Although Dialog is a UK company, its principal operations are located in Germany and all of its operating subsidiaries are owned by its German subsidiary. Accordingly, the following information is based on German corporate tax law. The Company's statutory tax rate for its German subsidiary is 25%. Including the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate

amounts to 26,375%.

A reconciliation of income taxes determined using the German corporate tax rate of 26,375% plus the after federal tax benefit rate for trade taxes of 11,225%, for a combined statutory rate of 37.6%, is as follows:

	2004	2003	2002
Expected benefit for income taxes	2,135	4,740	6,104
Foreign tax rate differential	(200)	(505)	(387)
Amortization of non-deductible intangible assets	(41)	(41)	(41)
Valuation allowance on deferred tax assets	(1,947)	(11,804)	(118)
Others	(11)	(204)	468
Actual benefit (expense) for income taxes	(64)	(7,814)	6,026

Deferred income tax assets and liabilities are summarized as follows:

	DEC 31, 2004	DEC 31, 2003
Property, plant and equipment	374	196
Net operating loss and tax credit carryforwards	25,158	24,284
Liabilities	5,654	5,640
Other	12	41
	31,198	30,161
Valuation allowance	(14,046)	(12,329)
Deferred tax assets	17,152	17,832
Property, plant and equipment	(1,020)	(1,669)
Receivables	(7)	(4)
Deferred tax liabilities	(1,027)	(1,673)
Net deferred tax assets	16,125	16,159

Tax loss carryforwards and established valuation allowances are summarized as follows:

	DECEMBER 31, 2004			DECEMBER 31, 2003		
	TAX LOSS CARRYFORWARD	TAX LOSS CARRYFORWARDS SUBJECT TO VALUATION ALLOWANCE	VALUATION ALLOWANCE	TAX LOSS CARRYFORWARD	TAX LOSS CARRYFORWARDS SUBJECT TO VALUATION ALLOWANCE	VALUATION ALLOWANCE
Germany	63,124	28,648	11,392	61,696	27,220	10,235
UK	6,384	6,286	2,026	4,391	4,293	1,288
US						
Federal	1,571	1,571	498	1,520	1,520	493
State	1,442	1,442	131	1,514	1,514	131
Sweden	-	-	-	543	543	182
Total			14,046			12,329

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods, in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In December 2003, the German government enacted new tax legislation, which among other things, limits the use of German tax-loss carryforwards to 60% of the taxable income for fiscal years starting from 2004 and thereafter. As a result of this change in tax law, at December 31, 2003 the Company has re-evaluated its deferred tax asset position and the need for a valuation allowance for the German tax losses. The assessment requires the exercise of judgment on the part of management, with respect to, among other things, benefits that could be realized from available tax strategies and future taxable income, as well as other positive and negative factors. The assessment in 2003 considered the weight given to cumulative losses incurred in Germany over the three-year period ended December 31, 2003, as well as detailed forecasts of taxable income in the foreseeable future. Although the Company forecasted generating future taxable income to approximate available tax-loss carryforwards, the change in tax law increased the forecasted number of additional years that future taxable income must be generated in order to fully realize these loss carryforward benefits. Pursuant to SFAS 109 and the inherent uncertainties in projecting future taxable income, management had concluded that it is more likely than not that a portion of our tax losses could not ultimately be realized. Consequently, in 2003 the Company recognized a valuation allowance of EUR 10,235, to reduce the carrying value of its net deferred tax assets on tax loss carryforwards in Germany to an amount that was more likely than not expected to be ultimately realized. Furthermore, based on management's

assessment, at December 31, 2003 the company established valuation allowances of EUR 1,288, EUR 624 and EUR 182 on tax losses in the UK, the US and Sweden, respectively, since it was more likely than not, that the deferred tax assets will not be realized through future taxable earnings.

