dialog SEMICONDUCTOR

Making the difference in power management

Annual report and accounts 2008

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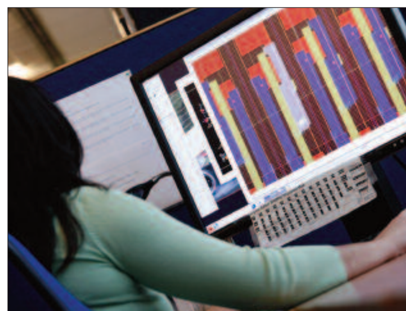

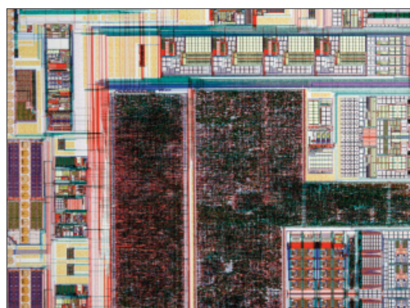
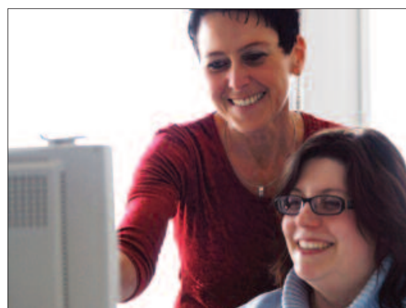

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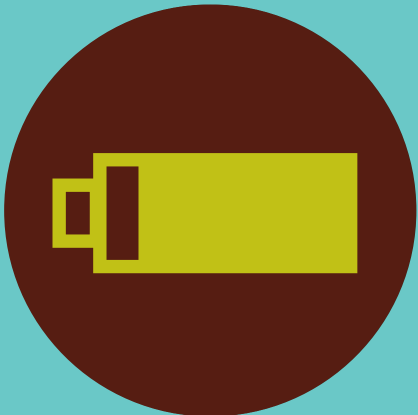
Dialog Semiconductor creates some of the world's most energy-efficient, highly integrated, mixed-signal integrated circuits. These are optimised for personal mobile and automotive applications. The Company provides flexible and dynamic support, world-class innovation, and the assurance of dealing with an established business partner. Customers with a significant contribution to revenue include Sony Ericsson, Apple, Bosch and Tridonic ATCO.

With its unique focus and expertise in system power management, Dialog brings decades of experience to the rapid development of integrated circuits for power and motor control, and audio and display processing. Dialog's processor companion chips are essential for enhancing both the performance of hand-held products and the consumers' multimedia experience. Automotive applications include intelligent motor control for comfort and safety systems. Over one billion parts have been shipped to date. With world-class manufacturing partners, Dialog operates a fabless business model. Dialog Semiconductor Plc is headquartered near Stuttgart, Germany with operations in Austria, China, Germany, Japan, Korea, Taiwan, UK, and the USA.



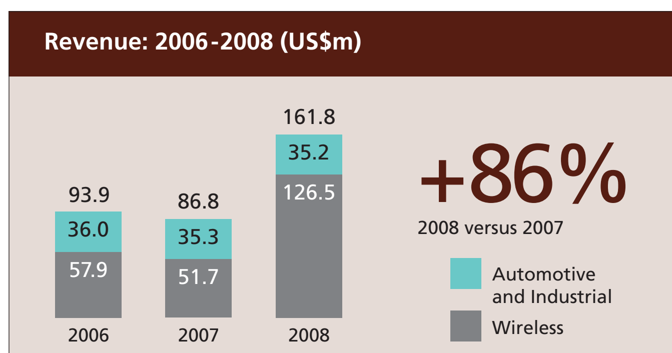
Dialog at a glance

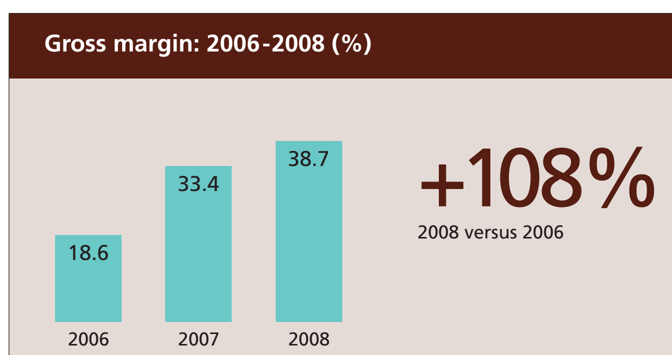
Financial highlights

- 86% growth in revenue, fully funded from own resources
- Full-year 2008 net profit of US$6.8 million – ending seven consecutive years of net losses
- Improved gross margin in every quarter of 2008 – reaching 42.1% for Q4 2008
- Cash holding increased to US$36.9 million
- Dialog remains debt free

Operational highlights

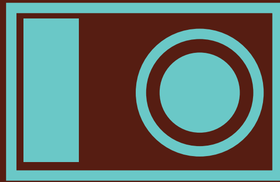
- Successful introduction and ramp of new products during 2008, with revenue contribution of more than 30% from products developed in the previous 12 months.
- Continued transition from customised ASIC products to standard ASSP products
- Successful entrance to the Smartphone market with industry leading providers – with first volume shipments in 2H 2008
- Expansion of customer base for advanced 3G/HSDPA integrated solutions to six cellular customers including adoption of the technology in the emerging netbook market
- Increased penetration and market share gain in portable media devices
- Pipeline of new products and customer design-ins that will stimulate future growth





Configurable power management IC – optimises efficiency of portable devices

February 2009 – Dialog Semiconductor introduces the DA9052, an advanced system power management integrated circuit (PMIC) that offers designers greater flexibility in reducing power consumption, size and cost in mobile phones and other portable multimedia devices. Conceived as a platform-PMIC, capable of supporting all major families of application and mobile graphics processors, DA9052 offers an unprecedented level of user configurability.

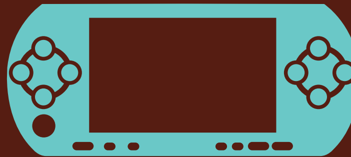


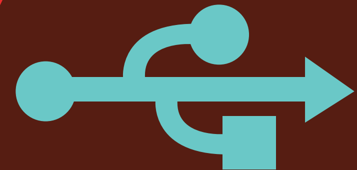
Our products are used in high-end display systems such as:

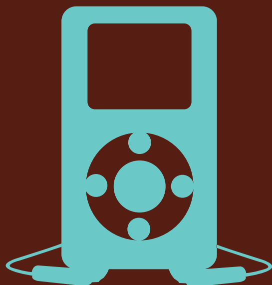
- Smart phones
- Mulitimedia handsets
- Personal media players
- Personal navigation systems

Our products offer:

- Better efficiency
- Extended battery life
- Lower cost and circuit complexity
- Higher resolution
- Low power image display







Dialog Semiconductor is working with the leading developers of next generation displays and deliver driver solutions able to support the ultra low power capabilities of emerging display technologies.

We have developed a range of advanced driver technologies for low power display applications – from OLEDs, to electronic paper and MEMs displays.

Our markets

Dialog has a successful record of delivering qualified and tested chips to the world's leading Original Equipment Manufacturers ("OEMs").

We supply these customers with standard or Application-Specific IC ("ASIC") products through a combination of direct sales and specialist independent sales representatives.

Our power management, audio and display semiconductor solutions are designed to meet the needs of the wireless, automotive and industrial systems markets.

Wireless communications

Our knowledge of designing for the wireless communications market is one of our major strengths, and the basis of a significant proportion of our business: more than 700 million mobile phone handsets incorporate our power management and audio processing chip designs. Our expertise in low-power, mixed signal circuit design helps manufacturers to deliver a range of highly integrated chip and system-level solutions for mobile and cellular handsets, and to satisfy the requirements of 2.5G, 3G, GPRS and CDMA wireless systems. Our products employ leading-edge silicon and packaging technologies.
We design, manufacture and test our products to enable complex devices and features to be developed rapidly and at low risk.

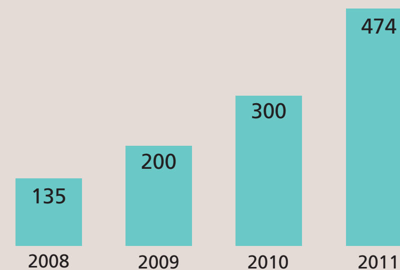
Power management and audio TAM for PMP, 3G/HSDPA and Netbook

US$ billion

Source: Dialog 2009

Mobile terminal OLED and sub display driver TAM

US$ million



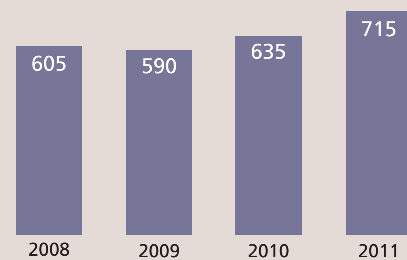
Source: Dialog 2009

Our power management, audio and display semiconductor solutions are designed to meet the needs of the wireless, automotive and industrial systems markets.

We focus our semiconductor solutions for the automotive industry on safety and comfort electronics. Working closely with our customers, we develop Application-Specific Integrated Circuit ("ASIC") or custom chips for systems which support safety and comfort for the car driver and passengers such as windscreen wiper motor controller, seatbelt adjusters and intelligent battery management. We also work in partnership with automotive manufacturers on the development of high-voltage (40V) System-on-Chips ("SoC") which, on the same silicon, include a microcontroller, embedded flash memory, high-voltage devices, and high-performance analog components.

Automotive safety/comfort integrated motor controller TAM

US$ million



Source: Dialog 2009

Industrial systems

We offer a range of established mixed signal components for industrial systems, including dimming, control, sensor and power management ASICs for use in lighting systems, and single-chip solutions for intelligent control of fluorescent lamps.

We supply these customers with standard or Application-Specific IC ("ASIC") products through a combination of direct sales and specialist independent sales representatives.

Chairman's statement

Dear Shareholders,

I am delighted to announce a very impressive set of results for 2008; more so given the current economic climate. This is testament to the passion of the Management Team to ensure the successful turnaround in the fortunes of the Company. As I write, the year ahead is uncertain for most businesses but we are cautiously optimistic of making further progress.

I am acutely aware however that this continued improved performance has not been reflected in our share price. In the recent past the Board has tried to support the Management in delivering the financial turnaround of the Company. Over the coming year there will also be increased focus on improving the liquidity of our shares in an effort to ensure Shareholders benefit from the improvement in financial performance.

I am concerned also to ensure that appropriate remuneration plans are in place to provide incentives for employees and which will act as retention tools. This should lead to the objectives of the employees and the Shareholders being better harmonised. Last year, the Board put in place the Long Term Incentive Plan for senior executives and issued further options under the Employee Share Option Scheme. However, with the current share price, the Board believes it is necessary to re-evaluate their effectiveness. These are matters the Board will seek to address over the coming months.

Greg Reyes
Chairman

Dialog Semiconductor shares in 2008

Investment case

Dialog Semiconductor has a proven and established history in the development and supply of state-of-the-art power management, audio and display driver integrated circuits. It has built a stellar reputation as a quality supplier of superior products to the high volume cellular, portable media and automotive industries. The Company's core competency is its ability to develop and bring quickly to production in a fabless model, complex mixed signal integrated circuits containing an extremely high level of integration for power management, audio and control functionality on a single monolithic chip.

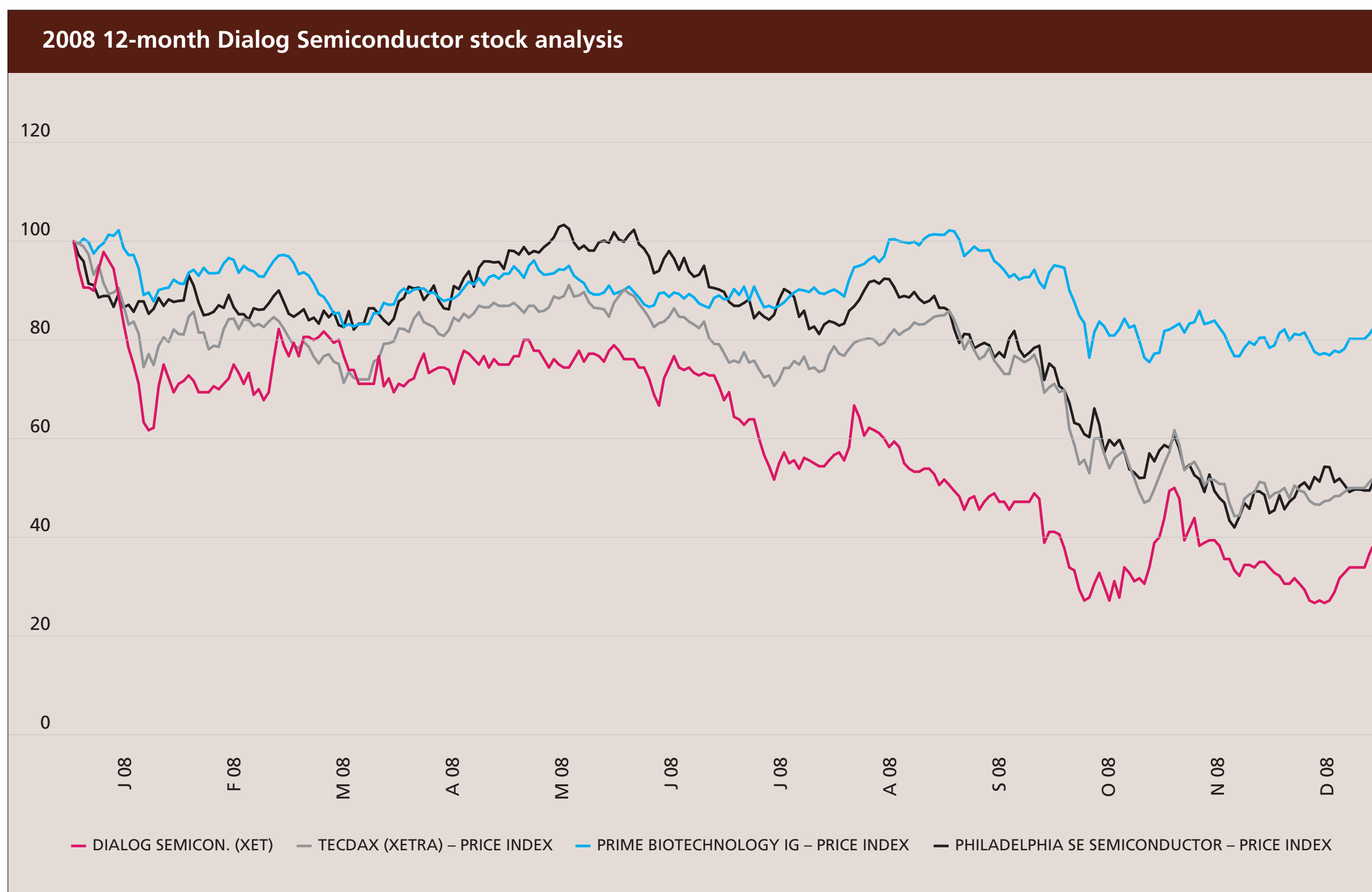
Dialog supports customers with both Application Specific Standard products and customised ASIC solutions. Dialog is engaged with industry leading global customers in its respective segments, deriving revenue from a number of established and emerging high-growth markets.

Dialog Semiconductor's share price development

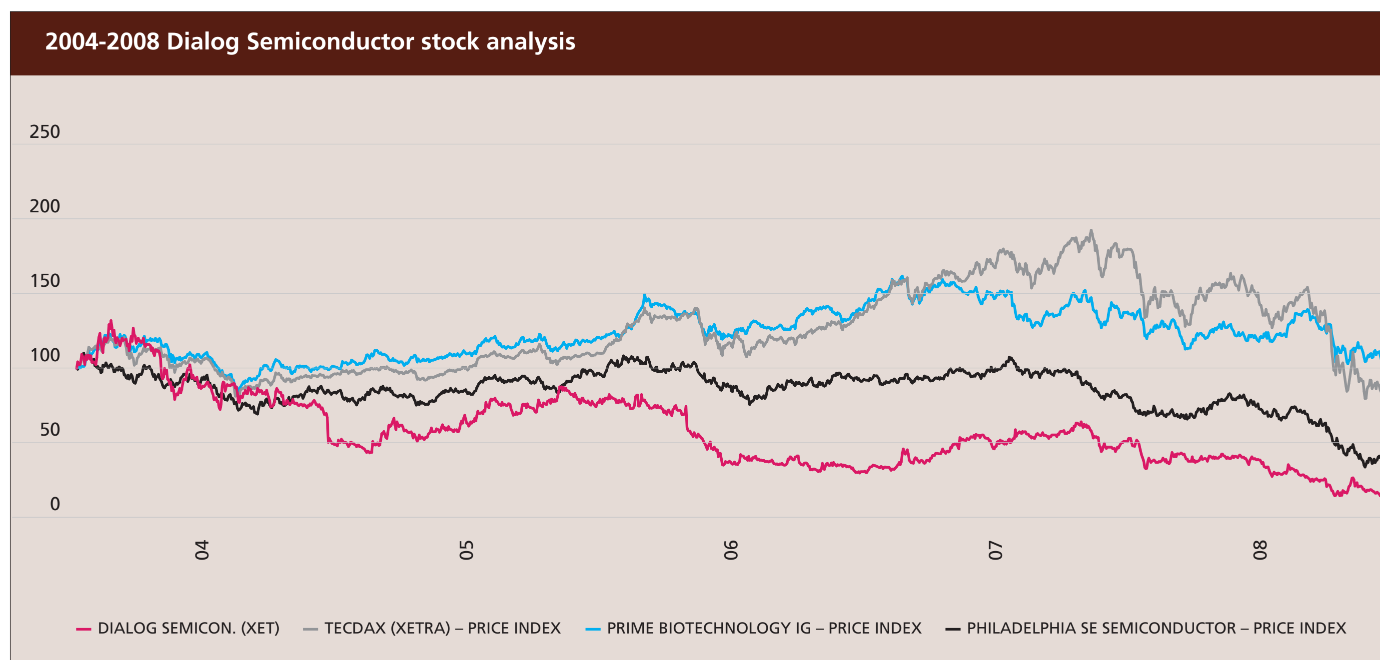
The following graphs chart the cumulative Shareholder return of the Company for the past 12 months and for the past five years, compared with selected technical benchmark indices – Germany's TECdax index, Prime Semiconductor index ("SemiC") and the Philadelphia SE Semiconductor index ("SOX").

In 2008, Dialog Semiconductor's share price decreased by 59%, from €1.70 at the beginning of the year to €0.70 at the end of the year. It underperformed the benchmark indices throughout 2008. This was primarily driven by the global financial crisis which added tremendous pressure to the mid and small cap companies, especially Semiconductor companies who typically have high cyclical exposure to a global recession. Concerns around the automotive end market in Germany caused additional pressure on the stock.

2008 12-month Dialog Semiconductor stock analysis



Dialog Semiconductor shares in 2008



Share fundamentals for the financial year 2008

Total number of shares outstanding and registered as of 31 December 2008	46,068,930
Weighted average number of shares during 2008 (diluted)	45,408,000
Type	Ordinary
Par value (in £)	0.1
Bloomberg Symbol	DLG
Reuters Symbol	DLGS.DE
ISIN	GB0059822006

Key figures for the financial year 2008 based on weighted average number of shares (basic)

Sales per share (in US$)	3.56
Operating profit per share (in US$)	0.13
Net profit per share (in US$)	0.15
Book value per share as of 31 December 2008 (in US$)	1.33
Accounting standards	IAS/IFRS

Market data 2008

Exchange segment Germany	Midcap, Prime All Share, Prime Technology, Technology All Share
Designated sponsor	West LB
Market capitalisation as of 31 December 2008 (in millions of €)	32.2
Daily Turnover of shares during 2008	75,668 shares/day

Trading in Dialog shares

Dialog shares are traded in Germany on the XETRA and Frankfurt regulated official markets and on all other German regional exchanges on the open market.

Dividend policy

Dialog Semiconductor participates in industries that are considered to be global growth engines and provides its services and products to the major players in these industries.

Dialog's Board of Directors is committed to re-investing all profits into laying the framework for future growth and continues to believe that, in line with the strategic changes under way, this policy is in the best interests of all its Shareholders.

Investor relations

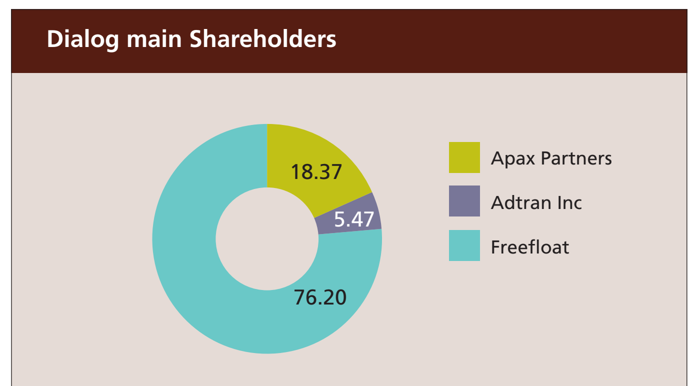
Dialog Semiconductor understands the importance of clear communication with investors and analysts, particularly during a period of great uncertainty and global economic crisis. During 2008, the management team continued its efforts to ensure that the market was kept up to date with the effect the changing macro environment was having on its business, together with the important and exciting changes under way at the Company.

Dialog Semiconductor's shares are followed by a number of analysts representing major banks and research institutions in Europe. During 2008, we issued quarterly earning reports, we held our annual analyst conference, attended or presented at several conferences and, in addition, kept in regular contact with our investors and analysts.

Information provided, including presentations, press releases and reports of the Company, as well as the recommendations of analysts covering the Company, can be downloaded from the corporate Website: www.dialog-semiconductor.com.

Shareholder structure

Information about the main Shareholders of the Company is shown in the following graph.



Freefloat

Freefloat includes 4,621,593 shares (10.0%) held by the Capital Group International, Inc. as notified on 14 December 2007 on behalf of discretionary clients, 1,881,425 shares (4.09%) held by Allianz Global Investors Kapitalanlagegesellschaft mbH as notified on 28 January 2009 on behalf of discretionary clients, 1,444,700 shares (3.1%) held by Union Investment Privatfonds GmbH as notified on 26 January 2009 on behalf of discretionary clients, 1,383,306 shares (3.0%) held by X-FAB Semiconductor Foundries AG as notified on 17 February 2009, 1,118,468 shares (2.4%) held by Pictet Asset Management Ltd as notified on 15 January 2009 on behalf of discretionary clients, 1,085,616 shares (2.4%) held by Cominvest Asset Management GmbH as notified on 30 June 2008 on behalf of discretionary clients and 641,259 shares (1.4%) held by the Dialog Semiconductor Plc Benefit Trust.

