dialog
SEMICONDUCTOR

Energy management excellence

Annual report and accounts 2009

Making it happen!

Contents

Dialog Semiconductor creates energy-efficient, highly integrated, mixed-signal circuits optimised for personal mobile, lighting & display 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 key 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 2009, it had US$217.6 million in revenue and was one of the fastest growing European public semiconductor companies. At year end 2009, Dialog Semiconductor had 339 employees. The Company is listed on the Frankfurt (FWB: DLG) stock exchange.

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Capturing the best moments of your life

Power Management: Extending battery lifetime of portable devices with a high level of integration and software configurability of power management functionality on a single chip. The DA9052 Power Management IC radically changes how engineers can now implement power management in their portable devices.

Dialog at a glance

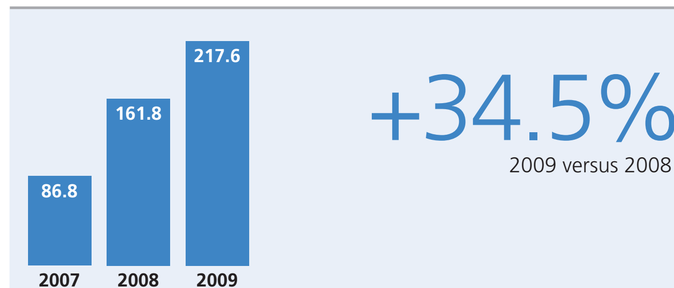
Financial highlights

- 34.5% growth in revenue
- Full-year 2009 net income of US$32.7 million or 15.0% of sales completing nine quarters of successive profitability
- Improved annual gross margin of 44.9%
- Successful equity offering, raising net proceeds US$59.7 million
- Closing year cash balance of US$123.1 million, increase of US$86.2 million over 2008
- Diluted 2009 Earnings Per Share (EPS) – of 60 cents
- Dialog remains debt free

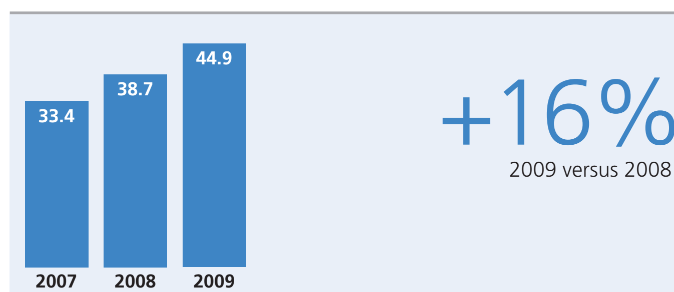
Operational highlights

- Continued Power Management design wins within the smartphone market segment, with 2009 seeing the ramp of high-volume designs in several industry leaders' products
- Success within the emerging 3G Android smartphone segment with the first design win announced with LG for China Mobile
- Adoption of our 3G/HSPA Power Management technology in convergent devices, including ebooks and netbooks
- Entrance in 2009 to the portable audio market with a very low power solution
- Strategic partnership with Intel® and first design wins in 2009 for Power Management companion products for Atom™ processors
- Entry to German TecDAX index in September 2009

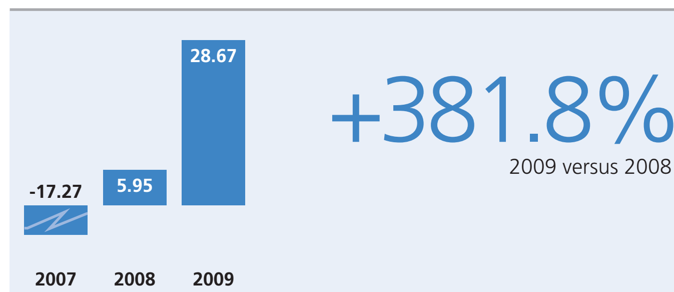
Total revenue: 2007-2009 (US$m)



Gross margin: 2007-2009 (%)



Operating profit: 2007-2009 (US$m)



Enriching your viewing experience

Innovative display drivers: SmartExtend™ OLED drivers providing more vivid and brighter displays, improved video performance at lower power consumption and thinner form factors, with our e-ink drivers enabling the adoption of e-readers in next generation portable convergent devices.