Due to losses incurred in 2004, the company has not recognized any additional deferred tax assets and established an additional valuation allowance of EUR 1,947 on the tax-loss carryforwards generated in Germany in 2004. However, management has evaluated whether it is more likely than not that the Company can recover the carrying amount of deferred tax assets and determined that an additional valuation allowance with respect to the deferred tax assets is not required at December 31, 2004.

The tax loss carryforwards in the US are expiring in 2005 through 2017, the other tax loss carryforwards have no expiration date.

7. ADDITIONAL CASH FLOW INFORMATION

The following represents supplemental information with respect to cash flows:

(in thousands of EUR)	2004	2003	2002
Interest paid, net	5	14	9
Income taxes paid, net	49	372	911

8. TRADE ACCOUNTS RECEIVABLE, NET

The recorded trade accounts receivable for which an impairment has been recognized and the related allowance for doubtful accounts at December 31, 2004 and 2003 were EUR 34 and EUR 17, and EUR 270 and EUR 197, respectively. The allowance for doubtful accounts developed as follows:

(in thousands of EUR)	2004	2003	2002
Allowance for doubtful accounts at beginning of year	197	397	439
Additions charged to bad debt expense	16	230	222
Write-offs charged against the allowance	(186)	(210)	(139)
Reductions charged to bad debt expense	(10)	(220)	(125)
Allowance for doubtful accounts at end of year	17	197	397

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9. INVENTORIES

Inventories are comprised of the following:

(in thousands of EUR)	2004	2003
Raw materials	9,893	2,738
Work-in-process	13,906	5,026
Finished goods	5,995	5,478
	29,794	13,242

10. MARKETABLE SECURITIES

The Company has invested in "investment grade" rated debt securities with a maturity up to six months, and exchange traded funds, which invest in debt-securities. All marketable securities are classified as available for sale. The aggregate costs, fair values and unrealized losses per security class are as follows:

	DEC 31, 2004			DEC 31, 2003		
(in thousands of EUR)	COST	FAIR VALUE	UNREALIZED LOSS	COST	FAIR VALUE	LOSS
Corporate debt securities	-	-	-	43,029	42,947	(82)
Debt based funds	17,581	17,542	(39)	1,969	1,953	(16)
	17,581	17,542	(39)	44,998	44,900	(98)

11. DEPOSITS AND PREPAID EXPENSES

At December 31, 2002, the Company maintained deposits of $20 million with Chartered Semiconductor Manufacturing Pte., Ltd. ("Chartered"). These deposits were refunded to the Company in October 2003. In addition, the Company paid Chartered a total of $10 million in 2000 as an advance payment for future wafer deliveries and $2.5 million to another supplier. Such advance payments are classified in the balance sheet line items "Prepaid expenses". In 2004 all remaining advance payments paid to Chartered were refunded to the company. The outstanding balance of the advance payments is refunded in proportion to the Company's purchases of wafers from the other supplier, and at this time, the Company expects to have the entire advance payments refunded. The amount of

advance payments classified in prepaid expenses on the consolidated balance sheet as current assets represents that the amount of advance payments expected to be refunded in the next twelve months.

12. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of activity for property, plant and equipment for the year ended December 31, 2004 is as follows:

(in thousands of EUR)	JAN 1, 2004	CURRENCY CHANGE	ADDITIONS	RECLASSIFICATIONS	DISPOSALS	DEC 31, 2004	ACCUMULATED DEPRECIATION	NET BOOK VALUE AS OF DEC 31, 2004
Test equipment	53,050	(2)	8,028	300	(863)	60,513	(45,227)	15,286
Leasehold improvements	903	(19)	158	--	(145)	897	(596)	301
equipment	14,303	(112)	2,412	(33)	(860)	15,710	(11,782)	3,928
Advance payment relating to test equipment	267	--	1,723	(267)	--	1,723	--	1,723
Property, plant and equipment	68,523	(133)	12,321	--	(1,868)	78,843	(57,605)	21,238

13. INTANGIBLE ASSETS AND GOODWILL

A summary of activity for intangible assets and Goodwill for the year ended December 31, 2004 is as follows:

