Dialog Semiconductor
Annual Report 2000

Intelligence designed to perfection

Dialog Semiconductor Annual Report 2000

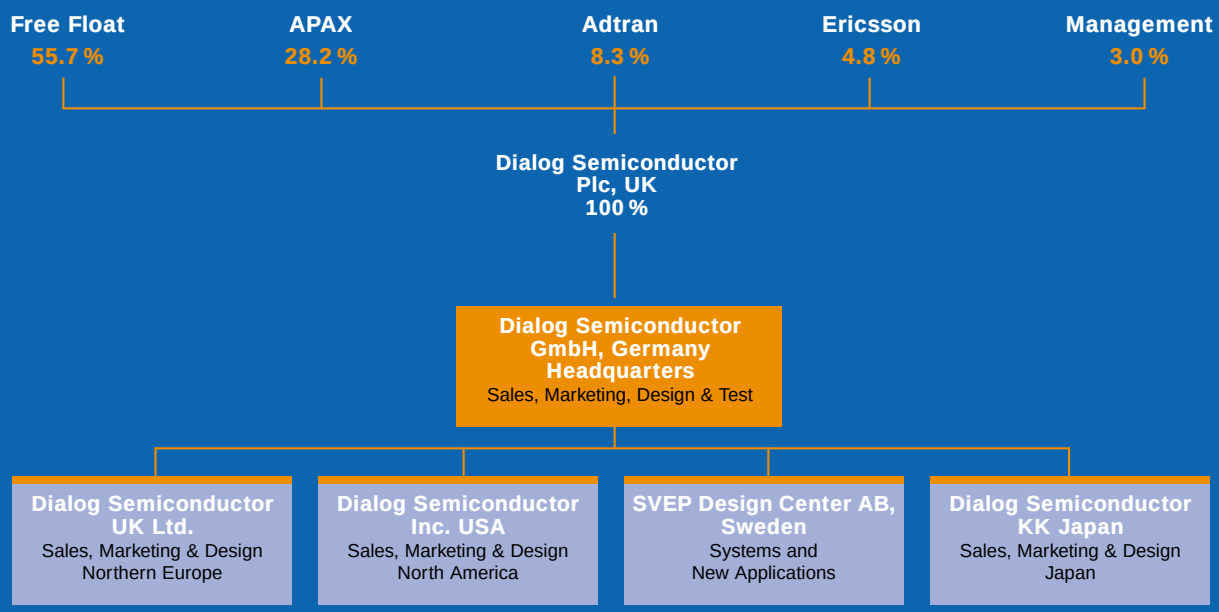
Dialog
Semiconductor

Dialog Semiconductor Plc – Selected Financial Data

(in thousands of €)	2000	1999	1998[1)]
Revenues	214,459	87,246	44,478
EBITDA	49,177	15,351	7,855
EBIT (operating profit)	38,400	11,566	5,311
Net income	26,557	6,680	2,372
Cash flow from operations[2)]	18,072	(907)	7,124
Shareholders' equity	199,194	68,611	3,036
Total assets	247,423	90,864	31,920
Redeemable preference shares	–	–	17,120
Capital expenditure	39,024	14,487	3,273
Research and development	22,898	11,108	6,656
Basic earnings per share[3)]	0.62	0.16	0.04
Number of shares in thousands (Dec. 31)	44,069	42,069	34,568
Employees (at December 31)	268	142	105

[1)] 1998 information is presented on a pro forma basis (unaudited) excluding the acquired in-process technology charge of € 9,300
[2)] In 2000 excluding advance payments to suppliers of € 23,201.
[3)] Earnings per share information for the fiscal year ended December 31, 1998, is on a pro forma basis assuming that the weighted average shares outstanding for the period from March 1, 1998 to December 31, 1998 were also outstanding for the fiscal year ended December 31, 1998.

Overview of the Group structure



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Management Board

Roland Pudelko
Chief Executive Officer and President (48)
joined Dialog Semiconductor in 1989 as managing director and has served as Executive Director, CEO and President since March 1998. He has 23 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 world-wide design and engineering. Mr. Pudelko has a diploma in communication technologies from the vocational college (Fachhochschule) of Esslingen. He is also the managing director of Dialog Semiconductor GmbH and our other consolidated subsidiaries.

Gary Duncan
Vice-President, Operations (45)
joined Dialog Semiconductor in October 1987. He obtained a Higher National Certificate in electronics and mathematics in 1978 from Plymouth Polytechnic and is a chartered engineer. Before joining Dialog Semiconductor he held various senior engineering and management positions at Plessey and ES2 in quality and production, device engineering, design software and marketing.

Peter Hall
Vice-President, IT and Quality (49)
joined Dialog Semiconductor in July 1987. He obtained his BSc (Honours) in electrical and electronic engineering in 1974 from the University of Newcastle upon Tyne and his MSc in digital techniques in 1977 from the University of Edinburgh. Before joining Dialog Semiconductor he held various management and engineering positions at STC Semiconductors and MEM in Switzerland.

Martin Klöble
Vice-President, Finance and Controlling (41)
joined Dialog Semiconductor on July 1, 1999. 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 (Wirtschaftsprüfer) and in the United States (CPA). Before joining Dialog Semiconductor he worked with KPMG and was appointed a partner at the beginning of 1999.

Richard Schmitz
Vice-President, Engineering (44)
joined Dialog Semiconductor in 1989. He received a diploma in engineering for communications electronics in 1983 from the vocational college (Fachhochschule) in Trier. Prior to joining Dialog Semiconductor, he held various design-related positions in Hewlett Packard's instruments division in Böblingen and at the Institute for Microelectronics, Stuttgart.

Letter to our Shareholders

Dear Shareholders,

2000 was again a year of significant growth. With revenues increasing by 146 % to € 214.5 million, Dialog Semiconductor Plc strongly outperformed the overall market growth for mobile handset shipments in 2000 (50 - 60 %) and the worldwide semiconductor growth in 2000 (30 - 35 %). We were able to build on our strong position as a market leader of mixed signal ASICs for the wireless handset industry. EBIT margin rose significantly to 18 % from 13 % due to the continuing benefits of scale from the Company's business model. A key success factor is our scaleable fabless operation where we outsource wafer manufacturing and assembly of our ASICs to worldclass contract manufacturers. This strategy results in a stable gross margin and differentiates us from the cyclical semiconductor industry. Our gross margin improved slightly over last year from 35.0 % to 35.2 %. Revenues outside of Europe increased to 27 % in 2000 from 13 % of total revenues in 1999. Regional growth was particulary strong in Asia where revenues rose more than 600 % over last year to € 41 million. Net income increased by 300 % to € 26.6 million, a record for the Company, and basic earnings per share of € 0.62 increased 287 % from 1999. The record results for the fiscal year 2000 are also the outcome of our strong cost management and lean overhead structure. Cash generated from operations was € 18.1 million, excluding advance payments for future wafer supplies.

Our position entering 2001.
In line with the trend in the mobile handset industry of increased outsourcing of manufacturing, Ericsson announced on January 6, 2001 its intention to outsource its handset manufacturing operation to Flextronics. We already enjoy strong relationships with contract manufacturers such as Solectron, Elcoteq and Flextronics, and we anticipate a smooth transition towards a closer collaboration with Flextronics. As a result of development activities in 2000, we have been establishing a technology and design-in base to meet the demands of our customers in 2001. With an eye to the demands of current and future systems, research and development has been undertaken in both optimizing existing designs and addressing the requirements of the new 2.5 and 3G systems.

Focus on advanced applications.
As the data transmission rates in mobile networks increase, new applications such as MP3 music playback and video telephony will become more widespread. These applications place new demands on the audio processing within mobile terminals. We have already sampled advanced audio designs incorporating high resolution codecs, targeted at delivering improved voice quality and hi-fi bandwidth for use in these applications.

The efficient use of battery power in mobile phones continues to be a key operating parameter, while advances in basic silicon techniques are reducing powerconsumption per function, the complexity per function and the number of functions within the phone is increasing. This dictates the need for more advanced, complex and efficient power management which is particularly true for Third Generation systems, where dual mode operation with existing standards such as GSM will be an initial requirement until significant network coverage is established. To meet these challenges we have taken the approach of both evolving current proven designs to offer a low risk path to upgrading performance and also proactive development of new circuits to provide significant advances targeting key performance parameters. With this approach we are confident that we will be present in early 3G handsets on the market as a number of these designs are in development or are already sampled with potential users.

With unparalleled experience in integrating power management solutions in cellular applications, Dialog Semiconductor has worked towards more advanced solutions employing higher levels of integration and has recently brought together both the power management and audio functions into a single device. Such developments are very challenging particularly in the analog domain, however our wealth of expertise and experience has resulted in a number of successful devices being developed for 2001 product applications.

Kirchheim/Nabern, March 2001

Roland Pudelko
CEO & President


Multimedia Message
Wednesday, 07.02.2001
Hi Mom!
I hope you will come back from work early today. I would like to visit Grandma. Please call me!
Sally :-)

Our Shares

Considerable volatility on the international stockmarkets.

The stockmarkets at home and abroad were marked in the year 2000 by record growth on the one hand and substantial share price losses on the other. The German stock index, the DAX, declined by 7.5 % compared with the end of the previous year. After an eventful year, the Nemax All Share Index, which covers all the shares traded on the Neuer Markt, closed down 40 % compared with the end of 1999. The value of the Neuer Markt doubled in the first quarter of 2000, to reach an historic high of 8559 points on March 10. In the first price slide, the index fell by the beginning of April to around 6000 points. The market then maintained this level until the middle of September. The Neuer Markt once again lost half of its market capitalization in the final quarter of 2000, closing the year at 2743 index points.

The US stockmarkets also finished the trading year 2000 negatively. The Dow Jones Index was 6.2 % lower than the previous year, and the Nasdaq Composite Index shed more than 39.3 %. The stock prices of the semiconductor and mobile phone manufacturers, which have a close correlation with Dialog Semiconductor, were extremely volatile.

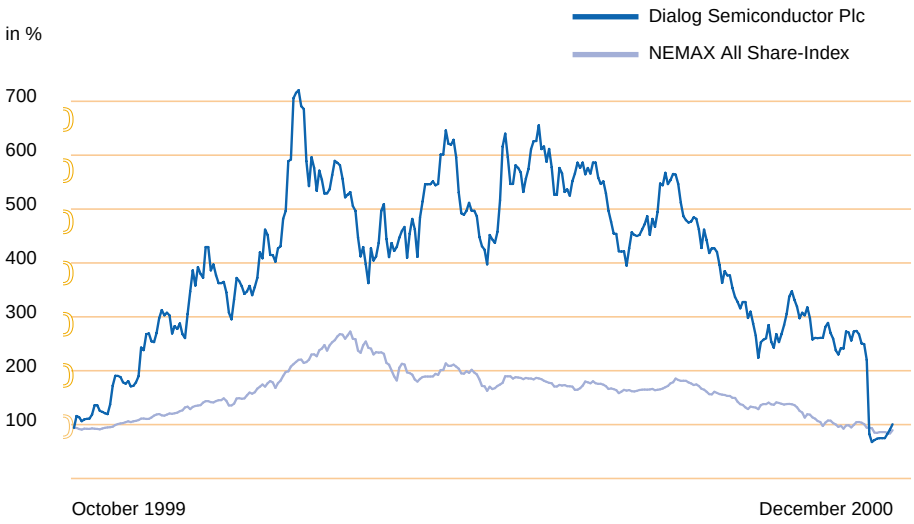
The Dialog Semiconductor shares.

The Dialog Semiconductor share price was unable to escape the trends and volatility of the overall market. After its strong performance in 1999, the year of the IPO, the share price started exceptionally well in 2000. The share price achieved a high for the year of € 75.25 on February 11. Following this sharp upwards trend, which had been maintained since Dialog Semiconductor's IPO in 1999, the share price became more volatile during the remainder of the first quarter, with a comparatively weak to negative performance. The shares only recovered significantly again in the second quarter, and almost repeated the first quarter high at the end of April and in mid-June.

A share split was approved at the AGM on May 18, which became effective on May 31, whereby, 23,954,960 authorized shares with a nominal value of £ 0.20 per share were split 2 for 1 into 47,909,920 ordinary shares with a nominal value of £ 0.10. This boosted the share price.

As the year continued, the share price maintained a relatively high level, with comparatively moderate price fluctuations. The shares lost ground from September onwards reflecting the price weakness in almost all segments, and particularly in the growth-oriented stock exchanges in Europe and the USA. However, the shares still largely managed to remain ahead of the performance of the Nemax All Share Index. Following Dialog Semiconductor's announcement on December 15 that the analysts' earnings forecasts for the year 2001 would have to be reduced, the share price dropped by more than 60 %. The Dialog Semiconductor shares closed the year 2000 at a price of € 10.20. The shares lost disproportionate value compared with the reduction in the earnings forecasts, and, with strong growth potential for the year 2002, we believe that the current share price conceals strong investment potential.

Share price movement compared to NEMAX All Share-Index.



Successful secondary Nasdaq offering completed.

On June 29, 2000, Dialog Semiconductor successfully listed on Nasdaq at € 57.50 per share. Since then, Dialog Semiconductor shares have been quoted on Nasdaq under the trading symbol DLGS. Our share capital was increased by the issue of 2,000,000 new shares, which resulted in net proceeds available to the company of € 105.6 million. We have spent approximately € 62 million (including € 10.6 million in 2001) to facilitate capacity expansion and secure technological influence with silicon suppliers in Asia and Europe to meet our anticipated growth. We also invested € 33.3 million of the net proceeds to purchase test equipment to expand our test capacity. Additionally, we repaid € 4.4 million which had been drawn on our credit line to finance the acquisition of 90.8 % of the shares of SVEP Design Center AB, a Swedish systems design company.

The secondary offering significantly increased our shareholder base. Our current free float is approximately 55 %.

Extensive investor relations activities for institutional and private investors.

Dialog Semiconductor engaged in significant investor relations work throughout the year ended December 31, 2000. Investor relations are an important component of our information policies and corporate strategy, and responsibility has therefore been assigned directly at board level. Our investor relations program includes providing continuous information to existing and potential investors by means of a comprehensive quarterly report and extended reporting on our homepage at www.dialog-semiconductor.com. In addition, we meet with institutional investors and analysts at regular conferences and international roadshows.

Investor relations activities in 2000.

Date	Location	Event
February 16	Press conference Frankfurt	Announcement of 1999 results
April 11	Conference Call	Release of first quarter results
May 18	London	Annual General Meeting
June 15 - 28	Europe, USA	“Secondary” Roadshow
June 20	Vienna	Deutsche Bank European Technology Conference
June 28	Washington	Nasdaq listing
July 6 - 7	London	Morgan Stanley European Emerging Growth Conference
July 25 - 27	San Francisco	Robertson Stevens Semiconductor Conference
July 26	Conference Call	Release of second quarter results
August 22 - 23	Stockholm	Morgan Stanley 3G Conference
September 11 - 12	Lisbon	Goldman Sachs Wireless Technology Conference
October 5 - 7	Ireland	Goldman Sachs High Technology Conference
October 25	Conference Call	Release of third quarter results
October 25 - 26	Phoenix	Merrill Lynch European Semiconductor Field Trip
November 2 - 3	London, Paris	Morgan Stanley Roadshow
November 7 - 8	London	West LB Roadshow
November 13 - 16	Baltimore	Deutsche Bank Technology Conference
November 27	Frankfurt	DVFA Technology Forum
November 30	Vienna	Deutsche Bank Roadshow

and some further 35 meetings with investors or analysts and press interviews.

The interest of the financial community in Dialog Semiconductor increased further during the year ended December 31, 2000. The larger number of analysts from well-known banks, who published research reports on Dialog Semiconductor, underlines this greater interest.

Research analyst coverage.

Institution	Analyst
Areté Research	Brett Simpson; Jim Fontanelli
BancBoston Robertson Stephens, Inc	Arun Veerappan; Tore Svanberg
Deutsche Bank AG	Ben Lynch
Goldman, Sachs & Co.	Charles Elliott
Morgan Stanley Dean Witter & Co.	Stuart Adrian; Nicolas Gaudois
Société Générale	Marisa Baldo
Value Research	Michael Anschütz
WestLB Panmure	Dr. Karsten Iltgen
Julius Bär	Ingo Queiser
Crédit Agricole Indosuez Cheuvreux	Bernd Laux

Market Prices.

The following table shows, for the periods indicated, the highest and lowest closing market prices of our shares from the Neuer Markt (Xetra), EASDAQ and Nasdaq:

		2000		1999	
		High	Low	High	Low
Neuer Markt (DLG)	First Quarter	€ 72.50	€ 29.75	–	–
	Second Quarter	€ 65.95	€ 40.00	–	–
	Third Quarter	€ 59.00	€ 36.56	–	–
	Fourth Quarter	€ 37.95	€ 6.86	€ 43.25	€ 9.50
EASDAQ (DLGS)	First Quarter	€ 74.00	€ 30.50	–	–
	Second Quarter	€ 67.50	€ 41.00	–	–
	Third Quarter	€ 60.00	€ 36.00	–	–
	Fourth Quarter	€ 36.00	€ 6.50	€ 41.00	€ 9.52
Nasdaq (DLGS)	First Quarter	–	–	–	–
	Second Quarter	$ 50.25	$ 49.38	–	–
	Third Quarter	$ 54.88	$ 33.00	–	–
	Fourth Quarter	$ 32.88	$ 6.25	–	–
Average trading volume per day		**82,916**		**83,332**	

Principal Shareholders.