Our markets

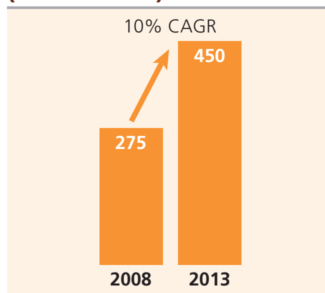
Dialog focuses on high-volume, high-growth markets, engaging with the industry leaders in their segments.

Dialog is a global designer, developer and supplier of mixed signal integrated circuits with a focus on the integration of Power Management, audio, motor control and display processing functionalities. Dialog's main markets are high-volume portable products (cellphones, smartphones and other portable consumer electronic devices), automotive and industrial applications. Dialog is a fabless semiconductor company outsourcing the capital intensive production of silicon wafers, packaging and testing of integrated circuits to leading Asian suppliers.

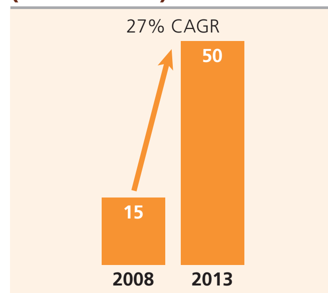
Wireless

Our wireless Power Management, audio and display semiconductor solutions are designed to meet the needs of the latest smartphones, 3G/HSPA cellphones, netbooks, portable media players, e-readers and other portable convergent devices.

Portable media players* (Million units)

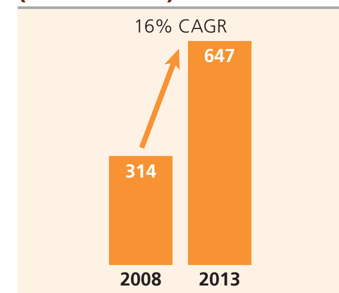


Netbooks* (Million units)



Smartphones* (inc. MID and MM phones) **(Million units)**

3G/HSPA Cellphones* (Million units)

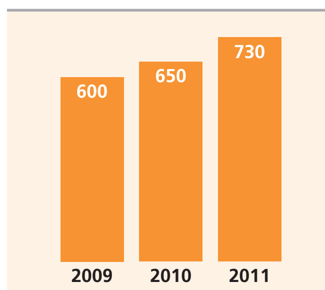


*Source Dialog, Venture-Q and IDC 2009

Automotive and Industrial

In automotive, Dialog's products are used in motor control applications for comfort and safety systems and for Power Management in automotive infotainment systems. 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.

Automotive Motor Control IC TAM (US$ million)*



*Source Dialog 2009

Deep technology base

Dialog has long-standing expertise in developing analogue and mixed signal products, with a focus on Power Management integrated circuits. The Company in 2009 has leveraged its expertise to add audio and display integrated circuits to its product portfolio. It aims to offer the highest level of Power Management mixed signal integration in the industry, with rapid design cycle and time-to-volume production.

Getting to your destination on time

Infotainment: Enabling with Intel® the next generation of automotive infotainment systems with advanced Power Management and clocking companion ICs for the Atom Processors™.

Chairman's statement

Dear Shareholders,

In 2009, Dialog once again grew at an impressive level and mastered difficult situations. We successfully navigated through a year of worldwide economic downturn, and what was an extremely testing time for our industry.

Across all financial fronts, Dialog performed and grew profitably at a rate ahead of the closest peers that we track, and the industry as a whole.

A key event in 2009 was the successful equity placing in September 2009 which raised net proceeds of US$59.7 million. This provides Dialog with significant capital with which to make strategic investments and accelerate the development of the Company.

We substantially increased our trading liquidity, very often now seeing more than one million shares traded on a daily basis. This increase in liquidity, the strong financial performance reported each quarter, along with the equity offering were instrumental in attracting new high-calibre institutional investors to our Shareholder base. All of this translated into significant share value creation with the share price up more than 11 times from its 2009 opening level.

As the economic climate has improved over the past 12 months, Dialog has sought to position itself by developing key technologies and supplying major customers in the portable Power Management market. However, the challenge of diversifying both our product base and addressable market is a journey which we will seek to progress during the coming year.

