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User Guide

Welcome to the Dialog annual report and accounts 2010. This interactive pdf allows you to easily access the information that you want, whether printing, searching for a specific item or going directly to another page, section or website. The different features are detailed below.

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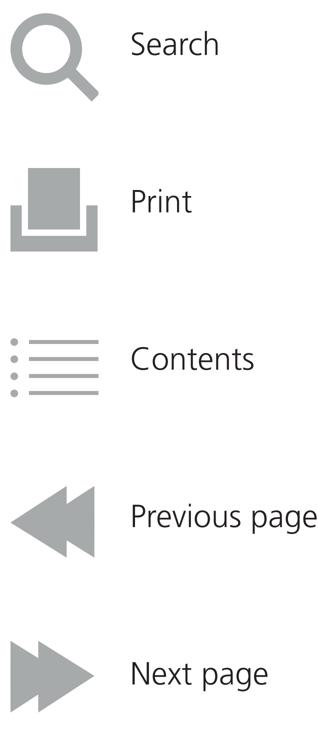


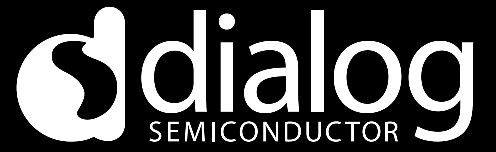
Section navigation

Use the links on the Contents page to navigate to the start of a statement. Use the Contents button to return to the contents.

Links

Throughout this report there are links to pages, other sections and web addresses for additional information.

Examples: This is an example of how the links appear within this document. They are recognisable by the blue underline, simply click to go to the relevant page or web URL (www.dialog-semiconductor.com).



Annual report and accounts 2010

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Dialog Semiconductor creates energy-efficient, highly integrated, mixed-signal circuits optimised for portable devices – including Smartphone and Tablet PC, lighting and automotive applications. The Company provides flexible and dynamic support, world-class innovation and the assurance of dealing with an established business partner.

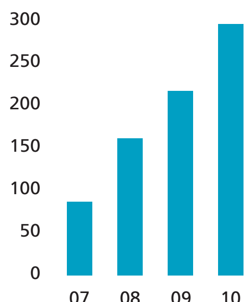
With its unique focus and expertise in system power management, Dialog brings decades of experience to the rapid development of integrated circuits for power management, audio, display processing and motor control. Dialog's processor companion chips are essential for enhancing both the performance of hand-held products and the consumers' multimedia experience. With world-class manufacturing partners, Dialog operates a fabless business model.

Dialog Semiconductor plc is headquartered near Stuttgart with a global sales, R&D and marketing organisation. In 2010, it had US$296.6 million in revenue and was again one of the fastest growing European public semiconductor companies. At year end 2010, Dialog Semiconductor had approximately 400 employees. The company is listed on the Frankfurt (FWB: DLG) stock exchange and a member of the German TecDAX index.

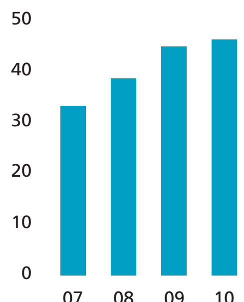
Dialog at a glance

Highlights

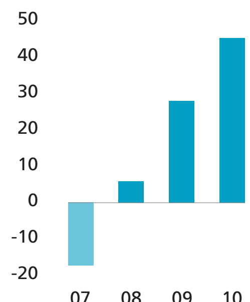
Total revenue
(US$m) +36%*



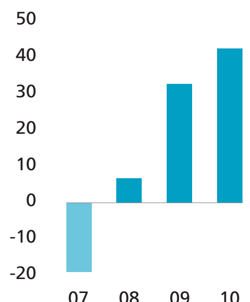
Gross margin
(%) +1.4%*



Operating profit
(US$m) +58%*



Net profit
(US$m) +30%*



*Year-on-year growth 2009-2010

December 2010 – Dialog Semiconductor launched the mixed signal DA8223, the world's first real time 2D to 3D video conversion chip for portable devices including Smartphones and Tablet PCs. The device allows users to view video 3D content without the need for glasses.

2010 Financial highlights – A record year

- 36% growth in revenue
- Full-year 2010 net profit of US$42.5 million or 14.3% of sales completing three years of successive profitability
- Annual gross margin of 46.3%
- Closing year cash balance of US$158.2 million, increase of US$35.1 million over 2009
- Dialog remains debt free as at 31 December 2010
- Basic and Diluted 2010 Earnings per share (EPS) of 70 cents and 66 cents respectively

2010 Operational highlights

- Continued Smartphone design win success for power management, audio and display technologies through engagement at three of the top four global Smartphone manufacturers
- Emergence of the Tablet PC market as a significant future market for Dialog's power management ICs, with leadership position already established
- Dialog's ultra low power audio codec ICs now in production with designs wins at Sony and Samsung Electronics
- Continued standard product (ASSP) portfolio expansion with new ASSPs released including:
  - Power management companion device for Intel's latest Atom E6xx series
  - Second generation configurable power management PMIC
  - New low power Audio Codecs
  - 2D-3D video conversion IC for Tablet PCs and Smartphones
- Renesas and NEC, leading application processor providers, confirmed as the latest members of Dialog's Processor Partner Program Initiative

2010 saw Dialog diversifying its customer base with the addition of key Asian and Japanese OEMs for both power management and audio technology for portable platforms. Additionally, our IP portfolio was enhanced through acquisition and licensing agreements with key industry partners.

LG and Sharp selects Dialog power management technology for Android based and 3G Smartphones

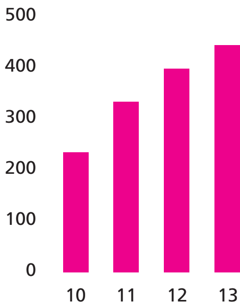
First Tablet PC products based on Dialog technology appear

Acquisition of Diodes Zetex power management assets

Q1

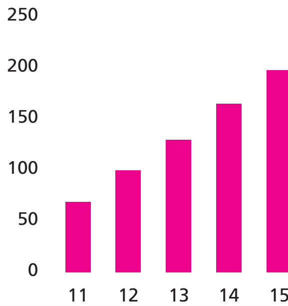
Our markets

Smartphone market
(million units)



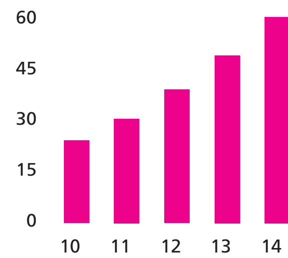
Source: Arete Research/Dialog Marketing 2010

Tablet PC market
(million units)



Source: Arete Research/Dialog Marketing 2010

Infotainment market – OEM and aftermarket
(million units)



Source: iSuppli/Dialog Marketing 2010

Again one step ahead with early innovative solutions for the emerging high-growth Tablet PC market
Dialog is a global designer, developer and supplier of mixed signal integrated circuits with a focus on the integration of power management, and display processing functionalities for high-volume portable devices like Smartphones, MP3 players and Tablet PCs, in addition to automotive and industrial applications.

Dialog replaces discrete power management components with high integrated single chips solutions that provide improved reliability, design simplicity as well as space saving, power and cost advantages.

Dialog is a fabless semiconductor company outsourcing the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading Asian suppliers.

Wireless
Our wireless power management, audio and display semiconductor solutions are designed to meet the needs of Smartphones, Tablet PCs, ebooks, MP3 players and other portable devices.

With a focus on differentiated display power-saving technologies, we offer innovative solutions for OLED based displays, e-ink as well as powering Qualcomm's Mirasol™ displays.

Automotive and Industrial
Infotainment in cars is rapidly changing as multimedia and wireless technology enter the car environment. Dialog has partnered with Intel to provide companion power management and clock ICs for the Atom E6xx series of processors to address these next generation automotive infotainment systems.

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

In the industrial market, Dialog provides power electronics solutions for lighting such as electronic ballasts for fluorescent or high-intensity industrial lighting with the future developments focused on energy-efficient LED lighting solutions.

Focusing on our strengths
Dialog has longstanding expertise in developing analogue and mixed signal products, with a focus on power management integrated circuits. The Company is currently leveraging its expertise to add audio and display integrated circuits to its product portfolio, and aims to offer the industry's highest level of power management mixed signal integration, with rapid design cycle and time to volume production.

Partnering with TSMC for BCD process technology and NXP for DSP and audio software technology

Q2

Congatec announced as first design win for miniature industrial embedded PC design using Dialog's Intel Atom companion power management and clock IC

Q3

Sony and Samsung Electronics announced as first customers for Dialog's ultra low power audio technology

Launch of industry's first 2D-3D video conversion IC for Smartphones and Tablet PCs – with no need for glasses

Q4

Living connectivity

Wirelessly connected devices have become part of our daily lives. The relentless pace of product development has seen these amazing handheld gadgets grow exponentially in processing capability with ever brighter, finer resolution displays and a dazzling array of processor-hungry applications.

Dialog's advanced power management ICs can be found at the heart of some of the world's coolest personal portable devices ensuring consumers can work, play and communicate whenever and wherever life takes them without compromising on battery life.

Our display driver technology is opening up new and exciting ways for people to connect with the world. Dialog's SmartXtend PM OLED drivers will enable manufacturers to produce thinner, transparent and flexible displays that are incredibly robust while providing higher screen resolutions with sparkling clarity at low power. While the emerging e-reader market is benefiting from the latest generation of bistable displays driven by Dialog's highly innovative e-ink and Mirasol driver ICs.

"PM OLED displays will enable manufacturers to produce portable devices with exciting new form factors with Dialog's driver technology at the heart of their innovation."

Andrew Austin
Vice President, Sales

Chairman's statement

2010 has been another positive year for Dialog Semiconductor Plc. We have now achieved 13 quarters of consecutive growth and year-on-year revenue growth of 36%.

Our balance sheet is strong with year-end cash at US$158 million. The stock price has risen 122% this year and by 26 times over the past two years. Share liquidity has continued to improve significantly throughout the year with an average 985,000 shares traded daily compared to 510,000 shares in 2009.

The Company continues to focus on deeper and broader relationships with existing customers meaning more semiconductor content sold into a broader range of customer applications and at the same time bringing new customers on board. We would expect to see the results of this progress more clearly manifest in the results for next year and beyond.

The acquisition of SiTel Semiconductor B.V. is in keeping with this strategy, giving the Company access to new customers and enhancing our product offering through new but complementary technology.

The Board has strengthened the management team. This has been done with key hires of Martin Powell, VP of Human Resources and Andrew Austin as VP of Sales. The Board will continue to look for the appointment of new top talent to support the significant growth of the Company and to ensure a management team and structure of a Company with a €1 billion plus market capitalisation.

The Board will continue to support the management team and employees, who have delivered these results in such uncertain economic times, through share and bonus schemes which will continue to incentivise them to achieve first-class results and ensure that they share fairly in the rewards generated for shareholders (or not, if that be the case). Indeed, the Company operates in a volatile and uncertain market and the successes of the recent past are no guarantee of future performance. Despite this note of caution the Board and management team are confident about the future and thank you for your continued support.

Greg Reyes
Chairman

Dialog Semiconductor shares in 2010

2010 saw Dialog outperforming the market with the share price growing by more than 122% in 2010 and share liquidity increasing by 93%.

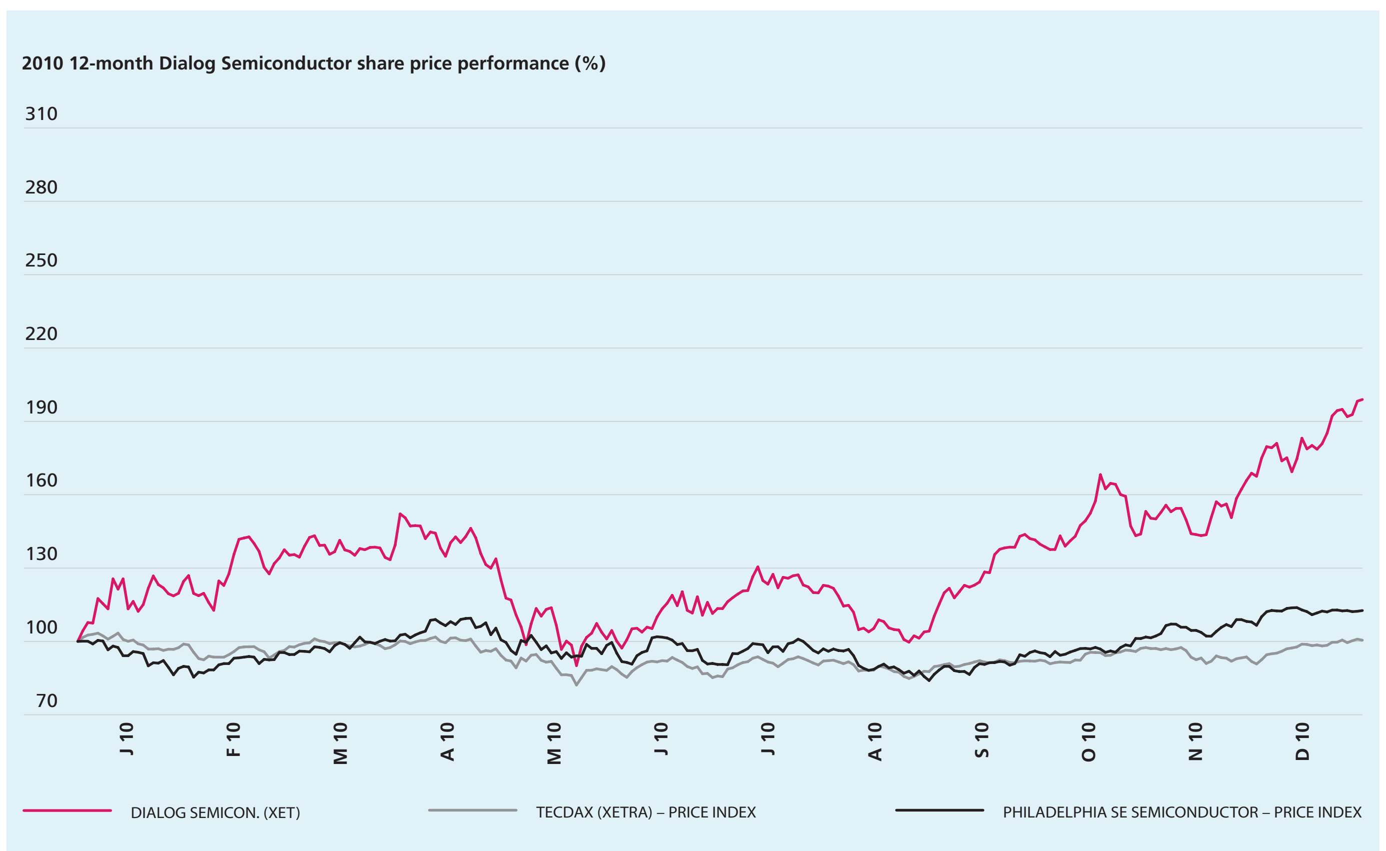
Dialog gains the confidence of the market both in Europe and the US with many new long-term institutional shareholders added.

Share price development

2010 saw a significant rise in the Dialog share price. Starting the year at €7.63, it rose steadily early in the year to reach €12.22 by 19 February before declining to €7.71 by 25 May. From 1 September it subsequently started to recover closing the year at a yearly high of €17.03.

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 – which Dialog itself entered in September 2009, and the Philadelphia SE Semiconductor index ("SOX"). As can be seen from the graph, for 2010 Dialog outperformed the TecDAX by 98.4%, the SOX by more than 86.3%.

Thus, in 2010, we were successful in achieving one of our most important corporate objectives; namely, to increase the value of the Company for the benefit of the Shareholders.



Dialog Semiconductor shares in 2010 continued

Share fundamentals for the financial year 2010

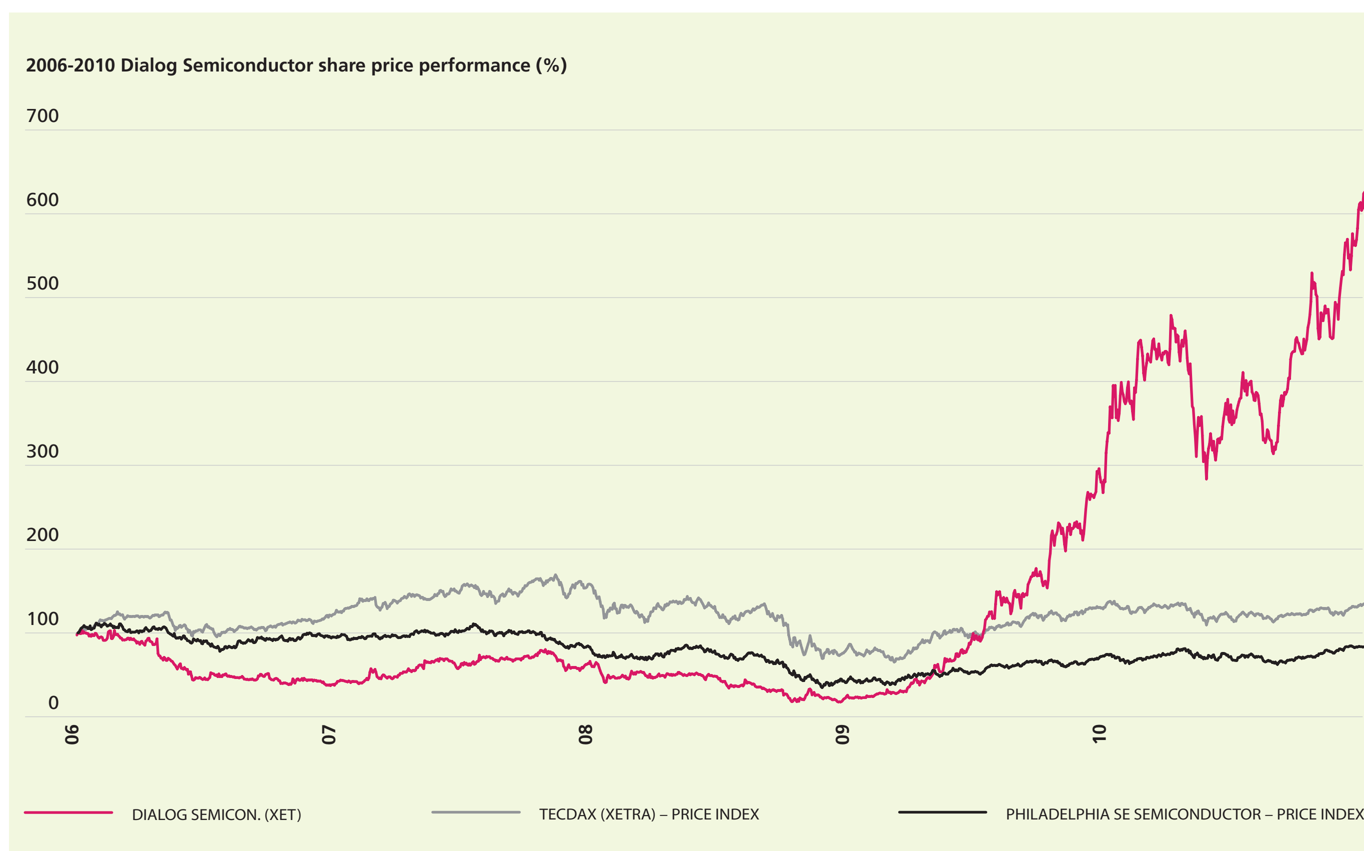
Total number of shares outstanding and registered as of 31 December 2010	65,068,930
Weighted average number of shares during 2010 (basic)	60,313,415
Weighted average number of shares during 2010 (diluted)	64,840,680
Type	Ordinary
Par value (in £)	0.1
Bloomberg Symbol	DLG
Reuters Symbol	DLGS.DE
ISIN	GB0059822006

Key figures for the financial year 2010 based on weighted average number of shares (basic)

Sales per share (in US$)	4.92
Operating profit per share (in US$)	0.75
Net profit per share (in US$)	0.70
Book value per share as of 31 December 2010 (in US$)	3.40
Accounting standards	IAS/IFRS

Market data 2010

Exchange segment Germany	Midcap, Prime All Share, Prime Technology, Technology All Share
Designated sponsor	Close Brothers Seydler
Market capitalisation as of 31 December 2010 (in millions of €)	1,106
Turnover of shares during 2010	984,698 shares/day



"Dialog, in its first full year as part of the German TecDAX Index, outperformed the index by 83%, attracting many new institutional and retail investors as shareholders."