The following table sets out specified information with respect to the beneficial ownership of (1) any person known by us to be the beneficial owner of more than 3 % of our outstanding shares, and (2) all of our directors and executive officers as a group.

Name and Address	Number	Percent
Apax Partners	12,430,452	28.2
Adtran, Inc	3,645,624	8.3
Ericsson Radio Systems AB	2,101,554	4.8
All directors and executive officers as a group (9 persons) (1)	1,325,770	3.0
Free float (2)	24,565,530	55.7
Total	44,068,930	100.0

(1) Of the 1,325,770 shares held by the key management and members of our board of directors, Roland Pudelko holds 320,405 (0.73 %), Richard Schmitz holds 162,105 (0.37 %), Gary Duncan holds 162,105 (0.37 %), Peter Hall holds 162,105 (0.37 %), Martin Klöble holds 150,000 (0.34 %), Timothy Anderson holds 7,816 (0.02 %), Michael Risman holds 1,172 (0.00 %), Jan Tufvesson and his wife hold 165,062 (0.37 %) and Michael Glover and his immediate family hold 195,000 (0.44 %) in aggregate.

(2) Of which 5,333,666 shares (12.1 %) held by The Capital Group Companies Inc as notified on February 2, 2001, on behalf of discretionary clients.

Disclosure of interests.

The UK Companies Act 1985 requires that if a person becomes directly or indirectly interested in 3 % or more of any class of our issued shares, including shares held in the form of ADSs, that carry the right to vote at our general meetings, such person must notify us of this interest within two business days. After the 3 % threshold is exceeded, such person must notify us in respect of increases or decreases of 1 % or more.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Management Report

Economic Development in 2000

Worldwide.

The development of the economy in industrialized countries was marked in the year 2000 by a dynamic first half-year in almost all segments and an economic downturn in the second half of the year. This downturn, which continued until the end of the year, came about as a result of increasingly restrictive governmental monetary policies and the negative influence of the increase in oil prices. In particular, the economic slowdown in the United States had a considerable influence on the development of the global economy.

In Germany, gross national product ("GNP") grew, according to the calculations of the German Federal Statistical Office, at constant prices by 3.1 % in 2000 compared with the previous year. Consequently, economic growth in Germany was at its highest level since 1991 and twice as high as the average for the preceding 10 years. GNP at current prices increased by 2.7 % compared with the previous year. This lower figure compared with GNP at constant prices was mainly due to import prices, which increased considerably faster than export prices, due to the higher crude oil price and the decline in the exchange rate of the euro. National income, i. e. the sum of employee remuneration and business and investment income, went up in the year 2000 by 2.5 % to € 1.50 billion in Germany. The increase was therefore considerably greater than in 1999. The national income per inhabitant therefore increased by 2.4 % or € 18,300.

The Institute for the International Economy in Kiel expects the global economy to be noticeably weaker in 2001. It is forecasting an increase of 2.5 % in GNP at constant prices for industrialized countries, compared with 3.8 % in 2000. Consumer price inflation will be at a similar level, and unemployment will only decline moderately.

Our Market: Wireless Communication.

The year 2000 has seen continued growth in the wireless marketplace, with a 50 % increase in handset sales over the previous year to 413 million units shipped. The wireless marketplace continues to be the most active semiconductor application area, an equipment market valued at more than $ 100 billion, with a high semiconductor content spanning a range of technologies.

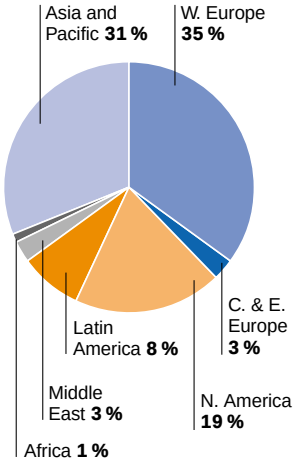
High penetration rates lead to higher replacement activities.

As the handset market matures, two separate market sectors are developing. Firstly in established markets, subscriber rates have exceeded 50 % in 2000, with many industrialized nations forecasting to exceed 70 % by 2002. With such high penetration rates, sales of handsets to new subscribers in these regions is slowing with a shift towards future sales dominated by replacement models where subscribers are upgrading their telephones. Generally the upgrade process is to phones with higher functionality and superior performance.

Countries experiencing economic development represent high demand in wireless communications.

Secondly in countries where previous socio-economic factors have delayed the introduction of mobile networks, these regions are now at the forefront of new subscriber growth due to latent demand, political repositioning and the continuing fall in equipment costs.

Growth in the Asian markets, particularly tapping the massive potential subscriber base in China, has meant that this region has seen the highest growth in subscribers and will continue to do so. It is predicted that by 2003 China will be the largest single market for cellphones.



Cellular shipments by region 2000

GSM continues to be the dominant standard in wireless communications.

GSM continued as the dominant digital technology worldwide, accounting for 61 % of all digital cellular handsets sold. Handset sales in all major systems grew by more than 50 %, with CDMA representing the next highest volume.

Significant advances were made in 2000 for data over cellular services, particularly for SMS (Short Messaging Service) and also WAP (Wireless Application Protocol). Currently more than 13 billion SMS messages are sent each month and sales of WAP enabled terminals have increased during the second half of 2000. These two non-voice applications have demonstrated that the cellular telephone is not just a voice communicator, but has the potential to provide a wide range of other services, many derived from the Internet. It is these services in particular which will encourage subscribers to trade up to higher functionality phones and will be the dominant source of new revenue streams for operators.

Following a high degree of optimism in the first half of the year, partly fuelled by the perceived strength of technological innovation and the market for wireless internet, the second half of the year saw a change in focus by many vendors from outright volume to maximising margins. This refocusing, together with possible delays in the implementation of GPRS, EDGE and Third Generation (“3G”) systems, has caused handset manufacturers to re-evaluate their product plans. This has led to them considering the development of a further generation of existing GSM designs, targeted at reducing manufacturing costs rather than the introduction of new features.

2000 was the year that lead wireless communications towards the next generation.

Launched in late 2000, the first of the new 2.5G mobile phone systems, GPRS offers significant improvements in data transfer rate in mobile networks (up to 115 Kb/s). This, coupled with ‘always on’ operation will make accessing mobile internet far easier than with current WAP solutions and will counter some of the negative market responses to WAP.

Another major market development in 2000 was the award of third generation operating licences, particularly in Europe. This was brought about by either competitive tender, with licences allocated to the highest bidder, or by a 'beauty contest' where licencees were chosen based on a set of criteria such as population coverage, quality of service and proposed services. The revenue commitments or operating conditions imposed upon licencees will necessitate that 3G systems are rolled out rapidly, starting commercial operation in Japan in 2001 and following in Europe from 2003 onwards. 3G will offer further increases in data bandwidth and will ultimately enable new services such as wireless videophones to be introduced.

3G systems are targeted to offer the market high quality, efficient, and easy-to-use wireless mobile multimedia services and will do this by supporting symmetrical and asymmetrical data transmission using circuit-switched and packet-switched services, such as Internet Protocol (IP) traffic. Real-time video will be possible through the networks supporting high data rates: (minimum) 144 kbit/s in all radio environments and 2 Mbit/s in low-mobility and indoor environments.

Beyond 2000 Cahners In-Stat Group predicts that more than 1 billion wireless handsets will be sold worldwide in 2003. In the U.S. alone, In-Stat estimates that more than 100 million handsets will be sold in 2002, up from 55.7 million in 1999. This explosion of growth will drive worldwide subscriber rates to 17 % of the population in 2004 and in many industrialized nations penetration will exceed 70 % by 2002. In-Stat expects that wireless handsets will be the most pervasive way of accessing the Internet within the next three years.

Outlook.

We believe that the market for semiconductors – especially ASIC applications for the wireless communications market – will continue to grow in the coming years. We expect a strong market in lesser-developed regions lacking or with an insufficient cable network infrastructure. In regions with established mobile communications services, the market will benefit from technological progress. The demand for replacement equipment will continue to grow as users replace their existing equipment with more powerful telephones. New capabilities will go beyond pure speech transmission. 3G systems will support multimedia and broadband data transmission. These capabilities include wireless Internet access via the WAP standard, MP3 playback possibilities or the Bluetooth Standard (now in the development phase). Since Mixed Signal-ASICs combine both analog and digital functions, they represent an excellent solution for the support of these new applications.

As previously announced on December 15, 2000, we anticipate that the first half of 2001 will be affected by the well documented changes in the wireless communication market and inventory correction by major wireless customers.

Dialog Semiconductor remains cautiously optimistic for the future and will expand its commitment to research and development. In 2000 research and development expenditures amounted to € 22.9 million, an increase of 106 % from € 11.1 million in 1999. The

company plans a further increase in research and development expense in 2001 of about 50 % over the 2000 level. Dialog Semiconductor has eight new products in development which will be incorporated into new advanced mobile handsets by four existing wireless customers, plus four products – not audio or power management – for new customers serving the wireless market. These developments reflect the company's established strategy of expanding its wireless customer base to reflect the changes in the worldwide wireless industry.

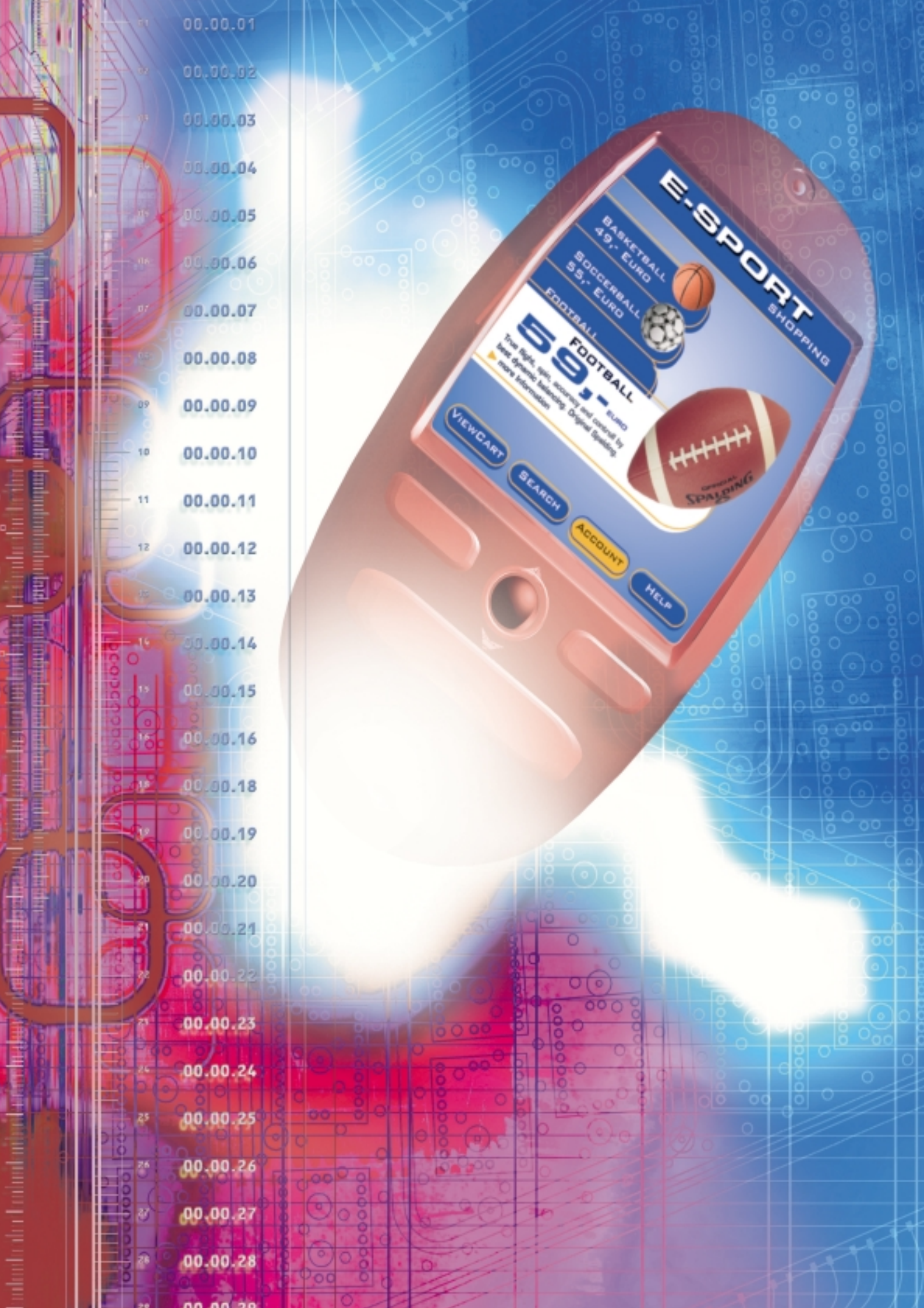
Risk factors.

Although we expect the wireless communications market to continue to grow during the near future, the rate of any growth may be influenced by numerous factors. These include, among others:

- national and regional regulatory environments
- general economic conditions
- advances in competing telecommunication and information technologies
- manufacturing capacity
- perceived health risks to mobile 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. Important risk factors are as follows:

- We derive a substantial portion of our revenues from a relatively small number of wireless communications manufacturers. Sales to our five largest customers accounted for 89 % of our revenues in 2000, 86 % of our revenues in 1999 and 79 % of our revenues in 1998.
- 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 which satisfy customers' desires, and to keep abreast of technological changes within the semiconductor industry generally.
- We outsource our silicon wafer fabrication to four principal foundries and have made advanced payments to foundries for future wafer deliveries. If we do not purchase the minimum quantities under the agreements, we could forfeit up to $ 20 million of our advanced payments.
- The rapid growth of our business has placed, and will continue to place, a significant strain on our management, operational, engineering and financial resources. We intend to selectively expand our global capabilities to provide greater levels of service and support to some of our key customers. Our ability to effectively manage this growth and expansion will require us to continue to:
  – implement and improve our operational, financial and management information systems
  – train, motivate and manage our employees, and
  – continue to develop, maintain and expand our production and supply relationships with selected silicon wafer fabrication facilities and assembly companies.


E-SPORT
SHOPPING
BASKETBALL
49,- EURO
SOCCERBALL
55,- EURO
FOOTBALL
FOOTBALL
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VIEWCART
SEARCH
ACCOUNT
HELP

Operating and Financial Review

Results of Operations

Forward-looking statements.

The 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, regulatory changes, technological development, globalization, levels of spending in major economies, the levels of marketing and promotional expenditures, actions of our competitors, employee costs, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

The following table sets forth historical and pro forma consolidated statements of income for the Company in thousands of Euros and as a percentage of revenues for the years indicated (1998 on a pro forma basis).

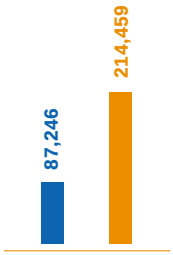
	Year ended December 31,					
	2000				**1998** (1) (unaudited pro forma)	
		%		**%**		**%**
Revenues	214,459	100.0	87,246	100.0	44,478	100.0
Cost of sales	(138,866)	(64.8)	(56,749)	(65.0)	(25,429)	(57.2)
Gross margin	**75,593**	**35.2**	**30,497**	**35.0**	**19,049**	**42.8**
Research and development	(22,898)	(10.7)	(11,108)	(12.7)	(6,656)	(15.0)
Selling, general and administrative	(11,644)	(5.4)	(6,586)	(7.6)	(6,125)	(13.8)
Amortization of goodwill and intangible assets	(2,651)	(1.2)	(1,237)	(1.4)	(957)	(2.1)
Acquired in-process research and development	–	–	–	–	(9,300)	(20.9)
Operating profit (loss)	**38,400**	**17.9**	**11,566**	**13.3**	**(3,989)**	**(9.0)**
Financial income (expense), net	4,567	2.1	(316)	(0.4)	(218)	(0.5)
Income taxes	(16,410)	(7.6)	(4,570)	(5.2)	(2,721)	(6.1)
Net income (loss)	**26,557**	**12.4**	**6,680**	**7.7**	**(6,928)**	**(15.6)**

(1) The pro forma statement of income data for the year ended December 31, 1998 gives effect to our acquisition of our predecessor business as if this acquisition had occurred on January 1, 1998. We calculated the pro forma statement of income data as follows:
- We combined the results of operations of our predecessor business for January and February, 1998 with the results of our operations for the ten months from March through December, 1998.
- We added €152,000 to amortization of goodwill and intangible assets to show the amount of amortization expense we would have had if the acquisition had occurred on January 1, 1998.