Many employees participate in the success of Dialog through our stock Option Programme and the Long Term Incentive Programmes (which we have in place for the management team). The Board remains committed to providing employees with all the support necessary in terms of performance-based rewards that harmonise the interest of the Company with that of its Shareholders. These instruments are appropriate to maintain Dialog's attractiveness as an employer in this highly competitive market for specialists.

The Board wishes to pay tribute to the management, who have delivered this tremendous performance while overcoming new challenges and developing further as a team.

Finally, we have confirmed our excellent position in the market and the outlook is very positive. I would like to thank you for your trust in us and hope that you will continue to accompany us on our journey.

We are looking forward to another year of progress.

Greg Reyes
Chairman

Dialog Semiconductor shares in 2009

Dialog substantially outperformed the market with the share price growing by more than 1,100% in 2009 and share liquidity increasing by 575%. Dialog gains the confidence of the market with many new high-calibre investors attracted as stockholders.

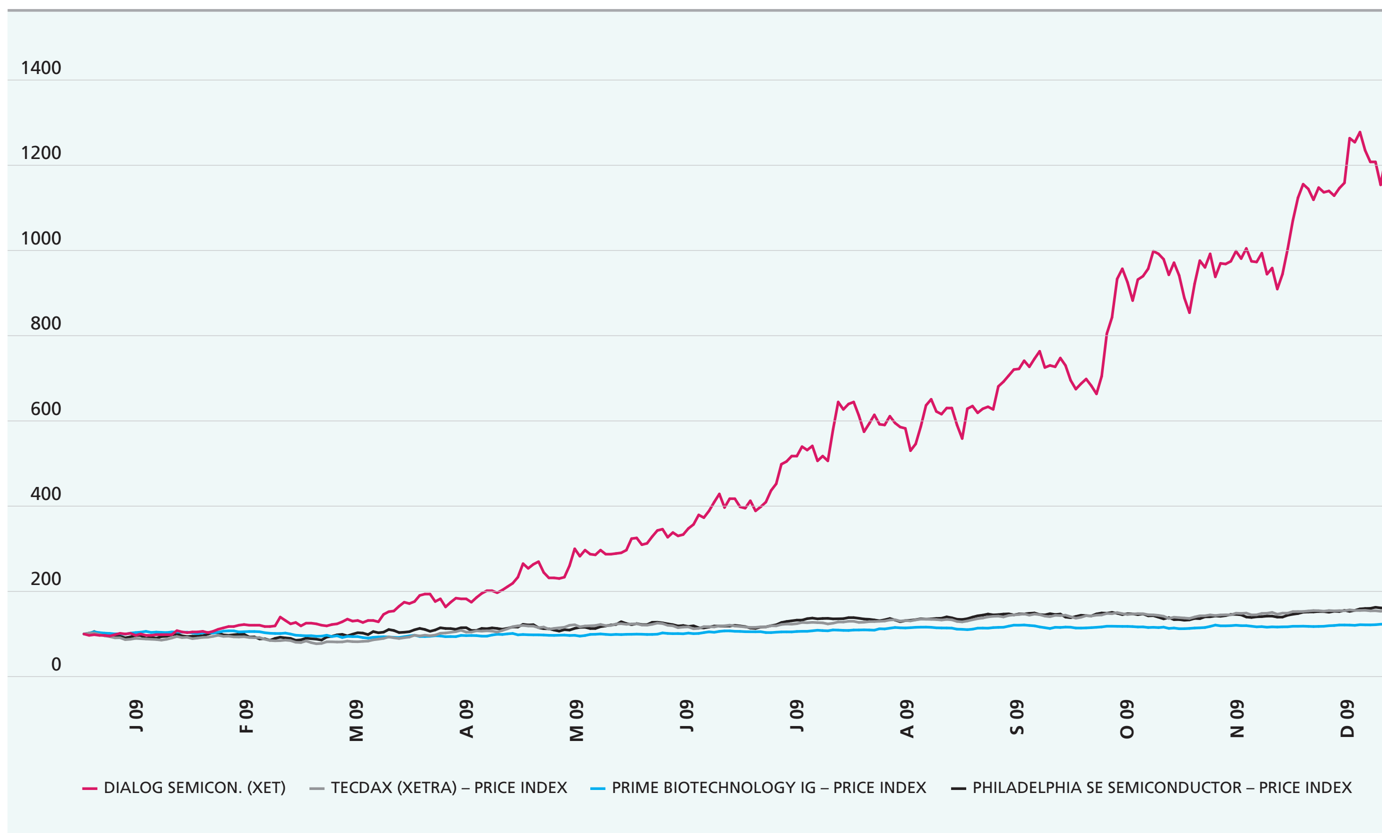
Share price development

For Dialog shares, 2009 was a record year in terms of growth. Starting the year at €0.66, it steadily rose during the year. In September, an equity offering for 12 million ordinary shares was priced at €3.65; a premium of 4% to the date the offering was announced. Post issuance of the shares, the stock continued to rise steadily reaching a high for the year in December at €8.42 before closing the year at €7.63.

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 2009 Dialog outperformed the TecDAX by 55 times and the SOX by more than 17 times.

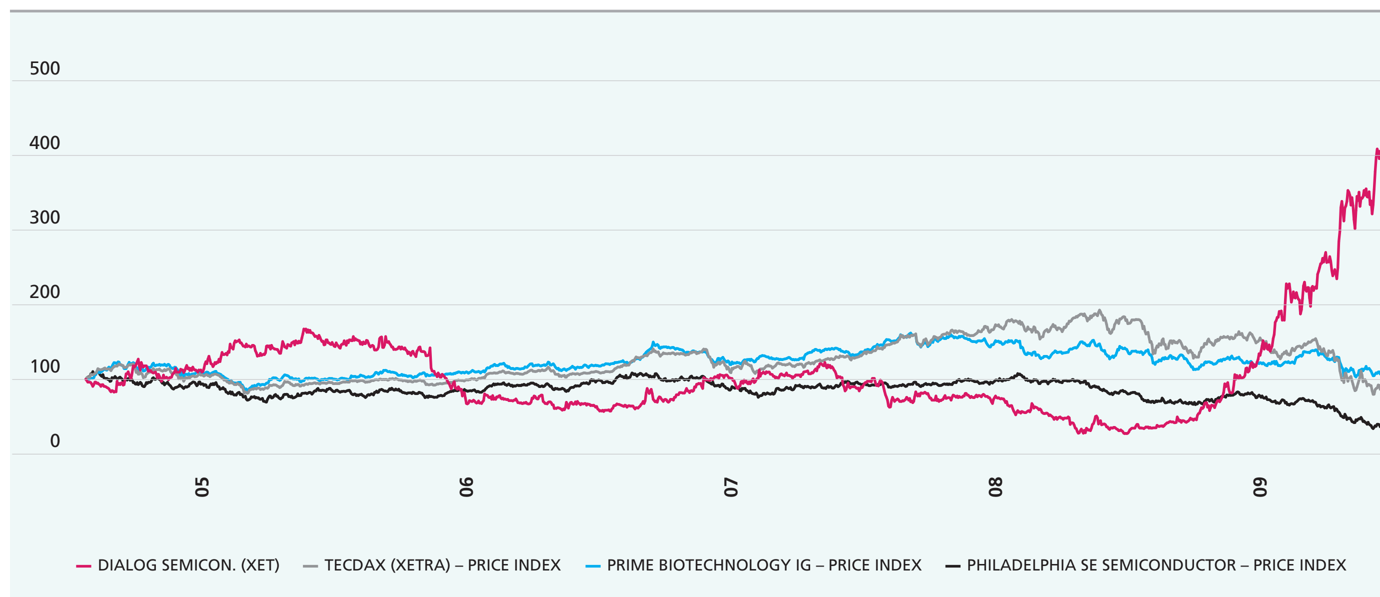
This means that in the course of 2009, we succeeded in achieving one of our most important corporate objectives; namely, to increase the value of the Company for the benefit of the Shareholders.