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 major players in these industries. Dialog's Board of Directors is committed to reinvesting 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 by now 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 2010, 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 now followed by eight independent financial analysts representing both European and US banking institutions. During 2010, we issued trading updates and quarterly earning reports, we held our annual analyst conference, presented at several investor conferences and international roadshows, 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/investor_relations_home.php

TecDAX index
Dialog was granted entry to the TecDAX index during 2009. The TecDAX tracks the 30 largest and most actively traded companies from the various technology sectors of the Prime Standard segment, excluding those listed in the German DAX index. It is amongst the most important and leading stock indices in Germany and membership is decided by a ranking, based on a company's free-float market capitalisation and stock market trading volume.

Freefloat
Dialog's freefloat is 61,073,899 million shares or 93.9% of the 65,068,930 outstanding shares. The freefloat is calculated by excluding the 3,995,031 shares held in the Dialog Semiconductor Plc Employee Benefit Trust.

The freefloat includes the following shares held on behalf of discretionary clients as per the share register on 31 December 2010.

Citigroup Global Markets	3,969,435	6.1%
Chase Nominees Ltd.	3,910,823	6.0%
BNP Paribas Securities Services	3,787,895	5.8%
State Street f. Benefit of Clients	3,032,036	4.7%
Morgan Stanley Bank AG	2,963,872	4.6%
CACEIS Bank	2,158,567	3.3%

And 1,978,828 shares (3.0%) held by X-Fab Semiconductor AG as per the share register on 31 December 2010.

Disclosure of interests
The provisions of the DTR require that any person acquiring a direct or indirect 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.

With respect to voting rights attached to shares held by investment managers (on behalf of clients), by scheme operators and ICVCs in accordance with DTR 5.1.5, the first threshold for disclosure is set at 5% with the next level set at 10% and every percentage above 10%.

Participating in 3D

Advances in 3D technology and ground-breaking movies such as Avatar has seen the resurgence of 3D. In 2010 3D began the migration from movie theatre to home theatre with the advent of 3D TV. 2011 will see 3D break through into personal portable devices fitted with parallax barrier displays allowing consumers to enjoy 3D games, pictures and movies without glasses.

As the saying goes: "content is king" and consumers investing in 3D Smartphones and Tablet PCs will expect unlimited access to 3D content regardless, even if it was originally shot in 2D. This is where Dialog's experience in power management and display technology comes to the fore.

Launching in 2011, Dialog introduces DA8223, a real-time 2D to 3D video and photo converter IC which produces vibrant 3D images without any loading on the host processor and at unparalleled low power.

"DA8223 will fundamentally change the 3D landscape by giving consumers unconstrained access to 3D content without 3D glasses."

Mark Tyndall
Vice President, Business Development & Corporate Strategy

Business review and strategy

Our strategy was validated in 2010 when we delivered record financial and operational results. We have again achieved high growth – beyond the industry and our peers – with increased profitability and an even stronger balance sheet.

Major achievements from Dialog in the execution of its strategy included the following:

ADDED new partners to our Processor Partner Program Initiative

A key element of our success is to engage with application processor vendors and develop power management companion chips for their processors. This allows us to become an integral part of their promotional and application eco system and reach a much broader customer base without the need for additional sales and support investment. In 2010, Dialog expanded relationships with application processor vendors within the portable space, including adding Renesas, NEC and one other major undisclosed application processor vendor.

DEEPENED our relationships with key industry trendsetters and leaders

Dialog has relationships with a number of high-volume customers, many of which are considered trendsetters and key industry leaders in their respective sectors. Dialog has in 2010 continued to focus efforts on these customers to increase both the custom semiconductor content sold into the customers' platform and broaden the number of platforms addressed.

BROADENED our customer base by leveraging our portfolio of standard solutions

Dialog has increasingly adapted some of its solutions to multiple customers and transitioned its portfolio to offer more standard products. In 2010, new products included a second generation of configurable Power Management ICs, new audio codecs, companion device for Intel's latest series of Atom processor and a 2D-3D video conversion IC. Samsung and Sony were added as the first customers to use our audio technology on portable platforms and we are engaging with a broad base of new industrial customers through our engagement with Intel.

Additionally, by investing in enhancing the corporate identity and brand development activities, coupled with the recent expansion of its sales and marketing force, Dialog in 2010 has laid the foundations for marketing its products to a much broader customer base.

EXPANDED North America and Asia operations with already increased customer success demonstrated

Dialog opened a new office in Silicon Valley to support its growing US customer base and application processor partners. In Asia, it has expanded its sales, marketing and application support to support the continued ramp in the business in Korea, Japan and China as new customers continue to be added for both standard and custom products. Both these regions represent exciting growth opportunities for Dialog going forward for both custom and standard product engagements.

PERFECTION of the fabless model while maintaining close contact with our manufacturing partners

Dialog remained focused on its existing business model, which included fully outsourcing silicon wafer production and test to Asian foundry manufacturing plants and test houses, and supplying ASICs and ASSPs using mainstream CMOS-based process technologies. During 2010, a year of tight wafer capacity, while growing our business to a level of nearly 200 million chips, we were commended by many of our customers for our operational excellence and support.

Chief Executive's review

Maintaining leadership – 2010 was a very successful year for Dialog. We reported record revenue and profitability and executed our product strategy to expand our market share in power management ICs at major global customers.

Diverse ideas through collaboration across the engineering community

Dialog's Board and executive team strived to continue the success of recent years and believe 2010 is testimony to the market leadership position they now enjoy. Dialog once again outperformed the semiconductor market and continued to gain market share against its peers. Dialog is well prepared and positioned to take advantage of the market opportunities unfolding for the growing market of personal portable devices as mobile connectivity becomes more prevalent in our society.

In 2010, we grew our revenue at an impressive 36%. This was our third successive year of growth above 30%. More importantly, for three years we have shown a track record of quarterly year-over-year revenue growth – a unique achievement in our industry. Our profitability metrics also improved as our operating expenses were tightly managed.

We continue to generate cash from our business and manage our investments very carefully. 2010 saw our cash balance increase by US$35 million to US$158 million. This will help to ensure we are sufficiently funded to fuel both our organic and inorganic future growth. In addition, we plan to continue our strategy to acquire or license complementary technology and intellectual property. An example in 2010 was the acquisition of the Power Management assets from Diodes Zetex GmbH. As part of this transaction, a design team was also transferred to Dialog. This technology has already been successfully developed and integrated in a new family of power management ICs which we recently demonstrated to our customers.

We have continued to execute on our strategy to strengthen technology leadership and in February 2011 we acquired SiTel Semiconductor B.V., a leader in short-range wireless, digital cordless and VOIP technology. As short-range wireless technologies are becoming more prevalent within our society in a broad range of consumer, medical and internet connected devices, this represents an exciting new expansion area into new adjacent portable markets for Dialog. We welcome this new team to Dialog and look forward to their positive contribution to our continued revenue growth, strategic customer diversity and a broader product portfolio.

Despite a challenging supply chain situation in 2010, Dialog was commended by many of its major customers for its operational excellence in supporting them with on-time deliveries.

For the benefit of our Shareholders, I am extremely pleased that 2010 saw us increasing our share price from €7.63 at the start of the year to close the year at €17.03, an appreciation of more than 120%. During 2010, the liquidity in our shares increased to a daily average of just under one million shares, increasing nearly two times over that in 2009. Throughout the year through many one-to-one meetings with investors, and attendance at both European and US conferences, we have focused our investment relations efforts on maintaining our relations with our existing Shareholders and attracting new European and US institutional funds as long-term Shareholders of Dialog. Analyst coverage in Dialog has also improved with currently seven sell side analysts covering our stock.

We have continued to successfully execute our growth strategy this year, both extending our product portfolio and extending our reach into new customers and new growth markets. Within the wireless segment, our design win success momentum within portable devices has continued in 2010, including major design wins not only in Smartphones but also within Tablet PCs, MP3 players and other portable devices. We view the Tablet PC market, which has emerged strongly in 2010, as an additive and exciting market to Smartphones and one which fits perfectly with our expanding product portfolio.

Expansion of our portfolio to include more standard products has also continued in 2010 with our launch of new standard product families. These launches have included a new Intel® Atom™ companion device for the latest Atom E6xx series as well as a second generation of configurable power management ICs. We have also expanded the industry's lowest power audio codec suite of products and developed an exciting industry-first "2D-3D" video conversion IC for Tablet PCs and Smartphones. These products map closely with both the prevailing consumer and manufacturer demands and provide us with a platform for continued future revenue growth.

Our SmartXtend™ passive matrix OLED Developments is now ready for industry adoption in 2011 within the portable device and cellphone markets. The characteristics of transparency and flexible displays are proving to be strong differentiators for early adopter cellphone customers who we are engaging with. I remain convinced that our low-energy display systems products such as OLED and 2D-3D converter will be a future driver for revenue for Dialog.

Chief Executive's review continued

Capturing Dialog's teamwork spirit

2010 also saw the recovery of our Automotive and Industrial segment with revenues reaching a record high. During the year, we were also successful in adding a new Japanese motor controller customer. The transition to increasing use of energy-saving lighting, including LEDs, is also providing an exciting opportunity for Dialog to further build on its existing lighting business for the future.

I was greatly saddened by the recent death at the end of October of a member of our management team, Manoj Thanigasalam. He was a personal friend and colleague for more than 20 years, having worked together since the early days in our careers. Manoj is greatly missed by the other members of the executive team, along with many other colleagues and friends that he had across the Company and beyond. The Board of Directors, the management team and everyone in our Company would like to express to his family our sincere condolences at their loss.

The consumer demand for mobile connectivity through handheld devices is providing Dialog with a tremendous market opportunity. As a leader in power management integrated technology, we're now a highly-respected partner worldwide when it comes to enhancing the battery efficiency of portable devices. We see long-term growth prospects opening up for us in these fields as energy efficiency becomes of ever-increasing importance to our society.

The positive business performance reaffirms our determination to continue to execute the strategy of Dialog where in 2011 we aim to achieve:

- Continued profitable revenue growth driven by market share gain with power management and audio ICs especially within the Smartphone, Tablet PC and portable media device market.
- Superior innovation and new standard product releases across our business segments, including deeper engagement within our current and emerging customers for high-volume custom products.
- Success in PM OLED where together with our early cellphone adoptor customers aim to bring PM OLED to volume production and offer the market new innovative display features.
- Continued diversification of our customer and product base in both portable and other industrial markets through both organic development and inorganic activities – including complementary technology-based acquisitions.

To support our growing organisation and business, during 2010 we added two new members to our executive management team. Andrew Austin joined as VP Sales having had a successful career at Texas Instruments. Additionally, Martin Powell joined as VP Human Resources after holding senior executive HR roles in the technology industry including General Electric (GE) and DELL in his career.

Having completed a major relocation for our Swindon facility last year, we have invested in major expansion and upgrade of our other facilities to allow our growth to continue. This included moving our Edinburgh design centre and Santa Clara office to new upgraded locations as well as expansion at our Munich design centre. We have also recently started a major renovation programme at our headquarter offices in Nabern-teck, which will allow expanded and modernised work space for the next few years to keep pace with Company growth.

We concluded the year with prestigious recognition by winning the Global Semiconductors Association Outstanding European Company Award for the second year running, and remain one of the fastest growing public semiconductor companies in our field.

I am fully aware that the success which we have achieved in 2010 would not have been possible without the unwavering support and commitment of all our employees. For this unparalleled commitment to the Company, they have earned my sincere gratitude. Furthermore, I would like to also thank our customers, business partners and Shareholders for their long-standing loyalty, trust and the belief they place in us.

I view this outstanding performance in 2010 as both an incentive and an obligation to continue our ongoing success story and I am confident in the future success of Dialog.

Dr Jalal Bagherli
Chief Executive Officer

Manoj Thanigasalam
It is with great sadness that we report the passing of Manoj Thanigasalam, a member of the Dialog executive management team. Manoj died, aged 47, following complications from heart surgery on 31 October 2010. He leaves behind a wife and two young children.

Manoj was born on 7 November 1963 in Sri Lanka. As a young boy he moved with his family to the UK where his fascination with gadgets and how things worked led him to graduate with a degree in physics and electronics from Bradford University. Destined for a career in the semiconductor industry, Manoj joined Philips and from there he progressed through the industry working for a range of prestigious semiconductor companies including Texas Instruments, ARM and Sony. In March 2006 Manoj joined Dialog as Vice President and General Manager for our Display Systems business unit having previously worked as VP Business Development at ZBD, a company specialising in bistable LCD display technology.

During his distinguished career in the semiconductor business, Manoj touched many lives and made a great number of close friends throughout the whole industry. Manoj is sorely missed by all, however his passion for technology lives on through us all at Dialog as we build on the foundation born from his relentless hard work and great dedication for the Display Systems business as we strive to build a lasting legacy that we can all be proud of.

Solutions, products technology and key customers

Dialog has combined its Power Management technology leadership and dedicated customer support, delivering fully optimised integrated products and solutions.

Our solutions
Our solutions address two major markets: portable electronic devices including Smartphones and Tablet PCs, and automotive and industrial electronics. The demand for an increased feature set with improved displays in lithium-ion powered portable devices, coupled with the expectation of ever-increasing battery life, is a major driver in the development of our power-saving technology solutions.

Internet connectivity, video streaming and high-quality audio on portable devices 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.

Video must now be transmitted throughout the car, captured outside the car and monitored with extremely low latency to be able to react in real time to the changing external environment. Hi-Fi quality is also demanded of the audio system and of course better GPS support. Our power management and clock companion ICs for the Intel Atom processor provide an optimum solution for next generation multimedia powered infotainment systems. Additionally automotive customers use our products in comfort and safety sub-systems; and in the industrial market our products are used in highly integrated smart-power management systems, such as intelligent electronic ballasts for fluorescent lighting.

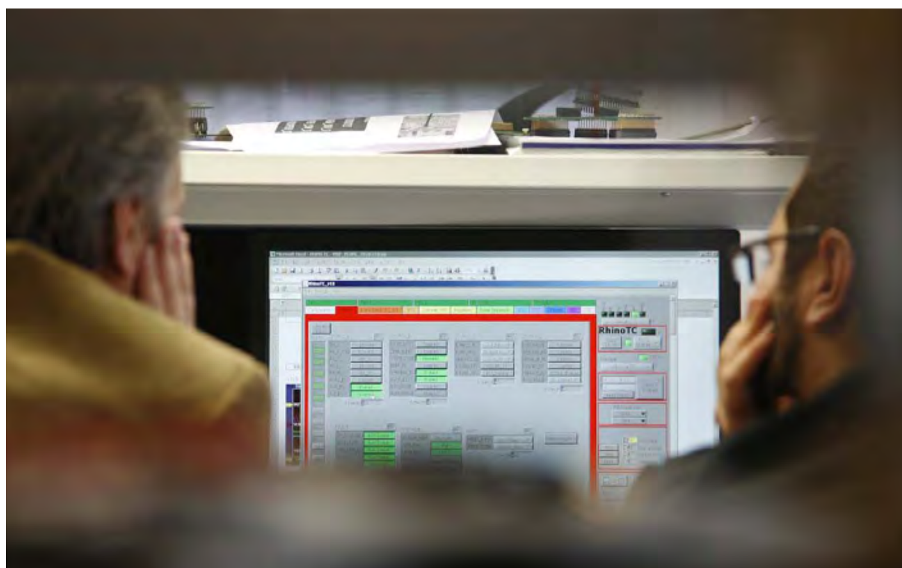
Design, development and production
We are justifiably recognised for the quality and feature-rich functionality of our mixed signal standard Integrated Circuits and custom Application Specific Integrated Circuits solutions.

We nevertheless continually work to increase our intellectual property and improve our engineering skill base and technology portfolio.

During 2010, we invested US$56.5 million, or nearly 19% of our revenue, 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 reusing 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.

Power Management and Audio ICs
Effective Power Management for ever-increasing feature-rich portable devices such as Tablet PCs presents increasingly new design challenges. For example, the introduction of multiple processor cores which need to be powered up and down in a particular sequence or operate in different sleep modes; increased peak currents due to lower geometry technologies; Lithium-ion type batteries needing to charge faster, safer and from a wider variety of sources such as USB ports; changing chemical structures of batteries; in addition to displays which are required to be brighter, bigger and incorporate touch functionality with the use of new organic substrate materials.

All these trends impact the Power Management IC directly, and we constantly evolve our core technology and intellectual property to extend our market-leading status. With a long legacy of delivering different Power Management designs for world-leading mobile phone manufacturers and portable consumer OEMs, 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.



Superb attention to detail is key to a robust semiconductor design

Whether it's pounding the streets blasting out your favourite power songs, chilling on the beach to soft ambient tunes or scaring yourself silly on the last train home listening to the latest Stephen King novel, portable audio enriches our lives in so many ways. The digital audio download market is already a multibillion dollar industry with more and more consumers listening in via their mobile phones, MP3 players and other portable mobile devices.

Dialog's ultra low-power Audio CODEC ICs are providing manufacturers and consumers with professional quality audio without compromising on battery life. Our fully programmable audio filters ensure the best possible audio tailored to each device at a fraction of the power.

Dialog's high-performance audio is always with you powering the soundtrack of your life.

Samsung Electronics' latest YP-Q3AB MP3 player offers extended playtime through use of the Dialog DA7211 ultra low-power Audio CODEC.

"Dialog's Class D audio amplifiers deliver high-quality audio at a fraction of the power consumed by traditional class AB speaker drivers forming a key part of our total energy optimised audio solutions."