Year Ended December 31, 2000 Compared to the Year Ended December 31, 1999

Revenues.

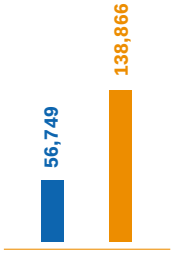
Revenues were € 214.5 million for the year ended December 31, 2000 compared with € 87.2 million for the year ended December 31, 1999. This represents a 146 % increase. This increase in revenues was primarily due to greater sales volumes resulting from an industry-wide increase in demand for mobile communications products combined with a variety of new designs in production in response to customer requirements. The unit growth in mobile handset volumes results from subscriber growth and accelerating replacement demand.



Revenues

Cost of Sales.

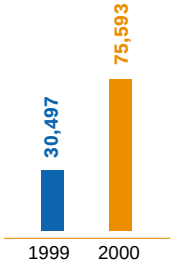
Cost of sales consists of the costs of outsourcing production and assembly, personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales increased from € 56.7 million for the year ended December 31, 1999 to € 138.9 million for the year December 31, 2000 in line with significantly increased production volumes. Cost of sales as a percentage of revenues decreased slightly during this period from 65.0 % for the year ended December 31, 1999 to 64.8 % for the year ended December 31, 2000.



Cost of sales

Gross Margin.

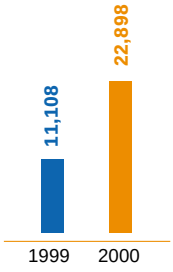
Gross margin increased from € 30.5 million for the year ended December 31, 1999 to € 75.6 million for the year ended December 31, 2000. As a percentage of revenues, gross margin increased slightly from 35.0 % for the year ended December 31, 1999 to 35.2 % for the year ended December 31, 2000 due to improved yields in the production process of new products.



Gross margin

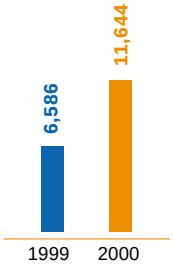
Research and Development.

Research and development expenses increased 106 % from € 11.1 million for the year ended December 31, 1999 to € 22.9 million for the year ended December 31, 2000. As a percentage of revenues, however, research and development expenses decreased from 12.7 % for the year ended December 31, 1999 to 10.7 % for the year ended December 31, 2000. The decrease in research and development expenses as a percentage of revenues resulted from the proportionately greater revenue base. The absolute increase in research and development expenses reflected the demand from key customers for us to devote further resources to assist in the development of new products for them and our own strategic research and development. We increased research and development headcount from 76 at December 31, 1999 to 145 at December 31, 2000.



Research and development

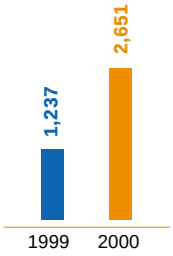
All in thousands of €



Selling, general and administrative

Selling, General and Administrative.

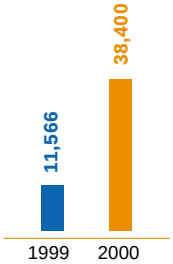
Selling, general and administrative expenses consist primarily of salaries, travel expenses and costs associated with advertising and other marketing efforts, and personnel and support costs for our finance, human resources, information systems and other management departments. Selling, general and administrative expenses increased 76 % from € 6.6 million for the year ended December 31, 1999 to € 11.6 million for the year ended December 31, 2000. The absolute increase in selling, general and administrative expenses reflected higher costs incurred resulting from additional sales and administrative personnel, increased IT systems support and legal and accounting expenses as a public company. We increased sales and administrative headcount from 29 at December 31, 1999 to 40 at December 31, 2000. As a percentage of revenues, selling, general and administrative expenses decreased from 7.6 % for the year ended December 31, 1999 to 5.4 % for the year ended December 31, 2000 primarily due to the proportionately greater revenue base.



Amortization of goodwill and intangible assets

Amortization of Goodwill and Intangible Assets.

Amortization of goodwill and intangible assets for the year ended December 31, 1999 was € 1.2 million and for the year ended December 31, 2000 was € 2.7 million. In both cases, the amortization related primarily to the goodwill and other intangible assets recorded as part of the acquisition of the Dialogue Semiconductor activities of Daimler-Benz AG on March 1, 1998, our predecessor business. In addition, in 2000 amortization includes the rights of a 16 bit microprocessor core and other software as well as amortization of goodwill arising from the acquisition of SVEP Design Center AB. Goodwill recognized in connection with the acquisitions is being amortized over the expected period of benefit ranging from 7 to 15 years.



Operating profit

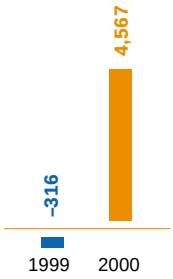
Operating Profit.

We reported an operating profit of € 11.6 million for the year ended December 31, 1999 and € 38.4 million for the year ended December 31, 2000. This 231 % increase in operating profit was primarily due to greater sales volumes in 2000, which were partially offset by higher research and development expenses and to a lesser extent, by higher selling, general and administrative expenses.

All in thousands of €

Financial Income, net.

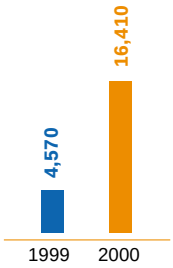
Financial income, net consists primarily of interest income from our investments (primarily short-term deposits), interest expense on our short-term borrowings, and foreign currency transaction gains and losses. Financial income, net increased from € 0.3 million of expenses for the year ended December 31, 1999 to € 4.6 million of income for the year ended December 31, 2000. This increase is primarily due to recognized foreign exchange gains from the period-end valuation of foreign currency receivables and payables and interest income on cash balances following our secondary offering in June 2000.



Financial income, net

Income Taxes.

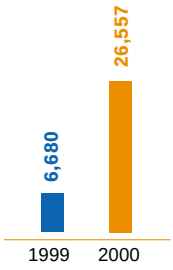
Income tax expense was € 4.6 million for the year ended December 31, 1999 or an effective tax rate of 37.6 % (before amortization of goodwill and other intangible assets). For the year ended December 31, 2000, income tax expense amounted to € 16.4 million or an effective tax rate of 37.1 % (before amortization of goodwill and other intangible assets).



Income taxes

Net Income.

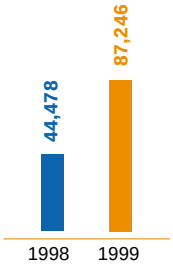
For the reasons described above, we reported net income of € 6.7 million for the year ended December 31, 1999 compared with net income of € 26.6 million for the year ended December 31, 2000.



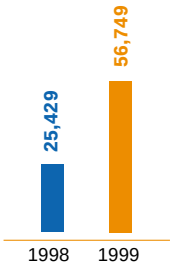
Net income

All in thousands of €

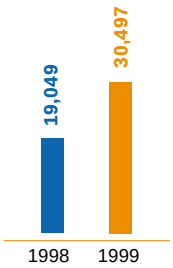
Year Ended December 31, 1999 Compared to Pro Forma 1998



Revenues



Cost of sales



Gross margin

All in thousands of €

Revenues.

Revenues were € 87.2 million for the year ended December 31, 1999 compared with pro forma 1998 revenues of € 44.5 million. This represents a 96 % increase. This increase in revenues in 1999 was primarily due to greater sales volumes resulting from an industry-wide increase in demand for mobile communications products combined with a variety of new designs in production in response to customer requirements. The growth in demand for mobile communications products resulted from an increasing number of first time users due to more affordable rates and an increasing need for the newer generation of smaller and more powerful replacement systems. We have benefited because the products of our key customers were in high demand. The gains in volumes were partially offset by lower prices demanded from existing customers as they increased the size of their orders and as designs matured.

Cost of Sales.

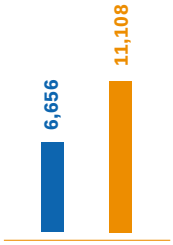
Cost of sales increased from € 25.4 million for the pro forma year ended December 31, 1998 to € 56.7 million for the year ended December 31, 1999. Cost of sales as a percentage of revenues increased during this period from 57.2 % for the pro forma year ended December 31, 1998 to 65.0 % for the year ended December 31, 1999. The higher cost of sales as a percentage of revenues in 1999 resulted from lower per unit sales prices as order sizes increased and as designs matured.

Gross Margin.

Gross margin increased from € 19.0 million for the pro forma year ended December 31, 1998 to € 30.5 million for the year ended December 31, 1999. As a percentage of revenues, however, gross margin decreased from 42.8 % for the pro forma year ended December 31, 1998 to 35.0 % for the year ended December 31, 1999. This lower gross margin as a percentage of revenues was due to the lower unit prices demanded by customers as order sizes increased and designs matured and to a lesser extent to higher cost of sales due to start up costs incurred in connection with the launch of new products.

Research and Development.

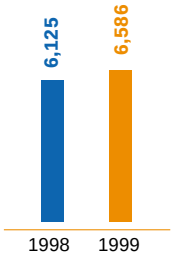
Research and development expenses increased 66.9 % from € 6.7 million for the pro forma year ended December 31, 1998 to € 11.1 million for the year ended December 31, 1999. As a percentage of revenues, however, research and development expenses decreased for this period from 15.0 % for the pro forma year ended December 31, 1998 to 12.7 % for the year ended December 31, 1999. The decrease in research and development expenses as a percentage of revenues resulted from proportionately greater revenue base. The absolute increase in research and development expenses reflected the increased demand from key customers for us to devote further resources to assist in the development of new products for them. We increased research and development headcount from 53 at December 31, 1998 to 76 at December 31, 1999.



Research and development

Selling, General and Administrative.

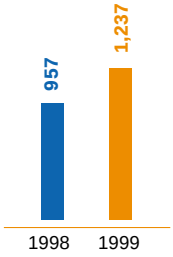
Selling, general and administrative expenses increased 7.5 % from € 6.1 million for the pro forma year ended December 31, 1998 to € 6.6 million for the year ended December 31, 1999. As a percentage of revenues, selling, general and administrative expenses decreased from 13.8 % for the pro forma year ended December 31, 1998 to 7.6 % for the year ended December 31, 1999. These decreases are primarily due to lower selling expenses as we began to hire our own salesforce.



Selling, general and administrative

Amortization of Goodwill and Intangible Assets.

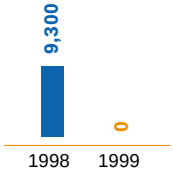
We recorded amortization expense of € 1.0 million for the pro forma year ended December 31, 1998 and € 1.2 million for the year ended December 31, 1999. In both cases, the amortization related primarily to the goodwill and other intangible assets recorded as part of the acquisition of our predecessor business. Goodwill recognized in connection with the acquisition is being amortized over 15 years, the expected period of benefit.



Amortization of goodwill and intangible assets

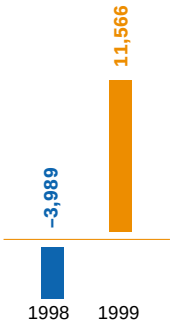
Acquired In-process Research and Development.

In connection with the acquisition on March 1, 1998, we allocated € 9.3 million of the purchase price to acquired in-process technology, which we expensed.

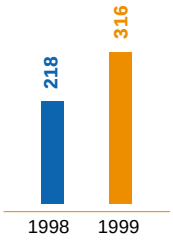


Acquired in-process research and development

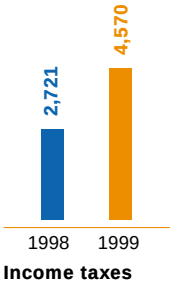
All in thousands of €



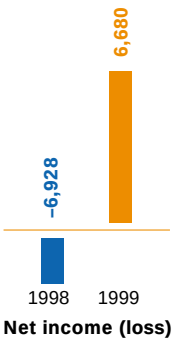
Operating profit (loss)



Financial expense, net



Income taxes



Net income (loss)

All in thousands of €

Operating Profit (Loss).

We reported an operating loss of € 4.0 million for the pro forma year ended December 31, 1998 compared with an operating profit of € 11.6 million for the year ended December 31, 1999. The increase in operating profit in 1999 was primarily due to greater sales volumes in 1999 and to the non-recurring charge relating to acquired in-process technology in 1998. We expect sales volumes to increase in future periods.

Financial Expense, net.

Financial expense, net increased from expenses of € 0.2 million for the pro forma year ended December 31, 1998 to expenses of € 0.3 million for the year ended December 31, 1999. This increase in financial expense, net in 1999 is primarily due to interest expense on short-term borrowings and recognized foreign exchange losses from the year-end valuation of foreign currency receivables and payables which more than offset an increase in interest income on cash balances following our initial public offering in October 1999.

Income Taxes.

We recognized income tax expense of € 2.7 million for the pro forma year ended December 31, 1998 or an effective tax rate of 45.4 % (before amortization of goodwill and other intangible assets and the charge for acquired in-process technology). For the year ended December 31, 1999, income tax expense amounted to € 4.6 million or an effective tax rate of 37.6 % (before amortization of goodwill and other intangible assets). This decrease in the effective tax rate for the year ended December 31, 1999 reflects the fact that we applied the German distributed corporate income tax rate of 30 % to 1999 earnings of our German subsidiary compared to the undistributed corporate income tax of 45 %, which applied in 1998. We plan to distribute the earnings of our German subsidiary to the parent Company in future periods.

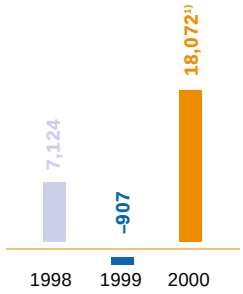
Net Income (Loss).

For the reasons described above, we reported a net loss of € 6.9 million for the pro forma year period ended December 31, 1998 compared with net income of € 6.7 million for the year ended December 31, 1999.

Liquidity and Capital Resources

Cash Flows.

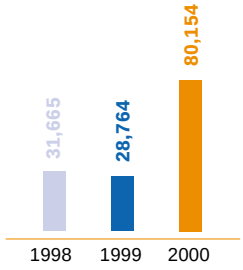
Cash used for operating activities was € 5.1 million for the year ended December 31, 2000 and € 0.9 million for the year ended December 31, 1999. In the years 1999 and 2000, we used cash to finance our growing working capital requirements, primarily higher accounts receivable and inventory levels as our sales volumes increased. Because our revenues continued to grow by more than 100 % during 2000, our accounts receivable and accounts payable increased significantly. Excluding advance payments of € 23.2 million due under the Wafer Supply Agreements described below, cash provided by operating activities was € 18.1 million. The Company's cash from operating activities was sufficient to finance its working capital requirements in 1998.



Cash flow from operating activities

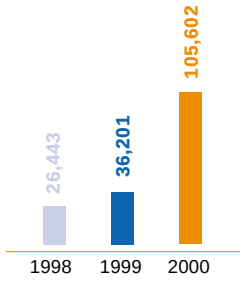
[1)] excluding advance payments to suppliers of € 23,201

Cash used for investing activities was € 80.2 million for the year ended December 31, 2000, € 28.8 million for the year ended 1999 and € 31.7 million for the pro forma year ended December 31, 1998. Cash used for investing activities for the year ended December 31, 2000 consisted mostly of payments under the Wafer Supply Agreements described below of € 28.2 million, the purchase of test equipment and tooling (masks) of € 33.3 million, the acquisition of technology and design software of € 4.8 million, the acquisition of the remaining outstanding interest of SVEP Design Center AB for € 4.4 million and an additional capital contribution and loan to ESM Limited (ESM) of € 3.3 million. In 1999, we invested a total of € 12.2 million in cash to acquire a 19.47 % equity interest in, and make a loan to, ESM. In addition, in 1999 we invested € 14.5 million in property, plant and equipment, primarily new test equipment. In 1998, € 28.0 million in cash was used to pay for our acquisition of our predecessor business. See "Capital Expenditures and Investments". For more information on the loan to ESM, see Note 7 to the Audited Consolidated Financial Statements.



Cash used for investing activities

In July 2000, we received € 105.6 million in net cash proceeds from our secondary offering. Of this amount, we used approximately € 51.4 million to facilitate capacity expansion and secure technological influence with silicon suppliers in Asia and Europe to further accelerate our anticipated growth. We also used approximately € 33.3 million of our net proceeds to purchase test equipment to expand our test capacity. Additionally, we used € 4.4 million to repay a credit line with Baden-Württembergische Bank Aktiengesellschaft.