(in thousands of EUR)	JAN 1, 2004	CURRENCY CHANGE	ADDITIONS	RECLASSIFICATIONS	DISPOSALS	DEC 31, 2004	ACCUMULATED DEPRECIATION	NET BOOK VALUE AS OF DEC 31, 2004
Software, licenses and other	10,930	(26)	348	--	(199)	11,053	(8,952)	2,101
Patents	3,008	--	--	--	--	3,008	(843)	2,165
Intangible assets	13,938	(26)	348	--	(199)	14,061	(9,795)	4,266
Goodwill	15,736	--	--	--	--	15,736	(3,950)	11,786

During the year ended December 31, 2004 and 2003, the Company acquired software and licenses for a total purchase price of EUR 348 and EUR 618 respectively. The expected weighted average useful life of these assets is 3 years. During the year 2002, the Company acquired the CMOS imaging technology and associated CMOS Active Pixel Sensor (APS) patent portfolio from Sarnoff Corporation, a research and development institute, for a total purchase price of EUR 3,008. The expected weighted average useful life of these patents is 9 years. In addition, Sarnoff may be paid additional contingent consideration which will be determined as a percentage of the revenues received from sales of imagers used for camera applications and as an agreed sum for each imager used for cellular phone applications. Such contingent consideration is limited in absolute terms and has a fixed expiration date as specified in the purchase agreement.

The aggregate amortization expense for the years ended December 31, 2004, 2003 and 2002 was EUR 1,520, EUR 2,073 and EUR 1,975, respectively. Amortization expense of the gross carrying amount of intangible assets at December 31, 2004 is estimated to be EUR 1,015 in 2005, EUR 631 in 2006, EUR 542 in 2007, EUR 518 in 2008 and EUR 483 in 2009.

14. ACCRUED EXPENSES

The Company issues various types of contractual product warranties under which it guarantees the performance of products delivered for a certain period or term. The changes in the provision for those product warranties are summarized as follows:

(in thousands of EUR)	2004	2003
Balance at beginning of year	135	115
Utilizations	(8)	(115)
Additions	28	135
Balance at end of year	155	135

15. SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

At December 31, 2003, Dialog had authorized 104,311,860 ordinary shares with a par value of GBP 0.10 per share, of which 44,068,930 were issued and outstanding. All shares are fully paid.

On September 24, 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at GBP 0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees. These shares are legally issued and outstanding, but are not considered issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2004, 2003 and 2002 are as follows:

(in thousands of EUR)	2004 PRETAX	2004 TAX EFFECT	2004 NET	2003 PRETAX	2003 TAX EFFECT	2003 NET	2002 PRETAX	2002 TAX EFFECT	2002 NET
Unrealized (losses) gains on available for sale securities	59	(26)	33	(98)	37	(61)	-	-	-
Unrealized (losses) gains on derivative financial instruments	-	-	-	253	(95)	158	(185)	69	(116)
Currency translation adjustment	12	(17)	(5)	(508)	142	(366)	(437)	150	(287)
Other Comprensive Income (loss)	71	(43)	28	(353)	84	(269)	(622)	219	(403)

In 2003, realized losses of EUR 44 (net of EUR 27 tax benefits) on the settlement of a derivative financial instrument were reclassified into net loss (see Note 19).

16. PENSION SCHEME

The group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the group to the funds and amounted to EUR 484 (2003: EUR 565; 2002: EUR 640). At December 31, 2004, contributions amounting to EUR 59 (2003: EUR 5) were payable to the funds and are included in creditors.

17. STOCK-BASED COMPENSATION
A) STOCK OPTION PLAN

On August 7, 1998, the Company adopted a stock option plan ("Plan") under which employees and directors may be granted from time-to-time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Company's authorized but unissued ordinary shares. On May 16, 2002 the shareholders of the Company approved a resolution increasing the maximum amount of stock options which may be granted by the company to 15%, after issue, of the Company's issued share capital. At December 31, 2004, 15%, after issue, of the Company's issued share capital amounted to 8,129,811 shares. Stock options are granted with an exercise price not less than the quoted price at the date of grant. Stock options have terms of ten years and vest over periods of one to five years from the date of grant.