2009 12-month Dialog Semiconductor share price performance



Dialog Semiconductor shares in 2009

2005-2009 Dialog Semiconductor share price performance



Share fundamentals for the financial year 2009

Total number of shares outstanding and registered as of 31 December 2009	61,568,930
Weighted average number of shares during 2009 (diluted)	54,463,940
Weighted average number of shares during 2009 (basic)	48,867,949
Type	Ordinary
Par value (in £)	0.1
Bloomberg Symbol	DLG
Reuters Symbol	DLGS.DE
ISIN	GB0059822006

Key figures for the financial year 2009 based on weighted average number of shares (basic)

Sales per share (in US$)	4.45
Operating profit per share (in US$)	0.59
Net profit per share (in US$)	0.67
Book value per share as of 31 December 2009 (in US$)	3.94
Accounting standards	IAS/IFRS

Market data 2009

Exchange segment Germany	Midcap, Prime All Share, Prime Technology, Technology All Share
Designated sponsor	Close Brothers Seydler
Market capitalisation as of 31 December 2009 (in millions of €)	469.16
Daily Turnover of shares during 2009	510,571 shares/day

Trading in Dialog shares

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

Dividend policy

Dialog Semiconductor participates in industries that are considered to be global growth engines and provides its services and products to 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 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 2009, the management team continued its efforts to ensure that the market was kept up to date with the effect the changing macro environment was having on its business, together with the important and exciting changes under way at the Company. Dialog Semiconductor's shares are followed by a number of analysts representing major banks and research institutions in Europe. During 2009, 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.

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 56,462,392 million shares or 91.7% of the 61,568,930 outstanding shares. The freefloat is calculated by excluding 2,520,960 shares held by Adtran per their last notification and 2,585,578 shares held in the Dialog Semiconductor Plc employee ownership trust as notified on 8 February 2010.

The freefloat includes the following shares held on behalf of discretionary clients:

- 4,414,925 (7.16%) held by JP Morgan Asset Management Holding Inc., as notified on 6 October 2009;
- 2,656,316 (4.31%) held by the Bank of New York Mellon, as per the share registrar on 8 February 2010;
- 1,925,965 (3.13%) held by Allianz Global Investors, as per the share registrar on 8 February 2010;
- 1,884,864 (2.99%) held by Capital Group International Inc., as notified on 30 November 2009; and
- 2,400,000 (3.89%) held by Citibank, as per the share registrar on 8 February 2010.

And 2,028,828 shares (3.29%) held by X-Fab Semiconductors AG, as notified on 28 January 2010.

Disclosure of interests

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

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%.

Business review and strategy

Execution to our strategy has enabled us to again achieve high growth in 2009 – beyond the industry and our peers – with increased profitability, and dramatically improve our cash position from both operations and a successful equity offering.

Dialog's principal objective in recent years has been to be the leading global supplier of high integrated Power Management mixed signal integrated circuits addressing the portable devices market. To meet these objectives, this year Dialog has:

Demonstration of Dialog's Class G Audio Codec IC – DA7210.

Expanded its relationships with key industry leaders

Dialog has relationships with a number of high-volume customers, many of which are key industry leaders in their respective sectors. Dialog has in 2009 continued to focus its sales and marketing efforts on these customers to increase its semiconductor content in the customers' various portable device platforms.

Increased its customer base by leveraging its portfolio of standard solutions

Dialog has increasingly adapted some of its solutions to multiple customers and transitioned its portfolio to offer more standard products. Additionally, by engaging in basic corporate identity and brand development activities in the engineering and design communities worldwide, coupled with the recent expansion of its sales force, Dialog in 2009 has laid the foundations for marketing its products to a much broader customer base.

Dialog also continued to expand platform relationships with application processor vendors within the portable space, including NEC Electronics; to enter the embedded market; i.e., replacing discrete Power Management solutions with an integrated device for Intel® Atom™-based applications; and to leverage Dialog's experience to address the motor control and lighting market with energy efficient standard products.

Grown sales in North America and Asia

Dialog successfully increased its revenue in North America to represent 47.6% of its turnover for the year. Additionally, it achieved important milestones with major Asian cellphone customers; one of which emerged as a greater than 10% revenue customer in Q2 2009 and also successfully worked with Samsung with the application of its e-ink display technology into an innovative smartphone keypad design.

Continued to focus on fabless business model while optimising operating efficiencies

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. It also invested in increasing operating efficiencies by taking advantage of advanced Management Information Systems for planning logistics and sales operations.

Worked proactively with and refined customers' system architecture

Dialog continued to work with its customers to refine the systems architecture of their various device platforms and provided them high integrated Power Management IC solutions. Dialog achieved this by leveraging the engineering expertise of its employees in design, product development and testing.