Udo Kratz
Vice President, General Manager, Audio and Power Management Business Unit

On track with life

Solutions, products technology and key customers continued

Continuous innovation and perfection of our Power Management IP portfolio allows our customers to typically save 30% of the power consumed in their portable devices.

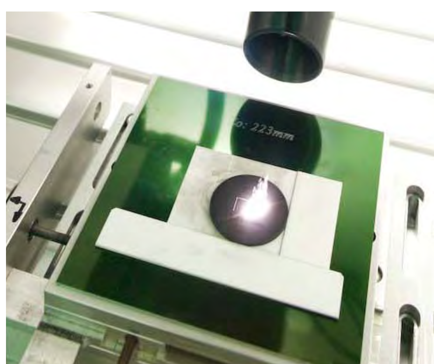
Achievement of near zero failure rates across hundreds of millions of devices requires root cause and effect analysis

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 analogue functions, we are able to offer a selection of differentiated Power Management and audio solutions. The integration of more than 40 different functions on a single chip delivers significant space, power and cost savings to our customers.

In 2010, we launched a new class of Power Management product – DA9057, our second generation 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, DA9057 offers a superior level of user configurability compared to standard PMIC products.

Display drivers and related-system ICs

The demands from the market for the next generation of portable displays to be "always on", thinner, with longer battery life with higher visual and video performance even in bright sunlight means the current technology based on Liquid Crystals (LCD) is struggling. To address these important market needs a number of new display technologies such as OLED, e-paper and MEMs 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.



Breakthrough scientific discovery requiring advanced high-technology equipment

C W Tsai, Vice Chairman & President of SPIL was presented with an outstanding performance supplier of the year 2009 award by Jalal Bagherli in recognition of their excellence in supply with Dialog Semiconductor

In 2010, with Dialog providing the semiconductor technology SmartXtend™ and with TDK providing the display module, together we have completed the development of a passive matrix OLED panel.

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 PM-OLED drivers which will be brought to production. This technology has a very strong value proposition in terms of power consumption, performance and cost over competing technologies. Additionally it provides unique differentiating features like screen transparency and flexible type displays.

Automotive and industrial system ICs

Dialog supplies ASICs to leading European automotive suppliers who in turn deliver Dialog-based products to many leading car manufacturers. Our first customer in Japan was also added during 2010.

These devices capitalise on Dialog's expertise and knowledge of technology, ranging from Power Management systems and mixed signal design, to high voltage circuits and embedded microprocessors on a single integrated circuit in an automotive-qualified CMOS process (including flash memory).

Dialog provides ASICs for windscreen wiper motors, electric window motors and active restrainer seat belt systems. Its partnership with leading automotive suppliers has resulted

in development of integrated circuits which can be connected directly to a car battery without external protection circuits.

For the industrial market, Dialog develops innovative control ASICs both for conventional light sources, such as fluorescent or high-intensity discharge ("HID") lamps, and for emerging LEDs. These devices seek to deliver optimal control and regulation of light sources, while maximising their service life. Through intelligent control, using advanced digital signal processing, these devices help to minimise energy consumption.

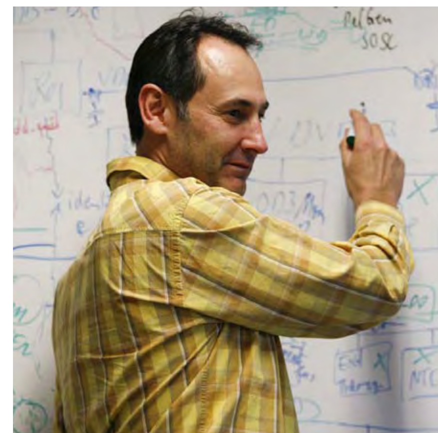
Manufacture, assembly and testing
We outsource our wafer production to selected foundries, principally in Singapore and Taiwan, which provide high-quality products and have the ability to meet both our stringent qualification requirements and tight deadlines. In 2010, in addition to CMOS, we have also started to use a BCD process which enables higher voltage functionality to be integrated efficiently into single chip Power Management ICs.

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 subcontractors 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 subcontract 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 parts per million (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 fulfil 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.

Principal customers
Many of Dialog's principal customers are leading portable device and automotive and industrial equipment manufacturers that purchase both ASICs and ASSPs solutions. Customers with a significant contribution to revenue include Apple, Bosch, RIM (Research in Motion), SonyEricsson and TridonicAtco. These top customers represented 88% of revenue in 2010.

Given the rapidly evolving nature of the technology used in Dialog's target markets, the Company strives to develop long-term relationships with its major customers and seeks to adopt a partnership approach for both standard products and custom solutions. Customers look to Dialog for its technical expertise, while close working relationships with customers provide Dialog with an opportunity to develop and refine market-leading products with recognised industry leaders.

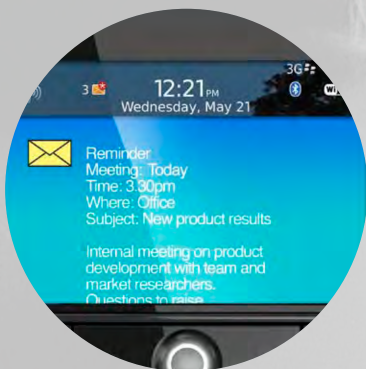


Innovative design through a deep understanding of the fundamentals

Humans are a sociable bunch. We all like to stay connected and socially aware of what's happening with those that matter in our lives. Social networking has become a killer application in mobile devices allowing us to communicate in an unprecedented number of ways using a rich set of media tools, from text to audio clips and pictures to video. It's the appeal of being always-connected, wherever we are that makes portable mobile products the ideal, socially smart devices.

Social networking is driving the need for faster wireless, providing communication of greater amounts of user-generated multimedia, created on more sophisticated applications processors and presented on higher resolution, brighter screens. All this is putting huge energy demands on the battery.

Dialog is at the forefront of power management technology ensuring every micro-watt of power is used wisely, minimising energy wastage while enabling faster charging by reducing heat build-up.



"Dialog is helping to deliver enhanced multimedia through highly optimised power management ensuring our customers can keep delivering socially smart devices that meet the demands of today's consumer."

Gary Duncan
Vice President, Engineering

Socially smart

Financial review

"We continue to execute our growth strategy whilst maintaining a sound and scalable financial platform."
Jean-Michel Richard, CFO, Vice President Finance

The following tables detail the historical consolidated statements of the operations of Dialog for the years ended 31 December 2010 and 2009:

	2010 US$000	2010 Revenues %	2009 US$000	2009 Revenues %	Change %
Revenues					
Audio & Power Management	**245,364**	**82.7**	176,569	81.1	39.0
Display Systems	**1,866**	**0.6**	5,987	2.8	(68.8)
Automotive/Industrial	**50,326**	**17.0**	33,531	15.4	50.1
Reconciliation	**(959)**	**(0.3)**	1,526	0.7	(162.8)
Revenues	**296,597**	**100.0**	217,613	100.0	36.3
Cost of sales	**(159,334)**	**(53.7)**	(119,886)	(55.1)	32.9
Gross profit	**137,263**	**46.3**	97,727	44.9	40.5
Selling and marketing expenses	**(17,391)**	**(5.9)**	(14,183)	(6.5)	22.6
General and administrative expenses	**(17,471)**	**(5.9)**	(12,584)	(5.8)	38.8
Research and development expenses	**(56,465)**	**(19.0)**	(42,621)	(19.6)	32.5
Other operating income	**–**	**0.0**	333	0.2	(100.0)
Restructuring and related impairment charges	**(595)**	**(0.2)**	–	0.0	–
Operating profit	**45,341**	**15.3**	28,672	13.2	58.1
Interest income and other financial income	**1,130**	**0.4**	203	0.1	456.7
Interest expense and other financial expense	**(120)**	**0.0**	(212)	(0.1)	(43.4)
Foreign currency exchange gains and losses, net	**(2,088)**	**(0.8)**	162	0.1	(1,388.9)
Result before income taxes	**44,263**	**14.9**	28,825	13.3	53.6
Income tax benefit (expense)	**(1,784)**	**(0.6)**	3,902	1.7	(145.7)
Net profit	**42,479**	**14.3**	32,727	15.0	29.8

Results of operations

Segment reporting

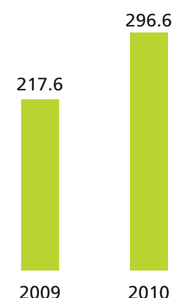
Revenues in the **Audio & Power Management segment** for the year ended 31 December 2010 were US$245.4 million compared to US$176.6 million in 2009, an increase of 39.0%. The increase in this sector is primarily driven by the success of our growing range of highly integrated power management solutions for portable devices including portable media players, Smartphones and Tablet PCs.

The operating profit in the **Audio & Power Management segment** (see note 23 to the consolidated financial statements) increased to US$59.1 million compared to US$47.0 million in the same period 2009, an increase of 25.6%.

Revenues in the **Display Systems segment** were US$1.9 million for the year ended 31 December 2010 (2009: US$6.0 million). The decline in revenues between 2009 and 2010 is primarily due to the reduction in customer-funded R&D activities which contributed predominantly to the 2009 revenues. The operating loss in this segment (see note 23 to the consolidated financial statements) for the year ended 31 December 2010 was US$11.2 million (2009: US$12.4 million). These losses reflect our investment in the emerging ultra low-power display technologies such as PMOLED.

Revenues from our **Automotive/Industrial Applications** segment were US$50.3 million for the year ended 31 December 2010 (2009: US$33.5 million) representing 17.0% of our total revenues (2009: 15.4%). Operating profit in the segment (see note 23 to the consolidated financial statements) was US$7.0 million for the year ended 31 December 2010 (2009: US$3.6 million operating losses). The 50.1% year-on-year revenue growth reflects the recovery in the automotive business which started in Q4 2009 and the fact that we also benefited from sales of last time buy products during 2010 for an amount of US$6.4 million. These products were sold as a result of last year's notification of the phasing out of an older manufacturing process from one of our foundry partners.

Revenues FY 2010
(US$m)



Revenues

Total revenues for the year ended 31 December 2010 were US$296.6 million (2009: US$217.6 million). This increase of 36.3% results predominantly from higher sales volumes in our Audio & Power Management and Automotive and Industrial sectors as described above.

Cost of sales as % of revenue FY 2010

Cost of sales

Cost of sales consists of material costs, the costs of outsourced production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. For the year ended 31 December 2010, cost of sales increased by 32.9% to US$159.3 million (2009: US$119.9 million) resulting from increased revenues recorded during the year. However, as a percentage of total revenues, cost of sales in the same periods decreased from 55.1% to 53.7%. This demonstrates the gains made possible by our continuous efforts to improve the Company's product mix, test time and yields. The underlying* (please refer to page 24) cost of sales for 2010 were US$158.9 million (53.6% of revenues) compared to US$119.7 million (55.0% of revenues) in 2009.

Gross profit

Gross profit for the year ended 31 December 2010 was US$137.3 million (2009: US$97.7 million). Our gross profit increased from 44.9% of revenues in 2009 to 46.3% of revenues for the year ended 31 December 2010, 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, sales commissions, travel expenses, advertising and other marketing costs. In 2010, selling and marketing expenses increased to US$17.4 million (2009: US$14.2 million) in line with increased production volume and as a result of the Company's investment in creating value by increasing staff in strategic marketing functions.

Although revenues increased year-on-year, selling and marketing expenses decreased from 6.5% of total revenues in 2009 to 5.9% of total revenues in the year ended 31 December 2010. Excluding the share-based compensation impact, the underlying* selling and marketing expenses for 2010 were US$15.8 million (5.3% of revenues) compared to US$13.8 million or 6.3% in 2009.

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 2010 general and administrative expenses increased to US$17.5 million (2009: US$12.6 million). This predominantly reflects the increase in share-based compensation expenses recorded in 2010 in line with the Company share price performance during the same period. For the year ended 31 December 2010, general and administrative expenses as a percentage of revenues were 5.9% (2009: 5.8%). The underlying* general and administrative expenses were US$12.2 million or 4.1% of revenues in 2010. This compares to US$11.6 million (5.3% of revenues) in 2009.

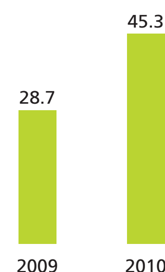
Research and development expenses

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 (net of customer-funded projects) increased to US$56.5 million in 2010 (2009: US$42.6 million). The absolute US$ increase in research and development expenses was primarily due to an increased headcount of our R&D personnel in support of our growth strategy. As a percentage of total revenues research and development expenses decreased from 19.6% (2009) to 19.0% (2010), resulting from a higher revenue base in the latter period.

Other operating income, restructuring and related impairment charges

Restructuring and related impairment charges of $0.6 million recorded in 2010 are related to the closure of our Heidelberg (Germany) Design Centre. Other operating income of US$0.3 million in the year ended 31 December 2009 relates to the unexpected settlement against receivables which had been written down in 2006 as a result of the insolvency of BenQ Mobile. For further information please refer to note 26.

Operating profit FY 2010
(US$m)



Operating profit

We reported an operating profit of US$45.3 million for the year ended 31 December 2010 (2009: US$28.7 million). The improvement primarily resulted from increased revenues and gross profits recognised in 2010. Excluding the share-based compensation impact, the underlying* operating profit achieved in 2010 was US$56.2 million or 18.9% of revenue compared with the underlying* operating profit of US$31.5 million or 14.5% in 2009.

Interest income and other financial income

For the year ended 31 December 2010, interest income and other financial income from the Company's investments (primarily short term) was US$1.1 million compared to US$0.2 million in the previous year. The increase is primarily the result of increased liquidity.

Interest expense and other financial expense

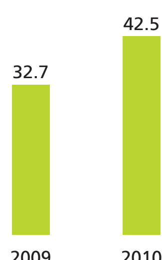
Interest expense and other financial expense consist primarily of expenses from the Group's factoring arrangement. Interest and other financial expenses in 2010 were US$0.1 million (2009: US$0.2 million). The reduction is primarily the result of reduced factoring utilisation and lower interest rates.

Income taxes

For the year ended 31 December 2010 a net income tax charge of US$1.8 million was recorded (2009: US$3.9 million tax benefit). The amount in 2009 consists of a current tax expense of US$3.2 million and a deferred tax benefit of US$7.1 million. Previously unrecognised deferred tax assets were recognised for the first time in Q4 2009. This resulted in a contribution of US$7.5 million to the Company's 2009 net profit (for further information please refer to note 4). The amount in 2010 consists of a current tax expense of $5.3 million and a deferred tax benefit of $3.5 million.

Financial review continued

Net profit FY 2010
(US$m)



Net profit

For the reasons described above, in 2010 net profit increased by US$9.8 million to US$42.5 million or 14.3% of total revenues (2009: US$32.7 million or 15.0% of total revenues). For the year ended 31 December 2010, basic earnings per share were US$0.70 (2009: US$0.67) and diluted earnings per share were US$0.66 (2009: US$0.60). The underlying* earnings per share (diluted) were 82 cents for financial year 2010. This compares to 65 cents for financial year 2009. Excluding the effect of the cash settlement from BenQ Mobile insolvency recorded in April 2009 (see above and note 26), net income for the year ended 31 December 2009 would have been US$30.4 million.

Liquidity and capital resources

Cash flows

Cash generated from operating activities was US$52.0 million (2009: US$33.2 million). The cash inflow in 2010 primarily resulted from the operating income (before depreciation, amortisation and other non-cash effective expenses) a decrease in trade accounts receivable and higher trade accounts payable. This cash inflow was partly offset by an increase in inventory balances and a reduction in tax liabilities. The cash inflow in 2009 related primarily to the operating income (before depreciation, amortisation and other non-cash effective expenses). This cash inflow was partly offset by cash used to finance the increased working capital.

Cash used for investing activities in 2010 was US$15.5 million (2009: cash used US$12.3 million). Cash used for investing activities in 2010 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US$9.8 million (2009: US$5.9 million), the purchase of intangible assets of US$5.9 million (2009: US$1.8 million) and payments related to capitalised development costs of US$2.8 million (2009: US$1.0 million).

Liquidity

At 31 December 2010 we had cash and cash equivalents and restricted cash of US$158.2 million (31 December 2009: US$123.1 million). The working capital (defined as current assets minus current liabilities) was US$169.2 million (31 December 2009: US$134.4 million).

If necessary, we have available for use a short-term credit facility of US$5.0 million which bears interest at a rate of LIBOR + 90bp per annum and a multi-currency revolving credit line facility of £10 million at a rate of LIBOR + 135bp. At 31 December 2010 we had no amounts outstanding under these facilities. In addition, we have a factoring agreement which provides the Company with up to US$25.0 million of readily-available cash. 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 needed.

Dialog Semiconductor's underlying financial performance for the year ended 31 December 2010 is summarised below:

	2010			2009		
	IFRS US$000	**Adjustment US$000**	**Underlying* US$000**	IFRS US$000	Adjustment US$000	Underlying* US$000
Revenues	**296,597**	**–**	**296,597**	217,613	–	217,613
Cost of sales	**(159,334)**	**460**	**(158,874)**	(119,886)	139	(119,747)
Gross profit	**137,263**	**460**	**137,723**	97,727	139	97,866
Selling and marketing expenses	**(17,391)**	**1,604**	**(15,787)**	(14,183)	405	(13,778)
General and administrative expenses	**(17,471)**	**5,305**	**(12,166)**	(12,584)	1,023	(11,561)
Research and development expenses	**(56,465)**	**3,484**	**(52,981)**	(42,621)	1,246	(41,375)
Other operating income	**–**	**–**	**–**	333	–	333
Restructuring expenses	**(595)**	**–**	**(595)**	–	–	–
Operating profit	**45,341**	**10,853**	**56,194**	28,672	2,813	31,485
Interest income and other financial income	**1,130**	**–**	**1,130**	203	–	203
Interest expense and other financial expense	**(120)**	**–**	**(120)**	(212)	–	(212)
Foreign currency exchange gains and losses, net	**(2,088)**	**–**	**(2,088)**	162	–	162
Result before income taxes	**44,263**	**10,853**	**55,116**	28,825	2,813	31,638
Income tax benefit (expense)	**(1,784)**	**–**	**(1,784)**	3,902	–	3,902
Net profit	**42,479**	**10,853**	**53,332**	32,727	2,813	35,540
Earnings per share (in US$)						
Basic	**0.70**	**0.18**	**0.88**	0.67	0.06	0.73
Diluted	**0.66**	**0.16**	**0.82**	0.60	0.05	0.65

* Underlying results are based on IFRS, adjusted to exclude share-based compensation charges (FY 2010: US$10.9 million; FY 2009: US$2.8 million) including associated social security costs (FY 2010: US$6.6 million; FY 2009: US$1.4 million). The term "underlying" is not defined in IFRS and therefore may not be comparable with similarly titled measures reported by other companies. Underlying measures are not intended as a substitute for, or a superior measure to, IFRS measures.