Disclosure of interests

The provisions of the UK Companies Act 2006 require that any person acquiring a direct interest of 3% or more of a class of shares issued by the Company – with voting rights at the Company's general meeting – must inform the Company of its interest within two working days. If the 3% interest is exceeded, the Shareholder must inform the Company of any increase or decrease of one percentage point in its interest.

Business review

The strategy developed and executed in 2006 and 2007 enabled us to achieve "hyper" growth in 2008 with increased profitability, low inventory, no debt and more cash than we had at the beginning of the year.

In 2007's annual report, we set out a number of objectives designed to enable us to build, and improve, on that position during 2008. Since the creation of sustainable Shareholder value lies at the heart of our strategy, profitable growth continues to be our principal objective.

We stated that we would continue our efforts to fine-tune our strategy and to develop the Company to ensure that we achieve our objectives. Our financial KPIs are set out on page 2, and our operational KPIs are set out on this page.

Strategy: to improve our cost platform

Progress: **Full fabless model operations** using subcontractors in Asia; streamlining of logistics and offshore warehousing achieved low SG&A ratio as a percentage of sales by improving productivity

Strategy: to diversify our revenue

Progress: **New market area expanded** through development of highly integrated power management devices for consumer multimedia markets
Expanded highly-integrated audio and power management devices for 3G/HPSDA mobile and smartphones to six customers
More than 35% of revenue is now generated from customers in North America

Strategy: to focus our products and sales on higher-growth markets

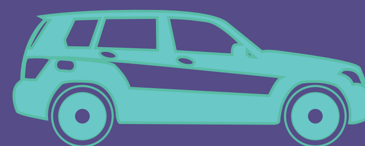
Progress: **Progress: R&D focused on a broad base of products invested such as Smartxtend technology for PMOLED displays** and system power management products for application processors

Strategy: to strengthen our management and skill base

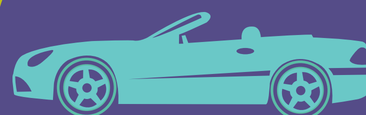
Progress: **Created worldwide manufacturing operations** as well as business development and corporate strategy management functions
Continued to recruit highly skilled design, application and marketing talent

Europe's **top five** car makers use our custom, mixed-signal, system-on-chip devices for smart motor control, where they reduce size and cost, and boost performance and reliability.

Produced on a purpose designed automotive CMOS process, our unique ICs combine high performance analogue circuits, flash memory, microcontrollers, high density digital logic and high voltage circuits on a single chip.



Dialog's motor control ICs are custom designed for a wide range of automotive applications, including window and mirror control, automatic seat belt tensioning, accurate windscreen wiper control, and control of engine cooling fans.



We are engaged with major customers to develop energy saving integrated circuits, supporting advanced fluorescent, high intensity and LED lighting applications.

Chief Executive's review

Despite strong economic headwinds, 2008 was an excellent year for growth in sales and profitability for Dialog. Our Board and the executive team focused on delivering on the long-term strategy of leveraging Power Management as our core expertise in the growing personal mobile products market. The Company has a stronger balance sheet and we are now moving forward with confidence for continued profitable growth in the years ahead.

Nothing succeeds like success and we are convinced about Dialog's potential to pursue a number of higher-growth opportunities in the mobile phone, consumer electronics and automotive systems markets. Our excellence in engineering mixed-signal chips and established relationships with a number of world-class customers led to an 86% growth in our top line. Equally encouraging, Dialog achieved full year profitability for the first time since the year 2000 and has now recorded five consecutive quarters of profitability. This growth was fully funded by our own resources while growing our cash balance.

Clearly we have a lot more work to do to achieve our medium range growth and profitability targets, but our 2008 results demonstrate the Company's progress in executing to its chosen strategy. With improved gross margins in every quarter of 2008, we finished up over five percentage points for the full year at 38.7% and attained 42.1% in the fourth quarter. This is a particularly impressive achievement given the tougher economic climate during the year and the ever increasing pricing pressure we see from customers.

I am not satisfied with the development of our share price in a year where we had high growth and performed ahead of our competitors. My gratitude goes to our Shareholders who have remained faithful to us despite this less than pleasant share price development. I am sure that our consistent orientation towards profitable growth is going to increase the Shareholder value in the longer run.

We made significant progress in addressing the challenges highlighted in the past year's report:

- Improving our cost platform;
- Diversifying our revenue;
- Focusing our products and sales on higher-growth markets; and
- Strengthening our management and skill base.

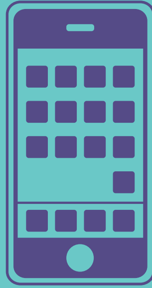
With the completed transition to a fabless semiconductor model for fabrication, packaging and test operations using manufacturing partners in Asia, our cost platform was significantly improved. We now have a truly scalable business platform to build further growth without major capital expenditure and at the same time protecting ourselves in this economic downturn against "under utilisation" costs of such equipment.

Additionally, we have set up a manufacturing support centre in Taiwan with Dialog engineers embedded within our manufacturing partners facilities. We believe that maintaining a tight working relationship with our subcontractors will help achieve high yields and maintain high levels of production quality during the steep volume ramps experienced with new products developed for our largest customers.

We took steps in simplifying and improving our supply chain logistics. With further upgrading of our IT systems to improve our planning and inventory management, we can continue to scale the revenue, while maintaining our operational cost ratios at best in class industry benchmarks

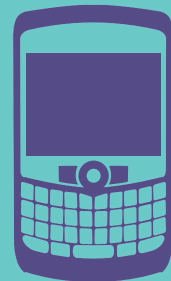
The year 2008 was one of rapid growth and improving financial performance. During the first half, we experienced the seasonally lower revenue – as we had forecasted. In the second half, we saw increasing revenue from our wireless products. This was driven by the success of our 3G/HSPA integrated power management and audio products. We have been successful in diversifying our revenue and expanded our cellular customer base to six customers, as the trend for higher data rates in cell phones accelerated.

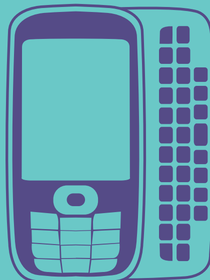
Additionally, the second half of the year saw the adoption of our solutions by leading Smartphone manufacturers, with volume production already in a popular model sold today. Despite the forecasted contraction of the cellular industry, we are encouraged as 3G/HSPA and Smartphones are the highest forecasted growth sectors of the cellular industry for 2009.



SmartXtend™ technology allows the main displays of mobile devices – particularly those offering W-QVGA and QVGA resolution – to utilise passive matrix OLED displays rather than LCD or active matrix OLEDs.

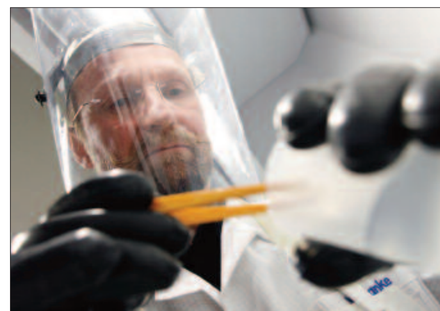
Dialog's low power, highly integrated, mixed-signal CMOS ICs for personal mobile devices, including wireless handsets, extend battery life, create high quality audio and produce brighter, crisper image displays. Today, over **700 million** 2.5G, 3G, GPRS and CDMA handsets contain Dialog devices.





By matching our own innovation to the needs of another, we produced an award winner and could have a significant impact in one of the world's largest global markets

Chief Executive's review



Our rapid development of highly integrated power management devices for hand-held consumer multimedia applications, helped expand revenue in what is a growth market for Dialog. We expect to see more designs in this market to enter into production in 2009 and thereby further diversify the number of platforms we derive revenue from.

We have made good progress transitioning to a more balanced portfolio of Application Specific Standard Products versus customised ASIC products – with 33% standard products by year end. This allows us to sell the same product to multiple customers which should further increase our profitability. It also provides us access to emerging high growth markets, for example netbooks and other personal portable devices, further expanding the addressable market for Dialog technology. Through a focused R&D approach, in 2008 we have seen the first results of our investments in advanced low power audio and highly configurable system power management technology and we plan to launch additional market beating products in 2009.

We recently introduced our highly innovative SmartXtend™ technology for passive matrix OLED displays, with our first production products scheduled for the second half of 2009. This technology is continuing to gain good attention with major cell phone manufacturers. In combination with solutions for other ultra low power display technologies such as MEMS and electronic paper displays, this new range of products will provide Dialog with additional areas for revenue generation in the important cell phone market.

Whilst the economic and market conditions in the second half of 2008 meant that we saw a reduction in our automotive revenues, we are confident in our potential for growth in this segment over the longer term as the automotive market recovers. Our portfolio of automotive and industrial products, which covers highly integrated smart motor controllers and intelligent lighting control products, has continued to expand as we develop new products through customer funded engagements.

We attracted leading industry talent and expertise to the Company in 2008, particularly in our design, application engineering, product marketing, sales and global manufacturing teams. We firmly believe that this will improve our ability to deliver further profitable growth. In the second half of the year, we opened Dialog's new sales and engineering support office in Korea as we anticipate an increased revenue stream from this region. Additionally, we expanded our executive team with the creation of a new position for global strategy and business development.

In 2008 we relaunched our corporate website in line with our new corporate identity, introduced with last year's report. This has helped align our appearance and business values with the confident position we hold in the markets we serve.

My sincere thanks to all Dialog employees who have shown innovation, great resilience as well as dedication and loyalty throughout a very challenging yet satisfying year.

In 2009 we aim to:

- Continue to develop and market an expanded portfolio of Application Specific Standard Products to address a broader customer base in high growth markets;
- Leverage our competitive advantage in power management, advanced audio and high voltage mixed-signal capabilities through focused R&D, to develop best in class products;
- Increase our sales, marketing and technical support to customers worldwide, particularly in North America and Asia; and
- Optimise our operating platform and increase efficiencies by taking advantage of advanced Information Management Systems for planning, logistics and sales operations.

Amidst a time of great uncertainty for our industry and customers, we will continue to strive to create sustainable Shareholder value for Dialog – your Company. We expect that Dialog will buck industry trends in 2009 and achieve growth and perform in excess of our competitors.

In conclusion, let me once again affirm that I remain confident in our future.

Dr Jalal Bagherli
Chief Executive Officer

Solutions, products and key customers

Our products and solutions meet the needs of Original Equipment Manufacturers ("OEMs"). We design, develop and deliver mixed signal components and system-level solutions in areas such as power management, audio CODECs, and System-on-Chip ("SoC") integration.

Our solutions

Our solutions address two major markets: mobile handset and portable electronic devices, and automotive and industrial electronics.

The continuing decrease in size – and increase in capabilities – of electronic devices, is a major driver in the development of our solutions. High-speed data, video and high-quality audio on mobile telephones and other hand-held products, make huge demands on battery energy management, as well as on the technology which controls the quality of images and displays.

Our skill in developing highly integrated silicon solutions enables our customers to design products which deliver excellent performance as well as market-leading talk and standby times.

In the automotive market customers use our products in the comfort and safety systems, as well as in the management and control of the electronic systems they design for cars; and in the industrial market customers use our products in highly integrated smart-power management systems, such as intelligent electronic ballasts for fluorescent lighting.

Design, development and production

We are justifiably recognised for the quality and feature-rich functionality of our mixed signal standard Integrated Circuit ("IC") and Application Specific Integrated Circuit ("ASIC") solutions. We nevertheless continually work to increase our digital and analog design expertise, and to develop our software. During 2008, we invested US$36.7 million in research and development.

Our ability to develop mixed signal ASIC and Application Specific Standard Product ("ASSP") designs rapidly, enables us to respond to customers' needs for new solutions that increase performance, while at the same time reducing cost. Our strategy of modifying and re-using a wide set of specialised analog building blocks speeds up the design process; in addition, our use of industry standard design tools increases the level of automation and the quality of verification in our products. Our commitment to continuously deepening our expertise has resulted in increased levels of integration and product innovation in all business sectors. We continue to focus our research and development on state-of-the-art technology to meet the demands of next-generation products.

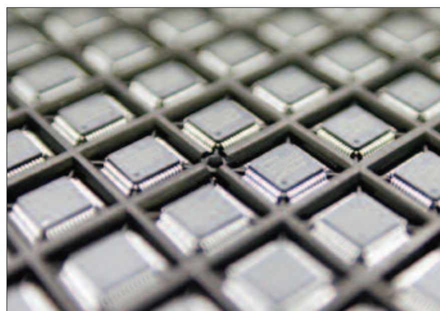
Our products

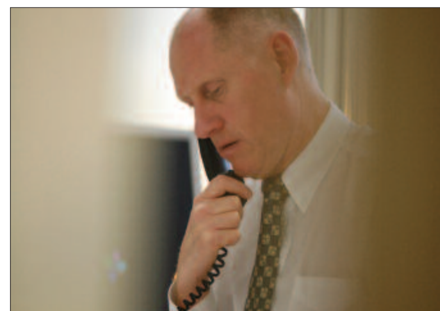
Broadly speaking, we produce two ranges of products which are both built around similar technology "building blocks". For high-volume customers, we engineer and fine-tune system solutions to their precise specifications; for those market segments which consist of lower-volume customers, we provide a range of flexible application specific standard products designed to cover a broader set of requirements. Our overriding philosophy is to provide flexibility without degrading performance. This approach gives a diverse set of customers access to the highly integrated power management, audio and display technologies developed by Dialog.

Now that the majority of semiconductor manufacturers are "fabless" (they outsource the fabrication, or manufacture, of their chips to silicon foundries) the electronics industry is becoming more specialised. For example, our system platform partners often enter into agreements with us to design exclusive custom chips to form part of their systems and, in turn, license their system platform to a number of manufacturers of end-user equipment. Those OEM manufacturers complete the circle by buying the chips from us.

Power management and audio ICs. Effective power management – in which the design of chips used in hundreds of millions of mobile phones and other portable devices has given us a great deal of experience – is increasingly one of the fundamentals of system design. However, power management constantly presents new challenges with the introduction of multi-core processors, increased peak currents due to lower geometry technologies and multiple sleep modes. Lithium batteries need to charge faster, safer and from a wider variety of sources such as USB ports demanding powerpath control for example. These trends impact the power management IC directly and we constantly evolve our core technology and intellectual property to extend our market-leading status.

Solutions, products and key customers





With a legacy of over 50 different power management designs for the world's leading mobile phone manufacturers and portable consumer OEM's we optimise all aspects of the design including electrical, thermal and mechanical (packaging) considerations. These designs offer unprecedented integration with multiple power management and analogue functions on the chip, including programmable high-performance LDOs (low drop-out voltage regulators), high-efficiency DC-DC voltage converters, intelligent battery charging circuits, software programmable LED drivers, sensor ADCs, USB interfaces, and multichannel audio capabilities.

By capitalising on our experience in integrating high and low voltage circuits on CMOS – the most widely-used semiconductor technology – and combining it with our experience in developing and integrating high-performance CODECs and other analog functions, we are able to offer a selection of unique power management and audio solutions. The integration of more than 30 different functions on a single chip delivers significant space, power and cost savings to our customers.

Display drivers and related-system ICs. The demands from the market for the next generation of portable displays to be "always on", with longer battery life and better front of screen performance even in bright sunlight means the current technology based on Liquid Crystals (LCD) will struggle. To address these important market needs a number of new display technologies, such as e-paper, MEMs and OLEDs have been launched. Dialog has not only worked closely with the key innovators of these display technologies but also key users to develop and introduce a range of truly innovative low power silicon driver solutions.

During 2008 TDK demonstrated the first three-inch WQVGA passive matrix OLED panel which was driven by Dialog's drivers based on our new SmartXtend technology. The technology uses a number of innovative techniques, including a unique addressing scheme, accurate dynamic current matching and state-of-the-art power management to outperform LCD displays.

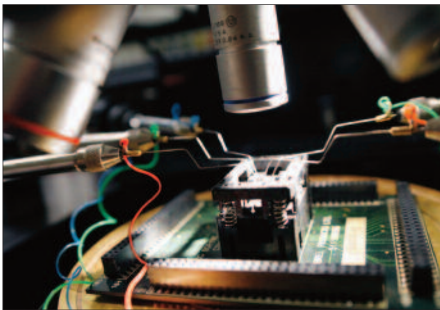
SmartXtend™ will form the basis of a new family of PMOLED drivers which will be launched during the second half of 2009.

Automotive and industrial system ICs. The ICs we supply to leading Tier 1 customers who in turn deliver Dialog-based products to nearly all leading car manufacturers, capitalise on our expertise and knowledge of technology, ranging from power management systems and mixed signal design, to high voltage circuits and embedded microprocessors on a single chip in a standard CMOS process. We provide technology for windscreen wipers, electric windows and motorised seat belts, and our partnership with leading car sub suppliers has resulted in chips which can be connected direct to a car battery without external protection circuits. In addition, we are pursuing the Systems-on-Chip integration of advanced 32-bit microprocessors for products that require sophisticated signal processing for automotive sensing applications.

Our single-chip solutions for industrial systems integrate microprocessors with high-voltage, low-power circuits which allow dimming and power factor correction used for fluorescent and high intensity lamps.

Application Specific Integrated Circuits ("ASICs"). Our ASICs form the basis for highly integrated control chips for smart power electronic systems, in applications such as computer and mobile communications systems. They are ideal for situations in which chips have to be highly integrated and also have the ability to control high voltages intelligently using digital circuits on the same chip.

We work in partnership with the silicon foundries which manufacture our ASIC solutions, to ensure that our customers have access to the latest CMOS processes, as well as to the foundries' capacity. This, combined with our own in-house engineering capability, ensures that our customers are able to meet their cost and time-to-market objectives



Manufacture, assembly and testing

Wafer manufacture. We outsource our wafer production to selected foundries, principally in Singapore and Taiwan, which provide high-quality products and have the ability to meet both our stringent qualification requirements and tight deadlines. Our choice of CMOS, rather than bipolar, technology enables more transistors to be integrated on a single chip – a necessary requirement for our target markets – and the end products are less power hungry.

Assembly and testing. The final assembly of our chips is outsourced to a number of qualified subcontractors in Asia. Our test programmes, based on our own and individual customers' specifications, are developed by our test engineers in parallel with the design process.

All test development is undertaken at our Nabern facility using the same type of test equipment and handling interfaces that are used in our offshore test sub-contractors in order to speed up the volume ramp and production transfer process. All production testing and warehousing of final product is outsourced to our Asian test sub-contract partners enabling direct drop shipments to our end customers.

We have also created a specialist offshore operations and support centre in Taiwan. We have our own manufacturing and technical engineers close to foundries, and assembly and test subcontractors in Asia. By being "on the spot" to resolve any potential engineering issues quickly, they can forestall potential delays in production.

Quality and environment control

We have an uncompromising approach to quality assurance in every area of our operations and an uncompromising goal to deliver "zero fail" products. Active employee participation in error prevention approaches has enabled us to win the approval of all our major customers and to exceed their ppm failure rate expectations. The overall objective of our quality management system is to provide all our customers with the assurance that our products and services not only fulfill their current contractual requirements, but will also meet their future needs.

We are committed to minimising our impact on the environment by developing and promoting environmentally-compatible products, and operate in accordance with the ISO 14001 international environmental quality standard.

We continuously promote awareness and knowledge of environmental issues throughout the organisation to ensure that they become a natural part of the decision-making process. As we demand the same standards from our suppliers we only form supply-partnerships with those who are accredited to the same international quality standards.

For more detailed information on specific products, please see our Website: www.dialog-semiconductor.com.

Our principal customers

Our principal customers are recognised wireless communications, consumer electronics, industrial and automotive equipment manufacturers. These include customers for both our standard products introduced over recent years and for application specific (ASIC) products.

The rapidly-evolving technology in all our target market sectors means that a partnership approach with our customers is essential – whether for standard products or for custom solutions. As a result, our customers look to Dialog as an outside source of expertise, while the close working relationship provides us with an opportunity continually to develop and fine-tune market leading technological expertise with recognised industry leaders.

We strive to form long-term relationships with all our major customers. In 2008, major revenue contributions came from customers such as Sony Ericsson Mobile Communication, Apple, RIM, Asus, Sharp, Motorola, Bosch, Tridonic, Siemens, Continental, Adtran and Qualcomm.

Financial review

"Our continuous focus on working capital management is paying off."

Jean-Michel Richard, CFO, Vice-President, Finance

The following discussion of our financial condition and results of operations should be read in conjunction with the audited financial statements included within this annual report, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The following tables detail the historical statements of the operations of Dialog for the financial years ended 31 December 2008 and 2007 in US dollars and as a percentage of revenues.

	2008		2007		Change
	US$000	% of revenues	US$000	% of revenues	%
Revenues					
Wireless	**126,504**	**78.2**	51,701	59.6	144.7
Automotive/industrial	**35,193**	**21.7**	35,327	40.7	(0.4)
Corporate sector	**133**	**0.1**	(255)	(0.3)	(152.2)
Revenues	**161,830**	**100.0**	86,773	100.0	86.5
Cost of sales	**(99,217)**	**(61.3)**	(57,812)	(66.6)	71.6
Gross profit	**62,613**	**38.7**	28,961	33.4	116.2
Selling and marketing expenses	**(11,007)**	**(6.8)**	(7,253)	(8.3)	51.8
General and administrative expenses	**(9,853)**	**(6.1)**	(7,945)	(9.2)	24.0
Research and development expenses	**(36,721)**	**(22.7)**	(31,105)	(35.8)	18.1
Other operating income	**775**	**0.5**	1,190	–	(34.9)
Restructuring and related impairment charges	**145**	**0.1**	(1,120)	(1.3)	(112.9)
Operating profit (loss)	**5,952**	**3.7**	(17,272)	(19.9)	(134.5)
Impairment of investments	**–**	**0.0**	(2,662)	(3.1)	(100.0)
Interest income and other financial income	**874**	**0.5**	1,097	1.3	(20.3)
Interest expense and other financial expense	**(919)**	**(0.6)**	(531)	(0.6)	73.1
Foreign currency exchange gains and losses, net	**126**	**0.1**	519	0.6	(75.7)
Result before income taxes	**6,033**	**3.7**	(18,849)	(21.7)	(132.0)
Income tax expense	**728**	**0.5**	(136)	(0.2)	(635.3)
Net profit (loss)	**6,761**	**4.2**	(18,985)	(21.9)	(135.6)

Results of operations

Segment reporting

Revenues in the **wireless communications sector** were US$126.5 million for the year ended 31 December 2008 (2007: US$51.7 million) comprising 78.2% of our total revenues (2007: 59.6%). The significant increase in this sector resulted from higher sales volumes in 2008 as a result of successfully introducing new products for consumer portable multimedia players and 3G/HSDPA mobile phones in the second half of 2007.