Maximising run time

Audio: Dialog's new family of ultra low power HiFi audio and headphone drivers CODECS extends the battery lifetimes of mp3 portable media devices.

Chief Executive's review

Leading the industry – 2009 was a truly spectacular year and a year to remember for Dialog, and I believe a major turning point in our more than 10-year history as a public company.

Dialog's Board and executive team focused its efforts to solidify our position as a leading Power Management IC provider to industry leaders in smartphones and portable media devices while delivering strong revenue and profitability growth through the industry downturn. We also reinforced our customer relationships and strengthened our balance sheet while our Company's stock price and market valuation appreciated more than 1,100%.

Despite the economic downturn, in 2009 we reached and in some cases exceeded all the important strategic and economic goals which we had set, thereby establishing the basis for the further growth of Dialog. While in 2009, the semiconductor industry, according to analysts, declined 12%, we delivered an impressive 34.5% increase in revenue and, with the close of the last quarter, recorded nine successive quarters of profitability.

Our gross margin improved 6.2 percentage points for the full year to 44.9%. In addition, our net income margin, increased by 10.8 percentage points to 15.0%. This increase is particularly noteworthy given the continued investments we made in our R&D activities, including increasing our engineering, sales and marketing headcount. This positive business performance reaffirms our determination to continue to execute on our chosen strategy.

One year ago I was dissatisfied with our share price development. Today I am extremely pleased that 2009 saw us increasing our share price from €0.66 at the start of the year to close the year at €7.63, an appreciation of more than 1,100%, catching up with the underlying performance of the Company.

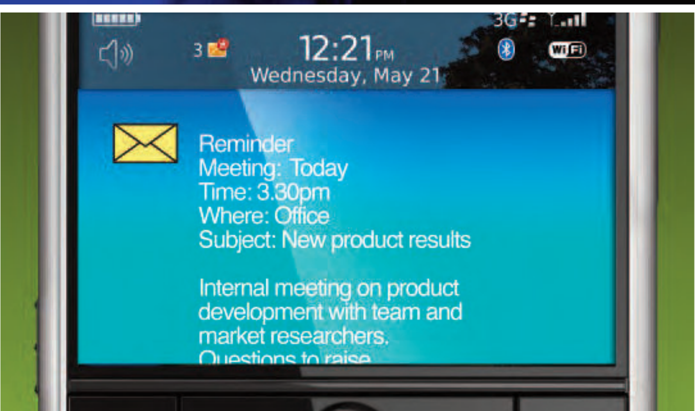
Following a long-standing commitment to Dialog, Apax Partners LLP – the global private equity advisory firm that led the leveraged buyout of the Company in 1998 – placed its remaining shareholding of Dialog with quality institutional investors. Apax's contribution over the past 11 years has been very important to our development and growth and on behalf of Dialog's management and its Board, I would like to thank Apax Partners.

In September we completed an international equity offering and issued 12 million new shares, raising net proceeds of US$59.7 million. The shares were placed with tier 1 institutional investors, following a very successful roadshow. We now have a healthy balance sheet with US$123.1 million in cash, allowing us to fund our foreseeable future growth. In addition, we plan to expand our engineering and technical support teams, particularly in the US and Asia, and acquire complementary technology and intellectual property.

Already in early 2010, we have demonstrated the first use of these proceeds when we recently acquired specific Power Management technology assets, intellectual property rights and an employee team located in Munich from Diodes Zetex Gmbh. Small acquisitions like this and IP licensing of complementary technology will allow us to further differentiate our products and maintain our leadership.

We experienced an increase in the trading volume of our shares, where the average daily volume traded in the last quarter has increased to 1,072,000 shares – more than six times of that a ear ago. This has helped to make Dialog an attractive investment for the larger European institutional funds, many of whom we saw take a recent position in Dialog. The increase in our market capitalisation and liquidity led us to being admitted in the second half of the year to the important German TecDAX stock index – another important milestone for our Company.