Statement of financial position

	2010 US$000	2009 US$000	Change US$000	Change %
Assets				
Cash and cash equivalents and restricted cash	**158,200**	123,148	35,052	28.5
All other current assets	**58,263**	45,663	12,600	27.6
Total current assets	**216,463**	168,811	47,652	28.2
Property, plant and equipment, net	**14,249**	9,807	4,442	45.3
Intangible assets	**10,727**	5,005	5,722	114.3
All other non-current assets	**1,111**	1,174	(63)	(5.4)
Deferred tax assets	**10,829**	7,514	3,315	44.1
Total non-current assets	**36,916**	23,500	13,416	57.1
Total assets	**253,379**	192,311	61,068	31.8
Liabilities and Shareholders' equity				
Current liabilities	**47,218**	34,380	12,838	37.3
Non-current liabilities	**889**	952	(63)	(6.6)
Net Shareholders' equity	**205,272**	156,979	48,293	30.8
Total liabilities and Shareholders' equity	**253,379**	192,311	61,068	31.8

Balance sheet total was US$253.4 million at 31 December 2010 (31 December 2009: US$192.3 million). Cash and cash equivalents and restricted cash increased by 28.5% to US$158.2 million at 31 December 2010 (31 December 2009: US$123.1 million). This increase is predominantly related to an operating cash inflow as prescribed above. Other current assets increased by 27.6% to US$58.3 million (31 December 2009: US$45.7 million), driven by higher inventory balances and prepaid expenses.

In 2010, total non-current assets increased by 57.1% to US$36.9 million. This increase is primarily due to higher balances of property plant and equipment and intangible assets as capital expenditures and investments were higher than depreciation and amortisation and impairment charges. Also, in 2010, additional net deferred tax assets in the amount of US$3.3 million, principally relating to carried forward losses, were recognised. This was the result of the Group recording the third consecutive year of positive net income. Therefore, based on the expected positive net result for the near future, the management concluded that it was appropriate to recognise deferred tax assets in an amount of US$10.8 million (2009: US$7.5 million). The assessment was based on the business plan for 2011 and beyond.

Non-current liabilities relate to provisions, capital lease and hire purchase commitments and the fair value of derivative financial instruments.

Shareholders' equity increased to US$205.3 million (US$157.0 million at 31 December 2009) which is predominantly the result of our net profit and the February 2010 capital increase (please refer to note 18). The equity ratio (equity over total assets) was 81.0% (81.6% at 31 December 2009).

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 returned to profitability in 2008 after having not been profitable for the prior seven financial years, and cannot guarantee that we will remain 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 effect. Our goal is to spread this risk by acquiring more customers. We are attempting to reduce the risk of our revenues, profitability and growth being affected by a slowdown in the wireless communications market by winning customers in other sectors.

Third-party costs and supplier risk
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. The tightness in the industry supply chain that we have experienced during most of 2010 has impacted our ability to extract price reductions from our suppliers. Semiconductor supplies have been on allocation for the greater part of 2010 and we expect this to continue into 2011. Whilst most of our large and strategic suppliers have invested in increased capacities during 2010, these will not have a material impact on the overall supply before the second half of 2011. In the meantime, manufacturing lead-time remains well above those of 2009. We remain confident that we will continue to meet our revenue plans but ongoing industry capacity constraints will continue to limit our ability to take advantage of short upside demand.

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 precautions for supplier insolvency with its risk management system in which information on the creditworthiness of suppliers is kept. This seeks to identify suppliers at risk at an early stage.

Intellectual property
We seek to protect our intellectual property from being copied or used by others by appropriate use of patents, copyrights and trademarks.

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 three months. This can vary in view of changes in the underlying currency's interest rates and the Group's cash requirements. The Group has no long-term debt and no amounts outstanding under short-term credit facilities as at 31 December 2010 (2009: 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 with reputable financial institutions.

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 24 on page 80 for further information.)

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 monitoring all customers who trade on credit terms, and receivable balances. In August 2007, we entered into a factoring agreement with a reputable financial institution to finance our growth. The maximum amount of cash that can be received under this factoring agreement is US$25 million (2009: US$30 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. We, in turn, had pledged US$3.0 million of cash to the financial institution concerned. The institution would draw down on these only if a commercial action by Dialog were to invalidate – partly or completely – the claim on a receivable financed by the factoring programme. In Q4 2010, the factoring bank relinquished the pledge. Consequently, no restricted cash is shown at 31 December 2010.

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. An international equity offering was launched in Q3 2009, with the subscription being approximately three times oversubscribed. Twelve million new ordinary shares were priced at €3.65, representing a premium of 4% to the price on the offer announcement date. The shares were placed with a number of Tier 1 institutional investors to raise gross proceeds of €43.8 million (US$ 64.3 million). Net proceeds (after deduction of offering expenses of US$4.7 million) were US$59.7 million. The proceeds from the offering are being used to increase our working capital resources to fund future growth, to acquire complementary technology and intellectual property and expand our design and technical support teams, particularly in the US and Asia.

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. This commitment is reflected in Dialog's own "Code of Conduct", which addresses all the key areas defined in the EICC standard along with recognised standards such as International Labour Organization Standards (ILO), Universal Declaration of Human Rights (UDHR), Social Accountability International (SAI) and the Ethical Trading Initiative (ETI). In addition, the Company complies with the worldwide ISO 14001 Environmental Standard – and expects its suppliers to do the same – in order to ensure that all manufacturing processes are environmentally compliant.

Human rights and code of conduct
Dialog's philosophy is that all its suppliers must demonstrate a commitment to upholding workers' human rights and to treating them with dignity and respect. Standards such as the UDHR, SAI and the ETI 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. Dialog and its suppliers must ensure that workers are not threatened or subjected to inhumane or harsh treatment, harassment or any form of unlawful discrimination. Open communication and direct engagement between workers and management is encouraged, even in those countries where there is no meaningful legal protection. In order to promote its philosophy several new initiatives have been introduced to all of Dialog's manufacturing partners during 2010, including a detailed code of conduct for them to review and implement. Detailed self-audits have been performed by all our suppliers in order to verify the implementation of this code of conduct and on-site audits and inspections are performed regularly by Dialog to verify its continuing maintenance.

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.

In order to reinforce Dialog's commitment to Corporate Social Responsibility, corporate contributions to charitable organisations are made on an ongoing basis. As many of our employees across all Dialog sites partake in charitable events personally, Dialog provides a comparable donation to that raised by individual employees as a result of these events.

This initiative gives Dialog the opportunity to make a contribution to local communities, communities where we do business and charities which employees are passionate about.

Donations in 2010 included Children in Need in the UK, a charity for children with mental and physical handicap in Dettingen U-Teck, Germany and to a leading charity dedicated to beating cancer through research.

In addition, to foster and support our next generation of engineers, Dialog through the National Microelectronics Institute offer engineering sponsorship in the UK and sponsor engineering scholarships at the University of Edinburgh.

Ethics
Dialog believes that continued success in the semiconductor market can be achieved only by adopting 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 "whistle-blower" policy in place to protect employees' confidentiality and encourage our suppliers to do the same. Dialog's management system complies with the EICC code. It is certified to the ISO 9001 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 to at least 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 ISO 14001 certification. Since we firmly believe that sustainable development can be secured only if we safeguard our valuable resources, we deal only with suppliers that have similar

Corporate social responsibility continued

environmental goals and are also accredited to the ISO 14001 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 volatile organic chemicals (VOC);
- Design and manufacture only environmentally friendly products;
- 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.

As a fabless semiconductor company, it is important to Dialog that all of its manufacturing partners also follow their requirement to respect the environment.

To this end every supplier is required to complete a self-audit questionnaire to identify and document compliance to Dialog's environmental requirements.

Also, evidence of compliance with requirements is checked during regular supplier on-site audits.

As part of Dialog's continuing Corporate Social Responsibility, Dialog sponsored a tree planting programme for the students at Loyola School, Los Altos School District in California, USA. In 2010 Mark Tyndall, VP Business Development, presented Dialog's donation to Kimberly Attell, Principal at Loyola School. The aim of the programme is to build continued awareness with children of the importance and protection of our environment.

Executive management

1 Dr Jalal Bagherli
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.

2 Andrew Austin
Vice President, Sales
Andrew joined Dialog in April 2009. He was previously a Sales and Marketing consultant specialising in the semiconductor and high performance sports industries. He has extensive experience of the semiconductor industry through his previous professional positions at Texas Instruments and Raytheon Systems. Andrew holds a degree in Electrical and Electronics from Hertford University.

3 Mohamed Djadoudi
Vice President, Global Manufacturing Operations and Quality
Mohamed joined Dialog in March 2007 and is responsible for product engineering, test and assembly development, data automation, software support, offshore manufacturing operations and quality. Mohamed has more than 25 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.

4 Gary Duncan
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.

5 Jürgen Friedel
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.

6 Peter Hall
Vice President, Supply Operations and Facilities
Peter joined Dialog in 1987 and is responsible for supply operations, procurement and facilities. 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.

7 Udo Kratz
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 20+ 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.

8 Martin Powell
Vice President, Human Resources
Martin joined the Company in 2010 and is responsible for developing and driving people strategies in support of Dialog's business goals and initiatives worldwide, including fostering an environment where Dialog's teams can thrive. Prior to Dialog Martin has held a variety of senior and executive HR roles with Medtronic Inc, General Electric (GE) and the Dell Corporation, and most recently was a member of the executive team at C-MAC MicroTechnology, a private equity backed leader in the high reliability electronics sector. During his career Martin has been located in Asia, continental Europe as well as the United Kingdom.

9 Jean-Michel Richard
CFO, Vice President Finance
Jean-Michel joined the Company in September 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.

10 Mark Tyndall
Vice President, 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.

Board of Directors

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1 Gregorio Reyes
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 non-executive Chairman of LSI Logic and a non-executive director of Seagate Technology.

2 Dr Jalal Bagherli
Chief Executive Officer
Jalal joined Dialog, as CEO, in September 2005. He was previously Vice President & 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.

3 Chris Burke
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 & Development at Northern Telecom. He holds appointments at Connectivity Ltd (an Esprit, and 3i Portfolio Company) and OneAccess. He invests from his own fund and provides strategic advice to a wide range of investors and technology companies, including HP Communications & Media, Juniper Networks and a variety of venture capital funds.

4 Aidan Hughes
Non-executive Director, Chair of Audit Committee
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.

5 John McMonigall
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.

6 Russ Shaw
Non-executive Director, Chair of Remuneration and Nomination Committee
Russ joined the Board in July 2006. He is currently the Vice President & General Manager for Skype with responsibilities for its Mobile Division as well as Europe, Middle East and Africa. Previously, he was at Telefonica where he was the Global Director of Innovation. Before joining Telefonica, he was the 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.

7 Peter Tan
Non-executive Director
Peter joined the Board in July 2006. He has held senior management roles across a wide range of technology companies, including National Semiconductors Pte Ltd, Molex Singapore Pte Ltd, Apple Computer Inc. and Flextronics International Inc. He is presently Managing Partner of JP Asia Capital Partners Pte Ltd, and also sits on the board of Vacuumschmelze (VAC) Luxembourg S.a.r.l., VariOptic SA, Innotek Limited and SMRT Corporation Ltd. Besides his Board role, Peter has an advisory function in the National University of Singapore BTech Program and is a member of the International Evaluation Panel for the Singapore National Research Foundation. Peter holds a Diploma in Management Studies from the University of Chicago and an Executive MBA Degree from the Golden Gate University, San Francisco.

8 Peter Weber
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.

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 2010. These accounts have been prepared under IFRS for UK reporting purposes and are 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, industrial 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, RIM, Bosch and Tridonic Atco. With its 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. 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. At 31 December 2010 the Company employed 398 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 page 12.

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. The Company is currently leveraging its expertise to expand its stand-alone audio product portfolio, capitalising on the success of its newly introduced low-power and high-quality Audio IC, and to add innovative ultra low-power display technologies such as PM-OLED.

We continue to execute our strategy successfully, both to further strengthen our technology leadership and to expand our addressable market. Pursuant to this strategy, we have acquired SiTel Semiconductor B.V., a leader in short-range wireless, digital cordless and VoIP technology. SiTel's technology and platform represent a complementary and exciting opportunity to address these adjacent portable device markets, both in order to develop new products as well as to cross-sell Dialog's existing Power Management technology to SiTel's customer base.

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 2011 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 (2009: nil). They are committed to reinvesting 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 Benefit 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 2010, the Trust held 3,995,031 shares, which represented 6.14% of the total called-up share capital, at a nominal value of £399,503 (2009: 2,663,318 or 4.3% of total called-up share capital, at a total value of £266,332).

Share capital
Details of the share capital are set out in note 18 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 30 of this report.

Directors' remuneration and interests
Directors' remuneration and interests are detailed in the Directors' remuneration report on pages 35 to 37 of this annual report. No Director had a material interest during the year ended 31 December 2010 in any contract of significance with any Group company.

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 21 April 2011 at 9am.

Corporate Governance
The Company's Corporate Governance statement is set out on pages 33 and 34 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 2010 was 65 days (2009: 52 days).

Financial instruments
The Group's financial risk management and policies, and exposure to risks, are set out on page 26.

Directors' report continued

Political and charitable contributions
The Group made no political contributions during the period. We made charitable contributions of US$16,875 to local community projects (2009: US$6,542).

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 employees on the performance of the Company which, together with profit-related bonuses and stock option awards, encourage 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 30. 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.

Responsibility statement under the Disclosure and Transparency Rules
Each of the Directors listed on page 30 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and

- the Directors' report and the Group operating and financial review include a fair review of the development and the performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 21 April 2011 at 9am.

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

Important events affecting the Company and its subsidiary undertakings occurring after year end
On 10 February 2011, Dialog Semiconductor plc acquired 100% of the voting shares of SiTel Semiconductor B.V. ("SiTel"), an unlisted company headquartered and incorporated in The Netherlands and a leader in short-range wireless, digital cordless and VoIP technology. In the year ended 31 December 2010, SiTel generated unaudited revenues of approximately US$116.9 million. Dialog has acquired SiTel in order to expand its product portfolio with short-range wireless and VoIP-based internet connectivity products. This will allow Dialog to develop new products for these new markets as well as to cross-sell Dialog's existing Power Management technology to SiTel's customer base. The acquisition significantly expands Dialog's addressable market targeting high-growth wireless personal portable devices. Dialog acquired SiTel for an enterprise value of US$86.5 million[1].

Given the timing of the transaction, it has not been possible to provide all disclosures required by IFRS3 (Revised) as the acquisition accounting is still to be performed.

There are no other known events after the date of the Statement of Financial Position that require disclosure.

Dr Jalal Bagherli
Director

10 February 2011

1) Net cash paid of US$84.5 million.

Corporate Governance

Governance standards
Dialog Semiconductor Plc is committed to implementing high levels of governance. Accordingly, Dialog (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 seven non-executive Directors and one executive Director. The compensation provided to each Director is detailed in the Directors' remuneration report on pages 35 to 37. The executive Director's remuneration is largely performance related and is connected to a set of goals and Dialog's profitability.

Audit Committee, and Remuneration and Nomination Committee
Dialog's Audit Committee comprises the following Directors: Aidan Hughes (Chairman), John McMonigall 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.

The Remuneration and Nomination Committee is chaired by Russ Shaw who is assisted by Chris Burke and Peter Weber. 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 decide 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.

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

Transparency
Under UK Disclosure and Transparency Rules, significant Shareholders are required to notify Dialog of a shareholding of 3% or more or 5% or more in the case of shares held by investment managers (on behalf of clients), scheme operators and ICVCs. Dialog then makes this information public and notifies BaFin and the Stock Exchange. Transactions in the Company's shares carried out by members of the Board of Directors and their family members are reported and published under s15a of the German Securities Trading Act (Wertpapierhandelsgesetz) and DTR3.

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.

Takeovers directive
At 31 December 2010, the Company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the share capital can be found in note 18 to the consolidated financial statements.

On a show of hands at a general meeting of the Company every holder of shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. The notice of the general meeting specifies deadlines for exercising voting rights either by proxy notice or by presence in person or by proxy in relation to resolutions to be passed at general meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the annual general meeting and published on the Company's Website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- employees of the Company are not allowed to trade in shares or exercise options in certain close periods (such close periods normally start two weeks before the end of each quarter and end 48 hours after the release of the financial results).

On 4 February 2010, an offering of 3,500,000 previously unissued ordinary shares at 10 pence each to its Employee Benefit Trust was made.

Details of changes in share capital can be found in note 18 to the consolidated financial statements. Besides that, the Company did not purchase its own shares and the Company holds no shares in treasury.

The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities and/or voting rights.

Dialog has an Employee Benefit Trust which holds Dialog shares for the benefit of employees,

Corporate Governance continued

including for the purpose of satisfying awards made under the various employee share plans. The trustee may vote the shares as it sees fit, and if there is an offer for the shares the trustee is not obliged to accept or reject the offer but will have regard to the interests of the employees, may consult them to obtain their views on the offer and may otherwise take the action with respect to the offer it thinks fair.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a takeover bid. The agreements between the Company and its Directors for compensation for loss of office are given in the Directors' remuneration report on pages 35 to 37.

The Company's Articles of Association may only be amended by a special resolution at a general meeting of Shareholders.

Internal control
Dialog's Board of Directors and Audit Committee acknowledge that they are responsible for the Company's processes of internal control and for reviewing its effectiveness. Such processes are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has an ongoing process for identifying, evaluating and managing the significant risks it faces. This process is reviewed in accordance with the EU Transparency Directive.

The process was in place during 2010 and up to the date of the approval of the 2010 annual report and financial statements.

The Company's Board and Audit Committee can confirm that necessary actions have been taken to remedy any significant failings or weaknesses identified from these process reviews.

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 note 3 to the consolidated financial statements on page 59 and note 30 to the Company financial statements on page 89.

The Company's audited financial statements for the year ended 31 December 2009, 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 5 May 2010. E&Y, the Company's independent auditors, were reappointed until the following AGM.

Given the acquisition of SiTel Semiconductor B.V. ("SiTel") on 10 February 2011, the Board has requested that Kevin Harkin, the Senior Statutory Auditor, extend his period of service from five years to seven years (to end with audit of the 31 December 2012 annual report). The Board believes that this will give the Group greater stability and more comfort over audit quality over the next two years as SiTel is integrated into the Group. After due consideration, Kevin Harkin and Ernst & Young LLP have accepted this request and have advised that they will implement additional review procedures in order to mitigate any potential risk of familiarity impairing their independence.

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

10 February 2011

Directors' remuneration report

Policy on Directors' remuneration
The Board is responsible for setting the Company's policy on Directors' remuneration; and the remuneration of each executive Director, following recommendations from the Remuneration and Nomination Committee.

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), Chris Burke and Peter Weber.

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; and

3. **Share options** – details are set out in note 20 to the consolidated financial statements.