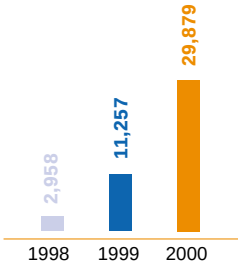


Cash provided by financing activities

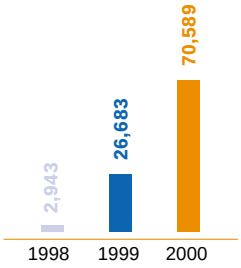
In October 1999, we received € 59.2 million in net cash proceeds from our initial public offering in Germany. Of this amount, we used € 19.6 million to redeem all of our then outstanding cumulative redeemable preference shares. We also used approximately € 12.2 million of the net offering proceeds to repay the short-term borrowings under a revolving line of credit with Deutsche Bank AG that we incurred in connection with our investment in ESM. We also used approximately € 3.4 million of the net offering proceeds to repay all outstanding amounts then due under an overdraft facility with Deutsche Bank AG.

All in thousands of €

In 1998, we received € 28.0 million in net cash proceeds from a private offering of securities to Apax Partners, Ericsson, Adtran and certain members of management. These contributions consisted of the subscription for approximately € 5.3 million of our ordinary shares, additional paid-in capital of € 5.3 million and the subscription for approximately € 17.5 million of cumulative redeemable preference shares. At the time of the acquisition, we also repaid € 3.8 million of our predecessor's indebtedness to DaimlerChrysler AG primarily through an increase in short-term borrowings.



Cash and cash equivalents



Working capital

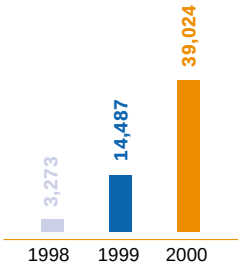
Liquidity.

Our primary sources of liquidity have been cash from operations as well as cash from the issuance of ordinary shares, cumulative redeemable preference shares (and from short-term borrowings). As of December 31, 2000 we had no long-term debt.

At December 31, 2000 we had € 29.9 million in cash and cash equivalents, and had a working capital surplus of € 70.6 million, as compared to € 11.3 million in cash and cash equivalents, and a working capital surplus of € 26.7 million at December 31, 1999 and € 3.0 million in cash and cash equivalents, and a working capital surplus of € 2.9 million at December 31, 1998.

We have short-term credit facilities with Deutsche Bank AG and Baden-Württembergische Bank Aktiengesellschaft totaling € 25.6 million that bear interest at a rate of EURIBOR + 0.75 % per annum. At December 31, 2000 we had no amounts outstanding under these facilities.

We believe the funding available from these and other sources will be sufficient to satisfy working capital requirements for the foreseeable future.



Capital expenditures

Capital Expenditures and Investments.

Our capital expenditures were € 39.0 million for the year ended December 31, 2000 compared to € 14.5 million for the year ended December 31, 1999 and € 3.3 million for the pro forma year ended December 31, 1998. Our capital expenditures in 2000, 1999 and 1998 consisted primarily of purchasing new or replacement test systems, tooling equipment, handling systems and other equipment in the ordinary course of our business. The significant increases in capital expenditures in 2000 and 1999 primarily reflect the purchase of 15 additional testing machines in 2000 and 5 in 1999. Also in 1999, in order to secure additional short-term supply of silicon, we purchased a minority stake in ESM, which was in receivership at the time. Our capital expenditures were financed principally with equity and short-term borrowings.

All in thousands of €

The investment in and loan to ESM in 1999 were financed by short-term borrowings under an additional revolving line of credit with Deutsche Bank AG. We used a portion of the net proceeds of our initial public offering to repay all outstanding amounts under this revolving facility.

In future periods, we may also make strategic investments or acquisitions in connection with our plans to expand our business internationally. On May 9, 2000 our board exercised our option to purchase the remaining 90.8 % interest that we did not already own in SVEP Design Center AB, a Swedish company focused on system design for advanced consumer electronic products in the wireless communication area. SVEP's system design expertise has been used by a number of blue-chip companies, such as Ericsson, to develop prototypes for a wide range of wireless telecommunications devices. The purchase price of the 90.8 % interest in SVEP was 36,320,000 Swedish Krona (approximately € 4.4 million). We have not otherwise entered into any binding contract to make any such strategic acquisition or investment.

Wafer Supply Agreements.

Under the terms of two wafer supply agreements between us and Chartered Semiconductor Manufacturing Pte., Ltd. ("CSM") and ESM, we maintain deposits of $ 20 million with CSM and $ 6 million with ESM. These deposits are classified in the balance sheet line item "Investments and long-term financial assets". Under the terms of these agreements, the deposits will guarantee access to certain quantities of sub-micron wafers through fiscal 2003 and several generations of process technologies ranging from current products at 0.60-micron and 0.35-micron and will extend down to, and beyond 0.18-micron technologies. In addition, we paid a total of $ 21.5 million as advance payments for future wafer deliveries. These advance payments are classified in the balance sheet under "Prepaid expenses". We made a further payment of $ 10 million to CSM in February 2001. If we do not purchase the minimum quantities under the wafer supply agreements, these advance payments will be forfeited for the value of the wafer shortfall up to an amount of $ 20 million. The outstanding balance of the advance payments will be refunded in proportion to our purchases of wafers from CSM and ESM, and at this time, we expect to have the entire advance payment refunded.

During 2000 to hedge our foreign currency exposure with respect to the $ 26 million of deposits with CSM and ESM, we purchased foreign currency forward contracts to effectively change the US dollar deposits into Euros.

Dividends.

Neither we nor our predecessor business paid dividends in the years ended December 31, 2000, 1999 and 1998. We do not currently plan to pay dividends in the foreseeable future.

Our Business

Our Strategy.

We are a supplier of types of silicon chips called mixed signal ASICs, or application specific integrated circuits, to leading handset manufacturers in the wireless communications market. We also supply mixed signal ASICs to the automotive and industrial markets. Our core competence is the design of complex analog and digital (mixed signal) integrated circuits and the ability to rapidly deliver qualified and tested products directly to the customer. We draw on our team of highly skilled engineers and an extensive library of ASIC design and know-how to respond to the demands of our customers. Utilizing our mixed signal expertise, we have focused on two areas of the mobile telephone market, power management and Audio CODEC, where these design skills are critical for success.

We have successfully developed a strategy of outsourcing the manufacture and assembly of our ASIC products. We have close relationships with leading semiconductor foundries who maintain state-of-the-art facilities and allow us to deliver high quality products without investing the substantial amounts of capital required for an in-house foundry. We control the whole production process and ensure quality through in-house testing of final product before delivery to the customer.

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.

Wireless Communication ASICs.

The mobile phone can be divided into five subsystems:

- The radio frequency subsystem is responsible for transmitting and receiving communication signals.
- The baseband, or digital control subsystem, uses a micro-controller and a digital signal processor to control the functioning of the phone and interacts with the operator of the phone through the display and keypad.
- The flash memory provides all software necessary for the operation of the phone and retains all user specific data.
- The Audio CODEC subsystem
- The power management subsystem

We have chosen to concentrate our efforts to date on Audio CODEC and power management ASICs and have successfully executed 32 designs in these two combined areas.

Audio CODECs.

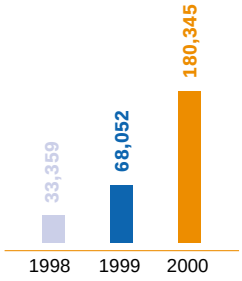
The Audio CODEC subsystem is the critical interface between the real world analog signals (such as the human voice) and the digital data processing inside the mobile phone. It is therefore the main contributor to the voice quality of a mobile phone. The Audio CODEC converts the digital signal received from the baseband subsystem into an analog signal that is fed to the loudspeaker and also converts the analog signal from the microphone into a digital code.

Power management.

The power management subsystem is responsible for the supply of power from the battery to the other subsystems and controls their power consumption. The basic function of the power management subsystem is to generate and monitor all required voltages and currents, to charge and monitor the battery and to interface with the SIM card.

Dialog Semiconductor benefits from growth in wireless communications.

The business sector of wireless communications – the major pillar of our Company – was exceptionally successful during 2000. Revenues increased by 165 % to € 180.3 million. Revenues from wireless communications applications accounted for 84 % of total revenues. The primary reason for this increase was the growth in demand for mixed signal ASICs. Dialog Semiconductor benefited from strong sales realized last year by all our customers. We provided mixed signal ASICs (power management and audio CODEC) to 100 million mobile telephones in 2000.

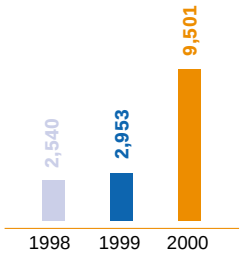


Revenues from Wireless communications

Other Applications.

Wireline ASICs.

High growth of investments in data and telecommunications infrastructure in 2000 provided strong sales growth in our wireline business sector. Revenues in this sector reached € 9.5 million representing 4 % of total revenues in 2000. The products we supply provide the interface between the transmission cable or telephone line and digital transmission equipment such as central office line cards, routers or multiplexers. The demand to “widen the pipe” to more users resulted in a 222 % growth in revenue as the development of new ASICs reached production. Dialog products now support T1, T3, HDSL, SDSL and G.shdsl transmission standards, embracing the latest high-speed transmission technologies.

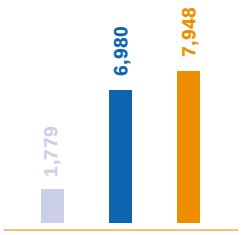


Revenues from Wireline ASICs

Our solutions are targeted at improving system efficiency, increasing transmission distance and lowering the cost of providing high-speed connections throughout networks.

With continually increasing uptake of Internet based communication in both business and home environments, the demand for higher speed, wider bandwidth networks will continue to grow driving the demand for the products we manufacture.

All in thousands of €



Revenues from Automotive ASICs

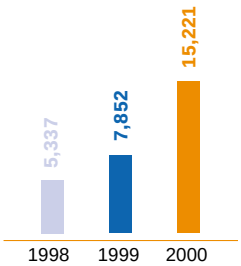
Automotive Asics.

To date, we have concentrated our efforts in the automotive electronics sector in the areas of safety and dashboard semiconductor products. For TEMIC DaimlerChrysler we produce signal conditioning ASICs. These ASICs, when combined with micro-mechanical chips, form the principal components of the sensors used in airbag systems. These sensors then relay electronic signals to an electronic control unit, which determines deployment of the airbag. We believe that, due to increased consumer awareness regarding automotive safety, growth in the use of sensors in cars will continue as airbag and other safety systems become more sophisticated.

Automotive dashboards are now used to deliver more information and data to drivers for safety and convenience. We produce a variety of dashboard control ASICs for customers such as VDO and TRW, that relay information from various on board sensors (such as fuel level, oil pressure, speed and engine heat) through micro controllers to the dashboard. Growth trends in this area are predicted to include information systems for road transport and traffic, emergency calling systems and links to wider forms of communications such as the Internet, on-board navigation systems and new wireless communications applications. As a result, we believe there will be increased demand for mixed signal ASICs in this sector.

Automotive ASICs: constant contribution to revenues.

Revenues from our automotive applications accounted for € 7.9 million or 4 % of total revenues for 2000. This represented a growth of € 1.0 million for the business sector of automotive ASICs when compared to 1999.



Revenues from Industrial ASICs

Industrial ASICs: Completion of the product line.

In addition to providing analog and mixed signal design expertise to the wireless communications and automotive markets, we also have a relatively small but established product range consisting of dimming, motor control, sensor and power management ASICs for use in lighting systems.

Revenues in this area reached € 15.2 million or 7 % of total revenues in 2000. While we intend to maintain our existing product base in the lighting control and data communications sectors, we have no current plans for expansion.

Revenues by Region.

Revenues are allocated to countries based on the location of the customer. In 2000 regional growth was particulary strong in Asia where revenues rose more than 600 % to € 41 million.

All in thousands of €

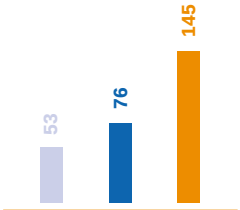
Research and Development

R&D: backbone of our success.

The market for wireless communications applications is evolving at a rapid pace. Leading equipment manufacturers bring a new generation of mobile telephones to market about twice a year. The success of a semiconductor manufacturer is therefore dependent on its capability to react to the ever-changing demands of its customers with the development of new designs. For this reason, research and development plays a significant role at Dialog Semiconductor.

R&D headcount increased in 2000.

In 2000, we added personnel in the research and development department to a total of 145 employees at the end of 2000, up from 76 at the end of 1999. This was due to the increase in the demand from our customers to devote further resources to assist in the development of new products.



R&D headcount 2000

All in thousands of €

New developments based on our customers' needs.

Our research and development expenses arise primarily from design and construction related costs in connection with the development of new products for existing and new customers and customer oriented refining of existing products. Dialog Semiconductor's research and development is for the most part driven by the particular product needs of our customers. It is part of our business strategy to develop our products tailored for specific customer requirements. Most significant were our product developments for the new generations of Siemens, Sagem, Motorola and Ericsson phones. These top of the range products feature Dialog Semiconductor ASICs for power management and for the Audio CODEC system. In addition we also started developments in other areas of the mobile phone, not related to power management or CODECs.

We are working toward the future of wireless communications.

Just as it is today, the core of our future R&D will be in the development of new ASIC designs for the wireless communications market. While the recent trend has focused on size and power, the coming years will see a growing emphasis placed on new capabilities. The increasing convergence of information and communications technologies will be at the forefront of this trend.

Implementation of the new UMTS Standard soon upon us.

Future developments in wireless communications equipment will all belong to the third generation of wireless communications standards. The UMTS Standard (Universal Mobile Telecommunications System) will replace the GSM Standard in the long run and will function worldwide. This Standard will clear the way for future mobile audio, video and Internet applications. The UMTS-Standard is scheduled for introduction in Japan in 2001 and in Europe and the USA by 2003. During 2000, Dialog Semiconductor has delivered first prototypes for the third generation of mobile telecommunications systems. Furthermore

we have started developments for more UMTS phones for which we will deliver prototypes in the first half of 2001. Our process technologies have been refocused towards smaller geometries to meet the demands of future mobile communications systems. The main process for new developments is now 0.35 µ which will enable even more integration of digital and analog capabilities within an ASIC. Also several designs have been started in 0.25 µ and 0.18 µ.

Design process at Dialog Semiconductor: state of the art.

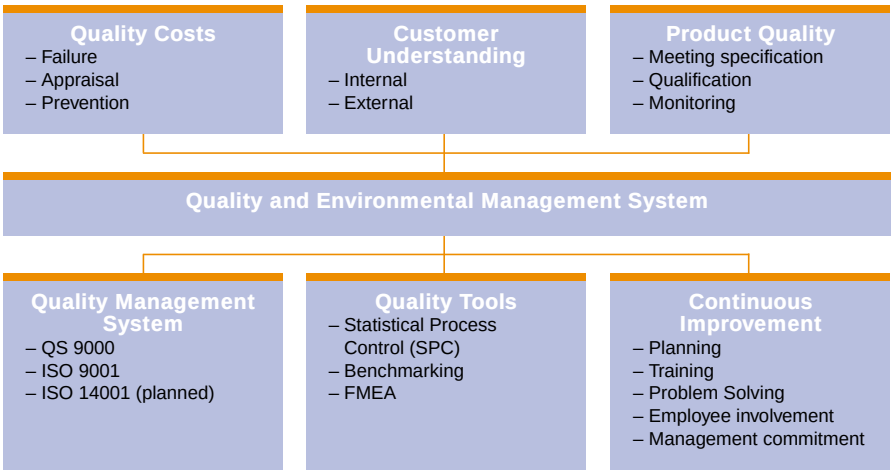
Our engineering group consists of 145 professionals with mixed signal ASIC experience and has a current development capacity of approximately 30 new designs per year. We use design tools from Cadence Design Systems, Inc. to increase design automation and top level simulation to identify system design incompatibilities at an early stage. In addition we use tools from other suppliers where needed to provide an optimum design environment for our engineers. Furthermore, we base our production around a standard CMOS semiconductor technology process in order to focus the design efforts more effectively. The result has been a continuing decrease in our design to delivery time from an average of 40 weeks in 1986 to an average of 20 weeks in 2000. Using standard processes also results in the most cost effective solution for our customers. We have also developed design methods to withstand higher voltages in these standard processes to continue to meet the requirements for power management function and benefit from the integration density for other functions. This is important because of the trend for higher integration combining power management, therefore requiring higher voltages, and other functions on one piece of silicon. With recently started developments in other areas of the phone, we will benefit from our capabilities to combine high voltages and high integration densities.

Our strategic competitive advantage: rapid design cycles.

We believe we offer our clients a significant advantage through our ability to rapidly develop mixed signal ASIC 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. In 2000, we completed the acquisition of the rights to the CR16B from, a 16 bit microprocessor core, a software product requiring National Semiconductor to customize or tailor the software to meet our requirements. This core, which utilizes the CompactRISC™ 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, or SOC, designs combining analog, digital and microcontroller functions. We have successfully integrated circuits combining complex digital functions including eFlash, which can at the same time handle 40V in a 0.35 µ technology.

Quality and Environment

Our Quality and Environmental System is designed to ensure continuous improvement to our products and considers both quality and environmental aspects. The components of our System model are represented as follows:



Quality Management.