2008 operating profit in the wireless communications sector was US$10.9 million compared to an operating loss of US$12.4 million in 2007. This was achieved through a significant increase in revenue coupled with a richer product mix and higher margins derived from new products introduced in 2008.

Revenues from our **automotive/industrial applications sector** were US$35.2 million for the year ended 31 December 2008, almost flat to 2007 (2007: US$35.3 million) representing 21.7% of our total revenues (2007: 40.7%). However, operating losses in the sector were reduced from US$1.3 million in 2007 to US$875,000 for the year ended 31 December 2008.

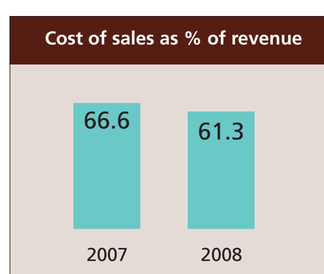
The **corporate sector** includes sales discounts for early payments, the costs of the holding company, stock option expenses, bonus payments for employees and management and restructuring expenses. The operating loss in the corporate sector was US$4.1 million for the year ended 31 December 2008 (2007: US$3.5 million). In 2008 the corporate sector also included expenses related to the introduction of a Management Long-Term Incentive Plan (LTIP US$0.4 million – for further information please refer to note 22b). Further charges were booked for one-time costs for legal obligations in connection with two rented offices that the Company will vacate in 2009 (US$0.8 million).

Revenues

Total revenues for the year ended 31 December 2008 were US$161.8 million (2007: US$86.8 million). The increase of 86.5% in revenues results from higher sales volumes in our wireless communication sector, as described above.

Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overheads and depreciation of test and other equipment. For the year ended 31 December 2008, cost of sales increased by 71.6% to US$99.2 million (2007: US$57.8 million) reflecting the increased revenues during the year. However, as a percentage of total revenues, cost of sales in the same periods decreased from 66.6% to 61.3%, demonstrating the gains made possible by our ongoing efforts to improve the Company's product mix and the efficiency of the previously announced restructuring measures taken since 2006.



Gross profit

Gross profit for the year ended 31 December 2008 was US$62.6 million (2007: US$29.0 million). Our gross margin increased from 33.4% of revenues in 2007 to 38.7% of revenues for the year ended 31 December 2008, driven by lower cost of sales as a percentage of revenue and the accelerated introduction of new products as prescribed above.

Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, travel expenses, sales commissions and advertising and other marketing costs. In 2008, selling and marketing expenses increased to US$11.0 million in line with increased revenues and as a result of the Company's investment in creating value by increasing staff in strategic marketing functions (2007: US$7.3 million). However, given the increased revenues, selling expenses decreased from 8.3% of total revenues in 2007 to 6.8% of total revenues in the year ended 31 December 2008.

General and administrative expenses

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources and other management departments. In 2008, general and administrative expenses increased to US$9.9 million (2007: US$7.9 million). Our fourth quarter 2008 expenses include one-time costs for legal obligations in connection with two rented offices that the Company will vacate in 2009 for an amount of US$0.8 million. Despite that increase, as a result of a higher revenue base and effective cost control measures, general and administrative expenses decreased from 9.2% of total revenues in 2007 to 6.1% of total revenues in the year ended 31 December 2008.

Research and development expenses

Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits (ASICs) and Application Specific Standard Products (ASSPs). Research and development expenses increased to US$36.7 million in 2008 (2007: US$31.1 million). This increase was primarily driven by our continuous and strategic investments in research and development. However, as a percentage of total revenues, research and development expenses decreased from 35.8% in 2007 to 22.7% in the year ended 31 December 2008, resulting from a higher revenue base in the latter period.

Financial review

Other operating income

Other operating income in 2008 includes the unexpected settlement of US$0.3 million against a receivable which had been written down in 2006 as a result of the insolvency of BenQ Mobile GmbH. Other operating income also includes the release of a liability of US$0.2 million which the Company had booked in 2007 to account for a potential warranty claim of one of its customers. In Q1 2008, the Company was able to successfully close this issue to the satisfaction of both parties. Other operating income in 2008 also includes the release of a reserve in the amount of US$0.2 million that the Company had booked in Q1 2006 in conjunction with the spin-off of our digital imaging business (DIS). In Q2 2008, the Company was able to release this reserve after having been informed by DIS that the potential liability was no longer justified.

Operating profit (loss)

We reported an operating profit of US$6.0 million (2007: loss of US$17.3 million) for the year ended 31 December 2008. The improvement primarily resulted from higher gross profits.

Interest income and other financial income

Interest income and other financial income includes income from the Company's investment (primarily short-term deposits and securities). Interest income and other financial income in 2008 was US$874,000 (2007: US$1.1 million). The net decrease is primarily driven by a planned reduction in short-term investments (securities) and reduced interest rates.

Interest expense and other financial expense

Interest expense and other financial expense consist primarily of expenses from the Company's factoring agreement and losses from the sale of securities. Interest expense and other financial expense in 2008 was US$919,000 (2007: US$531,000). The net increase is primarily driven by an increase in trade receivables financing and a loss from the sale of securities.

Net income (loss)

For the reasons described above, in 2008, we reported a net income of US$6.8 million. This compares to a net loss of US$19.0 million in the previous year. Income per share was US$0.15 for the year ended 31 December 2008 (2007: loss per share: US$0.42).

Liquidity and capital resources

Cash flows

Cash provided by operating activities was US$9.3 million for the year ended 31 December 2008 (2007: cash outflow of US$10.2 million). The cash inflow in 2008 relates primarily to the operating income (adjusted by non-cash effective expenses). This cash inflow was partially offset by cash used to finance the increase in working capital. The cash outflow in the year ended 31 December 2007 mainly resulted from operating expenses as well as an overall increase in working capital.

Cash provided by investing activities in 2008 was US$12.1 million (2007: cash outflow US$6.1 million). The cash inflow resulted primarily from the net sale of securities of US$19.7 million. This cash inflow was partially offset by cash outflows in connection with the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a grand total of US$3.5 million (2007: US$4.1 million), the purchase of software and licences of US$2.8 million (2007: US$1.1 million) and payments related to capitalised development costs of US$1.4 million (2007: US$0.7 million).

Liquidity

At year ended 31 December 2008 we had cash and cash equivalents of US$36.9 million (31 December 2007: US$15.9 million) and zero marketable securities (31 December 2007: US$19.9 million). The working capital (defined as current assets minus current liabilities) was increased to US$47.2million (31 December 2007: US$36.1 million).

As at 31 December 2008 we had no long-term debt (31 December 2007: nil).

A reduction in customer demand for our products, caused by unfavourable industry conditions or an inability to develop new products in response to technological changes, could materially reduce the amount of cash generated from operations.

If necessary, we have available for use a short-term credit facility of US$8.9 million (€6.4 million) that bears interest at a rate of EURIBOR + 0.75% per annum. At 31 December 2008 we had no amounts outstanding under this facility. In addition, we have a factoring agreement, which provides the Company with up to US$30 million of readily available cash (up US$17 million compared 31 December 2007). Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy our working capital requirements in the near to medium term if required.

Balance sheet

	2008 US$000	2007 US$000	Change US$000	%
Assets				
Cash and cash equivalents and available for sale securities	**36,915**	31,844	5,071	15.9
All other current assets	**30,388**	21,822	8,566	39.3
Total current assets	**67,303**	53,666	13,637	25.4
Property, plant and equipment, net	**7,734**	10,452	(2,718)	(26.0)
Intangible assets	**4,640**	2,443	2,197	89.9
Held to maturity securities	**–**	4,000	(4,000)	–
All other non-current assets	**676**	662	14	2.1
Total non-current assets	**13,050**	17,557	(4,507)	(25.7)
Total assets	**80,353**	71,223	9,130	12.8
Liabilities and Shareholders' equity				
Current liabilities	**20,148**	17,531	2,617	14.9
Net Shareholders' equity	**60,205**	53,692	6,513	12.1
Total liabilities and Shareholders' equity	**80,353**	71,223	9,130	12.8

The balance sheet total was US$80.4 million at 31 December 2008 (31 December 2007: US$71.2 million). Compared to 31 December 2007, total cash and cash equivalents and securities (held as available for sale and held to maturity) increased by 3% to US$36.9 (31 December 2007: US$ 35.8).

2008 net capital expenditure and investments in property, plant and equipment and intangible assets of US$7.6 million were more than offset by depreciation and amortisation expenses in the amount of US$7.7 million and impairment charges and losses on disposal of fixed assets amounting to US$1.0 million. All other non-current assets remained stable

Current liabilities in 2008 were US$2.6 million above the previous year's level, and relate primarily to higher trade accounts payable in the course of our increased business volume.

We had no non-current liabilities at 31 December 2008.

Shareholders' equity increased to US$60.2 million (US$53.7 million at 31 December 2007), mainly as a result of increased net profit (adjusted by expenses for share-based payments). At the year ended 31 December 2008, the equity ratio was 74.9% (75.4% at 31 December 2007).

Financial review

Off-balance-sheet arrangements and other commitments

We have no off-balance-sheet arrangements involving variable interest entities. We lease all our office facilities, office equipment and vehicles under operating leases. In addition, we have contracted consulting services related to computer aided design (CAD) until 29 December 2009. Future minimum payments under these agreements, which have initial or remaining terms in excess of one year at 31 December 2008, are as follows:

	Operating leases and software commitments 2008 €000	**Other commitments 2008 €000**	Operating leases and software commitments 2007 €000	Other commitments 2007 €000
Within one year	**3,060**	**1,411**	2,180	2,293
Between one and two years	**1,608**	**205**	338	2,557
Between two and three years	**742**	**69**	235	993
Between three and four years	**397**	**–**	176	94
Between four and five years	**371**	**–**	–	5
Thereafter	**536**	**–**	–	–
Total	**6,714**	**1,685**	2,929	5,942

Finance lease, hire purchase and software commitments

The Group has finance leases and hire purchase contracts for test and IT equipment and has software contracts. The leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum payments under finance leases and hire purchase and software contracts together with the present value of the net minimum payments are as follows:

	Minimum payments **2008 US$000**	2007 US$000
Within one year	**418**	–
Between one and two years	**303**	–
Total minimum payments	**721**	–
Less amounts representing finance charges	**(50)**	–
Present value of minimum payments	**671**	–

We have no long-term debt, capital lease obligations, unconditional purchase obligations or any other long-term or financial obligations that would have a material impact on our liquidity or financial condition. We have supply agreements with various suppliers.

Dividend

We did not pay dividends in the years ended 31 December 2008, 2007 and 2006 and do not plan to pay dividends in the foreseeable future. Dialog's Board of Directors is committed to reinvesting all profits into creating a framework for future growth and continues to believe that – in line with strategic changes underway – this policy is in the best interest of Dialog's Shareholders.

Jean-Michel Richard
CFO, Vice President Finance

Risks and their management

The market
The market in which we compete is intensely competitive and highly cyclical, and is characterised by continuous development and technological improvement. Our future success depends on our ability to anticipate and respond to new market trends, to implement new designs rapidly to meet customers' needs, and to keep abreast of the technological changes. As a result, we invest in research and development to enable us to create innovative designs and products on a cost-effective, timely basis.

Revenue and profitability
We were profitable in 2008 but had not been profitable for the previous seven financial years. We therefore cannot guarantee that we will be profitable in the future. But we constantly seek to improve profitability by launching new products and acquiring new customers. Since we continue to rely on a relatively small number of customers for a substantial proportion of our revenue, the loss of one or more of these customers would be likely to have a material affect. Our goal is to spread this risk by acquiring more customers. In the past year, we have made considerable progress in this objective. We are attempting to reduce the risk of our revenues, profitability and growth being affected by a slow-down in the wireless communications market by winning customers in other sectors.

Third-party costs
During 2007, we outsourced our manufacturing and testing to lower-cost environments, where there is excellent capacity, to overcome the potential problem of an inability to access manufacturing capacity which would result in increased costs and, therefore, decreased revenue.

Supplier risk
The financial crisis and its potential impact on the economy will result in a global economic slowdown which could have a negative impact on the Company's suppliers. If any of the Company's suppliers were to become insolvent, there could be a risk of the Company's production being interrupted. For this reason, the Company tries to source its components from at least two different suppliers and from different sites. In addition, the Company takes the necessary precautions for supplier insolvency with its risk management system in which information on the creditworthiness of suppliers is kept. This allows the Company to identify suppliers at risk at an early stage.

Intellectual property
We make strenuous efforts to protect our intellectual property from being copied or used by others.

Interest rate risk
The Group earns interest from bank deposits and uses money market deposits with highly rated financial institutions. During the year, the Group has held cash on deposit with a range of maturities from one week to one month. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements. Furthermore, during the year the Group also held liquid "investment grade" rated debt-based funds classified as available for sale or held to maturity. These funds incorporated floating interest rates that were reset as market rates changed. By the end of 2008, all securities were sold for cash. The Group has no long-term debt and no amounts outstanding under short-term credit facilities as at 31 December 2008 (2007: US$nil).

The Group's policy is to manage its interest income using a mix of fixed and variable interest rate debts. In order to achieve this policy, the Group invests in highly liquid funds having a matching investment strategy. Once the operating business has been financed, short-term excess funds are invested in floating interest rate securities. Only short-term deposits bear fixed interest rates.

Currency risk
The Company's functional – and presentational – currency is the US dollar, and the majority of its revenue and expenses are in that currency.

There are, however, foreign exchange risks associated with transactions, and recognised assets and liabilities in other currencies, primarily the euro and the pound sterling.

Transaction currency exposures arise from sales or purchases in currencies other than the US dollar. We use forward currency contracts to eliminate our exposure associated with the payment of salaries and wages in other currencies. We maximise the effectiveness of our hedge derivatives by matching the terms and conditions of the hedge to those of the underlying obligation (see note 26 on page 72 for further information).

Other price risks
IFRS 7 requires us to disclose how hypothetical changes in risk variables, such as stock exchange prices, would affect the price of financial instruments. As part of our cash management, in 2007 we invested in available-for-sale securities with defined maturities and repayments of 100% of their nominal amounts. Fluctuations could occur during their maturity, however, and have an impact on the Company's profit or loss. In 2008, the Group sold all securities for cash, eliminating all price risk associated with such instruments.

Credit risk
The Company is exposed to credit risk from its operating activities and certain of its financing activities. We ensure that our exposure to bad debt is minimised by constantly monitoring all customers who trade on credit terms, and receivable balances.

In August 2007, we entered into a factoring agreement with a reputable German financial institution for a total of €10 million to finance our growth. In 2008, the amount was increased to US$30.0 million. Since the financial institution assumes all risks associated with the collection of receivables from selected customers, the agreement significantly reduces our risks associated with their collection.

Our exposure to credit risks arising from other financial assets, such as cash and cash equivalents, available-for-sale and held-to-maturity financial investments, would arise from the default of a counterparty and is limited to the carrying amount of the particular instruments.

Liquidity risk
We monitor our liquidity on a quarterly basis with the objective of avoiding interest on short-term bank liabilities or overdrafts. Our policy is to structure the maturity of our current financial assets in the Group to meet 100% of the respective maturities and liabilities.

Corporate social responsibility

Corporate social responsibility
Dialog considers that the social challenges of corporate responsibility should be based on fair wages, healthy and safe working conditions, respect for human rights, honest relationships and commitment to community development.

With regard to these challenges Dialog is committed to the adoption of the Electronics Industry Code of Conduct (EICC) standard as the model for ensuring that working conditions for internal and external suppliers are safe and that all workers are treated with respect and dignity. In addition, the Company complies with the ISO 14001 environmental standard – and expects its suppliers to do the same – in order to ensure that all manufacturing processes are environmentally responsible.

Management systems
Dialog's management system complies with the EICC code. It is certified to the TS16949 international standard as a formal implementation of the code and is committed to implementing and facilitating continuous improvements, and to mitigating operations-related risks. To enable us to comply with all applicable laws, regulations and customer requirements, as required by the code, we also ensure that all our major supply-chain partners are accredited at least to the same standard. To ensure that we constantly improve our management systems, we regularly review and audit internal and supply-chain management systems.

The environment and environmental protection
The environmental agenda at Dialog considers climate change environmental protection aspects (air, land and water quality), effective resource management (eco-efficiency) and sustainability.

Our commitment to the environment is evidenced by our ISO14001 certification. Since we firmly believe that sustainable development can be secured only if we safeguard our valuable resources, we deal only with suppliers which have similar environmental goals and are also accredited to the ISO14001 standard.

Within our supply chain, we continually emphasise that environmental issues should be an instinctive part of any decision-making process, and that suppliers should use environmentally-friendly technology to:
- reduce and eliminate emissions of ozone-depleting, and other, chemicals;
- manage, reduce and dispose of hazardous substances safely;
- monitor and control waste water and solid waste emissions;
- reduce and eliminate all types of waste, including water and energy;
- reduce waste by maximising product yields; and
- ensure all environmental permits are obtained, maintained and kept current.

Health and safety
Dialog considers a safe and healthy working environment to be essential in the maintenance of employees' morale and in the production of high-quality and innovative products. As a result, we require our major suppliers also to be committed to ensuring the creation of healthy and safe working conditions. We expect them to provide evidence of suitable controls, safe working procedures, preventative maintenance and general protective measures in their working environments.

When hazards cannot be adequately controlled by these means alone, suitable protective clothing or equipment is supplied, and evacuation procedures and facilities are in place at Dialog's and suppliers' premises.

Connecting with employees
Dialog aims to attract and retain the best people by ensuring that all employees receive comprehensive on-the-job formal training, coaching and mentoring. Clear and regular communication is achieved through regular company-wide information sessions, led by the CEO, and every effort is made to keep employees fully aware of Company matters that affect them.

We encourage employee feedback at all levels for new ideas to improve business efficiency and performance. We support initiatives and fund raising in the local communities in which we work. In 2007, for example, we made a contribution to a cancer hospice charity.

Ethics
Dialog believes that continued success in the semiconductor market can be achieved only by adopting continuously high standards of ethical behaviour when dealing with customers, suppliers and workers. It is particularly important to protect Intellectual Property ("IP"), which is the key to ensuring the development of innovative solutions to complex problems. Any transfer of technology or know-how is always done in a manner that protects IP rights; effective protection also means that products can be discussed openly with our business partners.

The disclosure of information which is related to business activities, structure, our financial situation and performance is always carried out in accordance with applicable regulations and prevailing industry practices. We expect the highest standards of integrity from all Dialog stakeholders; any malpractice is strictly prohibited and may result in immediate termination and legal action.

Neither we nor our suppliers offer or accept inducements or any other means of obtaining undue or improper advantage. We have a "whistleblower" policy in place to protect employees' confidentiality and encourage our suppliers to do the same.

Human rights
Dialog's suppliers must demonstrate a commitment to upholding workers' human rights and to treating them with dignity and respect. Standards such as the Universal Declaration of Human Rights, Social Accountability International and the Ethical Trading Initiative have been used as a basis for these requirements.

All labour must be given voluntarily and workers must be free to leave their employment on reasonable notice. Child labour must not be used at any stage of manufacturing. Working hours must not exceed the maximum set by local laws, and wages must comply with all applicable laws.

Suppliers must ensure that workers are not threatened or subjected to inhumane or harsh treatment, harassment or any form of unlawful discrimination. Communication and direct engagement between workers and management is encouraged, even in those countries where there is no meaningful legal protection.

Executive management

Dr Jalal Bagherli (52)
Chief Executive Officer
Jalal joined Dialog, as CEO, in September 2005. He was previously Vice President and General Manager of the Mobile Multimedia business unit for Broadcom Corporation and the CEO of Alphamosaic. He has extensive experience of the semiconductor industry through his previous professional and executive positions at Texas Instruments and Sony, and a wealth of knowledge about the Far Eastern, European and North American markets. He is a non-executive Director of Lime Microsystems Ltd.

Gary Duncan (53)
Vice President, Engineering
Gary, who joined the Company in 1987, is responsible for the design and development of our semiconductor products. Before joining Dialog, he held senior engineering and management roles at Plessey and ES2.

Peter Hall (57)
Vice President, Supply Operations and Quality
Peter joined Dialog in 1987 and is responsible for supply operations, purchasing, procurement and quality control. He also reports directly to the Audit Committee in his role as Internal Audit Manager. His previous experience includes management and engineering positions at STC Semiconductors and MEM in Switzerland. Peter holds a BSc in electrical and electronic engineering from Newcastle University and an MSc in digital design techniques from Herriot Watt University, Edinburgh and an MBA from the Open University, United Kingdom.

Udo Kratz (46)
Vice President, General Manager Audio and Power Management Business Unit
Udo joined Dialog in May 2006. He is responsible for the Audio and Power Management Business Unit which makes products for the mobile phone and portable consumer markets. His 18 years' experience in the semiconductor industry was gained in general management, senior marketing and engineering at Robert Bosch GmbH, Sony Semiconductor and Infineon Technologies. Udo holds an electronic engineering degree from the University for Applied Sciences, Mannheim.

Jean-Michel Richard (45)
CFO, Vice President Finance
Jean-Michel joined the Company in 2006 to head up its finance department. He was previously Finance Director for the Global Manufacturing and Technology Division of ON Semiconductor, in Phoenix, Arizona, and before that held senior finance and treasury positions at ON and Motorola, in Europe and the US. Jean-Michel holds a Masters in Economics from the University of Geneva, Switzerland.

Jürgen Friedel (60)
Vice President, General Manager Automotive and Industrial Business Unit
Jürgen joined Dialog in 1999 and is responsible for the Automotive and Industrial Business Unit. He previously held senior management positions at SEL/ITT and National Semiconductor, in Germany. Jürgen holds a diploma in communications engineering from the University for Applied Sciences, Esslingen.

Manoj Thanigasalam (45)
Vice President, General Manager Display Systems Business Unit
Manoj joined the Company in March 2006. Responsible for the Display Systems Business Unit, he was previously Vice President of Business Development at ZBD Displays and, before that, was General Manager of marketing for the Digital TV and wireless communications market at Sony Semiconductor. He has also worked for Texas Instruments, Philips, ARM and LSI Logic. Manoj holds a degree in physics and electronics from Bradford University.

Mark Tyndall (44)
VP Business Development and Corporate Strategy
Mark Tyndall joined Dialog Semiconductor as Vice President of Business Development and Corporate Strategy in September 2008. Prior to Dialog, Mark was Vice President of Business Development and Corporate Relations at MIPS Technologies. From 1999 to 2006, he held the position of Vice President of Business Development at Infineon and has also served as a Board Director of a number of start-up companies, several of which were successfully acquired. Earlier in his career, Mark held management positions in marketing at Fujitsu Microelectronics and in design at Philips Semiconductors.