Compensation of non-executive Directors
Non-executive Directors 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 and the Chairman are all reimbursed for any reasonable travel expenses incurred in connection with their attendance at Board meetings or Board committees.

There is no contractually agreed termination benefit for non-executive Directors.

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, but increasing to 12 months on a change of control of the Company.

Performance graph
Details are set out on pages 7 and 8 of this report.

Share options
Details are set out in note 20 to the consolidated financial statements, on pages 71 to 73.

Directors' share interests
Directors' beneficial interests (as defined by the Companies Act 2006) in 10 pence ordinary shares of the Company are set out in note 20a, on page 71, in the notes to the consolidated financial statements.

Directors' remuneration report continued

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

Non-executive Directors' terms
Non-executive Directors have formal letters of appointment. All non-executive Directors are initially 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 Association (one-third of the Directors must stand for re-election at each AGM). If a non-executive Director is not invited to serve any additional period or is not re-elected at the Company's AGM, their appointment is terminated with immediate effect. The letters of appointment do not contain any other notice provisions.

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

Name and position	Base salary US$	Bonus US$	Pensions contribution US$	Other US$	**2010 Total US$**	2009 Total US$	**Directors' holdings at 31 December 2010 Shares**	**Options**
Dr Jalal Bagherli *Executive Director and CEO*	361,306	463,213	29,761	25,198	**879,479**	576,829	**400,576**	**875,002**
Chris Burke *Non-executive Director*	66,809	–	–	–	**66,809**	39,136	**15,593**	**23,757**
Aidan Hughes *Non-executive Director and Chairman of the Audit Committee*	79,627	–	–	–	**79,627**	46,963	**25,000**	**44,168**
John McMonigall *Non-executive Director*	66,809	–	–	–	**66,809**	39,136	**100,000**	**8,550**
Gregorio Reyes *Non-executive Chairman*	94,770	–	–	–	**94,770**	46,963	**70,000**	**23,340**
Russ Shaw *Non-executive Director and Chairman of the Remuneration and Nomination Committee*	79,627	–	–	–	**79,627**	46,963	**19,891**	**65,210**
Peter Tan *Non-executive Director*	66,809	–	–	–	**66,809**	39,136	**40,000**	**–**
Peter Weber *Non-executive Director*	66,809	–	–	–	**66,809**	39,136	**52,000**	**–**
	882,566	**463,213**	**29,761**	**25,198**	**1,400,739**	**883,891**	**723,060**	**1,040,027**

Share options granted to the executive Director
As of 31 December 2010, Jalal Bagherli, executive Director, held 875,002 options over ordinary shares which entitle him to acquire the same amount of shares.

Exercise price	Date of grant	Expiry date	Vesting period	31 December 2009	Granted	Exercised	**31 December 2010**	Market price of exercised options[1] €	Gain on the exercise of options €
€1.52	13.05.2009	12.05.2016	1-44 months	102,624	–	(26,912)	**75,712**	10.57	242,919.04
£0.10	21.02.2010	20.02.2015	Immediately	–	266,430	(266,430)	**–**	11.60	3,056,785.58
£0.10	21.02.2010	20.02.2015	12 months	–	799,290	–	**799,290**	–	–
				102,624	**1,065,720**	**(293,342)**	**875,002**	**–**	**3,299,704.62**

1) The market price is a weighted average price.

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 (ending with the 2009 AGM), non-executive Directors received 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. At the 2010 Annual General Meeting the Shareholders voted against the continuance of this share option plan. Consequently, no share options were granted to the non-executive Directors in 2010.

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

Director	Exercise price €	Date of grant	Expiry date	Vesting period	31 December 2009	Forfeited	Granted	Exercised	**31 December 2010**	Market price of exercised options[1] €	Gain on the exercise of options €
Chris Burke	1.40	12.07.2006	11.07.2013	48 months	9,378	–	–	(4,168)	**5,210**	11.98	43,160
	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)	**–**	–	–
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(1,453)	**18,547**	11.98	15,707
Aidan Hughes	1.27	19.06.2006	18.06.2013	48 months	50,000	–	–	(45,832)	**4,168**	11.60	472,657
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(20,000)	**–**	11.60	195,906
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	–	**20,000**	–	–
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	–	**20,000**	–	–
John McMonigall	1.27	19.06.2006	18.06.2013	48 months	50,000	–	–	(44,790)	**5,210**	11.60	461,588
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(20,000)	**–**	11.60	195,906
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	**–**	11.60	204,906
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(16,660)	**3,340**	11.60	173,685
Gregorio Reyes	1.27	19.06.2006	18.06.2013	48 months	8,336	–	–	(2,084)	**6,252**	12.00	22,361
	1.80	10.05.2007	09.05.2014	12 months	10,004	–	–	(10,004)	**–**	12.00	102,041
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	**–**	11.13	195,593
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(2,912)	**17,088**	10.56	27,344
Russ Shaw	1.40	12.07.2006	11.07.2013	48 months	50,000	–	–	(44,790)	**5,210**	11.60	456,258
	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**	–	–
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	–	**20,000**	–	–
Peter Tan	1.40	12.07.2006	11.07.2013	48 months	50,000	–	–	(50,000)	**–**	9.04	381,680
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(20,000)	**–**	8.81	152,720
Peter Weber	1.27	19.06.2006	18.06.2013	48 months	7,294	–	–	(7,294)	**–**	10.07	64,187
	1.35	30.04.2008	29.04.2015	12 months	2,534	–	–	(2,534)	**–**	10.07	22,096
	1.17	22.04.2009	21.04.2016	12 months	20,000	–	–	(20,000)	**–**	10.17	179,692
Total					**557,546**	**–**	**–**	**(392,521)**	**165,025**		**3,367,488**

1) The market price is a weighted average price.

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

Tim Anderson
Secretary

10 February 2011

Statement of Directors' responsibilities

The Directors are responsible for preparing the IFRS report and accounts 2010 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 2006 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 2006.

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 legislation 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

10 February 2011

Independent Auditors' report to the members of Dialog Semiconductor Plc

We have audited the financial statements of Dialog Semiconductor Plc for the year ended 31 December 2010 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the Corporate Governance Statement set out on pages 33 to 34 and the web address (www.dialog-semiconductor.com) with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- A Corporate Governance Statement has not been prepared by the Company.

Kevin Harkin (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
10 February 2010

Consolidated statement of financial position

As at 31 December 2010

	Notes	At 31 December 2010 US$000	At 31 December 2009 US$000
Assets			
Cash and cash equivalents	5	**158,200**	120,148
Restricted cash	5, 24	**–**	3,000
Trade accounts receivable and other receivables	6	**12,556**	17,486
Inventories	7	**40,733**	26,193
Income tax receivables	4	**60**	69
Other financial assets	8	**836**	–
Other current assets	9	**4,078**	1,915
Total current assets		**216,463**	168,811
Property, plant and equipment	10	**14,249**	9,807
Intangible assets	11	**10,727**	5,005
Deposits		**741**	804
Income tax receivables	4	**370**	370
Deferred tax assets	4	**10,829**	7,514
Total non-current assets		**36,916**	23,500
Total assets		**253,379**	192,311
Liabilities and Shareholders' equity			
Trade and other payables	13	**28,413**	17,304
Other financial liabilities	14	**845**	679
Provisions	15	**877**	1,784
Income taxes payable		**1,208**	3,305
Other current liabilities	16	**15,875**	11,308
Total current liabilities		**47,218**	34,380
Provisions	15	**428**	252
Other non-current financial liabilities	17	**461**	700
Total non-current liabilities		**889**	952
Ordinary shares		**12,380**	11,825
Additional paid-in capital		**202,416**	283,733
Accumulated deficit		**(3,961)**	(135,667)
Other reserves		**(1,648)**	(2,102)
Employee stock purchase plan shares		**(3,915)**	(810)
Net Shareholders´ equity	18	**205,272**	156,979
Total liabilities and Shareholders´ equity		**253,379**	192,311

These financial statements were approved by the Board of Directors on 10 February 2011 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated income statement

For the year ended 31 December 2010

	Notes	2010 US$000	2009 US$000
Revenue	3, 23, 26	**296,597**	217,613
Cost of sales		**(159,334)**	(119,886)
Gross profit		**137,263**	97,727
Selling and marketing expenses		**(17,391)**	(14,183)
General and administrative expenses		**(17,471)**	(12,584)
Research and development expenses	23	**(56,465)**	(42,621)
Other operating income	3, 26	**–**	333
Restructuring expenses		**(595)**	–
Operating profit	3	**45,341**	28,672
Interest income	3	**1,130**	203
Interest expense	3	**(120)**	(212)
Foreign currency exchange gains (losses), net		**(2,088)**	162
Result before income taxes		**44,263**	28,825
Income tax benefit (expense)	4	**(1,784)**	3,902
Net profit		**42,479**	32,727

		2010	2009
Earnings per share (in US$)			
Basic		**0.70**	0.67
Diluted		**0.66**	0.60
Weighted average number of shares (in thousands)	2		
Basic		**60,313**	48,868
Diluted		**64,841**	54,464

Statement of comprehensive income

For the year ended 31 December 2010

	2010 US$000	2009 US$000
Net profit	**42,479**	32,727
Exchange differences on translating foreign operations	**188**	(113)
Cash flow hedges	**441**	(179)
Income tax relating to components of other comprehensive income	**(175)**	421
Other comprehensive income for the year, net of tax	**454**	129
Total comprehensive income for the year	**42,933**	32,856

Consolidated statements of cash flows

For the year ended 31 December 2010

	Notes	2010 US$000	2009 US$000
Cash flows from operating activities:			
Net profit		**42,479**	32,727
Adjustments to reconcile net profit to net cash provided by operating activities:			
Interest expense (income), net	3	**(1,010)**	9
Income tax expense (benefit)	4	**1,784**	(3,902)
Impairment of inventories		**1,121**	973
Depreciation of property, plant and equipment	10	**4,880**	4,473
Amortization of intangible assets	11	**2,678**	2,146
Losses on disposals of fixed assets and impairment of fixed and financial assets		**240**	723
Expense related to share-based payments	20	**4,227**	1,364
Changes in working capital:			
Trade accounts receivable, other receivables and factoring	6	**4,930**	(10,013)
Inventories		**(15,661)**	(7,228)
Prepaid expenses		**(1,475)**	(337)
Trade accounts payable		**11,157**	4,196
Provisions		**(665)**	416
Other assets and liabilities		**3,641**	7,573
Cash generated from operations		**58,326**	33,120
Interest paid		**(3)**	(109)
Interest received		**1,005**	219
Income taxes paid		**(7,378)**	(46)
Cash flow from operating activities		**51,950**	33,184
Cash flows from investing activities:			
Cash transferred from (to) restricted cash	24	**3,000**	(3,000)
Purchase of property, plant and equipment	10	**(9,768)**	(5,925)
Purchase of intangible assets	11	**(5,883)**	(1,828)
Payments for capitalized development costs	11	**(2,823)**	(972)
Deposits made		**–**	(530)
Cash flow used for investing activities		**(15,474)**	(12,255)
Cash flows from financing activities:			
Cash flow from (used for) capital increase		**(36)**	59,617
Purchase of employee stock purchase plan shares		**(2,844)**	–
Sale of employee stock purchase plan shares		**4,013**	2,937
Cash flow from financing activities		**1,133**	62,554
Cash flow from operating, investing and financing activities		**37,609**	83,483
Net foreign exchange difference		**443**	(250)
Net increase in cash and cash equivalents		**38,052**	83,233
Cash and cash equivalents at beginning of period		**120,148**	36,915
Cash and cash equivalents at end of period		**158,200**	120,148

Consolidated statement of changes in Shareholders´ equity

For the year ended 31 December 2010

	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Other reserves: Currency translation adjustment US$000	Other reserves: Cash flow hedges 000US$	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2009	9,328	223,005	(169,758)	(2,038)	(193)	(139)	60,205
Total comprehensive income (loss)	–	–	32,727	308	(179)	–	32,856
Capital increase public offering (gross proceeds)	1,922	62,421	–	–	–	–	64,343
Transaction costs of capital increase - public offering	–	(4,685)	–	–	–	–	(4,685)
Capital increase for employee share option plan (gross proceeds)	575	473	–	–	–	(1,048)	–
Transaction costs of capital increase - employee share option plan	–	(41)	–	–	–	–	(41)
Sale of employee stock purchase plan shares	–	2,560	–	–	–	377	2,937
Equity settled transactions, net of tax	–	–	1,364	–	–	–	1,364
Changes in Equity total	2,497	60,728	34,091	308	(179)	(671)	96,774
Balance at 31 December 2009 / 1 January 2010	11,825	283,733	(135,667)	(1,730)	(372)	(810)	156,979
Total comprehensive income	–	–	42,479	13	441	–	42,933
Reduction of additional paid-in capital	–	(85,000)	85,000	–	–	–	–
Capital increase for employee share option plan (gross proceeds)	555	414	–	–	–	(969)	–
Transaction costs of capital increase - employee share option plan	–	(36)	–	–	–	–	(36)
Purchase of employee stock purchase plan shares	–	–	–	–	–	(2,844)	(2,844)
Sale of employee stock purchase plan shares	–	3,305	–	–	–	708	4,013
Equity settled transactions, net of tax	–	–	4,227	–	–	–	4,227
Changes in Equity total	555	(81,317)	131,706	13	441	(3,105)	48,293
Balance at 31 December 2010	12,380	202,416	(3,961)	(1,717)	69	(3,915)	205,272

For further details, please refer to note 18.

Notes to the consolidated financial statements

For the year ended 31 December 2010

1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog or the Group") for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 10 February 2011. 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 23).

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 derivative financial instruments are stated at their fair value. 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

Changes in accounting policies and disclosures

The accounting policies are consistent with those of the previous financial year except for the changes resulting from the adoption of the following revised and new Standards and new IFRIC interpretations during the year:

IFRS 2 Share-based payment (amended)

The amended IFRS 2 Share-based Payment was issued in June 2009 and is effective for periods beginning on or after 1 January 2010. The amended standard clarifies the accounting for group cash-settled share-based payment transactions in the financial statements of an individual subsidiary in a group as well as the interaction of IFRS 2 and other standards. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amended standard did not have an impact on the financial position or performance of Dialog.

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.

IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with equity holders in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (revised) and IAS 27 (amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy is applied prospectively and had no impact on earnings per share.

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. Dialog has concluded that the amendment will have no impact on the financial position or performance of Dialog, as Dialog has not entered into any such hedges.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

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 and April 2009. This includes amendments to various existing IFRSs. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even though the entity retains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of Dialog.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position nor financial performance of Dialog.

- IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As Dialog's chief operating decision maker does only review segment inventories and not assets and liabilities, Dialog has changed its presentation accordingly. For further information see Note 23.

- IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment is applied prospectively and has no impact on the cash flow statement of Dialog.

- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on Dialog.

All other amended, revised or new standards and interpretations did not result in changes to the accounting policies or did not have a material effect on the financial statements:

Interpretation/ Standard	Title	Effective date
IFRS 1	Restructured version of IFRS 1 First-time-Adoption of International Reporting Standards	1 July 2009
IFRS 1	Limited exemptions	1 January 2010
IAS 39	Financial Instruments and IFRIC 9 Reassessment of embedded derivatives	30 June 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009

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

IFRS 7 Financial Instruments: Disclosures (amended)

The amendment was issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The revised standard has not yet been endorsed by the EU.

IFRS 9 Financial Instruments

The new IFRS 9 was issued in November 2009 and is effective for periods beginning on or after 1 January 2013. The new standard for financial instruments sets out provisions for the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its

2. Summary of significant accounting policies continued

financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The revised standard has not yet been endorsed by the EU.

IFRS 9 Financial Instruments (additions)

The additions to IFRS 9 Financial Instruments were issued in October 2010 and are effective for periods beginning on or after 1 January 2013. The additions outline the requirements on the accounting for financial liabilities. The new requirements address the problem of volatility in profit or loss (P&L) arising from an issuer choosing to measure its own debt at fair value (often referred to as the 'own credit' problem). The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within profit or loss. The revised standard has not yet been endorsed by the EU.

The impact will be further analysed in the future and cannot be measured at the moment.

IAS 12 Income taxes

The amendments to IAS 12 Income Taxes were issued in December 2010 and are effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be , be through sale. As a result of the amendments, SIC-21 Income Taxes—Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. The amended standard has not yet been endorsed by the EU.

The impact will be further analysed in the future and cannot be measured at the moment.

IAS 24 Related Party Disclosures (revised)

The revised IAS 24 was issued in November 2009 and is effective for periods beginning on or after 1 January 2011. The changes to IAS 24 simplify the disclosure requirements for government-related entities and clarify the definition of a related party.

IAS 32 Financial Instruments: Presentation (amended)

The amended IAS 32 was issued in October 2009 and is effective for periods beginning on or after 1 February 2010. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

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 2010. This includes amendments to various existing IFRSs.

In addition, the following interpretations and amendments to interpretations have been issued:

Interpretation	Title	Effective date
IFRIC 14	Amendment to IFRIC 14 Prepayments of a minimum funding requirement	1 January 2011
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

The above listed interpretations and amendments to 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.

The amended standards did not have an impact on the financial position or performance of Dialog.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

Principles of consolidation and investments in affiliated companies

As in 2009, 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.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when 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, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction for changes incurred since 1 January 2010. However, no changes in ownership interest of a subsidiary incurred prior to 2010. If Dialog loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The above-mentioned requirements were applied on a prospective basis. The following difference, however, is carried forward from the previous basis of consolidation. Upon loss of control, Dialog accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2. Summary of significant accounting policies continued

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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 reporting 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. 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 2010	31 December 2009	**2010**	2009
Currency	**US$1 =**	US$1 =	**US$1 =**	US$1 =
Great Britain	**0.64**	0.62	**0.65**	0.64
Japan	**81.29**	92,41	**87.69**	93.15
Euro	**0.75**	0,69	**0.76**	0.71

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.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

Financial assets

Financial assets within the scope of IAS 39 are classified as being at fair value through profit or loss, held-to-maturity investments, loans and receivables 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 reporting date, the Group assesses whether a financial asset or group of financial assets is impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

The Group has not entered into trading actions nor designated financial asset as financial asset through profit or loss in 2010 and 2009.

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 statement of financial position but credits the impairment loss directly against the book value of the financial assets.

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.

The Group has not entered into trading actions nor designated financial asset as financial asset held to maturity in 2010 and 2009.

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 2010 as well as 31 December

2. Summary of significant accounting policies continued

2009, loans and receivables of the Group comprise trade accounts receivables from customers, classified cash, cash equivalents (except for deposits designated as hedging instruments) and restricted cash. 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 income and expense 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.

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 statement of financial position 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 reporting date.

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).