The success of our strategic outsourcing business model is highly dependent on our uncompromising approach to quality assurance and our commitment to an environment of continual improvement in every area of our operations.

To assist us in our goals, it has also been our policy to build partnerships with suppliers that are certified to the QS 9000/ISO 9000 international quality standards. It is our standard practice when developing customized designs to go through a customer qualification/ approval process for each product developed. We complete this time consuming process of using QS 9000/ISO 9000 approved suppliers to increase our customers' confidence in achieving a successful product qualification. All of our products have to achieve world-class quality standards and we have been approved by all of our major customers such as Siemens, Motorola, Ericsson, Sagem, Adtran, Bosch and Temic. Our customers demand the highest levels of product quality and service. The attainment of QS 9000 certification in May 2000 (we have been ISO 9001 approved since 1993) further documented our main quality goals of zero defects and the continuous improvement of both product and process quality. The implementation of such a recognized international quality standard further enhances the quality awareness of our employees within a proven, structured environment and demands the active participation of every individual within our company.

The success of our quality system is, therefore, assured since our employees know they contribute to our success by the way they carry out their own responsibilities. The Quality Management team has a key role in ensuring that the objectives of our Company are clearly understood at all levels throughout the organisation and that they align with departmental and individual objectives. A state of the art internal quality web site on our Company Intranet has also been established in order to enable global knowledge management, training aids and document controls. Fast and flat communication channels based on the concept of low status differentials further aid information dissemination.

The Environment and Environmental Protection.

The protection of the environment and a respectful handling of natural resources should be a priority of any company worldwide. We at Dialog Semiconductor are commited to face the challenges of environmental protection at all levels because we believe that sustainable development can only be secured if we take care of our valuable resources.

As a direct response to customer and market environmental requirements, in addition to a comprehensive body of environmental laws, rules and regulations in each jurisdiction in which we operate, we have begun implementation of an Environmental Management System compliant with ISO 14001 requirements. Our environmental goals are achieved by continuously improving environmental performance throughout the entire product and process life cycle by improving communications with our manufacturing partners and customers. Good communication regarding key environmental aspects is aided by our policy of dealing only with suppliers having similar environmental goals as ourselves.

In addition, our internal emphasis is focused on increasing awareness and knowledge of environmental issues throughout the organization, until this becomes a natural part of the decision making process. We are planning to achieve ISO14001 certification during 2001.

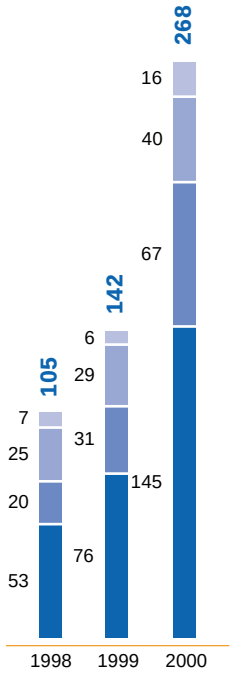
Our Employees

Employees: almost 90 percent more than last year.

For a company such as Dialog Semiconductor, where intellectual property is a driving force, our employees are the primary strategic success factor. They are the guarantee of the quality of our products and the innovative capabilities of the entire group. The challenge is to continually improve our employees' knowledge and motivation. During 2000, our human resources work focused on two main areas: the early recruitment and rapid integration of new employees, and their development within the Company. As of December 31, 2000, our global workforce consisted of 268 employees, 126 more than at year-end 1999, or an 89 % increase.

In May 2000 the acquisition of Svep Design Center AB, a Swedish system design Company, brought us 42 employees – the majority of whom are involved in systems engineering and evaluation. With SVEP we will be able to identify system constraints earlier in the process and help our customers reduce their overall component cost while improving operating performance.

Of our global workforce, 145 (54 % of all employees) are engaged in design and engineering. Our team is highly motivated and well qualified. Together they share more than 400 years of combined experience in the design of mixed signal ASICs.



Employees by function 1998–2000

- Design & Engineering
- Production (incl. Logistics & Quality)
- Sales, Marketing & Administration
- IT

WWW.Careers@Dialog Semiconductor: online service for applicants.

Our Internet site, www.dialog-semiconductor.com, serves not only as an information and communication platform, but also as a service platform for job applicants. Interested students, university graduates and professionals can access information on career entry and development opportunities, as well as details of vacant positions for which they can apply directly. At the end of 2000, over 30 % of all applications were made online.

Employment opportunities are being offered at all our locations in Germany, the UK, the USA, in Sweden, Austria and in Japan. We are primarily interested in acquiring experienced and highly qualified engineers for all levels of our design and operations activities.

Performance related compensation at Dialog Semiconductor.

The expertise and motivation of our employees is a decisive factor for the fulfillment of our customers needs, and therefore guarantees our corporate success. Performance-promoting and performance-rewarding compensation for executives and staff therefore have great significance at Dialog. Our employees and managers are rewarded through their compensation for their individual performance, in addition they participate in the company's earnings through a profit sharing scheme.

In addition, we have granted stock options to employees which will vest after they have met eligibility requirements. The share and stock option plans have been successful in rewarding and motivating existing employees and are a valuable recruitment tool in attracting new staff.

Personnel development.

To develop our employees and establish strong communication and feedback, we have implemented a worldwide employee appraisal program. One goal of this program is to assist managers in assessing an employee's career development and potential. In addition, promoting and documenting employee training – whether via external courses or inhouse training – is part of our ISO 9000 and QS 9000 quality procedures.

We encourage our employees to extend their horizon beyond a particular function. In order to promote an international outlook, we attach great importance to letting them gain experience at one of our other sites as early as possible in their careers.

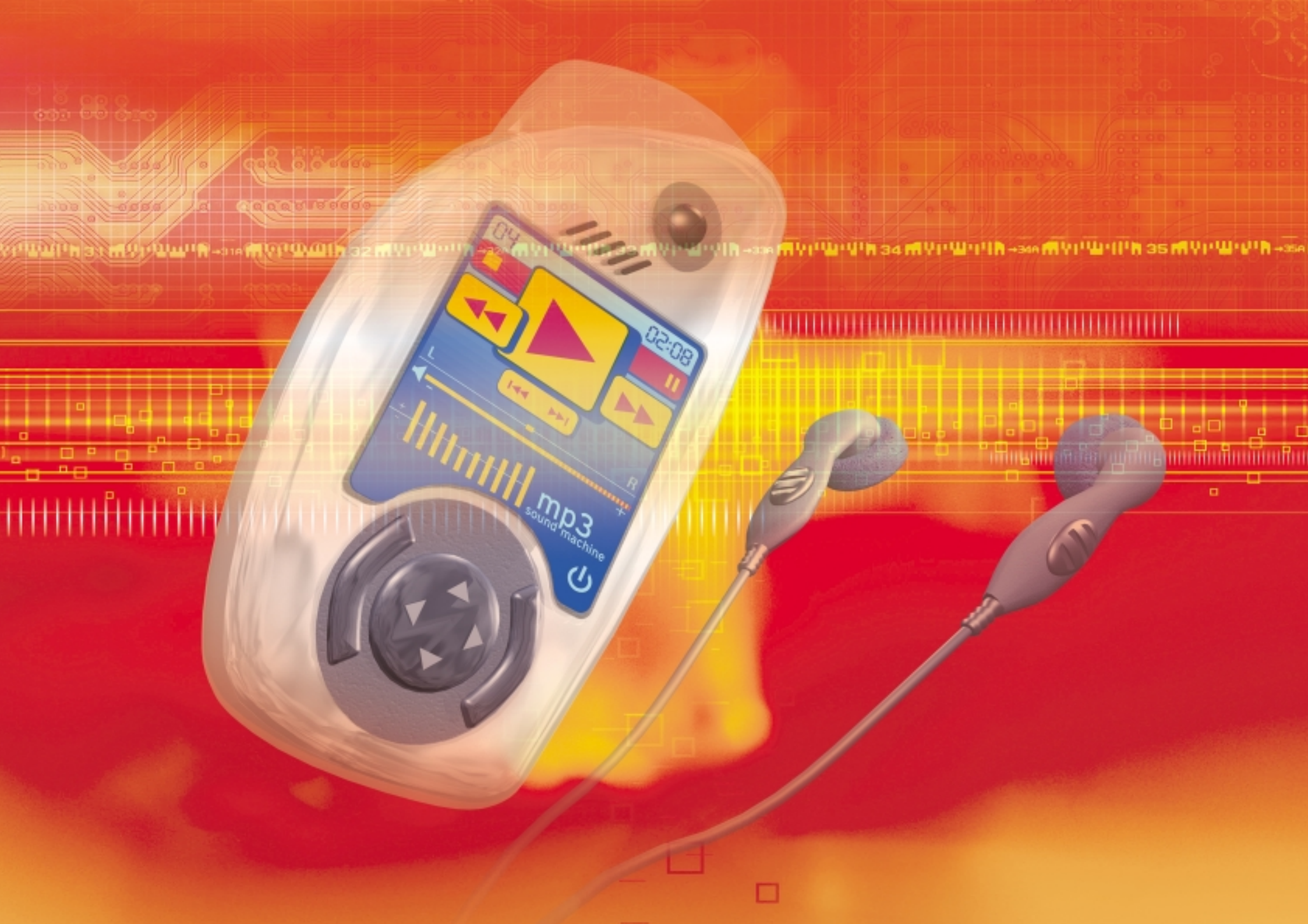
A word of thanks to our employees.

The Management Board would like to take this opportunity to thank all employees for their hard work during the past year. We are looking forward to a new year of working together and gaining new successes.

Our Facilities

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

Location	Approximate area (m(2))	Principal Use
Neue Strasse 95, Kirchheim/Teck-Nabern, Germany	3,702	Company headquarters, office operation for design, marketing and testing
Windmill Hill, Swindon, Wiltshire, United Kingdom	780	Office operation for marketing and design
54 Old Highway 22, Clinton, New Jersey USA	661	Office operation for marketing and design
S:t Lars väg 44a, Ideon Park Lund, Sweden	1,638	Office operation for marketing and design
Aomi Frontier Building 9f 43, Aomi 2-chome Koto-ku/Tokyo, Japan	686	Office operation for marketing and design
Mannheimer Strasse 1 Heidelberg, Germany	307	Office operation for design
Industriestrasse 1 Munich/Germering, Germany	530	Office operation for design
Kärntner Strasse 518 Graz-Seiersberg, Austria	197	Office operation for design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Consolidated Financial Statements

Management's Responsibility for Financial Reporting

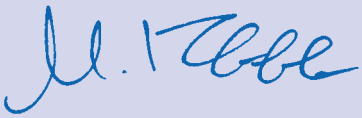
The accompanying consolidated financial statements and related notes of Dialog Semiconductor Plc were prepared by management, which has the primary responsibility for the integrity of the financial information therein. The statements were prepared in conformity with United States generally accepted accounting principles ("U.S. GAAP") and include amounts which are necessarily based on management's judgment. Financial information presented elsewhere in this report is consistent with that in the financial statements.

We have installed effective internal controlling and monitoring systems to ensure compliance with the accounting principles and the adequacy of reporting. They include the use of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel.

The financial statements have been audited by the Company's independent auditor, whose opinion is expressed on the following page. Their audit was conducted in accordance with generally accepted auditing standards, and as such, they obtained an understanding of the Company's systems of internal accounting controls and conducted such tests and related procedures as they deemed necessary to arrive at an opinion on the fairness of presentation of the financial statements.

Together with the independent auditors, the Board of Director's Financial Audit Committee examined the consolidated financial statements including the notes and reviewed the documentation related to the financial statements.

Roland Pudelko
CEO & President



Martin Klöble
Vice President Finance & Controlling

Independent Auditors' Report

To the Board of Directors and Shareholders of Dialog Semiconductor Plc:

We have audited the accompanying consolidated balance sheets of Dialog Semiconductor Plc and subsidiaries (as defined in Note 1 to the Consolidated Financial Statements) as of December 31, 2000, 1999 and 1998 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the fiscal years ended December 31, 2000 and 1999 and for the period March 1, 1998 to December 31, 1998, the Successor periods, and for the period January 1, 1998 to February 28, 1998, the Predecessor period. 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 United States generally accepted auditing standards. 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, 2000, 1999 and 1998, and the results of their operations and their cash flows for the fiscal years ended December 31, 2000 and 1999 and for the period March 1, 1998 to December 31, 1998, the Successor periods, and for the period January 1, 1998 to February 28, 1998, the Predecessor period, in conformity with United States generally accepted accounting principles.

As more fully described in Note 1 to the Consolidated Financial Statements, Dialog Semiconductor Plc acquired the Dialogue semiconductor activities of Daimler-Benz AG (now DaimlerChrysler AG) as of March 1, 1998 in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial statements for the Successor periods are presented on a different basis of accounting than that of the Predecessor period, and therefore are not directly comparable.

Stuttgart, Germany
February 23, 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Sheehan)
CPA

(Kiechle)
Wirtschaftsprüfer

Consolidated Statements of Income

(In thousands of €, except per share data)	Notes	Successor			Predecessor
		Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
		2000	1999	1998	1998
Revenues	16	214,459	87,246	38,197	6,281
Cost of sales		(138,866)	(56,749)	(21,896)	(3,533)
Gross margin		**75,593**	**30,497**	**16,301**	**2,748**
Research and development		(22,898)	(11,108)	(5,542)	(1,114)
Selling, general and administrative		(11,644)	(6,586)	(5,077)	(1,048)
Amortization of goodwill and intangible assets		(2,651)	(1,237)	(802)	(3)
Acquired in-process research and development		–	–	(9,300)	–
Operating profit (loss)		**38,400**	**11,566**	**(4,420)**	**583**
Financial income (expense), net		4,567	(316)	(140)	(78)
Income taxes	3	(16,410)	(4,570)	(2,430)	(291)
Net income (loss)		**26,557**	**6,680**	**(6,990)**	**214**
Earnings per share	18				
Basic earnings (loss) per share		0.62	0.16	(0.23)	
Diluted earnings (loss) per share		0.60	0.15	(0.23)	
Weighted average number of shares (in thousands)					
Basic		42,669	35,980	34,568	
Diluted		44,300	37,790	34,568	

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

Consolidated Balance Sheets

(In thousands of €)		At December 31,		
	Notes	2000	1999	1998
ASSETS				
Cash and cash equivalents		29,879	11,257	2,958
Accounts receivable, net of allowance for doubtful accounts of 1,045, 298, and 155 in 2000, 1999 and 1998		42,100	21,946	7,548
Inventories	5	36,818	10,019	3,496
Deferred taxes	3	182	38	44
Other current assets		3,162	5,101	661
Prepaid expenses	7	4,151	–	–
Current assets		**116,292**	**48,361**	**14,707**
Property, plant and equipment, net	6	46,772	15,570	3,842
Intangible assets	6	19,723	13,500	12,966
Deferred taxes	3	445	522	405
Investments and long-term financial assets	6	44,505	12,911	–
Prepaid expenses	7	19,686	–	–
TOTAL ASSETS		**247,423**	**90,864**	**31,920**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Financial liabilities	8	–	56	3,489
Accounts payable		26,815	15,289	4,766
Income taxes payable		12,173	3,195	1,400
Deferred taxes	3	1,106	604	–
Other current liabilities	9	5,609	2,534	2,109
Current liabilities		**45,703**	**21,678**	**11,764**
Deferred taxes	3	2,526	575	–
Cumulative redeemable preference shares	10	–	–	17,120
TOTAL LIABILITIES		**48,229**	**22,253**	**28,884**
Ordinary shares		6,737	6,418	5,267
Additional paid-in capital		168,776	63,475	5,267
Retained earnings (deficit)		24,242	(2,315)	(7,969)
Accumulated other comprehensive income (loss)		(440)	1,194	471
Employee stock purchase plan shares	12	(121)	(161)	–
Shareholders' equity	11	**199,194**	**68,611**	**3,036**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**247,423**	**90,864**	**31,920**