Mohamed Djadoudi (50)
Vice President, Global Manufacturing Operations.
Mohamed joined Dialog in March 2007 and is responsible for product engineering, test development, assembly development, data automation and software support and offshore manufacturing operations. Mohamed has 24 years' experience in the field of semiconductor manufacturing operations, starting initially with IBM in France and the US. He was previously Senior Vice President and Chief Technology Officer of the Unisem group, an assembly and test subcontractor based in Malaysia and China. He also held the position of Vice President of Test Operations at ASAT based in Hong Kong before becoming one of the original members of the management buy-out team of ASAT UK (Atlantis Technology UK), where he served as the Technical Director. Mohamed holds an Electronic and Electrotechnic degree from the Paris University of Technology.

From left to right: Peter Hall, Udo Kratz, Jürgen Friedel, Jalal Bagherli, Jean-Michel Richard, Gary Duncan, Manoj Thanigasalam, Mark Tyndall and Mohamed Djadoudi.

Board of Directors

Gregorio Reyes (66)
Chairman
Gregorio joined the Board in December 2003. His experience is primarily in data storage and magnetic recording, semiconductors, and telecommunications. He was President and CEO of National Micronetics from 1981 to 1984, and Chairman and CEO of American Semiconductor Equipment Technologies from 1986 to 1990. He co-founded Sunward Technologies in 1985 and was Chairman and CEO until 1994. He is currently on the Board of Seagate Technology and is also a Director of a number of privately-held companies, including LSI Logic, Nuera Communications, Future Trade Technology, Appshop and Astute Networks.

Dr Jalal Bagherli (52)
Chief Executive Officer
Jalal joined Dialog, as CEO, in September 2005. He was previously Vice President and General Manager of the Mobile Multimedia business unit for Broadcom Corporation and the CEO of Alphamosaic. He has extensive experience of the semiconductor industry, through his previous professional and executive positions at Texas Instruments and Sony, and a wealth of knowledge about the Far Eastern, European and North American markets. He is a non-executive Director of Lime Microsystems Ltd.

Michael John Glover (70)
Non-executive Director
Michael joined the Board of Dialog's then holding company in 1990 and has been a Director of Dialog since March 1998. He was previously an executive and Director of technology based companies in the UK, Europe, South-east Asia and North America and he is a Senior Fellow specialising in Entrepreneurial Business Development at the University of Surrey's School of Management. He holds a degree in economics from the University of Birmingham.

Aidan Hughes (47)
Non-executive Director
Aidan joined the Board in October 2004. He qualified as a Chartered Accountant with Price Waterhouse in the 1980s before taking senior accountant roles at Lex Service Plc and Carlton Communications Plc. He was Finance Director of the Sage Group plc from 1993 until 2000 and, from December 2001 to August 2004 was a Director of Communisis Plc. He is a Director of, and investor in, a number of UK private technology companies.

John McMonigall (65)
Non-executive Director
John joined the Board in March 1998. He has been a Director at Apax Partners since 1990 and, between 1986 and 1990, held a variety of senior positions at British Telecommunications plc and was also a member of the management board. He is currently on the Board of several other public and private companies including Autonomy Plc.

Russ Shaw (45)
Non-executive Director
Russ joined the Board in July 2006. He is currently Director of Innovation at Telefonica. He was previously Innovation Director at O2, which he joined as Marketing Director in 2005. The strong brand and product range he established resulted in significant customer growth. His more than 20 years' senior marketing and brand management experience in the telecoms and financial services area has enabled him to bring an excellent level of knowledge to Dialog.

Chris Burke (48)
Non-executive Director
Chris joined the Board in July 2006. Until the end of 2004, he was CTO at Vodafone UK Limited and was previously CTO at Energis, after spending 15 years in Research and Development at Northern Telecom. He holds appointments at Connectivity Ltd (an Esprit, and 3i Portfolio Company), Tatara Systems, One Access, INUK Networks, and March Networks. He currently invests from his own fund and provides strategic advice to a wide range of investors and technology companies, including HP Communications & Media, and VantagePoint Venture Partners.

Peter Weber (62)
Non-executive Director
Peter joined Dialog on 1 February 2006. He brought with him 35 years' experience, gained at a broad range of companies in the semiconductor sector, including Texas Instruments, Intel, Siliconix, the Temic Group and Netro Corporation. Since 1998 he has been an investor and management consultant, and is a Director of a number of companies in Europe and the US. Peter holds an MSEE degree in communications engineering.

Peter Tan (59)
Non-executive Director
Peter joined the Board in July 2006. He has held senior management roles across a wide range of technology companies, including Apple Computer, Molex and Flextronics. During more than 30 years' experience of operating in the Far East he has built up expertise in world-class manufacturing and technology companies.

From left to right: Gregorio Reyes, Peter Weber, John McMonigall, Aidan Hughes, Jalal Bagherli, Russ Shaw, Michael Glover, Peter Tan and Chris Burke.

Directors' report

The Directors of Dialog Semiconductor Plc ("Dialog" or "the Company") present their annual report and audited financial statements for the year ended 31 December 2008. These accounts have been prepared under IFRS for UK reporting purposes and available on the Company's Website, www.dialog-semiconductor.com.

Principal activities and review of the business

Dialog Semiconductor creates some of the world's most energy-efficient, highly integrated, mixed-signal integrated circuits. These are optimised for personal mobile and automotive applications. The Company provides flexible and dynamic support, world-class innovation, and the assurance of dealing with an established business partner. Customers with a significant contribution to revenue include Sony Ericsson, Apple, Bosch and Tridonic. With its unique focus and expertise in system power management, Dialog brings decades of experience to the rapid development of integrated circuits for power and motor control, audio and display processing. Dialog's processor companion chips are essential for enhancing both the performance of hand-held products and the consumers' multimedia experience. Automotive applications include intelligent motor control for comfort and safety systems. Over one billion parts have been shipped to date. With world-class manufacturing partners, Dialog operates a fabless business model. Dialog Semiconductor Plc is headquartered near Stuttgart, Germany with operations in Austria, China, Germany, Japan, Korea, Taiwan, the UK and the USA. The Company employs approximately 280 worldwide, and is listed on the Frankfurt (FWB: DLG) stock exchange.

More information about the business is set out in the Chairman's statement, on page 6, and in the Business review, on pages 10 to 24.

Future developments

The Group's stated objective is to be the leading global supplier of lowest-power, highest-quality mixed signal components and system level solutions to the wireless and automotive markets.

Research and development (R&D)

The Group believes that its future competitive position will depend on its ability to respond to the rapidly-changing needs of its customers by developing new designs in a timely and cost-effective manner. To this end, the Company's management is committed to investing in researching and developing new products and customising existing products.

To date, R&D projects have been in response to key customers' requests to assist in the development of new products, and for the development of application-specific standard products (ASSPs). The Company does not expect any material change to this approach in the foreseeable future.

Going concern

After reviewing the 2009 budget and longer-term plans, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going-concern basis in preparing the financial statements of the Company.

Dividends

The Directors do not recommend the payment of a dividend (2007: nil). They are committed to re-investing all profits into the business and believe that this policy is in the best interests of its Shareholders.

Purchase of own shares

The Company operates an Employee Share Option Trust which purchases shares in the Company for the benefit of employees under the Company's share option scheme. Since the Company has *de facto* control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2008, the Trust held 641,259 shares, which represented 1.4% of the total called-up share capital, at a nominal value of £64,126.

Share capital

Details of the share capital are set out in note 20 to the consolidated financial statements.

Substantial shareholdings

Details of substantial shareholdings are on page 9 of this annual report.

Directors

The Directors, together with their biographies, are listed on page 26 of this report.

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Directors' remuneration report on pages 31 to 34 of this annual report.
No Director had a material interest during the year ended 31 December 2008 in any contract of significance with any Group company.

Directors' report

Directors' third-party indemnity provisions
The Company has granted an indemnity to its Directors against proceedings brought against them by third parties, by reason of their being Directors of the Company, to the extent permitted by the Companies Act 2006. Such indemnity remains in force as at the date of approving the Directors' report.

Election and re-election of Directors
In accordance with the Company's Articles of Association, one-third of the non-executive Directors have to stand for re-election at the Annual General Meeting. The next Annual General Meeting will be held on 22 April 2009 at 9am.

Corporate Governance
The Company's Corporate Governance statement is set out on pages 29 and 30 of this report.

Supplier payment policy
It is the Group's policy to pay creditors in accordance with the terms and conditions agreed with them, and in accordance with contractual and other legal obligations. Days payable outstanding for the Group at 31 December 2008 was 40 days (2007: 77 days).

Financial instruments
The Group's financial risk management and policies, and exposure to risks, are set out on page 23.

Political and charitable contributions
The Group made no political contributions during the period. We made charitable contributions of US$8,993 to local community projects (2007: US$1,200).

Employee policies
It is our policy to support our people through training, career development and opportunities for promotion. We operate an open-management approach and consult with our staff on matters which are of concern to them. We share information with them on the performance of the Company which, together with related bonuses, encourages staff involvement.

Disabled persons
Our policy provides for disabled persons, whether registered or not, to be considered for employment, training and career development in accordance with their aptitudes and abilities.

Statement on disclosure of information to auditors
The Directors who were members of the Board at the time of approving the Directors' report are listed on page 26. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors affirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- they have taken all reasonable steps to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting
The notice convening the Annual General Meeting will be published separately and posted on the Company's Website.
The meeting will be held at Tower Bridge House, St Katherine's Way, London E1W 1AA on 22 April 2009 at 9am.

Auditors
In accordance with Section 384 of the Companies Act 2006, a resolution for the re-appointment of Ernst & Young LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Dr Jalal Bagherli
Director

25 February 2009

Corporate Governance

Governance standards
Dialog Semiconductor Plc is committed to implementing high levels of governance. Accordingly, Dialog Semiconductor (as a foreign company listed on the German stock exchange) has established and published its own Corporate Governance principles corresponding in substance to the provision of the "German Declaration on Corporate Governance".

Dialog's Corporate Governance principles are published on its Website (www.dialog-semiconductor.com). The Website also contains a full version of the Company's Code of Business Conduct and Ethics. This details Dialog's expectations regarding the ethical standards that each Director, officer and employee should follow while acting on the Company's behalf.

Corporate Governance information relating to the past financial year is set out below.

Shareholders and the Annual General Meeting ("AGM")
The AGM, at which the annual financial statements and audit reports are presented, is the main forum for Shareholders to exercise their voting rights. Directors appointed by the Board during any given year are subject to Shareholder approval at the AGM.

In addition, one-third of the Directors must resign each year and may put themselves forward for re-election. Changes to the constitution of the Company are decided by Shareholders' resolution. Similarly, the AGM is the forum at which Shareholders can authorise the Directors to issue new shares.

Dialog does not have any shares in issue which have multiple voting rights, preferential voting rights or maximum voting rights.

Board of Directors
The Board is responsible for determining Dialog's business strategy and ensuring that an executive is appointed to implement it.

It is also responsible for overseeing the financial aspects of the business.

The Board, which met five times during the year, currently consists of eight non-executive Directors and one executive Director. The compensation provided to each Director is detailed in the Directors' remuneration report on pages 32 and 33. The executive Director's remuneration is performance related and is connected to a set of goals and Dialog's profitability.

Audit Committee, and Remuneration and Nomination Committee
During the year, Dialog's Audit Committee comprised the following Directors: Aidan Hughes (Chairman), Michael Glover, Peter Weber and Peter Tan. The Committee is responsible for monitoring financial statements and reviewing the performance of the external auditors. It also assesses the efficiency of the audit process and (among other things) considers compliance with accounting standards. The Chief Executive Officer, Chief Financial Officer, the Company Secretary and representatives of the external auditors usually attend Audit Committee meetings.

During the year, the Audit, and Remuneration and Nomination Committees met frequently to analyse issues under their jurisdiction, usually on the day before each Board meeting.

The Remuneration and Nomination Committee is chaired by Russ Shaw who is assisted by Michael Glover and Chris Burke. The responsibility of the Committee, among other things, is to determine subject to Board approval, the salaries and incentives of Dialog's senior executives and decides on the size and composition of the Board. Corporate Governance is monitored at Board level – a reflection of the importance it is given by the Board.

Corporate Governance

Transparency

Under UK Disclosure and Transparency Rules, significant Shareholders are required to notify Dialog of a shareholding of 3% or more. Dialog must then notify BaFin and the Stock Exchange. Under S. 15a of the German Securities Trading Act (Wertpapierhandelsgesetz) transactions in the Company's shares carried out by members of the Board of Directors and their family members are reported and published without delay.

The Company operates a Code of Dealing in its shares which is designed to prevent insider trading and the abuse of price sensitive information.

The Board appreciates the value of keeping Shareholders informed of Dialog's performance throughout the year. As a result it publishes quarterly financial reports, together with key information on the AGM, on its Website.

Business conduct and ethics

Dialog seeks to comply with all laws and regulations that have an impact on its business. In addition, the Company expects its employees and Directors to act with honesty, integrity and fairness in the conduct of its business. Dialog's Code of Business Conduct and Ethics is published on the Company's Website.

Dialog is committed to taking account of interests outside the Company, including those of employees, business partners, the environment and the local communities on which it has an impact. The Board values, and has developed, a culture of corporate social responsibility that takes the above factors into consideration.

Audit and auditors

The consolidated financial statements have been audited by Dialog's auditors, Ernst and Young ("E&Y"). E&Y were appointed in October 2006 following a tender process.

The remuneration given to the auditors over the past two financial years is detailed in notes 4 and 31 to the consolidated financial statements on pages 55 and 80.

The Company's audited financial statements for the year ended 31 December 2007, and the reports from the Directors and auditors thereon, were presented to, and approved by, the Shareholders at the AGM of the Company held on 30 April 2008. E&Y, the Company's independent auditor, was reappointed until the following AGM.

Declaration of conformity with regard to the German Corporate Governance Code

Dialog Semiconductor Plc has established and published its own Corporate Governance principles corresponding in substance to the provisions of the German "Corporate Governance Code" as amended on 14 June 2007 thereby adopting in substance the recommendations of the Government Commission on the German Corporate Governance Code.

This declaration is available on the internet at: www.dialog-semiconductor.com.

Gregorio Reyes
Chairman

19 February 2009

Directors' remuneration report

Policy on Directors' remuneration

The Board is responsible for setting the Company's policy on Directors' remuneration; the Remuneration and Nomination Committee agrees the remuneration for each executive Director.

The primary objectives of the Company's policy on executive Directors' remuneration are first, that it should be structured so as to attract and retain executives of a high calibre, with the skills and experience necessary to develop the Company successfully and, second, to reward them in a way which encourages the creation of value for the Company's Shareholders.

The performance measurement of each executive Director and the determination of his annual remuneration package are undertaken by the Remuneration and Nomination Committee.

No Director is involved in deciding his or her own remuneration. The Remuneration and Nomination Committee comprises non-executive Directors and its role is, inter alia, to apply the Board's policy on remuneration. The current members of the Committee are Russ Shaw (Chairman), Michael Glover and Chris Burke.

The Company has one executive Director, Dr Jalal Bagherli, who was appointed on 12 September 2005. The executive Director's remuneration consists of three components:
1. Salary – reflects the executive's experience, responsibilities and market value;
2. Bonus – as part of his remuneration Dr Bagherli receives bonuses based on objectives set by the Remuneration and Nomination Committee relative to the performance of the Group, as an incentive to Dr Bagherli to achieve relevant and demanding targets, in relation to revenue growth, operating profit, design wins; and
3. Share options – details are set out in note 22 to the consolidated financial statements.

Compensation of non-executive Directors

Non-executive Directors, for example, are paid quarterly for their roles as Directors. Additional fees are paid to the Chairman of the Company's Board committees, the Audit Committee, and the Remuneration and Nomination Committee.

Our Directors are all reimbursed for any reasonable travel expenses incurred in connection with their attendance at Board meetings or Board committees; they are also eligible to receive share options.

Directors' contracts

The service agreement with Dr Jalal Bagherli, executive Director, dated 19 July 2005, is of unlimited duration. The agreement may be terminated by either party on six months' notice.

Performance graph

Details are set out on page 7 of this report.

Share options

Details are set out in note 22 to the consolidated financial statements, on pages 66 and 67.

Directors' share interests

Directors' beneficial interests (as defined by the Companies Act 1985) in 10 pence ordinary shares of the Company are set out in note 22a, on page 66, in the notes to the consolidated financial statements.

Directors' remuneration report

Directors' pension arrangements

The Company contributes 9% of the executive Director's basic salary to a pension scheme. There are no pension arrangements for non-executive Directors.

The compensation of the members of the Board of Directors is as follows:

Name and position	Base salary US$	Other US$	**Total 2008 US$**	Total 2007 US$	**Directors' holdings at 31 December 2008 Shares**	**Options**
Dr Jalal Bagherli *Executive Director and CEO*	311,955	127,917	**439,872**	630,847	**563,892**	**360,555**
Chris Burke *Non-executive Director*	36,701	–	**36,701**	40,024	**8,000**	**90,000**
Michael Glover *Non-executive Director*	36,701	–	**36,701**	40,024	**220,000**	**90,000**
Aidan Hughes *Non-executive Director and Chairman of the Audit Committee*	45,876	–	**45,876**	50,030	**25,000**	**90,000**
John McMonigall *Non-executive Director*	36,701	–	**36,701**	45,027	**100,000**	**90,000**
Gregorio Reyes *Non-executive Chairman*	45,876	–	**45,876**	55,033	**160,000**	**90,000**
Russ Shaw *Non-executive Director and Chairman of the Remuneration and Nomination Committee*	41,288	–	**41,288**	40,024	**19,891**	**90,000**
Peter Tan *Non-executive Director*	36,701	–	**36,701**	40,024	**30,000**	**90,000**
Peter Weber *Non-executive Director*	36,701	–	**36,701**	40,024	**25,000**	**90,000**
	628,500	**127,917**	**756,417**	**981,057**	**1,151,783**	**1,080,555**

Non-executive Directors' terms

All non-executive Directors are appointed for up to three years by the Board of Directors, subject to any earlier requirements to stand for re-election as required by the Articles of Associations (one-third of the non-executive Directors must stand for re-election at each AGM).

Share options granted to the executive Director

As of 31 December 2008, Jalal Bagherli, executive Director, held 360,555 options over ordinary shares which entitle him to acquire the same amount of shares:

Exercise price €	Date of grant	Expiry date	Vesting period	At 31 December 2007	Forfeited	Exercised	**At 31 December 2008**
2.00	12.09.2005	11.09.2015	4 years	60,000	–	–	60,000
3.50	12.09.2005	11.09.2015	4 years	60,000	–	–	60,000
5.00	12.09.2005	11.09.2015	4 years	60,000	–	–	60,000
6.50	12.09.2005	11.09.2015	4 years	60,000	–	–	60,000
8.00	12.09.2005	11.09.2015	4 years	60,000	–	–	60,000
0.10	01.02.2006	18.07.2015	1-44 months	83,438	(7,500)	(38,438)	37,500
0.10	01.02.2006	18.07.2015	1-44 months	51,293	(7,684)	(20,554)	23,055
				434,731	**(15,184)**	**(58,992)**	**360,555**

Directors' remuneration report

Share options granted to the non-executive Directors

Each non-executive Director was entitled to an initial grant of 50,000 options vesting monthly in 48 equal tranches. At each AGM, non-executive Directors receive a further 20,000 options vesting over 12 months. Options may be exercised at the market price prevailing at the date of grant. The non-executive Directors are not subject to performance criteria related to their remuneration. The stock options granted to non-executive Directors are not, therefore, subject to the achievement of performance targets.