The Group has not entered into trading actions nor designated financial asset as available-for-sale financial asset in 2010 and 2009.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

Derecognition of financial assets

A financial asset is derecognised 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 2010 and 2009 the Group did not classify any financial liabilities as financial liabilities at fair value through profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Hedging 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. Beside the derivative financial instruments the Group designates certain deposits as hedging instruments in order to hedge foreign currency risks as well. Such derivative financial instruments and deposits are initially recognised at fair value on the date on which a derivative contract is entered into or the cash deposit is designated as a hedging instrument and is 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 and the deposits during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of 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 fair value of the deposits is measured based on foreign currency market rates at each reporting date.

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 or the cash deposit is designated as a hedging instrument, either as a fair value hedge or a cash flow hedge.

The Group did not enter into fair value hedges in 2010 and 2009.

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

2. Summary of significant accounting policies continued

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 hedging 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 and the deposits are classified as loans and receivables. 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. The financial position cash and cash equivalents also include deposits designated as hedging instruments.

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.

Self-developed intangible assets are recorded on a cost basis. They are amortised on a straight-line basis over the estimated usefulness of 12-60 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.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

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.

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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that Dialog will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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 or receivable, excluding discounts, rebates, and other sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. 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.

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.

2. Summary of significant accounting policies continued

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, ERP system 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 generally expensed as incurred.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

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.

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 reporting 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 reporting 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. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting 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 being reduced in the past are presented in the notes gross less respective provisions. If in future periods it becomes probable that taxable profits will be available against which the unused tax losses can be utilized, it is assumed that tax losses incurred first will be utilized first and the respective provision will be reversed.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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.

2. Summary of significant accounting policies continued

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 four 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.

Employee benefit trust – Treasury shares

The Group has established an employee benefit trust. The employee benefit 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

Basic earnings 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:

	2010 **000**	2009 000
Basic number of shares	**60,313**	48,868
Effect of dilutive options outstanding	**4,528**	5,596
Dilutive number of shares	**64,841**	54,464

The number of anti-dilutive share options outstanding was 288,114 (2009: 650,800).

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.

Notes to the consolidated financial statements

For the year ended 31 December 2010

2. Summary of significant accounting policies continued

The significant accounting estimates and assumptions are outlined below:

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 2010 was US$65,709,000 (2009: US$41,005,000).

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.

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 2010, net deferred tax assets amounting to US$10,829,000 were recognised (2009: US$7,514,000). Impaired deferred tax assets at 31 December 2010 were US$2,079,000 (2009: US$12,629,000).

Further information regarding the assessment of future taxable income is disclosed in note 4.

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, dividend yield, expected life and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2010, the expense related to stock options was US$2,823,000 (2009: US$851,000). For further information on stock options please refer to note 20a and 20c.

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. Due to the nature of these assumptions, such estimates are subject to significant uncertainty.

In 2010 an expense of US$1,404,000 was booked (2009: US$514,000). Further information regarding LTIP is provided in note 20b and 20c.

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. Besides an advance payment received from one customer, at 31 December 2010 no receivables or liabilities from constructions contracts were outstanding (2009: 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 2010, the carrying amount of capitalised development costs was US$3,235,000 (2009: US$1,305,000).

Actual results may differ from all of the above judgements and estimates.

3. Other disclosures to the income statement

a) Operating expenses and revenues

The operating result before income taxes is stated after charging:

	2010 US$000	2009 US$000
Auditors' remuneration[1)]		
for the audit	**(226)**	(301)
for other audit related services	**(86)**	(142)
for other services	**(238)**	–
Depreciation of property, plant and equipment	**(4,880)**	(4,473)
Amortization of intangible assets		
thereof included in cost of sales	**(1,395)**	(1,306)
thereof included in selling and marketing expenses	**(75)**	(50)
thereof included in general and administrative expenses	**(156)**	(85)
thereof included in research and development expenses	**(1,052)**	(705)
Personnel costs		
Wages and salaries	**(43,634)**	(36,771)
Social and security costs	**(10,259)**	(4,811)
Share-based payment	**(4,227)**	(1,364)
Pension costs from defined contribution plans[2)]	**(3,000)**	(2,568)
	(61,125)	(45,515)
Included in revenues		
Revenue from the sale of goods	**293,727**	211,912
Revenue from customer specific research and development contracts	**2,870**	5,701
Included in revenue from sale of goods income attributable to prior periods from BenQ cash settlement (see note 26)	**–**	1,961
Included in cost of sales:		
Costs in relation to customer specific research and development contracts	**(2,870)**	(5,701)
Amount of inventory recognized as expense	**(140,733)**	(98,947)
Impairment of inventories recognized as an expense	**(1,121)**	(973)
Included in other operating income		
Income from recoveries on trade accounts receivable impaired in prior periods	**106**	349

[1] In addition to the auditor's remuneration included in the operating result, in 2009 US$287,000 were paid to the auditors in relation to the capital increase. These costs were deducted from the equity (see note 18 for further information)

[2] The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$1,640,000 (2009: US$1,339,000).

Notes to the consolidated financial statements

For the year ended 31 December 2010

3. Other disclosures to the income statement continued

b) Directors' remuneration

	2010 US$000	2009 US$000
Aggregate remuneration in respect of qualifying services	**1,401**	884

	2010 No.	2009 No.
Number of directors who received shares in respect of qualifying services	**1**	8
Number of directors who exercised share options	**8**	6

	2010 US$000	2009 US$000
In respect of the highest paid director:		
Aggregate remuneration	**879**	577
Of which pension contribution for the year	**30**	28

The highest paid director exercised 293,342 (2009: 115,859) share options during the year.

c) Interest income and interest expense

Interest income and expenses comprise the following items:

	2010 US$000	2009 US$000
Interest income	**1,130**	203
Interest expense	**(120)**	(212)
	1,010	(9)
Of which: from financial instruments relating to categories in accordance with IAS 39		
Loans and receivables	**905**	94
Financial liabilities measured at amortized costs	**(105)**	(103)
	1,010	(9)

d) 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 2010 the Group received grants in the amount of US$557,000 (2009: US$879,000). In the profit and loss account the grants received were deducted from research and development expenses. The total amount receivable under this grant has been received by Q4-2010, therefore no further payment will be made under this scheme.

e) Headcount

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

	2010	2009
Research and Development	**234**	191
Production	**52**	46
Sales and Marketing	**45**	39
Admin	**25**	24
IT	**13**	10
	369	310

4. Income taxes

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

	2010 US$000	2009 US$000
Germany	**52,470**	31,490
Foreign	**(8,207)**	(2,665)
	44,263	28,825

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

	2010 US$000	2009 US$000
Current taxes:		
Germany	**(4,880)**	(3,069)
Foreign	**(372)**	(122)
Deferred taxes:		
Germany	**3,036**	7,514
Foreign	**432**	(421)
Income tax benefit (expense)	**(1,784)**	3,902

	2010 US$000	2009 US$000
Current taxes:		
Current income tax charge	**(5,252)**	(3,191)
Adjustments in respect of current income tax of previous year	**–**	–
Deferred taxes:		
Relating to origination and reversal of temporary differences	**(7,082)**	(421)
Relating to a reversal of a previous write-down of a deferred tax asset	**10,550**	7,514
Income tax benefit (expense)	**(1,784)**	3,902

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 tax rate for its German subsidiary is 15%; considering 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%.

Notes to the consolidated financial statements

For the year ended 31 December 2010

4. Income taxes continued

A reconciliation of income taxes determined using the combined German income tax rate of 28.376% (2009: 28.376%), is as follows:

	2010 US$000	2009 US$000
Expected income tax expense	**(12,560)**	(8,179)
Tax rate differential	**(69)**	2
Non-deductible portion of share based payments	**(1,216)**	(697)
Tax benefit from share based payments	**13,564**	873
Tax free income (non-deductible expenses)	**(746)**	(109)
Recognized deferred tax assets relating to a reversal of a previous write-down of a deferred tax asset	**10,550**	7,514
Benefit from previously unrecognized deferred tax assets that is used to reduce current tax expense	**3,308**	5,793
Additional losses for which no deferred tax asset is recognized	**(14,482)**	(1,545)
Adjustments recognized for tax of prior periods	**134**	(88)
Temporary differences arising from differences between functional currency and tax currency	**(276)**	342
Other	**9**	(4)
Actual income tax benefit (expense)	**(1,784)**	3,902

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Temporary differences	**(266)**	2,701
Deferred taxes in relation to tax credits	**1,156**	1,250
Net operating loss carryforwards	**12,018**	16,193
Total deferred tax assets	**12,908**	20,143
Impaired deferred tax assets[1]	**2,079**	12,629
Recognized net deferred tax assets	**10,829**	7,514

[1] Impaired in FY 2005. In 2010 an impairment of US$10,550,000 was reversed

Tax loss carryforwards, temporary differences and net deferred tax assets are summarised as follows:

	31 December 2010				31 December 2009			
	Tax loss carryforwards US$000	Temporary Differences US$000	Tax credits US$000	Net deferred tax assets US$000	Tax loss carryforwards US$000	Temporary Differences US$000	Tax credits US$000	Net deferred tax assets US$000
Germany	**106,825**	**(3,203)**	**–**	**11,473**	149,554	8,476	–	18,893
UK	**33,419**	**46,975**	**4,280**	**1,156**	11,974	11,160	4,465	1,250
US[1]	**4,317**	**–**	**–**	**–**	4,580	–	–	–
Other	**33**	**661**	**–**	**279**	28	222	–	–
Total	**144,594**	**44,433**	**4,280**	**12,908[2]**	**166,136**	**19,858**	4,465	20,143[2]

[1] Including an amount of US$3,126,000 (2009: US$3,764,000) for state tax loss carryforwards

[2] The amount consists of US$10,829,000 (2009: US$7,514,000) recognized deferred tax assets and US$2,079,000 (2009: US$12,629,000) deferred tax assets (impaired in 2005)

The amount of deductible temporary differences and unsused tax loss carryforwards for which no deferred tax asset is recognized in the balance sheet is US$155,434,000 (2009: US$163,979,000).

In assessing whether the deferred tax assets can be used, management considers the probability that some, or all, of the deferred tax assets will not be realised. The utilisation of deferred tax assets depends upon generating taxable profit during the periods in which those temporary differences become

4. Income taxes continued

deductible or tax-loss carryforwards can be utilised. 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.

The Group recorded the third consecutive year of positive net income in 2010. Therefore, based on the expected positive net result for the near future, the management concluded to recognise deferred tax assets in an amount of US$10,829,000 (2009: US$7,514,000). The assessment was based on the business plan for 2011 and beyond.

The utilization of further tax loss carryforwards and temporary differences is subject to the achievement of positive income in periods which are beyond the company's current business plan and therefore this utilization is uncertain. Consequently no deferred tax assets were recognized for these losses and temporary differences.

The state tax loss carryforwards in the US will expire between 2011 and 2024; other tax loss carryforwards have no expiration date.

Included in impaired deferred tax assets is an amount of US$1,156,000 (2009: US$1,250,000) (the decrease results from foreign currency adjustments and the change of the corporation tax rate in the UK) 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 statement of financial position includes a corporation tax refund claim of the Group's German subsidiary. The total amount the German subsidiary is entitled to receive amounts to EUR 414,000 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 2011. The amount that will be paid in 2011 is shown within the current assets.

5. Cash, cash equivalents and restricted cash

	2010 US$000	2009 US$000
Cash at bank	**80,398**	40,552
Short-term deposits	**70,172**	33,050
Deposits designated as a hedging instrument	**7,630**	46,546
Cash & cash equivalents	**158,200**	120,148
Restricted Cash	**–**	3,000
Cash & cash equivalents and restricted cash	**158,200**	123,148

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. Deposits designated as a hedging instrument are classified as cash flow hedges to cover firm commitments and forecast transactions in Euros and Pound Sterling.

Funds classified as Restricted Cash served in 2009 as collateral for the Group's factoring agreement. The institution would draw down on these only if a commercial action by Dialog were to invalidate – partly or completely – the claim on a receivable financed by the factoring programme. In the fourth quarter of 2010, the factoring bank relinquished the pledge, consequently, no restricted cash is shown at 31 December 2010.

Notes to the consolidated financial statements

For the year ended 31 December 2010

6. Trade accounts receivable and other receivables

	2010 US$000	2009 US$000
Trade accounts receivables	**8,424**	15,365
Receivables from factoring agreement	**4,132**	2,121
	12,556	17,486

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

As described in note 24, 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$1,410,000 and US$1,406,000 at 31 December 2010 and 2009, respectively. The related allowance for doubtful accounts was US$1,410,000 and US$1,406,000 at 31 December 2010 and 2009, respectively.

The allowance for doubtful accounts developed as follows:

	2010 US$000	2009 US$000
Allowance for doubtful accounts at beginning of year	**1,406**	1,656
Additions charged to bad debt expense	**–**	163
Reductions credited to income	**(106)**	(349)
Effect of movements in foreign currency	**110**	(64)
Allowance for doubtful accounts at end of year	**1,410**	1,406

As at 31 December 2010 and 2009, the aging analysis of trade account receivables is as follows:

	2010 US$000	2009 US$000
Receivables neither past due nor impaired	**7,310**	13,924
Receivables past due, not impaired individually	**–**	–
Less than 30 days	**1,114**	1,440
30 to 59 days	**–**	–
60 to 89 days	**–**	1
Total	**8,424**	15,365

7. Inventories

Inventories are comprised of the following:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Raw materials	**8,298**	4,260
Work-in-process	**7,238**	5,528
Finished goods	**25,197**	16,405
	40,733	26,193

8. Other financial assets

Other financial assets comprise:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Deposits for hedging contracts	**395**	–
Hedging instruments	**441**	–
	836	–

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 amount shown under hedging instruments includes 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.

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 24.

9. Other current assets

Other current assets comprise:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Prepaid expenses	**2,650**	1,165
Other tax receivables	**1,014**	448
Other	**414**	302
	4,078	1,915

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10. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2010 and 2009 is as follows:

	Test equipment US$000	Leasehold improvements US$000	Office and other equipment US$000	Construction in progress US$000	Total US$000
Cost					
Balance at 1 January 2009	71,995	1,112	20,091	40	93,238
Effect of movements in foreign currency	19	118	253	5	395
Additions	2,302	1,205	2,915	346	6,768
Reclassifications	–	40	–	(40)	–
Disposals	(127)	(781)	(1,937)	(2)	(2,847)
Balance at 31 December 2009 / 1 January 2010	74,189	1,694	21,322	349	97,554
Effect of movements in foreign currency	3	(11)	(17)	(1)	(26)
Additions	3,538	834	5,009	207	9,588
Reclassifications	215	–	156	(371)	–
Disposals	(13)	(30)	(2,667)	–	(2,710)
Balance at 31 December 2010	**77,932**	**2,487**	**23,777**	**210**	**104,406**
Depreciation and impairment losses					
Balance at 1 January 2009	(67,700)	(899)	(16,905)	–	(85,504)
Effect of movements in foreign currency	(18)	(80)	(205)	–	(303)
Depreciation charge for the year	(2,221)	(172)	(2,080)	–	(4,473)
Disposals	126	759	1,648	–	2,533
Balance at 31 December 2009 / 1 January 2010	(69,813)	(392)	(17,542)	–	(87,747)
Effect of movements in foreign currency	(3)	(4)	7	–	–
Depreciation charge for the year	(2,192)	(178)	(2,510)	–	(4,880)
Disposals	11	3	2,456		2,470
Balance at 31 December 2010	**(71,997)**	**(571)**	**(17,589)**	**–**	**(90,157)**
Net book value					
At 1 January 2009	4,295	213	3,186	40	7,734
At 31 December 2009 / 1 January 2010	4,376	1,302	3,780	349	9,807
At 31 December 2010	**5,935**	**1,916**	**6,188**	**210**	**14,249**

10. Property, plant and equipment, net continued

Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2010 was US$956,000 (31 December 2009: US$1,005,000). Additions during the year were US$299,000 (2009: US$940,000). As of the reporting date future minimum lease payments under those finance lease contracts were US$880,000 (2009: US$1,107,000). The present value of the net minimum lease payments was US$794,000 (2009: US$974,000).

11. Intangible assets

A summary of activity for intangible assets for the years ended 31 December 2010 and 2009 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 2009	15,550	364	2,155	18,069
Effect of movements in foreign currency	124	–	–	124
Additions	1,526	404	972	2,902
Disposals	(937)	–	–	(937)
Balance at 31 December 2009 / 1 January 2010	16,263	768	3,127	20,158
Effect of movements in foreign currency	(6)	2	1	(3)
Additions	5,068	541	2,823	8,432
Reclassifications	–	–	–	–
Disposals	(176)	(2)	–	(178)
Balance at 31 December 2010	**21,149**	**1,309**	**5,951**	**28,409**
Amortization and impairment losses				–
Balance at 1 January 2009	(12,532)	(13)	(884)	(13,429)
Effect of movements in foreign currency	(102)	–	–	(102)
Amortization charge for the year	(1,149)	(59)	(938)	(2,146)
Impairment charges	(343)	–	–	(343)
Disposals	867	–	–	867
Balance at 31 December 2009 / 1 January 2010	(13,259)	(72)	(1,822)	(15,153)
Effect of movements in foreign currency	3	(2)	(1)	–
Amortization charge for the year	(1,676)	(109)	(893)	(2,678)
Impairment charges	–	–	–	–
Disposals	149	–	–	149
Balance at 31 December 2010	**(14,783)**	**(183)**	**(2,716)**	**(17,682)**
Net book value				
At 1 January 2009	3,018	351	1,271	4,640
At December 31, 2009 / 1 January 2010	3,004	696	1,305	5,005
At 31 December 2010	**6,366**	**1,126**	**3,235**	**10,727**

The impairment charges in 2009 relate to a licence that is no longer in use. In the income statement those impairment charges were recognised in the line item "research and development expenses" and are allocated to the automotive and industrial segment.

A key element of the additions in 2010 was the purchase of power management technology through an asset transaction from Diodes Zetex GmbH. As part of this transaction, Dialog has acquired specific Diodes intellectual property rights. The expected weighted average useful life of the acquired intangible assets is four years.

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11. Intangible assets continued

Hire purchase

The carrying value of intangible assets held under hire purchase leases at 31 December 2010 was US$195,000 (31 December 2009: US$441,000). Additions during the year were US$ nil (2009: US$244,000). As of the reporting date future minimum payments under those hire purchase contracts were US$67,000 (2009: US$504,000). The present value of the net minimum payments was US$63,000 (2009: US$405,000).

12. Investments

The Group holds a 7.62% interest in Digital Imaging Systems GmbH (DIS), a private entity incorporated in Germany 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 2010 and 2009 was nil.

13. Trade and other payables

Trade and other payables comprise:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Trade accounts payable	**24,984**	15,074
Other payables	**3,429**	2,230
	28,413	17,304

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 term of less than three months.

14. Other financial liabilities

Other financial liabilities comprise:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Hire purchase agreements and finance lease obligations	**396**	679
Fair value of derivative financial instruments	**449**	–
	845	679

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.