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

Consolidated Statements of Cash Flows

(In thousands of €)	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Cash flows from operating activities: Net income (loss)	26,557	6,680	(6,990)	214
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation of property, plant and equipment	8,126	2,548	1,368	219
Amortization of goodwill and intangible assets	2,651	1,237	802	3
Acquired in-process research and development	–	–	9,300	–
Change in deferred taxes	2,322	1,135	543	(44)
Changes in current assets and liabilities: Accounts receivable	(19,626)	(14,065)	(2,637)	3,048
Inventories	(26,793)	(6,523)	(791)	(428)
Prepaid expenses	(23,862)	–	–	–
Accounts payable	11,409	10,445	351	525
Other assets and liabilities	14,087	(2,364)	1,835	(194)
Cash provided by (used for) operating activities	**(5,129)**	**(907)**	**3,781**	**3,343**
Cash flows from investing activities: Purchases of property, plant and equipment, net	(39,024)	(14,487)	(2,861)	(412)
Purchases of intangible assets	(4,769)	(1,372)	(313)	(32)
Investments and deposits made	(32,019)	(12,905)	–	–
Payments for the acquisition of businesses	(4,342)	–	(28,047)	–
Cash used for investing activities	**(80,154)**	**(28,764)**	**(31,221)**	**(444)**
Cash flows from financing activities: Changes in financial liabilities	(58)	(3,434)	386	(1,622)
Additions to short-term borrowings	–	12,190	3,489	–
Repayment of short-term borrowings	–	(12,190)	(3,809)	–
Proceeds (repayments) of redeemable preference shares including accrued dividends	–	(19,563)	17,465	–
Proceeds from issuance of ordinary shares	105,627	59,152	10,534	–
Purchase of employee stock purchase plan shares	–	(185)	–	–
Sale of employee stock purchase plan shares	33	231	–	–
Cash provided by (used for) financing activities	**105,602**	**36,201**	**28,065**	**(1,622)**
Cash provided by operating, investing and financing activities	20,319	6,530	625	1,277
Effect of foreign exchange rate changes on cash and cash equivalents	(1,697)	1,769	(50)	1
Net increase in cash and cash equivalents	18,622	8,299	575	1,278
Cash and cash equivalents at beginning of year	11,257	2,958	2,383	1,105
Cash and cash equivalents at end of year	**29,879**	**11,257**	**2,958**	**2,383**

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

Consolidated Statements of Changes in Shareholders' Equity

(In thousands of €)	Predecessor				
	Ordinary shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) – currency translation adjustment	Total
Balance at December 31, 1997	**1,454**	**1,420**	**788**	**746**	**4,408**
Net income	–	–	214	–	214
Other comprehensive loss	–	–	–	(4)	(4)
Total comprehensive income (loss)	–	–	214	(4)	210
Balance at February 28, 1998	**1,454**	**1,420**	**1,002**	**742**	**4,618**

(In thousands of €)	Successor					
	Ordinary shares	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss) – currency translation adjustment	Employee stock purchase plan shares	Total
New issuance of shares	5,267	5,267	–	–	–	10,534
Net loss	–	–	(6,990)	–	–	(6,990)
Other comprehensive income	–	–	–	471	–	471
Total comprehensive income (loss)	–	–	(6,990)	471	–	(6,519)
Accrued dividend – cumulative redeemable preference shares	–	–	(979)	–	–	(979)
Balance at December 31, 1998	**5,267**	**5,267**	**(7,969)**	**471**	**–**	**3,036**
New issuance of shares	1,151	58,001	–	–	–	59,152
Net income	–	–	6,680	–	–	6,680
Other comprehensive income	–	–	–	723	–	723
Total comprehensive income	–	–	6,680	723	–	7,403
Purchase of employee stock purchase plan shares	–	–	–	–	(185)	(185)
Sale of employee stock purchase plan shares	–	207	–	–	24	231
Accrued dividend – cumulative redeemable preference shares	–	–	(1,026)	–	–	(1,026)
Balance at December 31, 1999	**6,418**	**63,475**	**(2,315)**	**1,194**	**(161)**	**68,611**
New issuance of shares	319	105,308	–	–	–	105,627
Net income	–	–	26,557	–	–	26,557
Other comprehensive loss	–	–	–	(1,634)	–	(1,634)
Total comprehensive income (loss)	–	–	26,557	(1,634)	–	24,923
Sale of employee stock purchase plan shares	–	(7)	–	–	40	33
Balance at December 31, 2000	**6,737**	**168,776**	**24,242**	**(440)**	**(121)**	**199,194**

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

Consolidated Fixed Assets Schedule

	Acquisition costs					
	Balance at January 1, 2000	Currency change	Acquisition of business	Additions	Disposals	Balance at December 31, 2000
Property, plant and equipment						
Test equipment	14,511	(1)	–	33,298	–	47,808
Leasehold improvements	1,178	6	–	404	–	1,588
Office and other equipment	6,133	(64)	608	5,326	(278)	11,725
	21,822	**(59)**	**608**	**39,028**	**(278)**	**61,121**
Intangible assets						
Goodwill	11,121	–	4,100	–	–	15,221
Other intangible assets	5,234	10	–	4,769	–	10,013
	16,355	**10**	**4,100**	**4,769**	**–**	**25,234**
Investments and long term financial assets						
Loans and deposits	10,507	5	–	31,387	(32)	41,867
Other investments	2,404	–	(430)	664	–	2,638
	12,911	**5**	**(430)**	**32,051**	**(32)**	**44,505**

Investments in affiliated companies

Name	Registered office	Participation
Dialog Semiconductor GmbH	Kirchheim/Teck - Nabern, Germany	100 %
Dialog Semiconductor Ltd	Swindon, UK	100 %
Dialog Semiconductor Inc	Clinton, New Jersey, USA	100 %
Dialog Semiconductor KK	Tokyo, Japan	100 %
SVEP Design Center AB	Lund, Sweden	100 %

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

Consolidated Fixed Assets Schedule (Continued)

Depreciation/Amortization						Book Value	
Balance at January 1, 2000	Currency change	Acquisition of business	Additions	Disposals	Balance at December 31, 2000	Balance at December 31, 2000	1999
3,041	(1)	–	5,374	–	8,414	39,394	11,470
381	(2)	–	211	–	590	998	797
2,830	(37)	285	2,541	(274)	5,345	6,380	3,303
6,252	**(40)**	**285**	**8,126**	**(274)**	**14,349**	**46,772**	**15,570**
1,359	–	–	1,132	–	2,491	12,730	9,762
1,496	5	–	1,519	–	3,020	6,993	3,738
2,855	**5**	**–**	**2,651**	**–**	**5,511**	**19,723**	**13,500**
–	–	–	–	–	–	41,867	10,507
–	–	–	–	–	–	2,638	2,404
–	**–**	**–**	**–**	**–**	**–**	**44,505**	**12,911**

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

Notes to the Audited Consolidated Financial Statements

(In thousands of €, unless otherwise stated)

1. Basis of Presentation and Acquisitions.

Dialog Semiconductor Plc ("Dialog" or the "Company") is a supplier of types of silicon chips called mixed signal application specific integrated circuits ("ASICs") to leading handset manufacturers in the wireless communications market. The Company designs and develops analog and digital semiconductor chips specifically to suit the needs of its customers. Once developed the Company contracts with manufacturers for production of the chips.

The Company was formed in March 1998 to effect the acquisition of the Dialogue Semiconductor Limited Group from Daimler-Benz AG (now DaimlerChrysler AG). Dialog was majority-owned by the venture capital company, Apax Partners ("Apax"), and its related investors prior to the Company's initial public offering in October 1999. In connection with its formation, the Company's shareholders contributed cash in exchange for ordinary shares with a par value of € 5,267, additional paid-in capital of € 5,267 and cumulative redeemable preference shares of € 17,465. Thereafter, the Company acquired the Dialogue semiconductor activities from Daimler-Benz AG for € 28,047 in cash.

The Company has accounted for the acquisition using the purchase method of accounting. Accordingly, the costs of the acquisition were allocated to the assets acquired and liabilities assumed based upon their respective fair values. Amounts allocated to acquired in-process technology have been expensed at the time of acquisition. The excess of the cost of the acquisition over the fair value of the net assets acquired of approximately € 11,121 is being amortized over 15 years. The results of operations and cash flows of Dialogue have been consolidated with those of the Company from the date of the acquisition.

To determine the fair market value of the acquired in-process technology, the Company considered the income approach, whereupon fair market value is a function of the future revenues expected to be generated by an asset, net of all allocable expenses and charges for the use of contributory assets. The future net revenue stream is discounted to present value based upon the specific level of risk associated with achieving the forecasted asset earnings. The income approach focuses on the income producing capability of the acquired assets and best represents the present value of the future economic benefits expected to be derived from these assets.

The Company determined that the acquired in-process technologies had not reached technological feasibility based on the status of design and development activities that required further refinement and testing. The development activities required to complete the acquired in-process technologies included completion of ASICs design, testing and validation, quality assurance, and customer prototype testing.

The acquired in-process technologies represent unique product related developments, the application of which is technically and legally limited to the unique company-customer relationship. Accordingly, these acquired technologies have no alternative future use other than the use for which the technologies were designed.

The following summary presents information concerning the purchase price allocation for the acquisition accounted for under the purchase method in March 1998.

	Net assets	In-process research and development	Goodwill	Other intangible assets	Purchase price
Dialogue Semiconductors	5,051	9,300	11,121	2,575	28,047

In the accompanying consolidated financial statements the terms “Dialog” or the “Company” when used in situations pertaining to periods prior to March 1, 1998 refer to the consolidated group of Dialogue Semiconductors activities of Daimler-Benz AG acquired by Dialog Semiconductor Plc and when used in situations pertaining to periods subsequent to March 1, 1998 refer to Dialog Semiconductor Plc and its consolidated subsidiaries. The consolidated financial information of the business acquired from Daimler-Benz AG is referred to herein as “Predecessor”, while the consolidated financial information of the Company subsequent to the date of acquisition is referred to herein as “Successor”. Because of the purchase price allocation, the accompanying financial statements of the Successor are not directly comparable to those of the Predecessor.

Prior to the acquisition in March 1998, the Predecessor was a majority-owned group of companies of Daimler-Benz AG. All costs incurred by Daimler-Benz AG on behalf of the Predecessor have been specifically charged back to the Predecessor and are reflected in the consolidated financial statements.

On May 9, 2000 the Company purchased the remaining 90.8 % interest that it did not already own in SVEP Design Center AB, a Swedish company focused on system design for advanced consumer electronic products in the wireless communication area. The purchase price of the 90.8 % interest in SVEP was 36,320,000 Swedish Krona (approximately € 4.4 million).

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“US GAAP”).

2. Summary of Significant Accounting Policies.

Principles of Consolidation – The consolidated financial statements include all of the entities of the Company. Investments in which the Company has less than a 20 % ownership are accounted for using the cost method. 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. Prior to the acquisition, the Company’s cash and cash equivalents were invested through the central cash management function of Daimler-Benz AG.

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.

Other Current Assets – Other current assets at December 31, 2000 and 1999 principally represent tax refunds receivable.

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:

Machinery and equipment	3 to 5 years
Leasehold improvements	Shorter of useful life or lease term

Leasing – The Company is a lessee of design software and property, plant and equipment which are accounted for as operating leases.

Intangible Assets – Purchased software and licenses are stated at cost and amortized using the straight-line method over the estimated useful lives of three years for software and five years for licenses. Intangible assets resulting from the acquisition include customer lists, patents, trade names and an assembled workforce and are amortized over their useful lives of 9 years for customer lists, 17 years for a patent application, 15 years for trade names and 18 years for the assembled workforce. Such useful lives were determined based upon historical data with respect to customer and employer turnover and remaining contractual lives.

Goodwill – The excess of purchase price over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over the expected period of benefit ranging from 7 to 15 years. The Company assesses the recoverability of such amount by determining whether the amortization of the balance over its remaining life can be recovered from the undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of the excess of cost over net assets acquired will be impacted if estimated future operating cash flows are not achieved.

Accounting for Long-Lived Assets – The Company assesses impairment of long-lived assets and certain identifiable intangible assets 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 to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment losses have been recognized in the years presented.

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 of such non-Euro functional currency operations are translated at the average exchange rates during the year. Translation gains or losses are accumulated as a separate component of shareholders' equity. Currency transaction gains or losses arising from transactions of Dialog companies in currencies other than the functional currency are included in financial income, net at each reporting period. Net currency transaction gains amounted to € 2,627 for the year ended December 31, 2000. Net currency transaction losses amounted to € 329, € 53 and € 10 for the year ended December 31, 1999, for the period from March 1, 1998 to December 31, 1998 and the period from January 1, 1998 to February 28, 1998, respectively.

The exchange rates of the more important currencies against the Euro used in preparation of the consolidated financial statements were as follows:

	Exchange rate at December 31,			Annual average exchange rate		
Currency	**2000 €**	**1999 €**	**1998 €**	**2000 €**	**1999 €**	**1998 €**
Great Britain 1 GBP	1.60	1.61	1.43	1.65	1.52	1.49
United States 1 USD	1.07	1.00	0.85	1.08	0.94	0.90
Sweden 10 SEK	1.13	–	–	1.18	–	–

Revenue Recognition – Revenue, net of discounts, is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price of the transaction is fixed and determinable, and collectibility is reasonably assured. Service revenue, which is derived from research and development reimbursement projects, is recognized based upon the acceptance by a customer of project milestones.

Product-Related Expenses – Expenditures for advertising and sales promotion and for other sales-related expenses are charged to expense as incurred. Provisions for estimated costs related to product warranty are made at the time the related sale is recorded. Shipping and handling costs amounting to € 684, € 636, € 298 and € 36 are recorded within selling expenses for the years ended December 31, 2000 and 1999, for the period from March 1, 1998 to December 31, 1998 and the period from January 1, 1998 to February 28, 1998, respectively.

Research and Development – Research and development costs are expensed as incurred. Research and development costs which are charged to customers and, accordingly, are included in cost of sales, amounted to approximately € 2,286, € 1,492, € 1,926, and € 310 for the years ended December 31, 2000 and 1999, for the period from March 1, 1998 to December 31, 1998 and the period from January 1, 1998 to February 28, 1998, respectively.

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 applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations, for its stock option plan. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying shares exceeded the exercise price.

Earnings Per Share – Earnings per share has been computed using the weighted average number of outstanding ordinary shares during the Successor period. Because the Company reported a net loss for the period March 1, 1998 to December 31, 1998, only basic per share amounts have been presented. Had the Company reported net income for the period March 1, 1998 to December 31, 1998, the weighted average number of shares outstanding would have potentially been diluted by 1,077,710 stock options (not assuming the effects of applying the treasury stock method).

Earnings per share information for the Predecessor periods has not been presented because the predecessor was a limited liability company and part of a majority-owned group of UK companies of Daimler-Benz AG. Accordingly, earnings per share information is not meaningful.

Concentration of Credit Risk – The Company's revenue base is diversified by geographic region and by individual customer. The Company's products are generally utilized in the mobile communications and automotive industries. During 2000, 1999 and 1998, two customers individually accounted for more than 10 % of the Company's revenues. Such customers accounted for 75 % in 2000, 69 % in 1999, 56 % for the period March 1, 1998 to December 31, 1998 and 59 % for the period January 1, 1998 to February 28, 1998 of total revenues. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities." This standard requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value, regardless of the purpose or intent for holding them. Gains and losses resulting from changes in the values of those derivatives would be accounted for in income or shareholders' equity (as a component of other comprehensive income), depending on the use of the derivative and whether it qualifies for hedge accounting. With the issuance of SFAS 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133, an Amendment of FASB Statement No. 133," this standard is effective for fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of FASB Statement No. 133," which, among other things, permits foreign

currency denominated assets and liabilities to qualify for hedge accounting. The Company adopted SFAS 133 and the amendments contained in SFAS 138 effective January 1, 2001. Application of the new standards did not have a material impact on the Company's financial position or results of operations.

In December 1999, the US Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which summarizes the Commission's views in applying generally accepted accounting principles to the recognition, presentation and disclosure of revenue in financial statements. Dialog adopted the provisions of SAB 101 in the fourth quarter of 2000. Adoption of SAB 101 did not have a material effect on the Company's consolidated financial statements.

3. Income Taxes.

Income (loss) before income taxes consists of the following:

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Germany	23,965	8,570	2,953	664
Foreign	19,002	2,680	(7,513)	(159)
	42,967	**11,250**	**(4,560)**	**505**

The provision for income taxes consists of the following:

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Current taxes:				
Germany	8,444	2,286	1,641	323
Foreign	5,644	1,149	246	12
Deferred taxes:				
Germany	2,430	1,044	–	9
Foreign	(108)	91	543	(53)
	16,410	**4,570**	**2,430**	**291**

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. German corporate tax law applies a split-rate imputation with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law, retained corporate income is initially subject to a federal corporate tax of 40 % in 2000 and 1999, and 45 % in 1998 plus a solidarity surcharge of 5.5 % in 2000, 1999 and 1998 on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 42.2 % in 2000 and 1999 and 47.475 % in 1998. Upon distribution of retained earnings to shareholders, the corporate income tax rate on the earnings is adjusted to 30 %, plus a solidarity surcharge of 5.5 % in 2000, 1999 and 1998 on the distribution corporate tax, for a total of 31.65 % in 2000, 1999 and 1998, by means of a refund for taxes previously paid.

In 2000 and 1999, the Company applied a distributed corporate income tax rate of 30 % to earnings of its German subsidiary for 2000 and 1999 compared to the undistributed corporate income tax rate 45 % for 1998 as the Company plans to distribute such earnings to the parent Company.

In October 2000, the German government enacted new tax legislation which, among other things, will reduce the Company's statutory tax rate for its German subsidiary from 40 % on retained earnings and 30 % on distributed earnings to a uniform 25 %, effective January 1, 2001. The change in German tax law did not have a material effect on the valuation of the Company's German source deferred tax assets and liabilities.