The share option grants to non-executive Directors are as follows:

Director	Exercise price €	Date of grant	Expiry date	Vesting period	At 31 December 2007	Number of options granted	**At 31 December 2008**
Chris Burke	1.40	12.07.2006	11.07.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Michael Glover	1.27	19.06.2006	18.06.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Aidan Hughes	1.27	19.06.2006	18.06.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
John McMonigall	1.27	19.06.2006	18.06.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Gregorio Reyes	1.27	19.06.2006	18.06.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Russ Shaw	1.40	12.07.2006	11.07.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Peter Tan	1.40	12.07.2006	11.07.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Peter Weber	1.27	19.06.2006	18.06.2013	48 months	50,000	–	**50,000**
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	**20,000**
	1.35	30.04.2008	29.04.2015	12 months	–	20,000	**20,000**
Total					**560,000**	**160,000**	**720,000**

Approved by the Board of Directors and signed on its behalf by:

Tim Anderson
Secretary

19 February 2009

Statement of Directors' responsibilities

Statement of Directors' responsibilities

The Directors are responsible for preparing the IFRS report and accounts 2008 and the Group and parent company financial statements in accordance with the applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under the law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' report and Directors' remuneration report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's Website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dr Jalal Bagherli
Chief Executive Officer

Jean-Michel Richard
CFO Vice President Finance

19 February 2009

Independent Auditors' report

Independent auditors' report to the members of Dialog Semiconductor Plc
We have audited the Group and Parent Company financial statements (the "financial statements") of Dialog Semiconductor Plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

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

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions are not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

Opinion
In our opinion:
- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor
Reading
19 February 2009

Consolidated income statement

For the year ended 31 December 2008

	Notes	2008 US$000	2007 US$000
Revenue	25	**161,830**	86,773
Cost of sales		**(99,217)**	(57,812)
Gross profit		**62,613**	28,961
Selling and marketing expenses		**(11,007)**	(7,253)
General and administrative expenses		**(9,853)**	(7,945)
Research and development expenses	25	**(36,721)**	(31,105)
Other operating income		**775**	1,190
Gains and losses from restructuring	3	**145**	(1,120)
Operating profit (loss)	25	**5,952**	(17,272)
Impairment of investments		**–**	(2,662)
Interest income and other financial income	4	**874**	1,097
Interest expense and other financial expense	4	**(919)**	(531)
Foreign currency exchange gains and losses, net		**126**	519
Result before income taxes		**6,033**	(18,849)
Income tax benefit (expense)	5	**728**	(136)
Net profit (loss)		**6,761**	(18,985)

		2008	2007
Earnings (loss) per share (in US$)			
Basic		**0.15**	(0.42)
Diluted		**0.15**	(0.42)
Weighted average number of shares (in thousands)	2		
Basic		**45,125**	44,938
Diluted		**45,408**	44,938

Consolidated balance sheet

As at 31 December 2008

	Notes	At 31 December 2008 US$000	At 31 December 2007 US$000
Assets			
Cash and cash equivalents	6	**36,915**	15,923
Available-for-sale financial assets	7	**–**	15,921
Trade accounts receivable and other receivables	8	**7,455**	2,569
Inventories	9	**19,938**	17,051
Income tax receivables	5	**80**	85
Other financial assets	10	**1,532**	336
Other current assets	11	**1,383**	1,781
Total current assets		**67,303**	53,666
Property, plant and equipment	12	**7,734**	10,452
Intangible assets	13	**4,640**	2,443
Held to maturity securities	15	**–**	4,000
Deposits		**286**	209
Income tax receivables	5	**390**	453
Total non-current assets		**13,050**	17,557
Total assets		**80,353**	71,223
Liabilities and Shareholders´ equity			
Trade and other payables	16	**12,996**	14,735
Other financial liabilities	17	**646**	–
Provisions	18	**1,290**	978
Income taxes payable		**160**	40
Other current liabilities	19	**5,056**	1,778
Total current liabilities		**20,148**	17,531
Ordinary shares		**9,328**	9,328
Additional paid-in capital		**223,005**	222,914
Accumulated deficit		**(169,758)**	(177,844)
Other reserves		**(2,231)**	(501)
Employee stock purchase plan shares		**(139)**	(205)
Net Shareholders´ equity	20	**60,205**	53,692
Total liabilities and Shareholders´ equity		**80,353**	71,223

Consolidated statements of cash flows

For the year ended 31 December 2008

	Notes	2008 US$000	2007 US$000
Cash flows from operating activities:			
Net profit (loss)		**6,761**	(18,985)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Interest income, net		**(103)**	(969)
Income tax expense	5	**(728)**	136
Impairment of inventories		**1,220**	937
Impairment of investment	14	**–**	2,662
Depreciation of property, plant and equipment	12	**5,614**	5,486
Amortisation of intangible assets	13	**2,124**	900
Losses (gains) on disposals of fixed assets and impairment of fixed and financial assets		**1,016**	1,075
Expense related to share-based payments	22	**1,325**	905
Changes in working capital:			
Trade accounts receivable and other receivables	8	**(5,584)**	(6,816)
Factoring	26	**632**	8,913
Inventories		**(4,105)**	(10,529)
Prepaid expenses		**(73)**	(321)
Trade accounts payable		**(1,451)**	6,290
Provisions		**470**	(461)
Other assets and liabilities		**1,837**	(496)
Cash generated from (used for) operations		**8,955**	(11,273)
Interest paid		**(654)**	(76)
Interest received		**1,077**	1,153
Income taxes paid		**(45)**	(53)
Cash flow from (used for) operating activities		**9,333**	(10,249)
Cash flows from investing activities:			
Sale of property, plant and equipment		**64**	1,081
Purchases of property, plant and equipment	12	**(3,474)**	(4,146)
Purchases of intangible assets	13	**(2,758)**	(1,100)
Payments for capitalised development costs	13	**(1,431)**	(724)
Investments and deposits made		**(13)**	(1,021)
Purchase of securities	7, 15	**(3,050)**	(26,621)
Sale of Securities	7, 15	**22,758**	26,471
Cash flow from (used for) investing activities		**12,096**	(6,060)
Cash flows from financing activities:			
Sale of employee stock purchase plan shares		**157**	159
Cash flow from financing activities		**157**	159
Cash flow from (used for) operating, investing and financing activities		**21,586**	(16,150)
Net foreign exchange difference		**(594)**	41
Net increase (decrease) in cash and cash equivalents		**20,992**	(16,109)
Cash and cash equivalents at beginning of period		**15,923**	32,032
Cash and cash equivalents at end of period		**36,915**	15,923

Consolidated statement of changes in Shareholders' equity

For the year ended 31 December 2008

				Other reserves				
	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Currency translation adjustment US$000	Cash Flow Hedges 000US$	Available-for-sale securities US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2007	9,328	222,781	(159,764)	(1,022)	–	(422)	(232)	70,669
Net loss	–	–	(18,985)	–	–	–	–	(18,985)
Other comprehensive income (loss)	–	–	–	120	89	734	–	943
Total comprehensive income (loss)	–	–	(18,985)	120	89	734	–	(18,042)
Sale of employee stock purchase plan shares	–	133	–	–	–	–	27	160
Equity settled transactions, net of tax	–	–	905	–	–	–	–	905
Changes in Equity total	–	133	(18,080)	120	89	734	27	(16,977)
Balance at 31 December 2007 / 1 January 2008	9,328	222,914	(177,844)	(902)	89	312	(205)	53,692
Net income	–	–	6,761	–	–	–	–	6,761
Other comprehensive income (loss)				(1,136)	(282)	(312)		(1,730)
Total comprehensive income (loss)	–	–	6,761	(1,136)	(282)	(312)	–	5,031
Sale of employee stock purchase plan shares		91					66	157
Equity settled transactions, net of tax			1,325					1,325
Changes in Equity total	–	91	8,086	(1,136)	(282)	(312)	66	6,513
Balance at 31 December 2008	**9,328**	**223,005**	**(169,758)**	**(2,038)**	**(193)**	**_**	**(139)**	**60,205**

Notes to the consolidated financial statements

For the year ended 31 December 2008

1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog or the Group") for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Directors on 19 February 2009. Dialog Semiconductor Plc is a company incorporated in the UK, whose shares are publicly traded. The principal activities of the Group are set out in the segment reporting (note 25).

Company Name and registered office

Dialog Semiconductor Plc
Tower Bridge House
St Katharine's Way
London E1W 1AA
United Kingdom

Basis of presentation

The consolidated financial statements are prepared on the historical cost basis except that financial instruments classified as available-for-sale and derivative financial instruments are stated at their fair value. Since 1 January 2007 when the main operating group entity, Dialog Semiconductor GmbH, changed its functional currency from Euro to US dollars, the consolidated financial statements are presented in US dollars ("US$") and all values are rounded to the nearest thousand (US$000) except when otherwise stated.

Statement of compliance

The accompanying consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards (IFRS) and its interpretation as adopted by the EU. Based on these standards, management has applied the accounting policies as provided in note 2.

2. Summary of significant accounting policies

Principles of consolidation and investments in affiliated companies

As in 2007, the consolidated financial statements include Dialog Semiconductor Plc and its subsidiaries as at 31 December each year:

Name	Registered office	Participation
Dialog Semiconductor GmbH	Kirchheim/Teck, Germany	100%
Dialog Semiconductor (UK) Limited	Swindon, UK	100%
Dialog Semiconductor, Inc.	Wilmington, Delaware, USA	100%
Dialog Semiconductor KK	Tokyo, Japan	100%

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Dialog obtains control, and continue to be consolidated until the date such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses, and unrealised gains and losses resulting from intra-group transactions are fully eliminated.

Foreign exchange

The functional currency for the Group entities is generally the currency in which they primarily generate and expend cash. Each entity in the Group determines its own functional currency. Accordingly, the assets and liabilities of companies whose functional currency is other than the US dollar are included in the consolidation by translating the assets and liabilities into the presentation currency (US$) at the exchange rates applicable at the end of the reporting period. Equity accounts are measured at historical rates. The statements of income and cash flows are translated at the average exchange rates during the year. The exchange differences arising on the translation are directly recognised in equity (other reserves).

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit and loss with the exception of differences on monetary items that form part of a net investment in a foreign operation as well as differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

These are taken directly to equity until the disposal of the net investment at which time they are recognised in profit or loss. Tax charges and credits attributable to exchange differences on those monetary items and borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign currency transaction gains and losses are disclosed separately in the income statement, at each reporting period. Key exchange rates against US dollars used in preparing the consolidated financial statements were:

	Exchange rate at		Annual average exchange rate	
	31 December 2008	31 December 2007	**2008**	2007
Currency	**US$1 =**	US$1 =	**US$1 =**	US$1 =
Great Britain	**0.69**	0.50	**0.54**	0.50
Japan	**90.43**	112.12	**103.43**	117.78
Euro	**0.72**	0.68	**0.68**	0.73

Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another. Financial assets include, in particular, cash and cash equivalents, trade receivables and other loans and receivables, held-to-maturity investments and derivative and non-derivative financial assets accounted for at fair value through profit or loss, as well as investments available-for-sale.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes trade payables, liabilities to banks and derivative financial liabilities.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a legal right to set off the recognised amounts and intends to settle on a net basis.

Financial assets

Financial assets within the scope of IAS 39 are classified as being at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. When financial assets are first recognised, they are measured at fair value, plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on first recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular purchases and sales of financial assets are recognised on the settlement date, which is the date that the Group receives the asset. Regular purchases or sales are classified as purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention of the market place.

At each balance sheet date, the Group assesses whether a financial asset or group of financial assets is impaired.

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to do so. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method. The effective interest method takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

The carrying amount of financial assets held-to-maturity are tested at each reporting date to determine whether there is objective, material evidence of impairment as outlined in IAS 39.59. Any impairment losses caused by the fair value being lower than the carrying amount are recognised in profit or loss. The Group does not use allowance accounts in order to record the impairment in the balance sheet but credits the impairment loss directly against the book value of the financial assets.

2. Summary of significant accounting policies continued

If in a subsequent period the fair value increases and this increase can be related objectively to events occurring after the impairment was recognised, the impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The fair value which is required for impairment testing corresponds to the present value of the estimated future cash flows discounted using the original effective interest rate.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, such as trade account receivables. Loans and receivables are recorded initially at fair value and do not bear interest. As of 31 December 2008 as well as 31 December 2007, loans and receivables of the Group comprise mostly trade accounts receivables from customers. The Group also classified cash and cash equivalents as loans and receivables. After initial recognition, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment, if necessary.

Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired. Interest effects on the application of the effective interest method are also recognised in profit or loss.

The Group continuously reviews its allowance for doubtful accounts. Management considers the collectability of a trade account receivable to be impaired when it is probable that the Group will be unable to collect all amounts due according to the sales terms, based on current information and events regarding the customers' ability to meet their obligations. The amount of the impairment loss on loans and receivables is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset. The amount of the impairment loss is recognised in profit or loss.

If, in a subsequent reporting period, the amount of the impairment loss decreases, and the decrease can objectively be related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss.

When a trade receivable is considered to be impaired, any credit losses are included in the allowance for doubtful accounts through a charge to bad debt expenses. Account balances are set off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Recoveries of trade receivables previously written-off are recorded as other income when received. Reversals of impairment losses are recognised in profit and loss. The Group does not have any off-balance sheet credit exposure related to its customers.

Receivables from work in process for customer specific development projects according to IAS 11 are recorded in the balance sheet line "trade account receivables and other receivables" and are disclosed in the notes respectively.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or as financial assets at fair value through profit or loss. These financial assets are generally measured at fair value.

After initial measurement available-for-sale financial assets are measured at fair value. Unrealised gains and losses, net of the related tax effect, on available-for-sale financial assets are excluded from earnings and are reported as a component of other reserves until realised, or the investment is determined as being impaired.

At each reporting date, the carrying amounts of available-for-sale assets are assessed to determine whether there is objective, significant evidence of impairment as outlined in IAS 39.59. Any impairment losses on available-for-sale financial assets are charged to earnings. The Group does not use allowance accounts in order to record the impairment in the balance sheet but credits the impairment loss directly against the book value of the financial assets. If this impairment relates to losses previously recognised in equity then the impairment loss is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments or investment funds that are classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

The fair value of available-for-sale financial assets actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

For investments in which there is no active market, fair value is determined using valuation techniques, including recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; or other valuation models. If the fair value of unquoted equity instruments cannot be measured with sufficient reliability, these instruments are measured at cost (less any impairment losses, if applicable).

De-recognition of financial assets

A financial asset is de-recognised when:

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through agreement"; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in it.

Financial liabilities

Financial liabilities primarily include trade accounts payable, liabilities due to banks, derivative financial liabilities and other liabilities.

Financial liabilities measured at amortised costs

After initial recognition at fair value, less directly attributable transaction costs, financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains and losses on liabilities held for trading are recognised in profit or loss.

During the financial years 2008 and 2007 the Group did not classify any financial liabilities as financial liabilities at fair value through profit or loss.

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as forward contracts, mainly for the purposes of hedging currency risks that arise from its operating activities. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value on each subsequent reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in the fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of quoted derivatives is equal to their positive or negative market value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment occurs only if there is a change in the terms of the contract that significantly modify the cash flows that would otherwise be required.

2. Summary of significant accounting policies continued

If the requirements for hedge accounting set out in IAS 39 are met, the Group designates and documents the hedge relationship from the date a derivative contract is entered into, either as a fair value hedge or a cash flow hedge.

The Group did not enter into fair value hedges in 2008 and 2007.

In a cash flow hedge, the variability of cash flows to be received or paid related to a recognised asset or liability, or a highly probable forecast transaction, or a firm commitment (in case of currency risks) is hedged. To hedge a currency risk of an unrecognised firm commitment, the Group makes use of the option to recognise this as a cash flow hedge. The documentation of the hedge relationship includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognised in other reserves, net of applicable taxes, while any ineffective portion of the fair value changes are recognised immediately in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the forecast or committed expenses occur. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss.

If the derivative instrument does not, or no longer, qualifies for hedge accounting because the qualifying criteria for hedge accounting are not, or are no longer, met the derivative financial instruments are classified as held for trading. Amounts previously recognised in equity are transferred to profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or the firm commitment occurs.

Cash and cash equivalents

Cash and cash equivalents include highly-liquid investments with original maturity dates of three months or less and are subject to an insignificant risk of changes in value.

Inventories

Inventories include assets held for sale in the ordinary course of business (finished goods), in the process of production (work in process) or in the form of materials to be consumed in the production process (raw materials). Inventories are valued at the lower of cost and net realisable value. Cost, which includes direct materials, labour and overhead, plus indirect overhead, is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs to make the sale.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. These include the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

Equipment	Useful life
Test equipment	Three to eight years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	18 months to 13 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets

Purchased intangible assets with definite useful lives primarily consist of licences, software and patents, and are recorded at acquisition cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the estimated useful lives of three to five years. For a particular software licence a useful life of ten years was estimated. Amortisation expenses are allocated to the cost of goods sold, selling expenses, research and development expenses, or general administration expenses. The Group has no intangible assets with an indefinite useful life.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

Self-developed intangible assets are recorded on a cost basis. They are amortised on a straight-line basis over the estimated usefulness of 18-24 months. The costs of internally generated intangible assets comprise all directly attributable costs necessary to create, produce and prepare the asset to be capable of operating in a manner intended by management, e.g. costs of materials and services used or consumed in generating the intangible asset, costs of employee benefits or fees to register a legal right. Reference is also made to the accounting policy regarding research and development costs in this section.

Patents have been granted by the relevant government agency for a certain period, depending on the specific country, with the option of renewal at the end of this period. In most cases the maximum lifetime of the patents is 20 years. They are amortised over the shorter period of expected future benefit, which is principally ten years. Acquisition costs for patents are based on the cost of patent registration.

Impairment of non-monetary assets

In accordance with IAS 36, at each reporting date an assessment is made as to whether there is an indication that a non-monetary asset, such as property, plant and equipment or purchased intangibles, may be impaired. If any such indication exists, an estimate is made of the asset's recoverable amount: the higher of an asset's fair value, less cost to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used. For assets, an assessment is made at each reporting date as to whether any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, an estimation of the recoverable amount is made. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount, however, cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into before 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Where the Group is lessee, finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit and loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is derived from the sale of products, application specific integrated circuit ("ASIC") and application specific standard product ("ASSP") to end customers. These products are manufactured and tested in accordance with customers' technical specifications prior to delivery. Revenue is recognised when title passes, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is probable. Revenues are recorded net of sales taxes and customer discounts, if any.

The Group has insurance for product claims and also records a provision for warranty costs as a charge in cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable costs to be incurred for warranty claims in a period.

2. Summary of significant accounting policies continued

Customer returns are permitted only for quality-related reasons within the applicable warranty period and any potential warranty claims are subject to the Group's determination that it is at fault for damages. Such claims must usually be submitted within a short period of the date of sale.

Research and development

Revenue from customer-specific research and development contracts involving the development of new customer-specific technology is recognised on the percentage of completion basis when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue can equally be estimated, it is probable that economic benefits associated with the contract will flow to the Group, and the stage of contract completion can be measured reliably. When the Group is not able to meet those conditions, the policy is to recognise revenues only to the extent the expenses incurred are eligible to be recovered. Completion is measured by reference to costs incurred to date as a percentage of estimated total project costs. The percentage of completion method relies on estimates of total expected contract revenue and costs, as well as the dependable measurement of the progress made towards completing the particular project. Losses on projects in progress are recognised in the period they become likely and can be estimated.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants are deducted in reporting the related expense. The Group does not receive grants that relate to assets.

Cost of sales

Cost of sales consists of the costs of outsourced production, assembly and test, personnel costs and applicable overheads and depreciation of equipment. Provisions for estimated product warranties are recorded in cost of sales at the time the related sale is recognised.

Sales and marketing expenses

Sales and marketing expenses consist primarily of salaries, travel expenses, sales commissions, bad debt expenses and costs associated with advertising and other marketing activities.

General and administrative expenses

General and administrative expenses consist primarily of personnel and support costs for finance, human resources, information systems and other management departments which are not attributable to development, production or sales functions.

Research and development costs

Costs identified as research costs are expensed as incurred, whereas development costs on an individual project are capitalised as an intangible asset and amortised over the period of expected future benefit if the Group can demonstrate the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Interest income/expense

Interest income is recognised as interest accrues. Interest income includes interest income from investments in securities, cash and cash equivalents. Income and expense resulting from the allocation of premiums and discounts is also included. Interest expense is expensed as incurred.

Foreign currency exchange gains and losses

The foreign currency exchange gains and losses mainly result from foreign currency cash transactions and period end revaluation of foreign currency denominated cash into US dollars. It is the Group's view that these gains and losses are driven by the financing activities of the Group and are therefore shown as non-operating results.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

Other financial income/expense

Other financial income/expense includes all remaining miscellaneous income and expense from financial transactions which are not included in interest income/expense.

Employee benefits – defined contribution plans

Contributions to defined contribution and state-funded pension plans are recognised in the income statement as incurred.

Income taxes

Current income taxes for current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are accounted for using the liability method and are recognised for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities, and their respective tax bases, as well as on the carry-forward of unused tax losses that can be utilised.

Deferred tax assets and liabilities are measured using tax rates that have been enacted, or substantially enacted, by the balance sheet date and which are expected to apply to taxable income in the years, in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognised in income in the period that includes the enactment date.

A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent, that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists, to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share-based payments

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense in the period.

Stock options

The Group has established an equity-settled share option scheme under which employees and Directors may be granted stock options to acquire shares of Dialog.

The fair value of options granted is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the service period during which the employees become unconditionally entitled to the options.

The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions on which the options were granted. Expectations of early exercise are accounted for within the average life of the options. The Group applies IFRS 2 to all options granted after 7 November 2002 that had not been vested as of 1 January 2005.

Executives' Long Term Incentive Plan

The Group operates an equity settled Long-Term Incentive Plan (LTIP). Under this plan, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a three year performance period.

Each participant in the LTIP is awarded a number of units which convert into Company shares according to the level of outperformance of the Company's share price over the annual return hurdle. If this hurdle is not reached no units convert into Company shares.

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, taking into account the terms and conditions on which awards are granted and is spread over the service period during which the key executives become unconditionally entitled to the awards.

2. Summary of significant accounting policies continued

Employee share trust

The Group has established an employee share trust. The share trust is separately administrated and is funded by the Group, which consolidates the assets, liabilities, income and expenses in its own accounts. The shares held by the trust are recorded at cost and are shown under "Employee stock purchase plan shares" in the statement of changes in Shareholders' equity.

Earnings per share/Loss per share

Basic earnings (loss) per share amounts are calculated by dividing net profit (loss) for the year attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Dialog by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if all the securities or other contracts to issue ordinary shares were exercised.

The weighted average number of shares outstanding is as follows:

	2008 000	2007 000
Basic number of shares[1]	**45,125**	44,938
Effect of dilutive options outstanding	**283**	2,015
Dilutive number of shares	**45,408**	46,953

1) Because the Group reported a net loss in 2007, only basic per share amounts have been presented for this period

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Subject to such estimates and judgements is the following:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. In case of such an indicator, an impairment test is made. This requires the determination of the value in use and the fair value less costs to sell respectively of the assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of such assets at 31 December 2008 was US$12,374,000 (2007: US$12,895,000). Further information regarding impairment charges is provided in notes 4 and 12.

Impairment of available-for-sale financial assets and investments

The Group classifies certain assets as available-for-sale and recognises movements in the fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss.

The Group did not record any impairment losses on its available-for-sale financial assets accounted for at fair value in 2008 and 2007.

In respect of available-for-sale investments accounted for at cost, the Group recognised an impairment amounting to US$2,662,000 in 2007. With the impairment recognised in 2007 the carrying value of the investment was impaired to US$ nil. Further information regarding this investment is provided in note 14.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing of future taxable profits, together with future tax planning strategies. At year end 2008 and 2007, no deferred tax assets were recognised. The unrecognised deferred tax assets at 31 December 2008 were US$51,552,000 (2007: US$58,675,000). Further information regarding the assessment of future taxable income is disclosed in note 5.

Share-based employee compensation awards

Stock options

Share-based payment transactions for stock options are measured by reference to the fair value at the date on which they are granted. The fair value of share-based payments is determined using the Black-Scholes model, which involves making assumptions about interest rates, volatilities, market conditions and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2008, the expense related to stock options was US$940,000 (2007: US$905,000).

Executives' Long Term Incentive Plan

The fair value of the awards is recognised as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date, using a Monte Carlo Model, based on standard inputs such as the Company's share price, interest rate, volatility of the Company's share price, dividend yield and expected life.

In 2008 an expense of US$385,000 was booked for the eight months the LTIP was in place (2007: nil). Further information regarding LTIP is provided in note 22b.

Customer-specific research and development

For the determination of revenue and costs for customer specific research and development contracts, management judgement is required. It is, therefore, necessary to determine the stage of completion based on the progress made towards completing the particular project, as well as the contract revenue and the contract costs. At 31 December 2008 no receivables or liabilities from constructions contracts were outstanding (2007: US$nil).

Self-developed intangible assets

Development costs are capitalised in accordance with the accounting policy mentioned above, i.e. they are recorded on a cost basis. However, initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the probable future economic benefits of the self-developed intangible asset, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2008, the carrying amount of capitalised development costs was US$1,271,000 (2007: US$597,000).

Actual results may differ from those estimates.

Changes in accounting policies

The accounting policies are consistent with those of the previous financial year.

The Group has adopted the following amendments to Standards and new IFRIC interpretations during the year.