The fair value of all grants in the three-year period ended December 31, 2004 is estimated using the Black-Scholes option pricing model. Expectations of early exercise are accounted for within the average life of the options. The following weighted-average assumptions were used for stock option grants for the years ended December 31, 2004, 2003 and 2002.

	2004	2003	2002
Expected dividend yield	0%	0%	0%
Expected volatility	80%	74%	106%
Risk free interest rate	3.4%	3.4%	3.7%
Expected life (in years)	5.0	3.8	5.0
Weighted average share price	3.70	3.37	2.33
Weighted average exercise price	3.70	3.37	2.33
Weighted-average fair value of options granted (in EUR)	2.44	2.21	1.83

Stock option plan activity for the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004		2003		2002	
(prices in EUR)	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED EXERCISE
Outstanding at beginning of year	3,412,270	2.32	2,634,382	3.62	2,672,506	3.
Granted	108,960	3.70	2,050,180	3.37	124,060	2.
Exercised	(64,648)	0.44	(76,828)	0.52	(79,174)	0.
Forfeited	(157,176)	3.48	(204,004)	6.21	(83,010)	9.
Cancelled	-	-	(991,460)	7.29	-	-
Outstanding at end of year	3,299,406	2.34	3,412,270	2.32	2,634,382	3.
Options exercisable at year end	1,827,076	1.53	1,013,356	0.70	1,217,402	3.

The weighted average share price at the date of exercise of options was EUR 3.23 in the year ended December 31, 2004.

In April 2003, the Company's board of directors approved a resolution giving employees the right to cancel their options granted in 2000, 2001 and 2002. Employees elected to cancel a total of 991,460 options with a weighted average exercise of EUR 7.29. In November 2003, approximately 2.0 million options were granted at an exercise price equal to fair value (at that date) of EUR 3.45 per share.

The following table summaries information about stock options outstanding at December 31, 2004:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 2004	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 2004	WEIGHTED-AVERAG EXERCISE PRICE
EUR 0.32 - 2.15	1,345,086	5.0	0.70	1,254,622	0.64
EUR 3.00 - 8.00	1,954,320	8.7	3.47	572,454	3.48
EUR 0.32 - 8.00	3,299,406	7.2	2.34	1,827,076	1.53

B) EMPLOYEE STOCK PURCHASE PLAN

On March 26, 1998, in connection with the acquisition of the Company, the Company and its then majority owner, Apax Partners, adopted a Subscription and Shareholders Agreement under which employees and directors were invited at the discretion of the Board, to purchase up to 3,456,890 ordinary shares of the Company from Apax Partners or an established Employee Benefit Trust. The purchase price of the shares was equal to their estimated fair value on the date the employee or director subscribes for those shares. During the first quarter of 1999, the Trust acquired the remaining 668,800 ordinary shares from Apax Partners, which had not been sold to employees or directors, for purposes of distributing them to employees under the Employee Stock Purchase Plan or for distribution in connection with the exercise of employee stock options.

On September 24, 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at EUR 0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees. These shares are legally issued and outstanding, but are not considered issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

At December 31, 2004, the Trust continued to hold 2,001,559 shares, equaling the remaining balance of the acquired 668,800 shares and the 2,000,000 shares acquired in 2004 (see note 15).

18. COMMITMENTS

The Company leases design software, all of its office facilities, office and test equipment, and vehicles under operating leases. Total rentals under operating leases, charged as an expense in the statement of operations, amounted to EUR 7,780, EUR 7,581 and EUR 7,229 for the years ended December 31, 2004, 2003 and 2002, respectively.