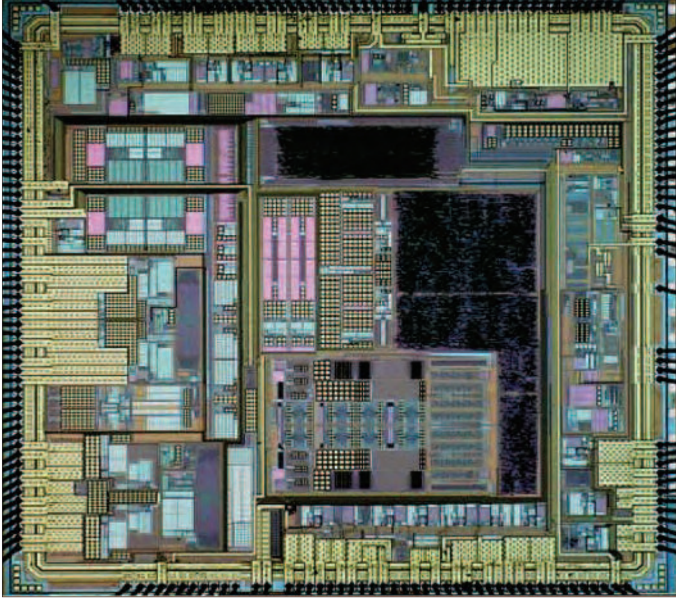
Diversification of our revenue sources continues as a strategic initiative for Dialog as it enhances financial stability of the Company. We are achieving this by continuously expanding our customer base – now more than 10 within the cellphone space and selling a broader base of standard products. We have taken far-reaching steps towards this in 2009 where we launched three



Accelerating the transition

Smartphones: 2009 saw the rise in adoption of smartphones, with Dialog's Power Management technologies used by leading smartphone manufacturers. Dialog's success is based on providing innovative and differentiating technologies to extend the battery lifetime and user experience.

Chief Executive's review


Layout of a Dialog Power Management Chip.

product families that will provide the basis to accelerate further diversification. These include a programmable Power Management device which revolutionises the way analogue designers can now design their system, our first stand-alone Audio IC, which sets a competitive benchmark in the industry for low power consumption. Additionally, to support the increasingly popular Intel® Atom™ micro processors, we provide very high integrated Power Management companion devices and already have announced a strategic partnership with Harman Becker who will use our devices in their automotive infotainment platforms.

It was a difficult year for our Automotive and Industrial segment, with the global crisis within the automotive industry affecting sharply our automotive revenue early in the year. However, a pickup was seen late in the year where our shipments recovered to near historical levels. The transition to energy saving lighting, including LEDs, is providing an opportunity for Dialog to further build on our existing lighting business. To capitalise on this opportunity, during the year we announced a joint development centre in Austria with Tridonic Atco – a leader in lighting.

Underpinning our success was an exceptional performance by the whole team at Dialog who responded magnificently to the opportunities and challenges of 2009, and to whom I offer my sincere thanks. At the same time, I would like to also thank our customers and business partners for their long-standing loyalty and the trust they put in us. The same applies to our Shareholders, as we strive to continue to deliver sustainable shareholder value.

The economic crisis which we are all coming through is bringing us not only tremendous challenges but also major opportunities. 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 enormous long-term growth prospects opening up for us in these fields as energy efficiency becomes of ever increasing importance to our society.

In 2010 we aim to achieve:

- continued profitable revenue growth driven by market share gain in Power Management and Audio ICs especially within the smartphone and portable media device market;
- advanced innovation with our continuing success based on two key factors: a sharp focus on customers and a winning product portfolio based on a solid road map for the future;
- volume production of our passive matrix OLED IC display technology together with our display module partners, offering superior performance and a more energy efficient solution than incumbent displays today; and
- 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.

We concluded the year by winning the prestigious Global Semiconductors Association inaugural EMEA Leadership Council Award, the Elektra Company of the Year and Elektra Fabless Semiconductor Supplier of the Year Awards. This is a strong testament from the semiconductor industry to our core technologies, and the strength of the newly invigorated Dialog, for the Company as a whole to be acknowledged publicly in this way.

Global Semiconductor Association (GSA) Award presented to Dialog Semiconductor at US Silicon Valley event in December 2009.

As we pursue our long-term corporate strategy, our financial and operational targets are clearly defined where we aim for continued growth ahead of the industry and our closest peers. We will continue to provide transparency regarding current performance, future opportunities and strategies in our communication.

This is truly an exciting time to be leading such a dynamic company, and I am confident in the continued future success of Dialog.