Interpretation/ Standard	Title	Effective date
IFRIC 11	Group and Treasury Share Transactions	1 March 2007
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008
IAS 39 and IFRS 7	Amendment to IAS 39 and IFRS 7 "Reclassification of Financial Assets"	1 July 2008

The above-listed amendments to standards and new interpretations did not result in a change of accounting policies.

2. Summary of significant accounting policies continued

Recently issued accounting standards not yet adopted (Standards and Interpretations are endorsed by the EU except as noted otherwise)

IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated Separate Financial Statements

The amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements were issued in May 2008 and are effective for financial years beginning on or after 1 January 2009. The amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements and removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in separate financial statements of the investor. As these amendments are only relevant for separate financial statements they will not have an impact on the consolidated financial statements of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards (Revised)

The IASB has released a restructured version of IFRS 1 First-time-Adoption of International Reporting Standards in November 2008 (updated in respect of the effective date in December 2008) which is effective for periods beginning on or after 1 July 2009. The restructuring of IFRS 1 was aimed to make IFRS 1 easier for the reader to understand and to design it to better accommodate future changes. The new version of IFRS 1 retains the substance of the previous version, but within a changed structure. The revised standard has not yet been endorsed by the EU.

IFRS 2 Share-Based Payments

This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group does not expect material changes in its accounting due to this amended IFRS.

IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended)

The revised IFRS 3 and the amended IAS 27 were issued in January 2008 and are effective for annual periods beginning on or after 1 July 2009. The changes made to the existing standards are comprehensive and mainly address the accounting for acquisition costs, contingent considerations, goodwill and non-controlling interests, step acquisitions, partial disposal of an investment while a controlling interest is retained or control is lost, and acquisition of additional shares after control is obtained. The revised and amended standards have not yet been endorsed by the EU.

IFRS 8 Operating Segments

IFRS 8 Operating Segments which replaces IAS 14 Segment Reporting was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. The IFRS requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segmental performance and deciding how to allocate resources to operating segments. The Group does not expect that the operating segments would significantly differ from the business segments identified under IAS 14 Segment Reporting. The management expects changes to the structure in respect of financial information shown in the segment reporting.

IAS 1 Presentation of Financial Statements – Revised

The revised IAS 1 was issued in September 2007 and is effective for periods beginning on or after 1 January 2009. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements. The Group has not yet finally assessed the impact of the adoption of the revised IAS 1 on its financial statements presentation.

IAS 23 Borrowing Costs

The revised IAS 23 Borrowing Costs was issued in March 2007 and is effective for periods beginning on or after 1 January 2009. The revised standard removes the option of immediately recognising borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale, as an expense. Following this revised standard, the Group will change its currently adopted policy of immediately expensing borrowing costs.

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements

The amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements were issued in February 2008 and are effective for periods beginning on or after 1 January 2009. IAS 32 requires a financial instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. Many financial instruments that would usually be considered equity, including some ordinary shares and partnership interests, allow the holder to require the issuer to redeem it for cash with the consequence that these financial instruments are considered liabilities rather than equity. The amendments to IAS 32 address this issue and require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- puttable financial instruments (for example, some shares issued by co-operative entities)
- instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities).

Additional disclosures are required about the instruments affected by the amendments. The Group does not expect any changes of its financial statements presentation, as Dialog did not issue financial instruments in the scope of the amendments.

IAS 39 Financial Instruments: Recognition and Measurement

The amended IAS 39 Financial Instruments: Recognition and Measurement was issued in July 2008 and is effective for periods beginning on or after 1 July 2009. The amended standard clarifies how the existing principles underlying hedge accounting should be applied in two particular situations. The Group does not expect material changes of its hedge accounting. The revised standard has not yet been endorsed by the EU.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures

The amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures were issued in October 2008, updated in November 2008 and are effective from 1 July 2008 onwards. The amended standard permits reclassification of some financial instruments out of the fair-value-through-profit-or-loss category and out of the available-for-sale category. The amended standards have been endorsed by the EU, except for amendments made in November 2008 in respect of the effective date and transition.

Improvements to IFRSs – a collection of amendments to International Financial Reporting Standards (annual improvements project)

The IASB has also issued a collection of amendments to various IFRSs ("Improvements to IFRSs") in May 2008. This includes amendments to various existing IFRSs. The amendments to IFRSs are presented in two parts: Part I contains amendments that result in accounting changes for presentation, recognition or measurement purposes. Part II contains amendments that are terminology or editorial changes with no or minimal effect on accounting. The Group does not expect material changes on its accounting due to the changes.

2. Summary of significant accounting policies continued

The following table sets out the IFRSs affected and the subject of amendment for Part I amendments:

IFRS	Subject of amendment	Effective date
IFRS 5	Plan to sell the controlling interest in a subsidiary	1 July 2009
IAS 1	Current/non-current classification of derivatives	1 January 2009
IAS 16	Recoverable amount; Sale of assets held for rental	1 January 2009
IAS 19	Curtailments and negative past service cost; Plan administration costs; Replacement of term "fall due"; Guidance on contingent liabilities	1 January 2009
IAS 20	Government loans with a below-market rate interest	1 January 2009
IAS 23	Components of borrowing costs	1 January 2009
IAS 27	Measurement of subsidiary held for sale in separate financial statements	1 January 2009
IAS 28	Required disclosures when investments in associates are accounted for at fair value through profit or loss; Impairment of investment in associate	1 January 2009
IAS 31	Required disclosures when investments in jointly controlled entities are accounted for at fair value through profit or loss	1 January 2009
IAS 29	Description of measurement basis in financial statements	1 January 2009
IAS 36	Disclosure of estimates used to determine recoverable amount	1 January 2009
IAS 38	Advertising and promotional activities; Unit of production method of amortisation	1 January 2009
IAS 39	Reclassification of derivatives into or out of the classification of at fair value through profit or loss; Designating and documenting hedges at the segment level; Applicable effective interest rate on cessation of fair value hedge accounting	1 January 2009
IAS 40	Property under construction or development for future use as investment property	1 January 2009
IAS 41	Discount rate for fair value calculations; Additional biological transformation	1 January 2009

The following table sets out the IFRSs affected and the subject of amendment for Part II amendments:

IFRS	Subject of amendment	Effective date
IFRS 7	Presentation of finance cost	1 January 2009
IAS 8	Status of implementation guidance	1 January 2009
IAS 10	Dividends declared after the end of the reporting period;	1 January 2009
IAS 18	Costs of originating a loan	1 January 2009
IAS 20	Consistency of terminology with other IFFRSs	1 January 2009
IAS 29	Consistency of terminology with other IFFRSs	1 January 2009
IAS 34	Earnings per share disclosures in interim financial reports	1 January 2009
IAS 40	Consistency of terminology with IAS 8; Investment property held under lease	1 January 2009
IAS 41	Examples of agricultural produce and products; Point-of-sale costs	1 January 2009

Notes to the consolidated financial statements

For the year ended 31 December 2008

2. Summary of significant accounting policies continued

In addition, the following interpretations have been issued:

Interpretation	Title	Effective date
IFRIC 12	Service Concession Agreements[1]	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate[1]	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[1]	1 October 2008
IFRIC 17	Distributions of Non-cash Assets to Owners[1]	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009

1) Interpretation has not yet been endorsed by the EU.

The above-listed interpretations will not have an effect on the financial statements as they currently do not apply to the Group.

The Group does not intend to make early application of the amended or revised Standards and Interpretation listed above.

3. Gains and losses from restructuring

In the third quarter of 2006 the Group decided to transfer its "Wafer Test", "Final Test" and "Tape & Reel" operations from Kirchheim/Teck, Germany to dedicated outsourced assembly and test organisations in Asia. This transfer was completed in the second quarter of 2007 and, as a result, in the fourth quarter of 2007, the Group announced a further reduction of its workforce in Germany.

Unused amounts of US$159,000 of the restructuring accrual were released in 2008. The released amounts were recorded as income which was netted with other restructuring expenses of US$14,000. In respect of the development of the restructuring provision please refer to note 18. The 2007 restructuring expenses mainly comprise employee termination costs (net of US$421,000), impairment charges and other losses (US$687,000) in relation to obsolete assets resulting from the transfer, other costs (US$367,000) and gains from the sale of excess assets (US$355,000).

4. Other disclosures to the income statements

a) Operating expenses and revenues

The operating result before income taxes is stated after charging:

	2008 US$000	2007 US$000
Auditors' remuneration for the audit	(423)	(468)
Depreciation of property, plant and equipment	(5,614)	(5,486)
Amortisation of intangible assets	(2,124)	(900)
Personnel costs		
Wages and salaries	(28,787)	(22,320)
Social and security costs[1]	(2,758)	(3,369)
Share-based payment	(1,325)	(905)
Pension costs from defined contribution plans[1]	(2,321)	(2,016)
	(35,191)	(28,610)
Included in revenues		
Revenue from the sale of goods	157,569	84,545
Revenue from customer specific research and development contracts	4,261	2,228
Included in cost of sales:		
Costs in relation to customer specific research and development contracts	(4,261)	(2,228)
Amount of inventory recognised as expense	(78,807)	(47,807)
Impairment of inventories recognised as an expense	(1,220)	(937)
Included in gross profit		
Recognised profits (losses) in relation to customer specific research and development contracts	–	–
Included in other operating income		
Income from recoveries on trade accounts receivable impaired in prior periods	302	903

1) The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$1,158,000 (2007:1,058,000). In the prior year this was shown under social and security costs; the 2007 numbers were adjusted.

b) Interest and other financial income and expense

Interest income and other financial income and expense comprise the following items:

	2008 US$000	2007 US$000
Interest income	776	1,053
Other financial income	98	44
	874	1,097
Interest expense	(673)	(84)
Other financial expenses	(246)	(447)
	(919)	(531)

Notes to the consolidated financial statements

For the year ended 31 December 2008

4. Other disclosures to the income statements continued

ba) Interest income and interest expense

Interest income and expenses comprise the following items:

	2008 US$000	2007 US$000
Interest income	**776**	1,053
Interest expense	**(673)**	(84)
	103	969
Of which: from financial instruments relating to categories in accordance with IAS 39		
Loans and receivables	**(537)**	541
Held-to-maturity investments	**–**	14
Available-for-sale financial assets	**640**	414
Financial liabilities measured at amortised costs	**–**	–
	103	969

bb) Other financial income and other financial expenses

Other financial income and expenses comprise the following items:

	2008 US$000	2007 US$000
Other financial income	**98**	44
Other financial expenses	**(246)**	(447)
	(148)	(403)
Composition and categories in accordance with IAS 39:		
Gain from the sale of available-for-sale financial assets	**99**	44
Loss from the sale of available-for-sale financial assets	**–**	(377)
Loss from the sale of as held to maturity classified financial assets	**(247)**	–
Revaluation of financial assets held for trading	**–**	(70)
	(148)	(403)

c) Government grants

The Group receives government grants for research and development activities of its Edinburgh design centre. Under the condition that Dialog remains located in Scotland and employs an agreed amount of employees in Scotland until 29 January 2011, the total grant that can be received is US$2.0 million (£1.3 million). In 2008 the Group received grants in the amount of US$654,000 (2007: nil). In the profit and loss account the grants received were deducted from research and development expenses.

d) Headcount

The average number of persons employed by the Group (including the Executive Director) during the year, analysed by category, was as follows:

	2008	2007
Research and Development	**154**	128
Production	**41**	47
Sales and Marketing	**28**	22
Admin	**22**	21
IT	**10**	10
	255	228

5. Income taxes

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

	2008 US$000	2007 US$000
Germany	**3,643**	(20,905)
Foreign	**2,390**	2,056
	6,033	(18,849)

Income tax income (expense) is comprised of the following components:

	2008 US$000	2007 US$000
Current taxes:		
Germany	**(139)**	–
Foreign	**(20)**	(63)
Deferred taxes:		
Germany	**–**	–
Foreign	**887**	(73)
Income tax benefit (expense)	**728**	(136)

The deferred tax benefit in 2008 mainly relates to the realisation of previously unrecognised deferred tax assets on net operating loss carryforwards.

Although Dialog is a UK company, its principal operations are located in Germany and its operating subsidiaries are all owned by its German subsidiary. Accordingly, the following information is based on German corporate tax law.

The Company tax reform 2008 (Unternehmensteuerreform 2008) was enacted in Germany on 14 August 2007. Among other things, this new legislation reduces the statutory tax rate for its German subsidiary from 25% to 15%, effective 1 January 2008. When including the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounts to 15.825%. Combining the federal corporate tax rate with the trade tax rate of 12.551%, the combined statutory tax rate of the German subsidiary is 28.376%.

For 2007 the statutory tax rate for Dialog's German subsidiary was 25%. When including the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounted to 26.375%. Combining the federal corporate tax rate with the trade tax rate of 11.225%, the combined statutory tax rate of the German subsidiary is 37.600%.

A reconciliation of income taxes determined using the combined German income tax rate of 28.376% (2007: 37.600%), is as follows:

	2008 US$000	2007 US$000
Expected income (expense) for income taxes	**(1,712)**	7,087
Effect of change in German tax rate	**–**	(1,878)
Other tax rate differential	**(9)**	302
Non-deductible portion of share based payments	**(332)**	(325)
Tax free income (non-deductible expenses)	**(186)**	(92)
Unrecognised deferred tax assets	**2,046**	(4,939)
Adjustments recognised for tax of prior periods	**626**	–
Tax effect resulting from differences between functional currency and local currency used for taxation purposes	**291**	(269)
Other	**4**	(22)
Actual income (expense) for income taxes	**728**	(136)

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5. Income taxes continued

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Property, plant and equipment	**296**	620
Net operating loss and tax credit carryforwards	**47,130**	52,955
Liabilities	**3,403**	4,036
Deferred taxes in relation to tax credits	**1,049**	1,443
Other	**32**	53
Deferred tax assets	**51,910**	59,107
Property, plant and equipment	**(12)**	(255)
Intangible Assets	**(335)**	(174)
Other	**(11)**	(3)
Deferred tax liabilities	**(358)**	(432)
Net deferred tax assets	**51,552**	58,675
Recognised net deferred tax assets	**–**	–
Unrecognised deferred tax assets	**51,552**	58,675

Tax loss carry-forwards and unrecognised deferred tax assets are summarised as follows:

	31 December 2008				31 December 2007			
	Tax loss carryforwards US$000	Temporary Differences US$000	Tax credits US$000	Unrecognised deferred tax asset US$000	Tax loss carryforwards US$000	Temporary Differences US$000	Tax credits US$000	Unrecognised deferred tax asset US$000
Germany	**161,918**	**10,590**	**–**	**47,725**	177,463	12,608	–	52,643
UK	**1,922**	**1,055**	**3,746**	**1,882**	7,036	2,311	5,154	4,060
US								
Federal	**4,486**	**–**	**–**	**1,525**	4,398	–	–	1,495
State	**3,871**	**–**	**–**	**348**	3,954	–	–	356
Other	**–**	**176**	**–**	**72**	274	130	–	121
Total				**51,552**				58,675

In assessing whether the deferred tax assets can be used, management considers the likelihood that some, or all, of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods, in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities, projected future taxable income, benefits that could be realised from available tax planning strategies and other positive and negative factors in making this assessment. Although the Group was profitable in 2008 and plans to be profitable in 2009 and beyond, management has to consider the weight given to cumulative losses incurred in Germany over the seven-year period ended 31 December 2007, the inherent uncertainties in projecting future taxable income and be mindful of the current recessionary environment. Given these, the Group has concluded that tax losses may not ultimately be realised. Consequently, the Group did not recognise deferred tax assets of US$51,552,000 as of 31 December 2008 (US$58,675,000 as of 31 December 2007).

The tax loss carry-forwards in the US will expire between 2009 and 2022; other tax loss carry-forwards have no expiration date.

Included in unrecognised deferred tax assets is an amount of US$1,049,000 (2007: US$1,443,000) (the decrease results from foreign currency adjustments) in relation to tax credits in the UK. This asset may be recovered against future taxable profits derived from certain overseas dividends for the company concerned.

The amount shown under "income tax receivables" in the balance sheet includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to US$610,000 to be paid out in ten equal amounts during 2008 to 2017. The amount shown within the non-current assets represents the discounted part of the claim that is due after 2009. The amount that will be paid in 2009 is shown within the current assets

6. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank (2008: US$14,222,000; 2007: US$15,187,000) and short-term deposits (2008: US$22,693,000; 2007: US$736,000). Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Cash and cash equivalents earn interest at the respective short-term deposit rates. The fair value of the cash and cash equivalents approximates its book value. As prescribed in note 26, in 2007 the Group entered into a selective factoring agreement. Included in cash at bank is an amount of US$9,545,000 (2007: US$8,913,000) held at the factoring bank which represents the cash value of selected receivables sold to the factoring bank. This amount is non-interest bearing until the related receivables have been entirely settled. The factoring bank charges interest on amounts drawn from the account.

7. Available-for-sale financial assets

The Group has invested in highly liquid "investment grade" rated debt, equity and currency-based funds, classified as available-for-sale. The aggregate costs, fair values and unrealised gains (losses) per security class are shown in the table below.

	At 31 Dec 2008				At 31 Dec 2007			
	Cost US$000	**Fair value US$000**	**Unrealised gain US$000**	**Carrying value US$000**	Cost US$000	Fair value US$000	Unrealised gain US$000	Carrying value US$000
Available-for-sale securities	–	–	–	–	15,609	15,921	312	15,921

In 2008, the Group sold all of its available-for-sale securities. The net realised gains of US$10,000 from those sales that had been previously (Q3 2008) recognised directly in equity were recycled into profit and loss (2007: US$333,000).

8. Trade accounts receivable and other receivables

	2008 US$000	2007 US$000
Trade accounts receivables	**3,837**	1,034
Receivables from factoring agreement	**3,618**	1,535
	7,455	2,569

Trade receivables are non-interest bearing and are generally on 30-60-day terms.

As described in note 26, in 2007 the Group entered into a selective factoring agreement. The amount shown as receivables from the factoring agreement represents a 15% retainer kept by the factoring bank against sold receivables. The retainer is released only once the receivable is fully paid by the customer, at the latest, 120 days after the receivable becomes due or if the insurance event occurs. The amounts are non-interest bearing and are generally on 30-60-day terms.

The recorded trade accounts receivable for which an impairment has been recognised, was US$1,656,000 and US$1,624,000 at 31 December 2008 and 2007, respectively. The related allowance for doubtful accounts was US$1,656,000 and US$1,624,000 at 31 December 2008 and 2007, respectively.

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8. Trade accounts receivable and other receivables continued

The allowance for doubtful accounts developed as follows:

	2008 US$000	2007 US$000
Allowance for doubtful accounts at beginning of year	**1,624**	2,556
Additions charged to bad debt expense	**16**	–
Write-offs charged against the allowance	**–**	–
Reductions charged to income	**(2)**	(903)
Effect of movements in foreign currency	**18**	(29)
Allowance for doubtful accounts at end of year	**1,656**	1,624

As at 31 December, the aged analysis of trade account receivables is as follows:

	2008 US$000	2007 US$000
Receivables neither past due nor impaired	**3,076**	576
Receivables past due, not impaired individually		
Less than 30 days	**646**	256
30 to 59 days	**–**	202
60 to 89 days	**92**	–
90 to 123 days	**23**	–
Total	**3,837**	1,034

With respect to the receivables that are neither past due nor impaired, there are no indications as at the reporting date that the debtors will not meet their payment obligations.

Receivables from construction contracts

As at 31 December 2008 and 2007, all incurred external costs for customer related research and development projects had been charged to and paid by the customers in accordance with agreed milestones. Consequently, as at 31 December 2008 and 2007, the Group had no receivables from construction contracts.

9. Inventories

Inventories are comprised of the following:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Raw materials	**3,074**	1,490
Work-in-process	**4,814**	5,321
Finished goods	**12,050**	10,240
	19,938	17,051

The carrying amount of inventories carried at net realisable value at 31 December 2008 is US$nil (2007: US$nil).

10. Other financial assets

Other financial assets comprise:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Deposits for hedging contracts	**1,079**	–
Hedging instruments	**453**	89
Embedded derivatives	**–**	247
	1,532	336

The deposits for hedging contracts are an advance settlement for hedging instruments with a negative fair value. The deposits are interest bearing with 1% below the current base rate and are offset with amounts due when the hedge is settled.

The hedging instruments include the fair value of derivative financial instruments used for cash flow hedges. The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts.

Embedded derivatives in 2007 represent the book value of the Group's investment in a currency index-linked derivative instrument which has been separated from its host contract. For further details regarding the risk associated to this investment please see note 26.

The Group has clear guidelines as to the use of those derivatives, and compliance is constantly monitored. For further information on the Group's hedging policy please see note 26.

11. Other current assets

Other current assets comprise:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Prepaid expenses	**807**	818
Other tax receivables	**508**	565
Other	**68**	398
	1,383	1,781

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For the year ended 31 December 2008

12. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2008 and 2007 is as follows:

	Test equipment US$000	Leasehold improvements US$000	Office and other equipment US$000	Advance payments US$000	Total US$000
Cost					
Balance at 1 January 2007	69,134	1,042	18,377	–	88,553
Effect of movements in foreign currency	3	13	66		82
Acquisitions	2,050	99	1,991	6	4,146
Reclassifications	–	–	–	–	–
Reclassifications to assets held for sale[1]	1,007	–	–	–	1,007
Disposals	(1,395)	–	(719)	–	(2,114)
Balance at 31 December 2007 / 1 January 2008	70,799	1,154	19,715	6	91,674
Effect of movements in foreign currency	(49)	(251)	(680)	(10)	(990)
Acquisitions	1,358	209	2,334	50	3,951
Reclassifications	6	–	–	(6)	–
Disposals	(119)	–	(1,278)	–	(1,397)
Balance at 31 December 2008	**71,995**	**1,112**	**20,091**	**40**	**93,238**
Depreciation and impairment losses					
Balance at 1 January 2007	(59,372)	(845)	(15,919)	–	(76,136)
Effect of movements in foreign currency	(2)	(14)	(55)		(71)
Depreciation charge for the year	(4,262)	(41)	(1,183)		(5,486)
Impairment charges	(191)	–	(108)	–	(299)
Reclassifications to assets held for sale[1]	(788)	–	–	–	(788)
Disposals	1,281	–	277		1,558
Balance at 31 December 2007 / 1 January 2008	(63,334)	(900)	(16,988)	–	(81,222)
Effect of movements in foreign currency	47	204	618	–	869
Depreciation charge for the year	(3,930)	(101)	(1,583)	–	(5,614)
Impairment charges	(599)	(102)	–	–	(701)
Disposals	116	–	1,048	–	1,164
Balance at 31 December 2008	**(67,700)**	**(899)**	**(16,905)**	**–**	**(85,504)**
Net book value					
At 1 January 2007	9,762	197	2,458	–	12,417
At 31 December 2007 / 1 January 2008	7,465	254	2,727	6	10,452
At 31 December 2008	**4,295**	**213**	**3,186**	**40**	**7,734**

1) For further information see note 3 – Restructuring and related impairment charges.