A reconciliation of income taxes determined using the German corporate tax rate of 31.65 % for 2000 and 1999 and 47.475 % for 1998, plus the after federal tax benefit rate for trade taxes of 10.426 % for 2000 and 1999 and 7.525 % for 1998, for a combined statutory rate of 42.076 % for 2000 and 1999 and 55 % for 1998, is as follows:

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Expected provision (benefit) for income taxes	18,081	4,733	(2,508)	278
Credit for dividend distribution	(273)	(177)	–	–
Foreign tax rate differential	(2,310)	(343)	(616)	28
Amortization of non-deductible goodwill, intangible assets and in-process research and development	549	295	5,530	–
Others	363	62	24	(15)
Actual provision for income taxes	**16,410**	**4,570**	**2,430**	**291**

Deferred income tax assets and liabilities are summarized as follows:

	December 31,		
	2000	1999	1998
Property, plant and equipment	101	145	236
Net operating loss and tax credit carryforwards	526	415	191
Other	–	–	22
Deferred tax assets	**627**	**560**	**449**
Property, plant and equipment	(2,525)	(575)	–
Accounts receivable	(208)	(427)	–
Prepaid expenses	(417)	–	–
Accounts payable	(482)	(177)	–
Deferred tax liabilities	**(3,632)**	**(1,179)**	**–**
Net deferred tax assets (liabilities)	**(3,005)**	**(619)**	**449**

The deferred tax assets at December 31, 2000 reflect management's estimate of the amount that will be realized as a result of future profitability. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income are reduced.

4. Additional Cash Flow Information.

The following represents supplemental information with respect to cash flows:

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Interest paid	143	280	212	40
Income taxes paid	5,214	1,860	812	14

5. Inventories.

Inventories are comprised of the following:

	December 31,		
	2000	1999	1998
Raw materials	11,827	2,527	711
Work-in-process	14,009	6,896	913
Finished goods	10,982	596	1,872
	36,818	**10,019**	**3,496**

6. Property, Plant and Equipment, net, Intangible Assets, Investments and Long-term Financial Assets.

Information with respect to changes to the Company's property, plant and equipment, net, intangible assets, investments and long-term financial assets is presented in the consolidated Fixed Asset Schedule included herein.

Depreciation expense amounted to € 8,126, € 2,548, € 1,368 and € 219 for the years ended December 31, 2000 and 1999, for the period from March 1, 1998 to December 31, 1998 and the period from January 1, 1998 to February 28, 1998, respectively.

7. Other Assets and Prepaid Expenses

At December 31, 2000, the Company maintained deposits of $ 20 million with Chartered Semiconductor Manufacturing Pte., Ltd., (CSM) and $ 6 million with ESM. These deposits are classified in the balance sheet line item “Investments and long-term financial assets.” Under the terms of these agreements, the deposits will guarantee access to certain quantities of sub-micron wafers through fiscal 2003 and several generations of process technologies ranging from current products at 0.60-micron and 0.35-micron and will extend down to, and beyond 0.18-micron technologies. In addition, the Company paid a total of $ 21.5 million as an advance payment for future wafer deliveries. Such advance payment is classified in the balance sheet line items “Prepaid expenses.” A further payment of $ 10 million was made to CSM in February 2001. If the Company does not purchase the minimum quantities under the agreement, these advance payments will be forfeited for the value of the wafer shortfall up to an amount of $ 20 million. The outstanding balance of the advance payment is refunded in proportion to the Company’s purchases of wafers from CSM and ESM, and at this time, the Company expects to have the entire advance payment refunded. During 2000 to hedge the foreign currency exposure with respect to the $ 26 million of deposits with CSM and ESM, the Company purchased foreign currency forward contracts to effectively change the US dollar deposits into Euros (see Note 15).

In addition, other assets includes a cost basis investment (€ 2,638) in and a loan (€ 12,874) to ESM Holdings Limited, the parent company of ESM, a silicon wafer foundry in Newport, Wales and a supplier of the Company, totaling € 15,512. The loan bears interest at 5 % per annum and is due in 2003 or immediately in the event of an initial public offering by ESM or change in control. At December 31, 2000, the carrying value of the ESM loan approximated market value.

8. Financial Liabilities

At December 31, 2000, the Company had unused short-term credit lines of € 25,805.

9. Other Current Liabilities.

Other current liabilities are comprised of the following:

	December 31,		
	2000	**1999**	**1998**
Accrued personnel and social costs	2,560	993	911
Accrued warranty	375	812	299
Outstanding invoices	1,025	254	377
Sales commissions	200	32	104
Other tax liabilities	1,190	384	–
Other	259	59	418
	5,609	**2,534**	**2,109**

10. Cumulative Redeemable Preference Shares.

In connection with its formation in March 1998, Dialog issued 5,640,194 shares of cumulative redeemable preference shares with a par value of £ 1 per share, at a premium of £ 1 per share. The preference shares, if not previously redeemed, were redeemable at their issue price in six equal semi-annual installments beginning on January 1, 2001. Cumulative preference net cash dividends were payable to the preference shareholders at a rate of 8 % per annum. In the event of a listing on certain specified exchanges or sale of the Company, the unredeemed preference shares, together with all accumulated unpaid dividends, became due and payable.

Preference shareholders had no voting rights unless (i) the Company was in default of any amounts payable with respect to the redemption installments or dividends, (ii) general meetings of the Company included a resolution for winding up the affairs of the Company, for effecting a reduction of share capital or to effect any changes attached to the preference shares, or (iii) there had been a shortfall of 50 % or more of operating profits against the annual budget and not the result of any specific actions not already approved by the Board.

In October 1999, Dialog repaid the carrying amount, including cumulative unpaid dividends, of 5,640,194 shares of cumulative redeemable preference shares with a par value of £ 1 per share, issued at a premium of £ 1 per share. The carrying amount of redeemable preference shares had been increased by € 2,005 through a charge to retained earnings in 1999 and 1998 resulting in a total repayment of € 19,563.

On May 18, 2000, the Company's shareholders approved a resolution reclassifying the 5,640,194 issued and redeemed preference shares of £ 1 per share as 56,401,940 ordinary shares of £ 0.10 per share ranking pari passu with the existing ordinary shares of the Company.

11. Shareholders' Equity.

At December 31, 2000, Dialog had authorized 104,311,860 ordinary shares with a par value of £ 0.10 per share. Issued and outstanding were 44,068,930 ordinary shares.

On August 18, 1999, Dialog was re-registered as a public limited company under the laws of England and Wales and changed its name to Dialog Semiconductor Plc. Prior to that date, Dialog was incorporated as a private limited liability company, registered in England and Wales.

On September 24, 1999, Dialog approved a five-for-one split of the Company's ordinary shares and effected changes in its capital structure. In connection with the changes in capital structure, the authorized number of ordinary shares of the Company was increased by 9,500,000 shares. The Company also amended its Articles to allow for only one class of ordinary shares and one class of preference shares. All previously outstanding "A" and "B" ordinary shares have been converted into an equal number of the Company's ordinary shares with a par value of £ 0.10 per share (after adjustment for the five-for-one split). Each ordinary share entitles the holder to one vote. All share and per share amounts presented for periods after March 1, 1998 have been retroactively adjusted to give effect to the share split and the changes in capital structure.

On October 13, 1999, the Company completed an initial public offering of ordinary shares, receiving net proceeds (after deduction of underwriting discounts, stamp duty and other offering expenses) of € 59,152 from the sale of 7,500,000 new shares.

On May 18, 2000, the shareholders of the Company approved the following resolutions related to the capital structure of Dialog that (i) subdivided the 23,954,960 authorized ordinary shares with a par value of £ 0.20 per share by means of a two-for-one share split into 47,909,920 ordinary shares with a par value of £ 0.10 per share, and (ii) reclassified the 5,640,194 issued and redeemed cumulative redeemable preference shares with a par value of £ 1 per share as 56,401,940 ordinary shares with a par value of £0.10 ranking pari passu with the existing ordinary shares of the Company. All share and per share amounts presented for periods ending after March 1, 1998 have been retroactively adjusted to give effect to the share split.

On June 29, 2000, the Company completed an offering of ordinary shares in Germany and the United States resulting in net proceeds (after deduction of underwriting discounts, stamp duty and other offering expenses) of € 105,627 from the sale of 2,000,000 new shares at € 57.50 per share.

12. Employee Stock Purchase Plan.

On March 26, 1998, the Company and its then majority owner, Apax, adopted the Subscription and Shareholders Agreement under which employees and directors are invited from time-to-time, at the discretion of the Board, to purchase up to 3,456,890 ordinary shares of the Company from Apax or an established Employee Benefit Trust. The purchase price of the shares is equal to their estimated fair value on the date the employee or director subscribes for those shares. Employees and directors are immediately vested in their purchased shares. During the first quarter of 1999, the Trust acquired 668,800 ordinary shares from Apax for purposes of distributing them to employees under the Employee Stock Purchase Plan. For the period from March 1, 1998 to December 31, 1998 and for the year ended December 31, 1999, employees and directors purchased 2,581,360 and 473,480 ordinary shares, respectively, at fair value on the date of purchase. During 2000 the Trust distributed 57,108 shares in connection with the exercise of employee stock options. At December 31, 2000, the Trust continued to hold 375,622 shares.

13. 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. Stock options are granted with an exercise price not less than the estimated fair value 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 the stock option grants was estimated using the Minimum Value Method prior to the Company's IPO in October 1999. The fair value of all subsequent grants is estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used for stock options grants for the years ended December 31, 2000 and 1999 and for the period from March 1, 1998 to December 31, 1998:

	Year ended December 31,		For the period March 1, 1998 to December 31,
	2000	1999	1998
Expected dividend yield	0 %	0 %	0 %
Expected volatility	70 %	–	–
Risk free interest rate	4.8 %	4.0 %	4.0 %
Expected lives (in years)	5	5	5
Weighted-average fair value of options granted	£ 12.35	£ 0.10	£ 0.04

Stock option plan activity for the years ended December 31, 2000 and 1999 and for the period from March 1, 1998 to December 31, 1998 was as follows:

(prices in £)	2000		1999		1998	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	1,840,500	0.37	1,077,710	0.20	–	–
Granted	1,192,520	20.57	773,140	0.59	1,077,710	0.20
Exercised	(57,108)	0.34	–	–	–	–
Forfeited	(126,134)	0.30	(10,350)	0.20	–	–
Outstanding at end of year	**2,849,778**	**8.83**	**1,840,500**	**0.37**	**1,077,710**	**0.20**
Options exercisable at year end	331,834	0.38	–	–	–	–

The Company applies APB Opinion 25 in accounting for the Plan and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, "Accounting for Stock-Based Compensation," the Company's net income (loss) would have been the pro forma amounts indicated below for the years ended December 31, 2000 and 1999 and for the period from March 1, 1998 to December 31, 1998 (in thousands of €, except per share data):

	Year ended December 31,		For the period March 1, 1998 to December 31,
	2000	1999	1998
Net income (loss):			
As reported	26,557	6,680	(6,990)
Pro forma	25,809	6,666	(6,991)
Net income (loss) per share-basic:			
As reported	0.62	0.16	(0.23)
Pro forma	0.59	0.16	(0.23)

The following table summaries information about stock options outstanding at December 31, 2000:

	Options Outstanding		
	Number Outstanding at December 31,		Weighted-Avg. Remaining Contractual Life
Range of Exercise Prices	2000		
€ 0.32 - 1.28 (£ 0.20 - 0.80)	1,657,258		8.1
€ 55	287,760		8.9
€ 26	904,760		9.7
€ 0.32 - 55	**2,849,778**		**8.7**

As of December 31, 2000, stock options amounting to 331,834 with a weighted average contractual life of 8.2 years were exercisable at prices ranging between £ 0.20 and £ 0.80.

14. Lease Commitments.

The Company leases design software, certain 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 income, amounted to € 4,873, € 2,528, € 1,020 and € 167 for the for the years ended December 31, 2000 and 1999, for the period from March 1, 1998 to December 31, 1998, and the period from January 1, 1998 to February 28, 1998, respectively.

Future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 2000 are as follows:

	2001	2002	2003	2004	2005	Thereafter
Operating leases	7,131	6,884	2,385	634	472	467

15. Information about Financial Instruments.

a) Use of financial instruments

As a matter of policy Dialog does not engage in derivatives trading, derivatives market-making or other speculative activities.

Changes in exchange rates influence the Company's results of operations because sales are primarily denominated in US dollars and Euros whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars. In order to hedge foreign currency exposure, the Company attempts to match cash inflows and outflows (sales with supply costs) in the same currency, primarily the US dollar.

During 2000 to hedge the foreign currency exposure with respect to the $ 26 million of deposits with CSM and ESM, the Company purchased foreign currency forward contracts to effectively change the US dollar deposits into Euros.

b) Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, other current assets and current liabilities approximates fair value due to the short maturity of these financial instruments.

At December 31, 2000 the notional amounts, carrying amounts and fair values of the forward contracts and deposits were as follows:

	Notional amounts	Carrying amounts	Fair values
Currency contracts	28,190	–	1,194
Deposits	–	28,190	26,996

The fair values of the forward foreign contracts were based on reference exchange rates adjusted for the respective interest rate differentials.

c) Accounting for and reporting of derivative instruments and hedging activities

The forward foreign contracts purchased to offset the Company's exposure to identifiable transactions with currency risks are accounted for together with the underlying business transactions ("hedge accounting"). Gains and losses on forward exchange contracts are deferred off-balance sheet and are recognized as a component of the related transactions. Discounts on forward contracts are recognized as expense when incurred.

At December 31, 2000 the Company had unrealized gains on these currency contracts of € 1,194.

16. Segment Reporting.

The Company operates in one segment, the design and development of semiconductor chips.

Revenues by product-type consisted of the following:

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Revenues:				
Wireless communication	180,345	68,052	28,648	4,711
Wireline communication	9,501	2,953	2,240	300
Automotive	7,948	6,980	1,528	251
Industrial	15,221	7,852	4,584	753
Other	1,444	1,409	1,197	266
	214,459	**87,246**	**38,197**	**6,281**

Revenues are allocated to countries based on the location of the customer; long-term assets are allocated according to the location of the respective units.

	Successor			Predecessor
	Year ended December 31,		For the period March 1, 1998 to December 31,	For the period January 1, 1998 to February 28,
	2000	1999	1998	1998
Revenues:				
Germany	40,941	21,024	11,550	2,116
Sweden	57,866	29,679	9,835	1,498
United Kingdom	21,480	5,737	3,836	524
Other European countries	35,726	19,136	5,837	929
Malaysia	35,582	5,145	–	–
Other Asian countries	5,490	496	2,100	515
USA	14,805	5,076	4,730	699
Other countries	2,569	953	309	–
	214,459	**87,246**	**38,197**	**6,281**

	December 31,		
	2000	**1999**	**1998**
Long-term assets			
Germany	116,386	36,079	11,473
United Kingdom	12,801	5,457	5,161
USA	1,390	967	579
Sweden	554	–	–
	131,131	**42,503**	**17,213**

17. Related Party Transactions.

Adtran Inc. ("Adtran") and Ericsson Radio System AB ("Ericsson") each hold a substantial ownership interest in the Company. The Company sells components to Adtran and Ericsson in the ordinary course of business. The selling price for these transactions are negotiated on an arm's length basis. Revenues amounted to € 134,110, € 48,502, € 18,131 and € 2,740 for the years ended December 31, 2000 and 1999, for the period from March 1, 1998 to December 31, 1998, and the period from January 1, 1998 to February 28, 1998, respectively. Net receivables due from Adtran and Ericsson were € 28,196, € 12,645 and € 4,424 at December 31, 2000, 1999 and 1998, respectively.

In August 1999, the Company acquired a cost basis investment in ESM Holdings Limited, the parent company of ESM, a silicon wafer foundry in Newport, Wales and a supplier of the Company. In August 2000, the Company participated pro rata in an additional capital contribution and loan to ESM totaling € 3.3 million. Included in cost of sales in 2000 and 1999 are purchases of silicon wafers from ESM in the amount of € 50,428 and € 25,764, payables due to ESM were € 4,991 and € 1,961 at December 31, 2000 and 1999, respectively.

18. Earnings Per Share.

Earnings per share is determined as follows (in thousands of Euro, except number of shares and earnings per share):

	Year ended December 31,		For the period March 1, 1998 to December 31,
	2000	**1999**	**1998**
Net income (loss)	26,557	6,680	(6,990)
Less preference share dividend	–	(1,026)	(979)
Net income (loss) applicable to ordinary shareholders	**26,557**	**5,654**	**(7,969)**
Weighted average number of shares outstanding (in thousands)-basic	42,669	35,980	34,568
Dilutive effect of stock options (1)	1,631	1,810	–
Weighted average number of shares outstanding (in thousands)-diluted	**44,300**	**37,790**	**34,568**
Earnings (loss) per share-basic	0.62	0.16	(0.23)
Earnings (loss) per share-diluted	0.60	0.15	(0.23)

(1) Options issued in 2000 were not included in the computation of diluted earnings per share because the options' underlying exercise price was greater than the average market price for Dialog ordinary shares for the year ended December 31, 2000.