15. 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 dilapidation includes costs of dismantling and restoring the offices of the Group to their original condition at end the end of the lease terms. The provision for rental obligations relates to an office that the Group vacated in 2009 as it relocated to larger premises. The office was vacated before the end of the contractual lease term. As the likelihood of the Group being able to sublet this office was low the Group has accounted for the rental obligations for the period the building is not used. The changes in the provision are summarised as follows:

	Balance at 1 January 2010 US$000	Currency change US$000	Discount 000US$	Additions US$000	Used US$000	Released US$000	**At 31 December 2010 US$000**
Obligations for product warranties	769	–	–	437	(85)	(684)	**437**
Dilapidation	252	(8)	–	80	(205)	(9)	**110**
Rental obligations	428	(17)	–	–	(375)	(36)	**–**
Pending legal claims	335	(24)	–	–	–	–	**311**
Other	–	4	–	15	–	–	**19**
Total current	**1,784**	**(45)**	**–**	**532**	**(665)**	**(729)**	**877**
Dilapidation	252	(14)	11	179	–	–	**428**
Total non-current	**252**	**(14)**	**11**	**179**	**–**	**–**	**428**
Total	**2,036**	**(59)**	**11**	**711**	**(665)**	**(729)**	**1,305**

16. Other current liabilities

Other current liabilities comprise:

	At 31 December 2010 US$000	At 31 December 2009 US$000
Obligations for personnel and social expenses	**12,400**	7,836
Advances received in relation to customer specific research and development contracts	**742**	939
Other	**2,733**	2,533
	15,875	11,308

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2009: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

17. Other non-current financial liabilities

Other non-current financial liabilities include hire purchase agreements and finance lease obligations.

18. Shareholders' equity and other reserves

Capital increase

On 25 September 2009 the shareholders of the Company approved an offering of 12 million new ordinary shares of 10 pence each in the capital of the Company (the "New Shares") with new and existing institutional investors at a price of EUR 3.65 per share to raise gross proceeds of €43.8 million (US$64.3 million); net proceeds (after deduction of offering expenses of US$4.7 million) were US$59.7 million. The trading of the New Shares commenced on the Regulated Market (Regulierter Markt) of the Frankfurt Stock Exchange on 30 September 2009.

On 20 October 2009, the Company completed an offering of 3,500,000 previously unissued ordinary shares at £0.10 per share to its employee benefit trust ("Trust") at a price of EUR 0,20 per share, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

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18. Shareholders' equity and other reserves continued

On 4 February 2010, the Company completed an offering of 3,500,000 previously unissued ordinary shares at £0.10 per share to its employee benefit trust ("Trust") at a price of EUR 0,20 per share, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

Ordinary shares

At 31 December 2010, Dialog had authorised 104,311,860 (2009: 104,311,860) ordinary shares with a par value of £0.10 per share, of which 65,068,930 (2009: 61,568,930) shares were issued and outstanding.

	Amount of shares	US$000
At 1 January 2009	**46,068,930**	**9,328**
Issued on 25 September 2009	**12,000,000**	**1,922**
Issued on 20 October 2009	**3,500,000**	**575**
At 31 December 2009	**61,568,930**	**11,825**
Issued on 4 February 2010	**3,500,000**	**555**
At 31 December 2010	**65,068,930**	**12,380**

Dialog's stock was previously issued in the form of bearer shares. On 16 November 2009, all shares were converted to registered shares. All shares are fully paid.

Additional paid-in capital

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.

In order to reduce the Company's accumulated deficit, on 5 May 2010 the board of Directors of Dialog Semiconductor Plc decided to reduce the Company's share premium account in an amount of US$85,000,000 effective 2 June 2010. The reduction of the share premium account was registered with the UK Companies House on 2 June 2010. The amount was then netted with the accumulated deficit.

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$. At 31 December 2010 and 2009, the currency translation reserve was US$-1,717,000 and US$-1,730,000 respectively.

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 a highly effective cash flow hedge. At 31 December 2010 and 2009, the cash flow hedge reserve was US$69,000 and US$-372,000 respectively.

18. Shareholders' equity and other reserves continued

The related tax effects allocated to each component of other reserves for the years ended 31 December 2010 and 2009 are as follows:

	2010			2009		
	Pre-tax US$000	**Tax effect US$000**	**Net US$000**	Pre-tax US$000	Tax effect US$000	Net US$000
Currency translation adjustment	**188**	**(175)**	**13**	(113)	421	308
Hedges	**441**	**–**	**441**	(179)	–	(179)
Other comprehensive income (loss)	**629**	**(175)**	**454**	(292)	421	129

Employee stock purchase plan shares

The employee stock purchase plan shares contain the acquisition cost of the shares held by the employee benefit trust (the "Trust"). Please refer to note 20. At 31 December 2010 and 31 December 2009, the Trust held 3,995,031 and 2,663,318 shares respectively. These shares are legally issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

19. 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$1,360,000 (2009: US$1,229,000). At 31 December 2010, contributions amounting to US$52,000 (2009: US$150,000) 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$1,640,000 (2009: US$1,339,000).

20. 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 unexercised stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital, from time to time on a diluted basis. At 31 December 2010, 11,482,752 shares could be issued.

Unless otherwise determined by the board, 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 or five years from the grant date. On 19 June 2006 the Board amended the 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. The stock option plan was extended by the Board in 2008 to expire 6 August 2018.

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. At the 2010 Annual General Meeting the Shareholders voted against the continuance of this share option plan. Consequently, no share options were granted to the Non-executive Directors in 2010.

On 22 April 2009 the Board of Directors of the Company decided to offer the employees an option replacement programme for options which had an exercise price which was above the current market price (underwater options). Under this option replacement programme option holders were offered to replace their underwater options against a reduced number of replacement options with an exercise price set at the market price of the Company´s shares at the replacement date. The total value of the replacement options was equal to the total value of the underwater options. The options value was derived from a Black-Scholes valuation model as at the date of conversion. 107 employees decided to replace in total 1,098,952 underwater options for 534,192 replacement options.

The fair value of all grants in the two-year period ended 31 December 2010 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

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20. Share-based payments continued

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.

In contrast to former reports, the management decided to present the information regarding stock based compensation in Euro as the options and shares are denominated in Euro. Management is of the opinion that the presentation in Euro is providing better transparency. The 2009 comparatives have been restated in Euro.

The following assumptions were used for stock option grants for the years ended 31 December 2010 and 2009:

	2010	2009
Expected dividend yield	**0%**	0%
Expected volatility	**41% - 49%**	42% – 54%
Risk free interest rate	**2.3%**	4.3%
Expected life (in years)	**2.0 - 6.0**	2.0 – 6.0
Weighted average share price during the year (in €)	**10.87**	4.71
Weighted average share price for Option grants (in €)	**9.06**	3.76
Weighted average exercise price (in €)	**9.06**	3.76
Weighted-average fair value (in €)	**3.39**	1.49

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 four-year performance period (this was originally a three-year period, extended by one year at the Annual General Meeting in April 2009). 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.

In 2010 new options under LTIP were awarded to selected new and existing members of the executive management. These grants are shown under "new grant" in the table below.

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:

	Existing Grant				New Grant	
Inputs	Tranche 1	Tranche 2	Tranche 3	LTIP extension	Tranche 1	Tranche 2
Share price at grant date	€1.40	€1.40	€1.40	€4,077	€10.51	€10.51
Exercise price	£0.10	£0.10	£0.10	£0.10	£0.10	£0.10
Expected life (years)	0.64	1.64	2.64	2.35	0.54	1.54
Expected volatility	40%	40%	40%	42%	42%	42%
Risk-free-interest-rate	4.8202%	4.8202%	4.8202%	1.4900%	0.4820%	0.7040%

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 in 2009.

20. **Share-based payments** continued

Measurement date 31 January 2010

The measurement share price at 31 January 2010 (average share price over the prior 30 days) was €9.8942. As this price was above the return hurdle for January 2010 of €1.82 (prior year return hurdle of €1.62+12.5%), 3,055,064 nil cost option grants were approved by the board on 4th February 2010, with 25% exercisable from 22 February 2010 and the remaining 75% exercisable for 4 years from 21 February 2011.

Measurement date 31 January 2011 (subsequent event)

The measurement share price at 31 January 2011 (average share price over the prior 30 days) was €17.6632. As this price was above the return hurdle for January 2010 of €11.1310 (prior year measurement share price of €9.8942+12.5%), 1,575,327 nil cost option grants were approved by the board on 18 February 2011, all exercisable for 5 years from 18 February 2011.

c) Development of plans

Stock option plan activity (including stock options granted under the LTIP) for the years ended 31 December 2010 and 2009 was as follows:

	2010		2009	
	Options	**Weighted average exercise price €**	Options	Weighted average exercise price €
Outstanding at beginning of year	**4,803,342**	**2.27**	5,796,510	1.82
Granted	**3,979,392**	**2.49**	1,244,901	4.72
Exercised	**(2,364,603)**	**1.13**	(1,558,152)	1.26
Forfeited	**(319,938)**	**1.80**	(109,309)	1.28
Expired	**–**	**–**	(5,848)	0.45
Options replaced	**–**	**–**	534,192	1.52
Options returned	**–**	**–**	(1,098,952)	3.81
Outstanding at end of year	**6,098,193**	**2.88**	4,803,342	2.27
Options exercisable at year end	**1,644,626**	**1.89**	1,877,812	1.57

The weighted average share price at the date of exercise of options was €13.61 and €7.47 in the years ended 31 December 2010 and 2009 respectively.

Liabilities from share option exercises to employees were US$920,000 at 31 December 2010 (2009: US$614,000).

The following table summarises information on stock options outstanding (including stock options granted under the LTIP) at 31 December 2010:

	Options outstanding			**Options exercisable**	
Range of Exercise Prices	**Number outstanding at 31 December 2010**	**Weighted average remaining contractual life (in years)**	**Weighted average exercise price €**	**Number exercisable at 31 December 2010**	**Weighted average exercise price €**
€0.11 - 2.99	**4,351,626**	**6.6**	**0.70**	**1,371,538**	**1.23**
€3.00 - 8.00	**841,150**	**5.4**	**6.16**	**273,088**	**5.17**
€8.00 - 13.00	**905,417**	**6.6**	**10.34**	**0**	**–**
€0.11 - 13.00	**6,098,193**	**5.5**	**2.88**	**1,644,626**	**1.89**

d) Employee benefit trust

The Group established an employee benefit 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 2010 the Trust held 3,995,031 shares (2009: 2,663,318).

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21. Additional disclosures on financial instruments

Amount categorised in accordance with IAS 39:

		Amounts recognized in the statement of financial position according to IAS 39					
	Category in accordance with IAS 39	**Carrying amount 31 December 2010 US$000**	Amortized cost US$000	Cost US$000	Fair value recognized in equity US$000	Fair value recognized in profit or loss US$000	Fair value 31 December 2010 US$000
Assets							
Cash at bank and Short-term deposits	LaR	**150,570**	150,570	–	–	–	150,570
Restricted cash	LaR	**–**	–				–
Deposits designated as a hedging instrument	n/a	**7,630**	–	–	7,630	–	7,630
Trade accounts receivable and other receivables	LaR	**12,556**	12,556	–	–	–	12,556
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	**395**	395	–	–	–	395
Derivative financial assets							
Derivatives without hedging relationship	n/a	**–**	–	–	–	–	–
Derivatives with hedging relationship	n/a	**441**	–	–	441	–	441
Liabilities							
Trade account payables	FLAC	**24,984**	24,984	–	–	–	24,984
Other payables	FLAC	**3,429**	3,429	–	–	–	3,429
Other financial liabilities	FLAC	**1,306**	857	–	449	–	1,306
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	**–**	–	–	–	–	–
Derivatives with hedging relationship	n/a	**–**	–	–	–	–	–
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		**163,521**	163,521	–	–	–	163,521
Deposits designated as a hedging instrument		**7,630**	–	–	7,630	–	7,630
Held-to-maturity investments (HtM)		**–**	–	–	–	–	–
Available-for-sale financial assets (AfS)		**–**	–	–	–	–	–
Derivatives without hedging relationship		**–**	–	–	–	–	–
Derivatives with hedging relationship		**441**	–	–	441	–	441
Financial liabilities at amortized cost (FLAC)		**(29,719)**	(29,270)	–	(449)	–	(29,719)

21. Additional disclosures on financial instruments continued

	Category in accordance with IAS 39	Amounts recognized in the statement of financial position according to IAS 39					
		Carrying amount 31 December 2009 US$000	Amortized cost US$000	Cost US$000	Fair value recognized in equity US$000	Fair value recognized in profit or loss US$000	Fair value 31 December 2009 US$000
Assets							
Cash at bank and Short-term deposits	LaR	73,602	73,602	–	–	–	73,602
Restricted cash	LaR	3,000	3,000				3,000
Deposits designated as a hedging instrument	n/a	46,546	–	–	46,546	–	46,546
Trade accounts receivable and other receivables	LaR	17,486	17,486	–	–	–	17,486
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	–	292	–	–	–	292
Derivative financial assets							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	–	–	–	–	–	–
Liabilities							
Trade account payables	FLAC	15,074	15,074	–	–	–	15,074
Other payables	FLAC	2,230	2,230	–	–	–	2,230
Other financial liabilities	FLAC	1,379	1,379	–	–	–	1,379
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	–	–	–	–	–	–
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		94,088	94,380	–	–	–	94,380
Deposits designated as a hedging instrument		46,546	–	–	46,546	–	46,546
Held-to-maturity investments (HtM)		–	–	–	–	–	–
Available-for-sale financial assets (AfS)		–	–	–	–	–	–
Derivatives without hedging relationship		–	–	–	–	–	–
Derivatives with hedging relationship		–	–	–	–	–	–
Financial liabilities at amortized cost (FLAC)		(18,683)	(18,683)	–	–	–	(18,683)

The fair value of derivatives has been determined with reference to available market information (Level 2). The carrying amounts of the loans and receivables and financial liabilities approximate their fair values due to short-term maturities.

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22. 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 non-cancellable operating rental and lease agreements and payments for other commitments are as follows:

	Operating leases and software commitments	**Other commitments**	Operating leases and software commitments	Other commitments
	2010	**2010**	2009	2009
	US$000	**US$000**	US$000	US$000
Within one year	**5,724**	**2,689**	4,543	2,429
Between one and two years	**4,388**	**2,567**	2,287	2,497
Between two and three years	**3,453**	**1,019**	1,337	2,411
Between three and four years	**2,750**	**130**	853	1,173
Between four and five years	**2,052**	**–**	574	150
Thereafter	**11,934**	**–**	–	–
Total minimum payments	**30,301**	**6,405**	9,594	8,660

Total payments for operating leases and software commitments, charged as an expense in the income statement, amounted to US$5,313,000 and US$4,689,000 for the years ended 31 December 2010 and 2009 respectively.

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	
	2010	2009
	US$000	US$000
Within one year	**445**	793
Between one and two years	**397**	364
Between two and three years	**105**	341
Between three and four years	**–**	113
Total minimum payments	**947**	1,611
Less amounts representing finance charges	**(90)**	(232)
Present value of minimum payments	**857**	1,379

Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2010 of US$2,485,000 (2009: US$2,484,000) and for the acquisition of intangible assets of US$3,110,000 (2009: US$614,000).

In addition the company has a contingent liability of US$500,000 in connection with the purchase of intangible assets. This liability is contingent to certain milestones being met from which we expect to reach the first milestone in the fourth quarter of 2011.

23. Segmental reporting

Following the provisions of IFRS 8, reportable operating segments are identified based on the "management approach". The management approach requires external segment reporting based on the Group's internal organisational and management structure and on internal financial reporting to the chief operating decision maker, which considered the Group as being the Board of Management.

23. **Segmental reporting** continued

The Group reports on three operating segments, which are independently managed by bodies responsible for the respective segments depending on the nature of products offered. The identification of Company components as business segments is based in particular on the existence of business unit managers who report directly to the CEO of Dialog and who are responsible for the performance of the segment under their charge. Following the change in IFRS 8.23, the Group does no longer report assets and liabilities as only inventories are reported to the chief operating decision maker. Prior-year figures have been adjusted accordingly.

a) Operating segments

The Group's operating segments are:

Audio and Power Management

This segment includes our power management and audio chips especially designed to meet the needs of the wireless systems markets.

Display Systems

The products in this segment include a range of advanced driver technologies for low power display applications – from PMOLEDs, to electronic paper and MEMS displays.

Automotive and Industrial

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

	2010					2009				
	Audio & Power Management US$000	**Display Systems [3] [4] US$000**	**Automotive/ Industrial US$000**	**Reconciliation US$000**	**Total US$000**	Audio & Power Management US$000	Display Systems [3] [4] US$000	Automotive/ Industrial US$000	Reconciliation US$000	Total US$000
Revenues [1]	**245,364**	**1,866**	**50,326**	**(959)**	**296,597**	176,569	5,987	33,531	1,526	217,613
R&D expenses	**40,711**	**5,121**	**8,510**	**2,123**	**56,465**	24,289	8,312	9,513	507	42,621
Operating profit (loss) [2]	**59,078**	**(11,205)**	**6,987**	**(9,519)**	**45,341**	47,048	(12,395)	(3,636)	(2,345)	28,672
Depreciation/ amortization	**4,878**	**1,227**	**1,453**	**–**	**7,558**	3,535	1,490	1,594	–	6,619
Inventory impairment and fixed asset disposal losses	**856**	**36**	**469**		**1,361**	1,076	179	441		1,696
Investments	**11,629**	**2,926**	**3,465**	**–**	**18,020**	5,447	2,296	2,457	–	10,200
	At 31 Dec 2010					At 31 Dec 2009				
Inventories	**33,659**	**500**	**6,574**	**–**	**40,733**	19,544	130	6,519	–	26,193

[1] All revenues are from sales to external customers
[2] Certain overhead costs are predominantly allocated based on sales and headcount.
[3] Revenue is partially generated from funded research and development activity.
[4] The operating loss reflects the investment in the emerging display technology.

Revenues in the reconciliation column include sales discounts on early payment of US$959,000 (2009: US$435,0000) and additionally in 2009 the BenQ Cash settlement of US$1,961,000. R&D expenses in the reconciliation column predominantly include stock option expenses and expenses for the Management Long Term Incentive Plan (LTIP) of US$2,123,000 (2009: US$505,000).

The operating losses recorded in the reconciliation column for the year ended 31 December 2010 of US$9,519,000 (2009: US$2,345,000) are primarily resulting from stock option expenses, bonus payments for employees, expenses in relation to the Long Term Incentive Plan introduced in 2008, sales discounts for early payments and the costs of the holding company. Additionally in 2009 the BenQ cash settlement in the amount of US$2.3 million was included.