Impairment of property, plant and equipment

Impairment charges in 2008 relate to the write-down of display test equipment to reduce the carrying amount to the value in use following an under-utilisation of this equipment. To determine the value in use, an analysis of the discounted future cash flows was prepared. In determining value in use for test equipment the cash flows were discounted at a rate of 10.5% on a pre-tax basis. In the income statement this impairment charge was recognised in the line item "cost of sales" and it is allocated to the wireless business segment. Impairment charges on leasehold improvements in 2008 relate to installed equipment in a rented office that the Group will vacate in 2009. The lease contract for this office was cancelled in December 2008. In the income statement this impairment charge was recognised in the line item "general and administrative expenses" and it is allocated to the corporate segment.

Impairment charges in 2007 relate to obsolete test equipment resulting from the transfer of the Group's test operations to outsourced test operations in Asia, see note 3 – Restructuring and related impairment charges. In the income statement this was recognised in the line item "Net restructuring and related impairment charges".

12. Property, plant and equipment, net continued

Finance leases

The carrying value of property plant and equipment held under finance leases at 31 December 2008 was US$364,000 (31 December 2007: nil). Additions during the year were US$481,000 (2007: nil). As of balance sheet date future minimum lease payments under those finance lease contracts were US$353,000 (2007: US$nil). The present value of the net minimum lease payments was US$326,000 (2007: US$nil).

13.Intangible assets

A summary of activity for intangible assets for the years ended 31 December 2008 and 2007 is as follows:

	Purchased software, licenses and other US$000	Patents US$000	Intangible assets from internal development US$000	Total US$000
Cost				
Balance at 1 January 2007	12,615	–	–	12,615
Effect of movements in foreign currency	23	–	–	23
Acquisitions	1,100	–	724	1,824
Disposals	(66)	–	–	(66)
Balance at 31 December 2007 / 1 January 2008	13,672	–	724	14,396
Effect of movements in foreign currency	(382)	–		(382)
Acquisitions/additions	2,681	364	1,431	4,476
Disposals	(421)	–		(421)
Balance at 31 December 2008	**15,550**	**364**	**2,155**	**18,069**
Amortisation and impairment losses				–
Balance at 1 January 2007	(11,036)	–	–	(11,036)
Effect of movements in foreign currency	(23)	–	–	(23)
Amortisation charge for the year	(773)	–	(127)	(900)
Disposals	6	–	–	6
Balance at 31 December 2007 / 1 January 2008	(11,826)	–	(127)	(11,953)
Effect of movements in foreign currency	325	–	–	325
Amortisation charge for the year	(1,354)	(13)	(757)	(2,124)
Disposals	323	–	–	323
Balance at 31 December 2008	**(12,532)**	**(13)**	**(884)**	**(13,429)**
Net book value				
At 1 January 2007	1,579	–	–	1,579
At December 31, 2007 / 1 January 2008	1,846	–	597	2,443
At 31 December 2008	**3,018**	**351**	**1,271**	**4,640**

Acquisitions to purchased software, licenses and other intangible assets in 2008 and 2007 mainly comprise software.

14. Investments

The Group holds a 7.66% interest in Digital Imaging Systems GmbH (DIS), a private entity that is not listed on a public stock exchange. As the fair value cannot be reliably determined, the investment in DIS is accounted for at acquisition cost less accumulated impairment charges. The total investment in DIS was US$2,662,000. In 2007, based on business and cash flow projections, the Group recognised a 100% impairment loss. Accordingly the book value for DIS at 31 December 2008 and 2007 was nil.

15. Held-to-maturity securities

In the third quarter of 2007, securities totalling US$4.0 million were reclassified from "available-for-sale" to "held to maturity". Whilst the Group intention was always to hold those securities to maturity (12 August 2010), the rapidly worsening economic environment forced management to review this position.

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15. Held-to-maturity securities continued

After careful consideration, the management concluded in the fourth quarter 2008 that it was more prudent to convert these securities into cash. As a result of this, the entire US$4 million worth of securities were sold for cash. Management sees this as an isolated event that was beyond its control, one that could not have been reasonably anticipated back in 2007.

16. Trade and other payables

Trade and other payables comprise:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Trade accounts payable	**11,033**	12,319
Other payables	**1,963**	2,416
	12,996	14,735

Terms and conditions of the above other current liabilities:

- trade payables are non-interest bearing and are normally settled on 30-60-day terms; and
- other payables are non-interest bearing and have an average term of five months.

17. Other financial liabilities

Other financial liabilities include the fair value of derivative financial instruments used for cash flow hedges. The Group is exposed to currency risks in the course of its operating activities. These risks are reduced by the use of forward currency exchange contracts.

18. Provisions

The Group issues various types of contractual product warranties under which it guarantees the performance of products delivered for a certain period or term. The estimated provision is based on historical warranty data. The provision for rental obligations and dilapidation relates to two offices that the Group will vacate in 2009 as it relocates to larger premises. One office will be vacated before the end of the contractual lease term. As the likelihood of the Group being able to sublet this office is low the Group has accounted for the rental obligations for the period the building is not used. In addition the provision includes costs of dismantling and restoring the sites to their original condition. Regarding the provision for restructuring please see note 3. The Group expects all provisions to mature within the next 12 months.

The changes in the provision are summarised as follows:

	Balance at 1 January 2008 US$000	Currency change US$000	Additions US$000	Used US$000	Released US$000	At 31 December 2008 US$000
Obligations for product warranties	340	–	196	(21)	–	**515**
Rental obligations and dilapidation	–	–	753	–	–	**753**
Restructuring	638	17	–	(474)	(159)	**22**
Total	978	17	949	(495)	(159)	**1,290**

19. Other current liabilities

Other current liabilities comprise:

	At 31 December 2008 US$000	At 31 December 2007 US$000
Obligations for personnel and social expenses	**2,311**	1,110
Advances received in relation to customer specific research and development contracts	**1,000**	250
Liabilities from capital lease contracts	**619**	–
Other	**1,126**	418
	5,056	1,778

19. Other current liabilities continued

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2007: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

20. Shareholders' equity and other reserves

Ordinary shares

At 31 December 2008 and 2007, Dialog had authorised 104,311,860 Ordinary shares with a par value of £0.10 per share, of which 46,068,930 shares were issued and outstanding. The Dialog's stock is all issued in the form of bearer shares, and all shares are fully paid.

On 24 September 2004, the Group completed an offering of 2,000,000 previously unissued Ordinary shares at £0.10 per share to its employee share option trust ("Trust"), to make such shares available for the exercise of stock option rights that had previously been granted to employees. At 31 December 2008 and 31 December 2007 the Trust continued to hold 641,259 and 1,046,387 shares respectively. These shares are legally issued and outstanding, but are not considered issued and outstanding for accounting purposes and accordingly have been reported under "employee stock purchase plan shares" as a reduction of Shareholders' equity.

Share premium

The account comprises additional paid-in capital in connection with the issue of shares.

Accumulated deficit

The accumulated deficit comprises losses and non-distributed earnings of consolidated Group companies. Because of the accumulated deficit, the Group cannot pay a dividend and does not plan to pay dividends in the foreseeable future.

Other reserves

Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of subsidiaries whose functional currency is not the US$.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the portion of the gain or loss on a hedging instrument that is determined to be an effective cash flow hedge.

Available-for-sale securities reserve

The available-for-sale securities reserve is used to record fair value changes on available-for-sale investments.

The related tax effects allocated to each component of other reserves for the years ended 31 December 2008 and 2007 are as follows:

	2008			2007		
	Pre-tax US$000	Tax effect US$000	Net US$000	Pre-tax US$000	Tax effect US$000	Net US$000
Unrealised (losses) gains on available-for-sale securities	(312)	–	(312)	734	–	734
Currency translation adjustment	(249)	(887)	(1,136)	47	73	120
Cash flow hedges	(282)	–	(282)	89	–	89
Other comprehensive income (loss)	(843)	(887)	(1,730)	870	73	943

21. Pension scheme

The Group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the funds and amounted to US$1,163,000 (2007: US$958,000). At 31 December 2008, contributions amounting to US$69,000 (2007: US$80,000) were payable to the funds and are included in other current liabilities. Pension costs also include payments to the state funded pension plan in Germany in the amount of US$1,158,000 (2007: US$1,058,000).

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22. Share-based payments

a) Stock option plans

On 7 August 1998, the Group adopted a stock option plan (the "Plan") under which employees, the executive management and the Executive 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 Group's authorised but unissued Ordinary shares. On 16 May 2002 the Shareholders of the Group approved a resolution increasing the maximum amount of stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital on a diluted basis. At 31 December 2008, 8,129,811 shares could be issued.

With the exception of those granted to the Chief Executive Officer, stock options granted to employees are granted with an exercise price not less than the quoted price at the date of grant, and vest during the service period of the employee without any further vesting conditions. Stock options granted before 31 October 2006 have terms of ten years and vest over periods of one to five years from the grant date. On 19 June 2006 the Group adopted a revised stock option plan under which stock options now have a seven-year life and vest monthly over a period of one to 48 months. The new stock options may not be exercised until they have been held for one calendar year from the grant date. The new rules were implemented on grants made on or after 31 October 2006.

At the 2006 Annual General Meeting, Shareholders approved a stock option plan for Non-executive Directors. Each Non-executive Director is entitled to an initial grant of 50,000 options vesting over four years and each year thereafter, soon after each Annual Shareholder Meeting, a further 20,000 options vesting over 12 months are granted. Options are exercisable at the market price prevailing at the date of grant.

The fair value of all grants in the two-year period ended 31 December 2008 was estimated using the Black-Scholes option pricing model. Expectations of early exercise are considered in the determination of the expected life of the options. The Group does not have adequate historical development of the share price, particularly as a result of material unusual effects in the stock market in recent years. Furthermore, implicit volatility cannot be determined since none of the Group's options are actively traded. The Group has therefore based its calculation of expected volatility on an average of its own volatility and the historical development of other companies in its business segment.

The following assumptions were used for stock option grants for the years ended 31 December 2008 and 2007:

	2008	2007
Expected dividend yield	**0%**	0%
Expected volatility	**40% – 48%**	33% – 54%
Risk free interest rate	**4.2%**	4.0%
Expected life (in years)	**2.0 – 6.0**	2.0 – 6.0
Weighted average share price during the year (in US$)	**1.32**	3.58
Weighted average share price for Option grants (in US$)	**1.43**	2.22
Weighted average exercise price (in US$)	**1.43**	2.22
Weighted-average fair value (in US$)	**0.84**	0.84

Stock option plan activity for the years ended 31 December 2008 and 2007 was as follows:

	2008		2007	
	Options	**Weighted average exercise price US$**	Options	Weighted average exercise price US$
Outstanding at beginning of year	**5,372,006**	**2.77**	5,501,781	2.56
Granted	**997,776**	**1.43**	905,968	2.22
Exercised	**(405,128)**	**0.42**	(132,570)	1.17
Forfeited	**(168,144)**	**2.79**	(903,173)	3.02
Outstanding at end of year	**5,796,510**	**2.56**	5,372,006	2.77
Options exercisable at year end	**3,329,250**	**3.09**	2,534,781	3.14

The weighted average share price at the date of exercise of options was US$1.12 and US$2.56 in the years ended 31 December 2008 and 2007 respectively.

22. Share-based payments continued

The following table summarises information on stock options outstanding at 31 December 2008:

	Options outstanding			Options exercisable	
Range of Exercise Prices	Number outstanding at 31 December 2008	Weighted average remaining contractual life (in years)	Weighted average exercise price US$	Number exercisable at 31 December 2008	Weighted average exercise price US$
€0.00 - 2.98	**4,525,390**	**5.2**	**1.74**	**2,122,078**	**1.81**
€3.00 - 8.00	**1,271,120**	**5.2**	**5.45**	**1,207,172**	**5.32**
€0.00 - 8.00	**5,796,510**	**5.2**	**2.56**	**3,329,250**	**3.09**

b) Executives' Long Term Incentive Plan (LTIP)

The Group also operates the Dialog Semiconductor Plc Long-Term Incentive Plan (LTIP) which was approved by shareholders at the Annual General Meeting in April 2008. Under the LTIP, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a three year performance period. This value is delivered to a participant in the form of a series of nil-cost options which can be exercised within five years of the date of grant. The first award under the LTIP was made on 8 May 2008.

The fair value of the LTIP, where the number of nil-cost options granted to an individual is contingent upon the returns to shareholders, was calculated using a Monte Carlo simulation model. As a portion of each award is capable of vesting at three separate measurement dates each tranche has been valued separately in accordance with IFRS2.

The fair values used in the calculations are as follows:-

Inputs	Tranche 1	Tranche 2	Tranche 3
Share price at grant date	1,40€	1,40€	1,40€
Exercise price	€ nil	€ nil	€ nil
Expected life	0.64 yrs	1.64 yrs	2.64 yrs
Expected volatility	40%	40%	40%
Risk-free-interest-rate	4.8202%	4.8202%	4.8202%

Expected volatility has been determined on the same basis as the input into the fair value calculation for share options granted during the year.

Measurement date 31 January 2009

The measurement share price at 31 January 2009 (average share price over the prior 30 days) was €0.63. As this price was below the return hurdle for January 2009 of €1.62 (initial price of €1.44+12.5%), no share options were granted.

c) ESOP Trust

The Group established an employee share option trust (the "Trust"). The Trust purchases shares in the Group for the benefit of employees under the Group's share option scheme. At 31 December 2008 the Trust held 641,259 shares.

Notes to the consolidated financial statements

For the year ended 31 December 2008

23. Additional disclosures on financial instruments

Carrying amounts, amounts recognised and fair values by classes of financial assets and liabilities as well as by category:

		Amounts recognised in balance sheet according to IAS 39					
	Category in accordance with IAS 39	**Carrying amount 31 December 2008 US$000**	Amortised cost US$000	Cost US$000	Fair value recognised in equity US$000	Fair value recognised in profit or loss US$000	Fair value 31 December 2008 US$000
Assets							
Cash and cash equivalents	LaR	**36,915**	36,915	–	–	–	36,915
Trade accounts receivable and other receivables	LaR	**7,455**	7,455	–	–	–	7,455
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	**1,079**	1,079	–	–	–	1,079
Derivative financial assets							
Derivatives without hedging relationship	n/a	**–**	–		–	–	–
Derivatives with hedging relationship	n/a	**453**	–	–	453	–	453
Liabilities							
Trade account payables	FLAC	**11,033**	11,033	–	–	–	11,033
Other payables	FLAC	**1,963**	1,963	–	–	–	1,963
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	**–**	–	–	–	–	–
Derivatives with hedging relationship	n/a	**646**	–	–	646	–	646
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		**45,449**	45,449	–	–	–	45,449
Held-to-maturity investments (HtM)		**–**	–	–	–	–	–
Available-for-sale financial assets (AfS)		**–**	–	–	–	–	–
Derivatives without hedging relationship		**–**	–	–	–	–	
Derivatives with hedging relationship		**(193)**	–	–	(193)	–	(193)
Financial liabilities at amortised cost (FLAC)		**(12,996)**	(12,996)	–	–	–	(12,996)

23. Additional disclosures on financial instruments continued

	Category in accordance with IAS 39	Amounts recognised in balance sheet according to IAS 39: Carrying amount 31 December 2007 US$000	Amortised cost US$000	Cost US$000	Fair value recognised in equity US$000	Fair value recognised in profit or loss US$000	Fair value 31 December 2007 US$000
Assets							
Cash and cash equivalents	LaR	15,923	15,923	–	–	–	15,923
Trade accounts receivable and other receivables	LaR	2,569	2,569	–	–	–	2,569
Other non-derivative financial assets							
Available-for sale financial assets (current)	AfS	15,921	–	–	15,921	–	15,921
Held to maturity investments	HtM	4,000	4,000	–	–	–	3,795
Investments (non-current)	AfS	–	–	–	–	–	n/a
Derivative financial assets							
Derivatives without hedging relationship	n/a	247	–	–	–	247	247
Derivatives with hedging relationship	n/a	89	–	–	89	–	89
Liabilities							
Trade account payables	FLAC	12,319	12,319	–	–	–	12,319
Other payables	FLAC	2,416	2,416	–	–	–	2,416
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	n/a	–	–	–	–	n/a
Derivatives with hedging relationship	n/a	n/a	–	–	–	–	n/a
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		18,492	18,492	–	–	–	18,492
Held-to-maturity investments (HtM)		4,000	4,000	–	–	–	3,795
Available-for-sale financial assets (AfS)		15,921	–	–	15,921	–	15,921
Derivatives without hedging relationship		247	–	–	–	247	–
Derivatives with hedging relationship		89	–	–	89	–	89
Financial liabilities at amortised cost (FLAC)		(14,735)	12,319	–	–	–	12,319

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. Market values have therefore, been used to determine the fair value of listed available-for-sale and held-to-maturity financial assets. The fair value of derivatives has been determined with reference to available market information. The carrying amounts of the loans and receivables and financial liabilities approximate their fair values due to short-term maturities.

24. Commitments

Operating lease, software and service commitments

The Group leases all its office facilities and vehicles, and some of its office and test equipment, under operating leases. Future minimum lease payments under rental and lease agreements, which have initial or remaining terms in excess of one year at 31 December 2008 and payments for other commitments are as follows:

Notes to the consolidated financial statements

For the year ended 31 December 2008

24. Commitments continued

	Operating leases and software commitments	Other commitments	Operating leases and software commitments	Other commitments
	2008 US$000	2008 US$000	2008 US$000	2008 US$000
Within one year	**3,060**	**1,411**	2,180	2,293
Between one and two years	**1,608**	**205**	338	2,557
Between two and three years	**742**	**69**	235	993
Between three and four years	**397**	**–**	176	94
Between four and fife years	**371**	**–**	–	5
Thereafter	**536**	**–**	–	–
Total minimum payments	**6,714**	**1,685**	2,929	5,942

Total payments for operating leases and software commitments (excluding the software licence agreement explained below), charged as an expense in the income statement, amounted to US$3,929,000 and US$2,178,000 for the years ended 31 December 2008 and 2007 respectively.

From 30 December 2006 the Group has entered into a software licence agreement amounting to US$7,200,000. The contract period is three years, and quarterly payments of US$600,000 have been agreed. If the total volume of the contract in money terms is used before the end of the contract period, the remaining contract fee becomes due.

Finance lease, hire purchase and software commitments

The Group has finance leases and hire purchase contracts for test and IT equipment and has software contracts. The leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease. Future minimum payments under finance leases and hire purchase and software contracts together with the present value of the net minimum payments are as follows:

	Minimum Payments	
	2008 US$000	2007 US$000
Within one year	**418**	–
Between one and two years	**303**	–
Total minimum payments	**721**	**–**
Less amounts representing finance charges	**(50)**	–
Present value of minimum payments	**671**	**–**

Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2008 of US$377,000 and for the acquisition of intangible assets of US$181,000.

25. Segmental reporting

Segmental information is presented according to Dialog's business and geographic segments. The primary format, business segments, is based on the Group's principal sales markets.

a) Business segments

The Group's business segments are:

Wireless

The wireless segment includes our Power Management and Audio ICs and the Display Drivers which are used in portable electronic products, such as mobile phones and other hand-held devices.

25. Segmental reporting continued

Automotive and industrial

In the automotive and industrial market our products address the safety, management and control of electronics systems in cars and for industrial applications.

	2008				2007			
	Wireless US$000	**Automotive/ industrial US$000**	**Corporate3/4 US$000**	**Total US$000**	Wireless US$000	Automotive/ industrial US$000	Corporate3/4 US$000	Total US$000
Revenues[1]	**126,504**	**35,193**	**133**	**161,830**	51,701	35,327	(255)	86,773
R&D expenses	**26,841**	**9,453**	**427**	**36,721**	22,950	7,861	294	31,105
Operating profit (loss)	**10,920**	**(875)**	**(4,093)**	**5,952**	(12,395)	(1,345)	(3,532)	(17,272)
Depreciation/ amortisation	**5,829**	**1,910**	**–**	**7,738**	4,740	1,646	–	6,386
Impairment losses	**1,625**	**362**	**249**	**2,236**	617	574	3,349	4,540
Investments	**6,357**	**2,083**	**–**	**8,440**	4,431	1,539	1,021[2]	6,991
	At 31 Dec 2008				At 31 Dec 2007			
Total assets	**33,088**	**10,349**	**36,916**	**80,353**	25,687	9,692	35,844	71,223
Liabilities	**14,488**	**4,746**	**914**	**20,148**	12,584	4,371	576	17,531

1) All revenues are from sales to external customers.
2) Investment in DIS.
3) In 2008 management decided to show the option expense under corporate, as it is management's view that this better reflects the segments contribution to the operating profit. 2007 numbers were adjusted accordingly. The amount reclassified into corporate expenses in 2007 was US$ 905,000
4) In 2008 management decided to show sales discounts for early payments under corporate, as it is management's view that this better reflects the segments contribution to the operating profit. 2007 numbers were adjusted accordingly. The expense reclassified from segment revenues into corporate revenues in 2007 was US$ 255,000.

Corporate expenses and gains include sales discounts on early payment, the holding company, stock option expenses, bonus payments for employees and management, expenses for the Management Long Term Incentive Plan (LTIP), the restructuring expenses and gains and other expenses not specifically attributable to the business segments. Corporate assets include certain financial assets such as cash and cash equivalents, and marketable securities. Corporate liabilities include liabilities of the holding company and other liabilities not specifically attributable to business segments.

Segment assets and liabilities comprise all assets and liabilities employed by the relevant business segment to generate the operating segment's profit or loss.

Investments comprise additions to property, plant and equipment, and intangible assets.

In 2008 and 2007 the Group had no inter-segment sales, income, expenses, receivables, payables or provisions.

Notes to the consolidated financial statements

For the year ended 31 December 2008

25. Segmental reporting continued

b) Geographic segments

	2008 US$000	2007 US$000
Revenues		
Austria	**13,345**	14,015
Hungary	**17,056**	12,846
Other European countries	**10,427**	17,577
China	**100,323**	31,055
Other Asian countries	**12,546**	5,841
Other countries	**8,133**	5,439
Total revenues	**161,830**	86,773
Investments		
Germany	**7,658**	6,583
Japan	**32**	10
United Kingdom	**749**	330
Other	**1**	68
Total investments	**8,440**	6,991

	At 31 December 2008 US$000	At 31 December 2007 US$000
Assets		
Germany	**77,359**	68,884
Japan	**736**	580
United Kingdom	**2,083**	1,665
USA	**175**	94
Total assets	**80,353**	71,223

Revenues are allocated to countries based on the location of the shipment destination. Segmental investments and assets are allocated based on the geographic location of the asset.