Board of Directors
Report of the Board of Directors

The Board oversaw the functioning of executive management of the Company and at the quarterly Board meetings of 10th February 2000, 7th April 2000, 20th July 2000 and 19th October 2000 assured itself of the proper conduct of executive management during the year 2000. At such Board meetings, the Board received and analysed reports from the chief executive as to the achievements of the Company against financial budgets and the progress made in achieving the commercial aims for the year.

Guidance was also given by the Board to the chief executive both in relation to business concerns and business opportunities. Action items were authorized which were reported on and reviewed as to achievement at the following Board meeting.

In addition to the quarterly Board meetings, additional Board meetings were convened in connection with the Company's second public offering and listing on the Nasdaq stock exchange. The Board, in accordance with the Company's Articles of Association, on various occasions appointed Committees of the Board to decide upon various technical matters related to both the secondary public offering and the listing on the Nasdaq.

The Remuneration Committee, comprised of Jan Tufvesson, Michael Glover and Tim Anderson, having first convened on 8th February 2000, subsequently met on 20th March, 18th October, 13th November and 14th December 2000 to discuss the achievements of management during that year and to establish the individual objectives of the management team for 2001. It was also agreed, at the meeting held on 18th October, that 900,000 options of the Company be offered to the Company's employees.

The Audit Committee, comprised of Jan Tufvesson and Michael Glover, having convened for the first time on 8th February 2000, met on 18th October and 13th November 2000. Discussions at these meetings were held on a broad range of issues, including the Company's financial management and its compliance with the financial reporting requirements of the Neuer Markt, Easdaq and Nasdaq.

The audited accounts of the Company, for the year ended 31st December 1999, and the reports from the directors and auditors thereon were presented to the shareholders at the second annual general meeting of the Company, held on 18th May 2000, at which KPMG, the Company's independent auditor, was reappointed to hold office until the following annual general meeting of the Company.

Notwithstanding the considerable effort of executive management of the Company to secure the Company's secondary public offering and listing on the Nasdaq, the Company in 2000 was able to continue to develop and consolidate its market position as one of the world's leading suppliers of mixed signal ASICs (Application Specific Integrated Circuits) to leading handset manufacturers in the wireless communications market. For this achievement, the Board extends its thanks to the executive management and the Company's employees.

London, March 2001

Jan Tufvesson
Chairman

Members of the Board of Directors

Jan Olof Ingemar Tufvesson, Chairman (62)

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 a number of senior positions on the Royal Swedish Air Force Board. In 1980 he joined Ericsson where he held a number of senior positions, 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 active as an independent top management consultant, based in Stockholm. He is also a director of Arc International Plc.

Roland Pudelko, Chief Executive Officer and President (48)

joined Dialog Semiconductor in 1989 as managing director and has served as Executive Director, CEO and President since March 1998. He has 23 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 world-wide design and engineering. Mr. Pudelko has a diploma in communication technologies from the vocational college (Fachhochschule) of Esslingen. He is also the managing director of Dialog Semiconductor GmbH and our other consolidated subsidiaries.

Timothy Richard Black Anderson (40)

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. He is also a member of the board of directors of eight other companies.

Michael John Glover (62)

joined the board of our then-holding company in 1990 and has served as one of our directors since March 1998. Mr. Glover was involved in the establishment and financing of our UK operations. Prior to becoming involved in private equity fund management in 1985 he was a senior executive with electronic companies in the United Kingdom, Europe, the Far East and North America. 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 for other companies including Biocode Inc. and Mercury Grosvenor Trust plc.

John McMonigall (57)

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 eight other public and private portfolio companies, including HighwayOne, Neurodynamics, AutoNomy, Jazztel, TelDaFax AG and Crane Telecom.

Michael Risman (32)

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 investments in information technology including semiconductors, software and e-commerce infrastructure. Before joining Apax Partners in 1995, Mr. Risman worked for The MAC Group as a strategy consultant and for Jaguar Cars as an engineer. He earned an MBA from Harvard Business School and an MA (Honors) in Electrical Engineering and Management from Cambridge University. He is also a director of Streamserve Inc., ARC International Plc and Integrated Silicon Systems Ltd.

Mark C. Smith (60)

joined us as a director in March 1998. Mr. Smith currently serves as the Chairman of the Board and Chief Executive Officer of Adtran, which he helped co-found in 1985. He was also co-founder, and served as Chairman of the Board, President and Chief Executive Officer of Universal Data Systems (a modem and data communications equipment manufacturer later purchased by Motorola, Inc.) from 1970 to 1979 and remained as its President until co-founding Adtran.

Tord Martin Wingren (40)

joined us as a director in March 1998. Mr. Wingren has been working with Ericsson for more than 15 years where he currently serves as Vice President and General Manager of Product Platform Development and Technologies.

The Articles 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 last appointment or re-appointment, he shall retire. A Director who retires at an annual general meeting may, if willing to act, be re-appointed.

Additional Information

Directors' and Executives' Compensation

We compensate non-employee directors who are not associated with any of our principal shareholders £ 5,000 to £ 15,000 per annum. None of the members of non-employee directors was our employee at any time during 2000. 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. Payments to Reynolds Porter Chamberlain for legal services rendered during the 2000 fiscal year amounted to approximately € 353,191. We reimburse all of our directors for their reasonable travel expenses incurred in connection with attending meetings of the board of directors or committees thereof. Under certain circumstances, directors are also eligible to receive stock options. The following table sets out the aggregate amount of remuneration paid by us and our subsidiaries to all our directors and senior executives as a group for services rendered during the year ended December 31, 2000.

	Directors and Senior Executives (in €)
Base salary	793,325
Bonuses	734,016
Monetary value of other benefits	78,284
Amounts reserved for pension or similar benefits	0

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 case of Gary Duncan and Peter Hall, their agreements are terminable by either party to the agreement on 6 months' written notice to the other. Richard Schmitz's agreement is terminable by either party on 3 months' notice to the end of a calendar quarter. Martin Klöble's agreement is terminable subject to German statutory provisions for termination. None of the service agreements contain provisions subjecting us to onerous obligations in the case of early termination.

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.

Glossary

Analog
A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

Analog circuits
Circuits that process analog signals.

ASIC
Application Specific Integrated Circuit; an integrated chip which is individually custom designed for a specific application rather than a general-purpose standard chip such as a microprocessor or memory chip.

Audio CODEC
The critical interface between outside world analog signals (such as the human voice) and the digital data processing inside a mobile phone. It acts as the main contributor to the voice quality of a mobile phone. It converts the digital signal received from the baseband subsystem into an analog signal that is fed to the loudspeaker and also converts the analog signal from the microphone into a digital signal.

Audio CODEC ASICs
ASICs designed to perform the Audio CODEC (see cover page 2) function.

Back-end assembly
The second phase of chip manufacturing during which the die is assembled into packaging designed not only to protect it, but also to provide external connections via a series of very fine wires.

Baseband
The frequency band occupied by the aggregate of all the voice and data signals used to modulate a radio carrier.

Baseband processing subsystem
The manner in which a microcontroller and a DSP control a baseband processor and interact with the operator of a mobile phone through the phone's display and keypad.

Bluetooth
A radio technology designed to standardize the transmission of signals over short distances between telephone, computers and other devices without the use of wires.

Broadband
Refers to a communications network in which frequency range is divided into multiple independent channels for simultaneous transmission of signals such as voice, data or video.

Chips
Electronic integrated circuits which are typically made of silicon.

CDMA
The term CDMA (code-division multiple access) refers to any of several protocols used in so-called second-generation (2G) and third-generation (3G) wireless communications. As the term implies, CDMA is a form of multiplexing, which allows numerous signals to occupy a single transmission channel, optimizing the use of available bandwidth. The technology is used in ultra-high-frequency (UHF) cellular telephone systems in the 800-MHz and 1.9-GHz bands.

CMOS
Complimentary Metal Oxide Semiconductor, the most popular class of semiconductor manufacturing technology.

CODEC
A coding/decoding device that converts, or encodes, analog signals into a form for transmission on a digital circuit. The digital signal is then decoded back to analog signals at the receiving end of the transmission link. CODECs allow voice and video transmission over digital links and may also support signal compression.

CompactRISC™ architecture
A processor architecture developed by National Semiconductor which works with less but faster executable commands than the processors used in PCs (Reduced Instruction Set Computers). This architecture prevails in the area of repetitive processing of huge amounts of data.

Digital
A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).

EDGE
EDGE (Enhanced Data GSM Environment), a faster version of the Global System for Mobile (GSM) wireless service, is designed to deliver data at rates up to 384 Kbps and enable the delivery of multimedia and other broadband applications to mobile phone and computer users. The EDGE standard is built on the existing GSM standard, using the same time-division multiple access (TDMS) frame structure and existing cell arrangements. EDGE is expected to be commercially available in 2001. It is regarded as an evolutionary standard on the way to Universal Mobile Telecommunications Service (UMTS).

Embedded applications
Applications which have been integrated with other functions on a single integrated circuit.

Foundry
A manufacturing plant where wafers are produced.

GSM
Global System for Mobile Communications; GSM has become the world's most widely used mobile system, operating on the 900 MHz and 1800 MHz frequencies in Europe, Asia and Australia, and the 1900 MHz frequency in North America and Latin America.

GPRS
General Packet Radio Services is a packet-based wireless communication service whith data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. The higher data rates will allow users to take part in video conferences and interact with multimedia Web sites and similar applications using mobile handheld devices as well as notebooks. GPRS is based on Global System for Mobile (GSM) communication and will complement existing services such circuit-switched cellular phone connections and the Short Message Service (SMS).

IC
Integrated Circuit; an electronic device which contains numerous components on a single chip.

ISDN
Integrated Services Digital Network.

Microcontroller
A microprocessor on a single integrated circuit intended to operate as an embedded system.

Mixed signal
Describes a combination of analog and digital signals being generated, controlled or modified on the same chip.

MP 3
MP3 (MPEG-1 Audio Layer-3) is a standard technology and format for compression a sound sequence into a very small file (about one-twelfth the size of the original file) while preserving the original level of sound quality when it is played.

Power management subsystem
See cover page 2.

Semiconductor
A base material halfway between a conductor and an insulator, which can be physically altered by mixing in certain atoms. Semiconductors form the basis for present-day electronics.

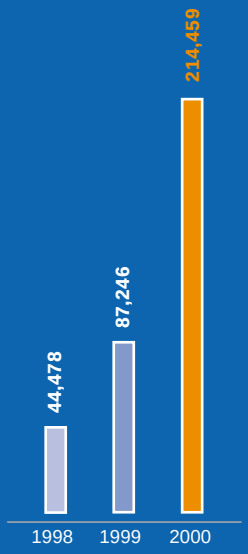
Silicon
A semi-metallic element used to create a wafer. It is the most common semi-conductor material, used in about 95% of all manufactured chips.

UMTS
Universal Mobile Telecommunications System; the name for the "third generation" mobile telephone standard in Europe, standardized by ETSI (European Telecommunications Standardization Institute).

Wafer
A slice of silicon sliced from a 4, 5, 6 or 8 inch diameter silicon bar which is used as the foundation on which to build semiconductor products.

Index

Selected Key Figures 1998 - 2000



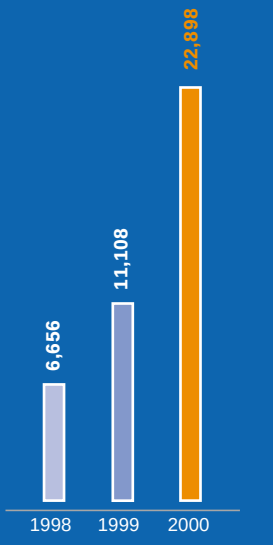
Total Revenues

Revenues by product-type (in thousands of €)

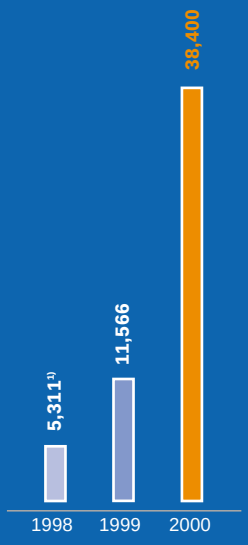
	2000	1999	1998
Wireless Communication	**180,345**	68,052	33,359
Wireline Communication	**9,501**	2,953	2,540
Automotive	**7,948**	6,980	1,779
Industrial	**15,221**	7,852	5,337
Other	**1,444**	1,409	1,463
	214,459	**87,246**	**44,478**

Revenues by regions (in thousands of €)

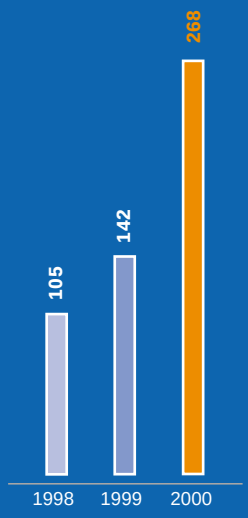
	2000	1999	1998
Germany	**40,941**	21,024	13,666
Sweden	**57,866**	29,679	11,333
United Kingdom	**21,480**	5,737	4,360
Other European countries	**35,726**	19,136	6,766
Malaysia	**35,582**	5,145	0
Other Asian countries	**5,490**	496	2,615
USA	**14,805**	5,076	5,429
Other countries	**2,569**	953	309
	214,459	**87,246**	**44,478**



Research and development



Operating profit



Employees

[1)] Excluding acquired in-process technology charge of € 9,300.

Our Products:
ASIC Applications

Wireless ASICs	Function	User benefit
Audio CODEC	The Audio CODEC subsystem is the critical interface between the real world analog signals (such as the human voice) and the digital data processing inside the mobile phone. It is therefore the main contributor to the voice quality of a mobile phone.	□ Improved voice quality
Power Management	The power management subsystem is responsible for the supply of power from the battery to the other subsystems and controls their power consumption. The basic function of the power management subsystem is to generate and monitor all required voltages and currents, to charge and monitor the battery and to interface with the SIM card.	□ Longer battery life □ More talk and standby time
FM Radio Audio	A recent addition to mobile phone designs, the inclusion of FM radio is an extension of the Audio CODEC subsystem to handle stereo signals.	□ Added Radio functionality
MP3	Handling MP3 data brings music to mobile phones; it decodes a highly compressed bit stream into CD quality audio turning the phone into a super compact and lightweight "Walkman". Music can be either downloaded over the phone line or loaded from a computer via a Flash memory card or USB interface.	□ Added MP3 functionality
Bluetooth	Bluetooth functionality employs a low power radio link to enable users to connect a wide range of computing and telecommunications devices easily and simply, without the need to buy, carry, or connect cables. It will be incorporated into a wide range of equipment, mobile phones, automobiles, computers and peripherals.	□ Ease of use

Other applications	Function	User benefit
Wireline communication	Line interface ASICs from Dialog enable high-speed digital transmission within digital telephone and private networks. Custom interfaces for standards such as T1, ISDN, xDSL feature low noise and low power performance. They provide the interface between the transmission cable or telephone line and digital transmission equipment such as routers or modems.	□ Higher transmission data rates
Sensors	Sensors are the "eyes and ears" of automotive control systems. Sensors used in airbag systems relay signals to an electronic control unit, which determines deployment of the airbag. Similarly braking and stability control systems rely on sensors to feed information to their controllers.	□ Improved safety
Motor control	Modern automobiles have electronic motors operating everything from power windows, air conditioning systems, windshield wipers and to gauges on the dashboard. The controller function ensures optimum operation at all times.	□ Lower cost □ Lower weight □ Improved safety
Sensors and power management	Applied to lighting systems at home or in industry, Dialog ASICs control a range of lamp technologies enabling fast starting, flicker free dimming and efficient power management.	□ Improved efficiency □ Longer bulb life

Investor Information

Annual Meeting

The year 2001 annual meeting of Dialog Semiconductor Plc will be May 17, 2001 9 a.m. Greenwich Mean Time

Conrad International London
Chelsea Harbour
London SW10 0XG
United Kingdom

Corporate Calendar

April 25, 2001
Release of first quarter results

May 17, 2001
Annual shareholders' meeting

July 25, 2001
Release of second quarter results

October 24, 2001
Release of third quarter results

Corporate Consel

Reynolds Porter Chamberlain
London, United Kingdom

Certified Public Accountants

KPMG Deutsche Treuhand-Gesellschaft
Stuttgart, Germany

US Listing

Our Shares are listed on Nasdaq in the form of American Depositary Shares (ADS). Each ADS represents one ordinary share

Dialog Semiconductor is subject to the regulations

ADS Administrator

ADS holders may instruct The Bank of New York, which administers our ADS program, as to the exercise of voting rights pertaining there to:

The Bank of New York
101 Barclay St., 22 West
New York, NY 10286

Dialog
Semiconductor