Future minimum lease payments under rental and lease agreements, which have initial or remaining terms in excess of one year at December 31, 2004 are as follows:

(in thousands of EUR)	OPERATING LEASES
2005	8,148
2006	6,629
2007	6,399
2008	6,429
2009	3,297
Thereafter	316
Total	31,218

At December 31, 2004, the Company had an unused short-term credit line of EUR 12,782. There are no amounts outstanding under this credit line at December 31, 2004.

19. FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

A) USE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Company's sales are primarily denominated in Euros and US dollars whereas purchases of raw materials, manufacturing services and the use of design software are primarily denominated in US dollars, whereas other costs and expenses such as salaries and other overhead costs are denominated in Euro, GBP and US dollars. In order to manage these foreign currency exchange risks, the Company attempts to match cash inflows and outflows (sales with supply costs) in the same currency, primarily the US dollar. In situations where the Company is not able to effectively match cash inflows and outflows in the same currency, management considers the use of derivative financial instruments. As a matter of policy, the Company does not engage in derivatives trading, derivatives market-making or other speculative activities.

To hedge existing foreign currency exposure related to a $20 million deposit (see Note 11), the Company purchased foreign currency forward contracts in 2000 to effectively change the US Dollar deposits into Euro (EUR 21,680) upon the expected return of the deposit as of December 31, 2003. These deposits were refunded to the Company in October 2003. Upon receipt of the deposit, the Company settled its currency hedging position related to this deposit and recognized a loss of EUR 71 in the consolidated statement of operations.

In the fourth quarter of 2003, the Company entered into derivative financial arrangements with a bank (the "counterparty") that obligates the Company, if directed to do so by the counterparty, to purchase a total of $3,611 during the first half of 2004 at euro-dollar exchange rates ranging from 1.22 to 1.24.

These arrangements do not qualify for hedge accounting treatment. Accordingly, the fair value of these derivative financial instruments, which are based on a Black-Scholes pricing model, are recognized on the balance sheet and the changes in fair value are recognized in earnings. At December 31, 2003, these transactions resulted in a net unrealized loss of EUR 78 recognized in earnings.

B) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the price at which one party would assume the rights and /or duties of another party.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	DEC 31, 2004		DEC 31, 2003	
(in thousands of EUR)	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial instruments (other than derivative instruments)				
Cash and cash equivalents	13,977	13,977	8,109	8,109
Marketable securities	17,542	17,542	44,900	44,900
Deposits	194	194	183	183
Derivative instruments (currency contracts) Current liabilities	-	-	78	78

20. SEGMENT REPORTING

The Company has one operating segment, which is the design and supply of semiconductor chips. The Company delivers its products to various market sectors and generates a substantial portion of its revenue from the wireless communications market; 78%, 75% and 71% of total revenues in the years ended December 31, 2004, 2003 and 2002, respectively.

Revenues by market sector consisted of the following:

	2004	2003	2002
Wireless communication	90,617	69,849	54,715
Automotive	11,898	7,896	6,074
Industrial	13,529	15,148	16,315
	116,044	92,893	77,104

Revenues are allocated to countries based on the location of the shipment destination:

	2004	2003	2002
Germany	47,719	45,395	31,478
France	1,936	4,532	9,348
Other European countries	14,931	10,438	11,698
China	19,738	18,198	13,006
Other Asian countries	22,351	6,695	5,154
Other countries	9,369	7,635	6,420
	116,044	92,893	77,104

Following are the net carrying values of investments in property, plant and equipment by geographic location:

	DEC 31, 2004	DEC 31, 2003
Property, plant and equipment		
Germany	20,675	19,634
Japan	92	176
United Kingdom	189	358
USA	282	422
	21,238	20,590

21. TRANSACTIONS WITH RELATED PARTIES

Timothy Anderson, a member of the Company's Board of Directors, is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as the Company's legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered were EUR 212, EUR 162 and EUR 268 in 2004, 2003 and 2002, respectively.