26. Financial risk management objectives and policies

Vulnerability due to certain significant risk concentrations

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

The Group's products are generally utilised in the wireless and automotive industries. The Group generates a substantial portion of its revenue from the wireless communications market, which accounted for 78% and 59% of its total revenue for the years ended 31 December 2008 and 2007, respectively.

The Group's revenue base is diversified by geographic region and by individual customer. Changes in foreign currency exchange rates influence the Group's results of operations. The Group's sales, purchases of raw materials and manufacturing services are primarily denominated in US$. The Group also has foreign currency exchange risks with respect to its net investments in foreign subsidiaries and branches in the United Kingdom, Japan, Taiwan, Hong Kong and Korea. Fluctuations in these currencies could have a significant impact on the Group's reported results from operations.

The Group depends on a relatively small number of customers for a substantial portion of its revenues, and the loss of one or more of these customers may result in a significant decline in future revenue. During 2008 two customers individually accounted for more than 10% of the Group's revenues.

26. Financial risk management objectives and policies continued

Total revenues from these two customers were US$104,227,000 or 64%. Net receivables from these two customers were US$344,000 at 31 December 2008. During 2007 four customers individually accounted for more than 10% of the Group's revenues. Total revenues from these four customers were US$65,620,000 or 76%. Net receivables from these four customers were US$562,000 at 31 December 2007. The Group performs ongoing credit evaluations of its customers' financial condition.

Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, short-term deposits and securities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations.

The Group also entered into derivative transactions (forward currency contracts). The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2008 and 2007, the Group's policy that no trading in derivatives shall be undertaken.

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest risk

The Group earns interest from bank deposits and uses money market deposits with highly rated financial institutions. During the year, the Group has held cash on deposit with a range of maturities from one week to one month. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements. Furthermore during the year the Group also held liquid "investment grade" rated debt-based funds classified as available-for-sale or held to maturity. These funds incorporated floating interest rates that were reset as market rates changed. By the end of 2008, all securities were sold.

The Group spends interest on amounts received in connection with the factoring agreement as prescribed below.

The Group has no long-term debt and no amounts outstanding under short-term credit facilities as at 31 December 2008 (2007: US$nil).

The Group's policy is to manage its interest income using a mix of fixed and variable interest rate debts. In order to achieve this policy, the Group invests in highly liquid funds having a matching investment strategy. Once the operating business has been financed, short-term excess funds are invested in floating interest rate securities. Only short-term deposits bear fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax as well as the Group's equity:

	Increase/decrease in basis points	Effect on profit US$000	Effect on equity US$000
2008			
	12	**29**	**29**
	(12)	**(29)**	**(29)**
2007			
	12	91	91
	(12)	(91)	(91)

Currency risk

The main functional currency within the Group and the presentation currency for the consolidated financial statements is the US$. Accordingly, foreign exchange risks arise from transactions, and recognised assets and liabilities, the functional currency of which is not the US$. The currencies giving rise to these exposure risks are primarily the euro and pound sterling. The majority of the Group's revenue and material expenses are denominated in US$. The majority of other operating expenses are denominated in euros and pounds sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2008 and 2007 nearly all the Group's sales were denominated in US$.

Notes to the consolidated financial statements

For the year ended 31 December 2008

26. Financial risk management objectives and policies continued

The Group uses forward currency contracts to eliminate the currency exposure of recurring expected payments, such as salaries, wages and office rents non-US$ denominated. The forward currency contracts must be the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to maximise hedge effectiveness by negotiating the terms of hedge derivatives to match the terms of the hedged item.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (resulting from changes in the fair value of monetary assets, excluding securities, and liabilities) and the Group's equity (resulting from changes in the fair value of forward exchange contracts).

	Increase/decrease against US$	Effect on profit US$000	Effect on equity US$000
2008[1]			
Euro	**12%**	**175**	**1,635**
Pound Sterling	**2%**	**35**	**151**
Euro	**(12)%**	**(175)**	**(1,635)**
Pound Sterling	**(2)%**	**(35)**	**(151)**
2007			
Euro	12%	(39)	1,082
Pound Sterling	2%	16	161
Euro	(12)%	39	(1,082)
Pound Sterling	(2)%	(16)	(161)

1) For 2008 the volatility was kept at the 2007 level as the management does not believe that the extreme high volatility of 2008 is representative for a reasonably possible future change in the US$ exchange rates.

The above analysis does not include the available-for-sale securities. A risk analysis for the Group's securities was done separately, based on the inherent historic volatility of the specific securities, see below.

Other price risks

IFRS 7 also requires disclosures on how hypothetical changes in risk variables affect the price of financial instruments. Important risk variables are stock exchange prices.

As part of its cash management the Group invested in available-for-sale securities. Price fluctuations would have an impact on the equity of the Group. In 2008 the Group sold all securities therefore at the end of 2008 no price risk did exist from available for sale securities.

Furthermore the group hold an investment made in 2007 into a structured US dollar note linked to a Currency Harvest Index. This investment which included an embedded derivative was sold in February 2008. The carrying amount of the investment at 31 December 2007 (including the host contract, the embedded derivative and accrued interest) amounted to US$3,023,000. The net cash proceeds from the sale were US$3,047,000. For further information regarding this investment please see below, "Embedded derivatives".

Credit risk

The Group is exposed to credit risk from its operating activities and certain financing activities. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 8. Regarding the risk concentration please see above, "vulnerability due to certain significant considerations".

In order to finance its growth, in August 2007 the Group entered into a factoring agreement with a reputable German financial institution.

26. Financial risk management objectives and policies continued

The maximum amount of cash that can be received under this agreement was €10.0 million (or US$ equivalent). In 2008 the amount was increased to US$30.0 million. The agreement, which comprises receivables from selective customers, significantly reduces the underlying credit risk because the financial institution assumes all credit risks associated with the collection of the receivables financed under the programme.

As part of the factoring agreements, in 2007 the Group has pledged US$6.5 million of securities to the financial institution. In 2008 the securities were sold.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale and held-to-maturity financial investments would arise from default by a counterparty. The maximum exposure is equal to the carrying amount of the instruments.

Liquidity risk

The Group uses quarterly cash flow forecasts to monitor its liquidity risk. It takes financial investments and financial assets (e.g. trade accounts receivables and other financial assets) into consideration, as well as projected cash flows from operations. The Group's objective is to minimise interest expense by avoiding the use of short-term bank liabilities or bank overdrafts within the Group.

At 31 December 2008, the Group had cash and cash equivalents of US$36,915,000 (2007: US$15,923,000) and marketable securities of US$nil (2007: US$15,921,000). Furthermore as of 31 December 2007, the Group held held-to-maturity investments, disclosed as non-current, in the amount of US$4,000,000, those securities were also sold in 2008.

The Group's policy is to structure its maturities of current financial assets within the Group to meet 100% of the respective maturities of the liabilities. The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008, based on contractual undiscounted payments:

	Less than 3 months US$000	3 to 12 months US$000	1 to 5 years US$000	Total US$000
Financial year ended 2008				
Trade accounts payable	**11,019**	**14**	**–**	**11,033**
Other payables	**1,395**	**568**	**–**	**1,963**
Other financial liabilities	**608**	**38**	**–**	**646**
	13,022	**620**	**–**	**13,642**
Financial year ended 2007				
Trade accounts payable	12,289	15	15	12,319
Other payables	1,229	1,173	14	2,416
	13,518	1,188	29	14,735

At 31 December 2008, the Group had unused short-term credit lines of US$8,945,000 (€6.4 million) (2007: US$9,418,000 (€6.4 million)). There were no amounts outstanding under these credit lines at 31 December 2008 (2007:nil).

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and strategies for growth.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust its capital structure, the Group may generally issue new shares. No changes were made in the objectives, policies or processes during the years ending 31 December 2008 and 31 December 2007.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2008 was 75.0% (2007: 75.4%). Capital includes net Shareholders' equity. The Group's policy is to finance business development and growth with equity rather than long-term liabilities. It is, therefore, also its policy to keep a strong equity ratio. This policy will be reconsidered as soon as sustainable profits are earned in order to achieve leverage.

Notes to the consolidated financial statements

For the year ended 31 December 2008

26. Financial risk management objectives and policies continued

Hedging activities

At 31 December 2008, the Group held several forward exchange contracts designated as hedges of firm commitments and forecast transactions in euros and pounds sterling. The forward exchange contracts are being used to hedge the foreign currency risk of contractual cash flows, principally resulting from wages and salaries, and rental payments with the aim of eliminating the currency risk by transforming these cash flows from euros or pounds sterling into US dollars. The fair values which equal the book values are as follows:

	At 31 Dec 2008		At 31 Dec 2007	
	Assets US$000	Liabilities US$000	Assets US$000	Liabilities US$000
Forward exchange contracts				
Fair values	**453**	**646**	89	–

The critical terms of the forward currency contracts have been negotiated to match the terms of the hedged cash flows.

The cash flow hedges of the expected future cash flows in each month from January 2009 to May 2009 and January 2008 to May 2008 respectively were assessed to be highly effective and, at 31 December 2008, a net unrealised loss of US$193,000 was included in equity in respect of these cash flows (2007: gain of US$89,000). During the financial year 2008 a loss of US$2,026,000 (2007: gain of US$313,000) was recognised in equity and a loss of US$1,744,000 (2007: gain of US$224,000) was removed from equity and recognised in profit and loss. The months of occurrence of the cash flows are the same as the month when the income statement is affected.

The following tables show the contractual maturities of the payments, i.e., when the hedged item will be recognised in profit or loss:

Maturity	Nominal amount €000	Forward rate
2008		
January 2009	**2,000**	**1.3889**
February 2009	**2,000**	**1.3891**
March 2009	**2,000**	**1.3575**
April 2009	**2,000**	**1.2591**
May 2009	**1,000**	**1.3780**
2007		
January 2008	300	1.4611
February 2008	1,400	1.4509
March 2008	1,400	1.4418
April 2008	1,650	1.4420
May 2008	1,610	1.4423

Maturity	Nominal amount £000	Forward rate
2008		
January 2009	**915**	**1.7645**
February 2009	**700**	**1.7626**
March 2009	**700**	**1.6352**
April 2009	**800**	**1.4849**
May 2009	**400**	**1.5399**
2007		
January 2008	811	2.0060
February 2008	650	2.0005
March 2008	766	2.0010
April 2008	650	2.0400
May 2008	755	2.0375

26. Financial risk management objectives and policies continued

Embedded derivatives

In 2008 the Group did not have any embedded derivatives. In 2007, the Group acquired a structured US$ note linked to a Currency Harvest Index. This 100% capital repayment-guaranteed structured note was issued by Deutsche Bank AG. This note was separated into an available-for-sale financial instrument with a fair value of US$2,711,000 and an embedded derivative with a fair value of US$247,000 at 31 December 2007, which is recognised under other financial assets. In February 2008 the Group decided to sell this structured US$ note. The net cash proceeds from this transaction were US$3,047,000.

27. Transactions with related parties

For the relationship between the parent company, Dialog Semiconductor Plc, and its subsidiaries please see note 2.

Related parties are comprised of eight Non-executive members of the Board of Directors and nine members of the executive management which are named in the management and governance section. These are the only related parties of the Group.

Compensation of key management personnel of the Group

For the composition of our key management please see management and governance beginning on page 25. Compensation of key management personnel of the Group is as follows:

	2008 US$000	2007 US$000
Short term employee benefits	**2,391**	2,511
Buy out [1]	**–**	253
Post-employment benefits[2]	**147**	165
Termination benefits	**–**	454
Share based payments	**608**	420
	3,146	3,803

1) The amount shown under "buy out" relates to a payment in connection with a buy out provision for Dr Bagherli's previous employment.

2) The amounts include payments for defined contribution plans.

Compensation of Non-executive Directors

The compensation of Non-executive Directors was US$316,000 (2007: US$350,000). As at 31 December 2008 the amount of US$38,000 for Board member fees was outstanding (2007: US$54,000). For further information please see the directors' remuneration report within the management and governance section on pages 31 to 34.

Other related-party transactions

In 2008 and 2007 there were no other transactions with related parties.

28. Subsequent event

No subsequent events occurred after the balance sheet date.

Company financial statements

On the following pages information regarding the holding company Dialog Semiconductor Plc is given

Company balance sheet

For the year ended 31 December 2008

	Notes	At 31 December 2008 US$000	At 31 December 2007 US$000
Assets			
Cash and cash equivalents		**21,630**	708
Available-for-sale financial assets	8	**–**	15,921
Amounts owed by group undertakings		**33,533**	29,361
Prepaid expenses		**67**	57
Other financial assets		**–**	247
Other current assets		**–**	321
Total current assets		**55,230**	46,615
Investments	29	**97,521**	97,521
Held to maturity securities		**–**	4,000
Amounts owed by group undertakings (due after more than one year)		**1,278**	3,104
Total non-current assets		**98,799**	104,625
Total assets		**154,029**	151,240
Trade accounts payables		**28**	151
Other payables		**330**	426
Total current liabilities		**358**	577
Ordinary Shares		**9,328**	9,328
Share Premium		**223,005**	222,914
Retained deficit		**(78,523)**	(81,686)
Other reserves		**–**	312
Employee stock purchase plan shares		**(139)**	(205)
Total Shareholders´ equity	32	**153,671**	150,663
Total liabilities and Shareholders´ equity		**154,029**	151,240

Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's profit after taxation was US$3,163,000 (2007: (US$2,835,000)).

These financial statements were approved by the Board of Directors on 19 February 2009 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company statement of changes in equity

For the year ended 31 December 2008

	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Available-for-sale securities US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2007	9,328	222,781	(84,521)	(422)	(232)	146,934
Net profit	–	–	2,835	–	–	2,835
Other comprehensive income (loss)	–	–	–	734	–	734
Total comprehensive income (loss)	–	–	2,835	734	–	3,569
Sale of employee stock purchase plan shares	–	133	–	–	27	160
Balance at 31 December 2007 / 1 January 2008	9,328	222,914	(81,686)	312	(205)	150,663
Net profit	–	–	3,163	–	–	3,163
Other comprehensive income (loss)	–	–		(312)	–	(312)
Total comprehensive income (loss)	–	–	3,163	(312)	–	2,851
Sale of employee stock purchase plan shares	–	91	–	–	66	157
Balance at 31 December 2008	**9,328**	**223,005**	**(78,523)**	**–**	**(139)**	**153,671**

Company financial statements

Notes to the company financial statements

For the year ended 31 December 2008

29. Investments

This represents the investment of the Company in Dialog Semiconductor GmbH. Investments in subsidiaries are stated at cost less any provision for impairment in value.

The aggregate amount of capital and reserves and the results of this undertaking were as follows:

	2008 US$000[1]	2007 US$000
Capital and reserves	**(3,068)**	(7,168)
Profit (loss) for the year	**3,938**	(18,436)

1) Based on preliminary unaudited results.

30. Deferred tax

	At 31 December 2008 US$000	At 31 December 2007 US$000
Net operating loss and tax credit carryforwards	**173**	1,320
Deferred taxes in relation to tax credits	**1,049**	1,443
Other	**–**	26
Net deferred tax assets	**1,222**	2,789
Recognised net deferred tax assets	**–**	–
Unrecognised deferred tax assets	**1,222**	2,789

For further information on deferred taxes see note 5.

31. Auditors' remuneration

	2008 US$000	2007 US$000
Auditors' remuneration for the audit	**355**	370

32. Share capital and share options

Details of the Company's share capital and share options are set out in notes 20 and 22.

33. Headcount and costs

The Company does not have any employees.

34. Events since the balance sheet date

No subsequent events occurred after the balance sheet date.

Glossary

Technical 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.
ASIC Application Specific Integrated Circuit: an integrated chip, custom designed for a specific application.
ASSP Application Specific Standard Product: a semiconductor device integrated circuit (IC) dedicated to a specific application and sold to more than one user.
Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.
CAD Computer Aided Design: usually refers to a software tool used for designing electronics hardware or software systems.
CDMA Code Division Multiple Access: an alternative to GSM technology for mobile wireless networks.
Chips Electronic integrated circuits.
CMOS Complimentary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.
DC-DC A DC-to-DC converter accepts a direct current input voltage and produces a direct current output voltage. The output is typically at a different voltage level than the input, and often the component provides power bus regulation.
Digital A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).
Fabless A company that designs and delivers semiconductors by outsourcing the fabrication (manufacturing) process.
Foundry A manufacturing plant where silicon wafers are produced.
IC Integrated Circuit: an electronic device with numerous components on a single chip.
Imaging The capture and processing of images via an image sensor for use by an electronic device to send to a display for viewing by a user.
Liquid Crystal Display (LCD) A display technology found in many portable electronics products, including personal organisers, cellular handsets and notebook computers.
LDO Low Dropout voltage regulators are used in battery operated systems, where the output voltage is typically lower than the input voltage.
LED Light Emitting Diode: a semiconductor device that emits light when charged with electricity, often used for LCD display backlights.
Mixed signal A combination of analog and digital signals being generated, controlled or modified on the same chip.
MLA Multi-Line Addressing: a technology used in colour LCDs to enable full-colour, high-quality display of moving images with fast response time, high brightness, lower cost and low power consumption.
MP3 (MPEG-1 Audio Layer-3): a standard technology format for compression of sound sequences into very small files, while preserving the original level of sound quality.
NiMH, L Ion and polymer Various battery technologies.
OEM Original Equipment Manufacturer: a company that builds products or components that are used in products sold by another company.
OLED Organic Light Emitting Diode.
PDA Personal Digital Assistants: hand-held devices that were originally designed as personal organisers, but became much more versatile over the years. A basic PDA usually includes date book, address book, task list, memo pad, clock, and calculator software.
Power management The management of the power requirements of various subsystems, important in hand-held and portable electronics equipment.
PMIC Power Management IC.
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, and the most common semiconductor material – in about 95% of all manufactured chips.
Smart Mirror™ A technology patented by Dialog Semiconductor which simplifies circuit design and provides very low current consumption in power management circuits.
SmartXtend™ A technology patented by Dialog Semiconductor that extends the life and reduces power consumption of high-resolution, passive matrix OLED displays.
STN Super-Twisted Nematic: refers to the direction of rotation of the liquid crystals in an LCD to enable excellent brightness and a wide angle at which the display can be viewed before losing much contrast.
Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.
TAM Total addressable market TAM measures the potential market for your product – and your product only – assuming you could reach 100% of your customers.
USB Universal Serial Bus: a universal interface standard to connect different electronics devices.
VGA Video Graphics Array: a standard size/resolution of 640 pixels by 480 pixels for digital cameras, images, and displays.
Wafer A slice of silicon from a 4, 5, 6 or 8 inch diameter silicon bar and used as the foundation on which to build semiconductor products.
WCDMA Wideband CDMA: a 3G (third generation) wireless standard, also referred to as UMTS.

Glossary

Financial glossary

AGM Annual General Meeting

CAGR Compound Annual Growth Rate: a method of assessing the average growth of a value over time.

Cash flow The primary purpose of a statement of cash flow is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. It helps to assess the enterprise's ability to generate positive future net cash flows. A statement of cash flows shall explain the change in cash and cash equivalents during the period by classifying cash receipts and payments according to whether they stem from operating, investing, or financing activities.

Cash flow from operating activities includes all transactions and other events that are not defined as investing or financing activities in paragraphs. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.

Comprehensive Income The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognised transactions and other economic events of the period other than transactions with owners such as capital increases or dividends. An example of items effecting comprehensive income is foreign currency translation adjustments resulting from the process of translating an entity's financial statements in a foreign currency into the reporting currency.

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance.

Deferred taxes Deferred tax assets or liabilities are temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively.

Derivative financial instruments A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).

Dividends are payments made by a company to its shareholders. When a company earns a profit, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders of the company as a dividend.

EURIBOR (Euro Interbank Offered Rate) is the rate at which euro interbank term deposits within the euro zone are offered by one prime bank to another prime bank.

Freefloat the proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.

Gross margin equals the difference between revenues and cost of sales as presented in the statement of operations.

Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value (the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset).

IFRS (International Financial Reporting Standards) accounting standards generally to be used for financial years commencing on or after 1 January 2005 by all publicly-listed European Union companies in compliance with the European Parliament and Council Regulation adopted in July 2002.

Prime Standard The new segmentation of the equity market of the German Stock Exchange comprises a Prime Standard segment in addition to the General Standard segment that applies the statutory minimum requirements. The Prime Standard segment addresses companies that wish to target international investors. These companies are required to meet high international transparency criteria, over and above those set out by the General Standard.

Restructuring charges Costs associated with an exit or disposal activity, e.g. termination benefits provided to employees that are involuntarily terminated.

Securities Debt securities are instruments representing a creditor relationship with an enterprise and include government securities, corporate bonds, commercial paper, and all securitised debt instruments. Available-for-sale securities are debt securities not classified as held to maturity or trading securities.

Shareholders' equity reflects the investment of shareholders in a company. Shareholders' equity comprises ordinary shares, additional paid-in capital, retained earnings and accumulated other comprehensive income.

Stock option plans include all agreements by an entity to issue shares of stock or other equity instruments to employees. Stock option plans provide employees the opportunity to receive stock resulting in an additional compensation based on future share price performance. The purpose of stock option plans is to motivate employees to increase Shareholder value on a long-term basis.

Total assets include all current and non-current assets. Total assets equal total liabilities and shareholders' equity.

Working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital that constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.

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Shares

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Registered number

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Financial calendar

Annual General Meeting	22 April 2009
Q1 2009 Results	28 April 2009
Q2 2009 Results	28 July 2009
Q3 2009 Results	27 October 2009
Preliminary results for 2009	February 2010

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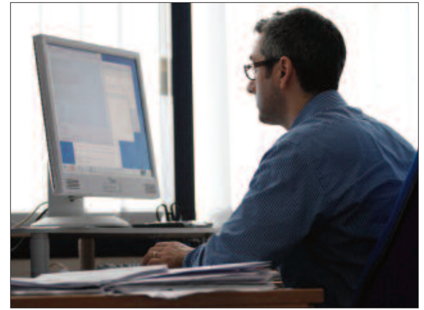
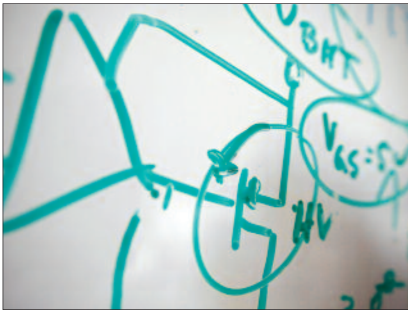

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