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

In 2010 and 2009 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 2010

23. Segmental reporting continued

There are no differences between the measurements of the reportable segments profits and losses, assets and liabilities and the entities profit and losses, assets and liabilities.

b) Geographic information – Revenues by shipment destination

	2010 US$000	2009 US$000
Revenues		
Hungary	**38,171**	17,444
United Kingdom	**518**	434
Other European countries	**24,328**	20,600
China	**182,300**	145,986
Other Asian countries	**26,472**	23,047
Other countries	**24,808**	10,102
Total revenues	**296,597**	217,613
Investments		
Germany	**15,122**	7,809
Japan	**147**	350
United Kingdom	**2,615**	2,022
Other	**136**	19
Total investments	**18,020**	10,200

	At 31 December 2010 US$000	At 31 December 2009 US$000
Assets		
Germany	**245,828**	185,656
Japan	**1,455**	854
United Kingdom	**5,503**	5,577
Other	**593**	224
Total assets	**253,379**	192,311

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.

24. 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 an 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 83% and 84% of its total revenue for the years ended 31 December 2010 and 2009, 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, Korea and Singapore. Fluctuations in these currencies could have a significant impact on the Group’s reported results from operations.

24. Financial risk management objectives and policies continued

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 2010, three customers individually accounted for more than 10% of the Group's revenues. Total revenues from these three customers were US$222,550,000. Net receivables from these three customers were US$7,051,000 at 31 December 2010. The three customers are part of the Audio & Power Management Segment.

During 2009, two customers individually accounted for more than 10% of the Group's revenues. Total revenues from these two customers were US$145,271,000 or 66.8%. Net receivables from these two customers were US$9,342,000 at 31 December 2009.

The Group is performing 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, cash equivalents, restricted cash and short-term deposits. 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 2010 and 2009, 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:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

Interest risk

The Group earns interest from 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.

The Group pays 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 2010 (2009: 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.

Notes to the consolidated financial statements

For the year ended 31 December 2010

24. Financial risk management objectives and policies continued

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
2010			
	65	**881**	**881**
	(65)	**(881)**	**(881)**
2009			
	17	137	137
	(17)	(137)	(137)

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$. The majority of other operating expenses are denominated in Euros and Pounds Sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2010 and 2009 nearly all the Group's sales were denominated in US$.

The Group uses forward currency contracts as well as certain deposits (together referred to as the "hedging instruments") to eliminate the currency exposure of recurring expected payments, such as salaries, wages and office rents non-US$ denominated. The hedging instruments must be the same currency as the hedged item.

It is the Group's policy not to enter into forward contracts nor classify deposits as non-derivative hedging instruments until a firm commitment is in place and to maximise hedge effectiveness by negotiating the terms of hedge instruments 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 deposits designated as cash flow hedges).

		Loans and receivables (LaR) [1]		Financial liabilities at amortized cost (FLAC) [1]	
	Increase/decrease against US$	Effect on profit US$000	Effect on equity US$000	Effect on profit US$000	Effect on equity US$000
2010					
Euro	**7%**	**514**	**913**	**(145)**	**(145)**
Pound Sterling	**4%**	**4**	**4**	**(36)**	**(36)**
Euro	**(7%)**	**(514)**	**(913)**	**145**	**145**
Pound Sterling	**(4%)**	**(4)**	**(4)**	**36**	**36**
2009					
Euro	7%	2,000	2,052	(110)	(110)
Pound Sterling	12%	1,175	1,200	(151)	(151)
Euro	(7%)	(2,000)	(2,052)	110	110
Pound Sterling	(12%)	(1,175)	(1,200)	50	151

[1] Categories according to IAS 39

A risk analysis for the Group's securities was done separately, based on the inherent historic volatility of the specific securities, see below.

24. Financial risk management objectives and policies continued

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 6. 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 financial institution. The maximum amount of cash that can be received under this agreement is US$25.0 million (2009: US$30 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 agreement, the Group had pledged US$3.0 million of cash to the factoring institution in the second quarter of 2009. The institution would draw down on these only if a commercial action by Dialog were to invalidate – partly or completely – the claim on a receivable financed by the factoring program. In the fourth quarter 2010, the factoring bank relinquished the pledge. Consequently, no restricted cash is shown at 31 December 2010.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalents and restricted, 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 2010, the Group had cash and cash equivalents of US$158,200,000 (2009: cash, cash equivalents and restricted cash of US$123,148,000).

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 2010, 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 2010				
Trade accounts payable	**24,984**	**–**	**–**	**24,984**
Other payables	**3,429**	**–**	**–**	**3,429**
Other financial liabilities	**248**	**597**	**461**	**1,306**
	28,661	**597**	**461**	**29,719**
Financial year ended 2009				
Trade accounts payable	15,074	–	–	15,074
Other payables	2,230	–	–	2,230
Other financial liabilities	168	511	700	1,379
	17,472	511	700	18,683

At 31 December 2010, the Group had unused short-term credit lines of US$5 million (2009: US$14.2 million) and a multi-currency revolving credit line facility of £10 million (2009: nil) There were no amounts outstanding under these credit lines at 31 December 2010 (2009: nil).

Notes to the consolidated financial statements

For the year ended 31 December 2010

24. Financial risk management objectives and policies continued

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 company is considering its total equity as capital.

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 2010 and 31 December 2009.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2010 was 81.1% (2009: 81.6%). Capital includes net Shareholders' equity. The Group's policy is to finance business development and growth if at all possible 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.

Hedging activities

At 31 December 2010, the Group held deposits (referred to as the "hedging instruments") designated as hedges of firm commitments and forecast transactions in Euros and Pounds Sterling.

The hedging instruments 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 of the forward exchange contracts which equal the book values are as follows:

	At 31 Dec 2010		At 31 Dec 2009	
	Assets US$000	**Liabilities US$000**	Assets US$000	Liabilities US$000
Fair values				
Forward exchange contracts	**441**	**449**	–	–
Deposits	**7,630**	**–**	46,546	–

The critical terms of the deposits have been set to match the terms of the hedged cash flows.

The cash flow hedges of the expected future cash flows in each month from January 2010 to December 2010 and January 2009 to December 2009 respectively were assessed to be highly effective and, at 31 December 2010, a net unrealised gain of US$69,000 was included in equity in respect of these cash flows (2009: loss of US$372,000). During the financial year 2010 a loss of US$2,390,000 (2009: profit of US$197,000) was recognised in equity and a loss of US$2,831,000 (2009: profit of US$376,000) 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.

24. Financial risk management objectives and policies continued

The following tables show the contractual maturities of the payments for which deposits are used as hedging instruments, i.e., when the hedged item will be recognised in profit or loss.

Hedging instruments for Euro commitments:

Maturity	Nominal amount €000	Forward rate	Nominal amount €000	Spot rate
	Derivatives		Deposits	
2010				
January 2011	**3,000**	**1.3443**	**1,667**	**1.3409**
February 2011	**1,600**	**1.3500**	**1,667**	**1.3409**
March 2011	**1,600**	**1.3497**	**1,667**	**1.3409**
April 2011	**3,100**	**1.3097**	**700**	**1.2124**
May 2011	**3,300**	**1.3106**	**–**	**–**
June 2011	**3,300**	**1.3104**	**–**	**–**
July 2011	**3,000**	**1.3300**	**–**	**–**
August 2011	**3,000**	**1.3297**	**–**	**–**
September 2011	**3,000**	**1.3293**	**–**	**–**
October 2011	**3,000**	**1.3289**	**–**	**–**
November 2011	**–**	**–**	**–**	**–**
December 2011	**–**	**–**	**–**	**–**
2009				
January 2010	–	–	1,725	1.4750 - 1.4765
February 2010	–	–	1,725	1.4750 - 1.4765
March 2010	–	–	2,325	1.4750 - 1.4765
April 2010	–	–	1,700	1.4750 - 1.4765
May 2010	–	–	1,700	1.4750 - 1.4765
June 2010	–	–	1,700	1.4750 - 1.4765
July 2010	–	–	1,700	1.4750 - 1.4765
August 2010	–	–	1,700	1.4750 - 1.4765
September 2010	–	–	1,700	1.4750 - 1.4765
October 2010	–	–	1,700	1.4750 - 1.4765
November 2010	–	–	1,700	1.4750 - 1.4765
December 2010	–	–	1,700	1.4750 - 1.4765

Notes to the consolidated financial statements

For the year ended 31 December 2010

24. Financial risk management objectives and policies continued

Hedging instruments for Pound Sterling commitments:

Maturity	Nominal amount £000	Forward rate	Nominal amount £000	Spot rate
	Derivatives		Deposits	
2010				
January 2011	**1,550**	**1.5435**	**–**	**–**
February 2011	**2,050**	**1.5513**	**–**	**–**
March 2011	**2,350**	**1.5606**	**–**	**–**
April 2011	**1,450**	**1.5770**	**–**	**–**
May 2011	**1,750**	**1.5769**	**–**	**–**
June 2011	**1,750**	**1.5766**	**–**	**–**
July 2011	**1,600**	**1.5775**	**–**	**–**
August 2011	**1,700**	**1.5770**	**–**	**–**
September 2011	**1,700**	**1.5764**	**–**	**–**
October 2011	**1,500**	**1.5759**	**–**	**–**
November 2011	**1,700**	**1.5754**	**–**	**–**
December 2011	**–**	**–**	**–**	**–**
2009				
January 2010	–	–	833	1.5807
February 2010	–	–	833	1.5807
March 2010	–	–	1,283	1.5807
April 2010	–	–	783	1.5807
May 2010	–	–	783	1.5807
June 2010	–	–	783	1.5807
July 2010	–	–	783	1.5807
August 2010	–	–	783	1.5807
September 2010	–	–	783	1.5807
October 2010	–	–	783	1.5807
November 2010	–	–	783	1.5807
December 2010	–	–	783	1.5807

25. 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 seven (2009: eight) non-executive members of the Board of Directors and ten (2009: 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 29. Compensation of key management personnel of the Group is as follows:

	2010 US$000	2009 US$000
Short term employee benefits	**4,319**	3,499
Post-employment benefits[1]	**165**	137
Share based payments	**1,439**	635
	5,923	4,272

[1]) The amounts include payments for defined contribution plans.

Compensation of Non-executive Directors

The compensation of Non-executive Directors was US$521,000 (2009: US$307,000). As at 31 December 2010 the amount of US$ 23,000 for Board member fees was outstanding (2009: US$55,000). For further information please see the Directors' remuneration report within the management and governance section on pages 35 to 37.

Other related party transactions

In 2010 and 2009 there were no other transactions with related parties. None of the related parties has a major influence in one of the Group's major suppliers or customers.

26. BenQ settlement

In the second quarter 2009 the Company received an unexpected cash settlement of US$2.3 million. This cash settlement was against receivables which had previously been written down and revenues that had not been recognised in 2006 as a result of the insolvency of BenQ Mobile. The amount represents 35% of the original claim to BenQ Mobile. Of this amount US$2.0 million was classified as revenue and US$0.3 million was classified as other operating income. The amount shown as revenue represents prior period revenue. As one of the criteria for revenue recognition under IFRS was not met, for this amount the related revenue was not accounted for in 2006. The amount shown under other operating income was previously recognised as revenue in the periods preceding the insolvency but the underlying receivables were written down against other operating expenses.

27. Subsequent event

On 10 February 2011, Dialog Semiconductor plc acquired 100% of the voting shares of SiTel Semiconductor B.V. ('SiTel'), an unlisted company headquartered and incorporated in the Netherlands and a leader in short-range wireless, digital cordless and VoIP technology. In the year ended 31 December 2010, SiTel generated unaudited revenues of approximately $116.9 million. Dialog has acquired SiTel in order to expand its product portfolio with short range wireless and VoIP based internet connectivity products. This will allow Dialog to develop new products for these new markets as well as to cross-sell Dialog's existing Power Management technology to SiTel's customer base. The acquisition significantly expands Dialog's addressable market targeting high growth wireless personal portable devices. Dialog acquired SiTel for an enterprise value of $86.5 million[1].

Given the timing of the transaction, it has not been possible to provide all disclosures required by IFRS3 (Revised) as the acquisition accounting is still to be performed.

There are no other known events after the date of the Statement of Financial Position that require disclosure.

[1] Net cash paid of $84.5 million

Company financial statements

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

Company statement of financial position

For the year ended 31 December 2010

	Notes	**At 31 December 2010 US$000**	At 31 December 2009 US$000
Assets			
Cash and cash equivalents		**80,307**	71,924
Amounts owed by group undertakings		**30,580**	44,542
Prepaid expenses		**91**	67
Other current assets		**702**	296
Total current assets		**111,680**	116,829
Investments	28	**97,521**	97,521
Total non-current assets		**97,521**	97,521
Total assets		**209,201**	214,350
Trade and other payables		**1,119**	475
Other payables		**124**	471
Total current liabilities		**1,243**	946
Ordinary Shares		**12,380**	11,825
Share Premium		**202,416**	283,733
Retained deficit		**(2,992)**	(80,972)
Other reserves		**69**	(372)
Employee stock purchase plan shares		**(3,915)**	(810)
Total Shareholders´ equity	31	**207,958**	213,404
Total liabilities and Shareholders´ equity		**209,201**	214,350

Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after taxation was US$7,030,000 (2009: profit of US$2,449,000).

These financial statements were approved by the Board of Directors on 10 February 2011 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company statement of changes in equity

For the year ended 31 December 2010

				Other reserves		
	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Hedges 000US$	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2009	9,328	223,005	(78,523)	–	(139)	153,671
Total comprehensive loss	–	–	(2,449)	(372)	–	(2,821)
Capital increase public offering (gross proceeds)	1,922	62,421	–	–	–	64,343
Transaction costs of capital increase - public offering	–	(4,685)	–	–	(1,048)	(5,733)
Capital increase for employee share option plan (gross proceeds)	575	473	–	–	–	1,048
Transaction costs of capital increase - employee share option plan	–	(41)	–	–	–	(41)
Sale of employee stock purchase plan shares	–	2,560	–	–	377	2,937
Changes in Equity total	2,497	60,728	(2,449)	(372)	(671)	59,733
Balance at 31 December 2009 / 1 January 2010	**11,825**	**283,733**	**(80,972)**	**(372)**	**(810)**	**213,404**
Total comprehensive income (loss)	–	–	(7,030)	441	–	(6,589)
Reduction of additional paid-in capital	–	(85,000)	85,000	–	–	–
Capital increase for employee share option plan (gross proceeds)	555	414	–	–	(969)	–
Transaction costs of capital increase - employee share option plan	–	(36)	–	–	–	(36)
Purchase of employee stock purchase plan shares	–	–	–	–	(2,844)	(2,844)
Sale of employee stock purchase plan shares	–	3,305	–	–	708	4,013
Equity settled transactions, net of tax	–	–	10	–	–	10
Changes in Equity total	555	(81,317)	77,980	441	(3,105)	(5,446)
Balance at 31 December 2010	**12,380**	**202,416**	**(2.992)**	**69**	**(3,915)**	**207.958**

Company financial statements

Company statement of cash flows

For the year ended 31 December 2010

	2010 US$000	2009 US$000
Cash flows from operating activities:		
Net loss	**(7,030)**	(2,449)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Interest income, net	**(1,567)**	(713)
Expense related to share-based payments	**8**	–
Changes in working capital:		
Trade accounts payable	**346**	415
Other assets and liabilities	**(402)**	(122)
Cash used for operations	**(8,645)**	(2,869)
Interest received	**898**	165
Cash flow used for operating activities	**(7,747)**	(2,704)
Cash flows from investing activities:		
Loans made to other group companies	**14,547**	(9,184)
Cash flow from (used for) investing activities	**14,547**	(9,184)
Cash flows from financing activities:		
Cash flow from (used for) capital increase	**(36)**	59,617
Purchase of employee stock purchase plan shares	**(2,844)**	–
Sale of employee stock purchase plan shares	**4,013**	2,937
Cash flow from financing activities	**1,133**	62,554
Net foreign exchange difference	**450**	(372)
Net increase in cash and cash equivalents	**8,383**	50,294
Cash and cash equivalents at beginning of period	**71,924**	21,630
Cash and cash equivalents at end of period	**80,307**	71,924

Notes to the Company financial statements

For the year ended 31 December 2010

28. 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:

	2010 US$000 [1]	2009 US$000
Capital and reserves	**70,583**	23,309
Profit for the year	**48,455**	25,641

[1] Based on preliminary unaudited results.

29. Deferred tax

The utilization of tax loss carryforwards and temporary differences of the holding company is subject to the achievement of positive income in periods which are beyond the company's current business plan and therefore this utilization is uncertain. Consequently no deferred tax assets were recognized for these losses and temporary differences.

For further information on deferred taxes see note 4 to the consolidated financial statements as at 31 December 2010.

30. Auditors' remuneration

	2010 US$000	2009 US$000
Auditors' remuneration		
for the audit	**185**	246
for other audit related services	**78**	142
for other services	**230**	–
in relation to capital increase	**–**	287
	493	675

31. Share capital and share options

Details of the Company's share capital and share options are set out in notes 18 and 20 to the consolidated financial statements as at 31 December 2010.

32. Headcount and costs

The Company does not have any employees.

33. Events after the reporting period

On 10 February 2011, Dialog Semiconductor plc acquired 100% of the voting shares of SiTel Semiconductor B.V. ('SiTel'), an unlisted company headquartered and incorporated in the Netherlands and a leader in short-range wireless, digital cordless and VoIP technology. In the year ended 31 December 2010, SiTel generated unaudited revenues of approximately $116.9 million. Dialog has acquired SiTel in order to expand its product portfolio with short range wireless and VoIP based internet connectivity products. This will allow Dialog to develop new products for these new markets as well as to cross-sell Dialog's existing Power Management technology to SiTel's customer base. The acquisition significantly expands Dialog's addressable market targeting high growth wireless personal portable devices. Dialog acquired SiTel for an enterprise value of $86.5 million[1].

Given the timing of the transaction, it has not been possible to provide all disclosures required by IFRS3 (Revised) as the acquisition accounting is still to be performed.

There are no other known events after the date of the Statement of Financial Position that require disclosure.

[1] Net cash paid of $84.5 million

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 analogue 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.

HiFi High-Fidelity: the reproduction of sound with little or no distortion.

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 analogue and digital signals being generated, controlled or modified on the same chip.

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.

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.

Passive Matrix OLED or PMOLED Passive Matrix OLED a display type formed by creating an array of OLED pixels which are driven by row and column (x-y) co-ordinates.

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.

Smartphone A mobile phone offering advanced capabilities, often with pc-like functionality (PC-mobile handset convergence). A Smartphone runs complete operating system software providing a standardised interface and platform for application developers.

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.

Subcontractor A business that signs a contract to perform part or all of the obligations of another's contract.

Tablet PC A Tablet PC refers to a slate- or tablet-shaped mobile computer device, equipped with a touchscreen or stylus.

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.

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.

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 reinvested in the business (called retained earnings), or it can be paid to the shareholders of the company as a dividend.

DTR The United Kingdom Disclosure and Transparency Rules implementing the provisions of the Transparency Directive.

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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Financial calendar

Annual General Meeting	21 April 2011
Q1 2011 Results	4 May 2011
Q2 2011 Results	25 July 2011
Q3 2011 Results	25 October 2011
Preliminary results for 2011	February 2012

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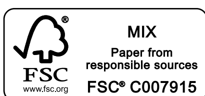

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