Dr Jalal Bagherli
Chief Executive Officer

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: mobile handset and portable electronic devices, and automotive and industrial electronics. The continuing decrease in size – and increase in capabilities – of portable devices is a major driver in the development of our solutions. High-speed data, video and high-quality audio on mobile telephones and other hand-held products, make huge demands on battery energy management, as well as on the technology which controls the quality of images and displays. Our skill in developing highly integrated silicon solutions enables our customers to design products which deliver excellent performance as well as market-leading talk and standby times. In the automotive market customers use our products in the comfort and safety systems, as well as in the management and control of the electronic systems they design for cars; and in the industrial market customers use our products in highly integrated smart-power management systems, such as intelligent electronic ballasts for fluorescent lighting.

Design, development and production

We are justifiably recognised for the quality and feature-rich functionality of our mixed signal standard Integrated Circuit ("IC") and Application Specific Integrated Circuit ("ASIC") solutions. We nevertheless continually work to increase our digital and analog design expertise, and to develop our software. During 2009, we invested US$42.6 million in research and development. Our ability to develop mixed signal ASIC and Application Specific Standard Product ("ASSP") designs rapidly, enables us to respond to customers' needs for new solutions that increase performance, while at the same time reducing cost. Our strategy of modifying and 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 – in which the design of chips used in hundreds of millions of mobile phones and other portable devices has given us a great deal of experience – is increasingly one of the fundamentals of system design. However, Power Management constantly presents new challenges with the introduction of multi-core processors, increased peak currents due to lower geometry technologies and multiple sleep modes. Lithium batteries need to charge faster, safer and from a wider variety of sources such as USB ports demanding, for example, powerpath control. 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. By capitalising on our experience in integrating high- and low-voltage circuits on CMOS – the most widely used semiconductor technology – and combining it with our experience in developing and integrating high-performance CODECs and other analog functions, we are able to offer a selection of differentiated Power Management and audio solutions. The integration of more than 30 different functions on a single chip delivers significant space, power and cost savings to our customers. In 2009, we launched a new class of Power Management product – DA9052, an advanced system Power Management integrated circuit (PMIC) that offers designers greater flexibility in reducing power consumption, size and cost in mobile phones and other portable multimedia devices. Conceived as a platform-PMIC, capable of supporting all major families of application and mobile graphics processors, DA9052 offers a superior level of user configurability compared to standard PMIC products.

Solutions, products technology and key customers

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.

Dialog in 2009 together with TDK has been working on completing the development of a passive matrix OLED panel which is based on Dialog's SmartXtend™ driver technology. The technology uses a number of innovative techniques, including a unique addressing scheme, accurate dynamic current matching and state-of-the-art Power Management to outperform LCD displays. SmartXtend™ will form the basis of a new family of 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.

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. 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.

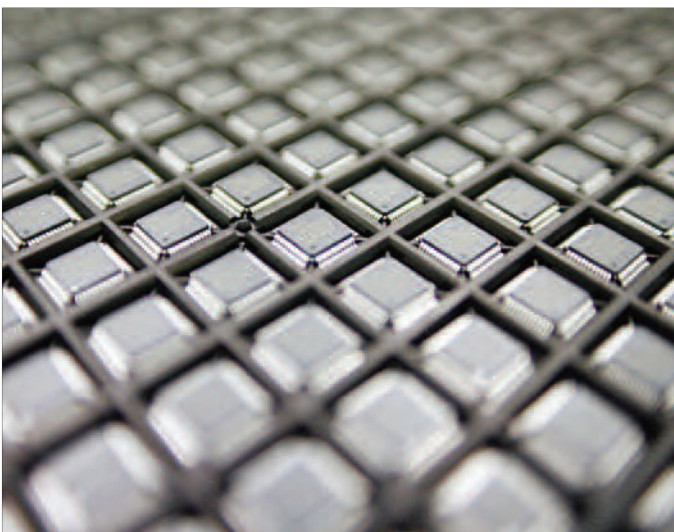
For the industrial market, Dialog develops innovative control ASICs both for conventional light sources, such as fluorescent or high-intensity discharge ("HID") lamps, and for emerging LEDs. These devices seek to deliver optimal control and regulation of light sources, while maximising their service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

Manufacture, assembly and testing

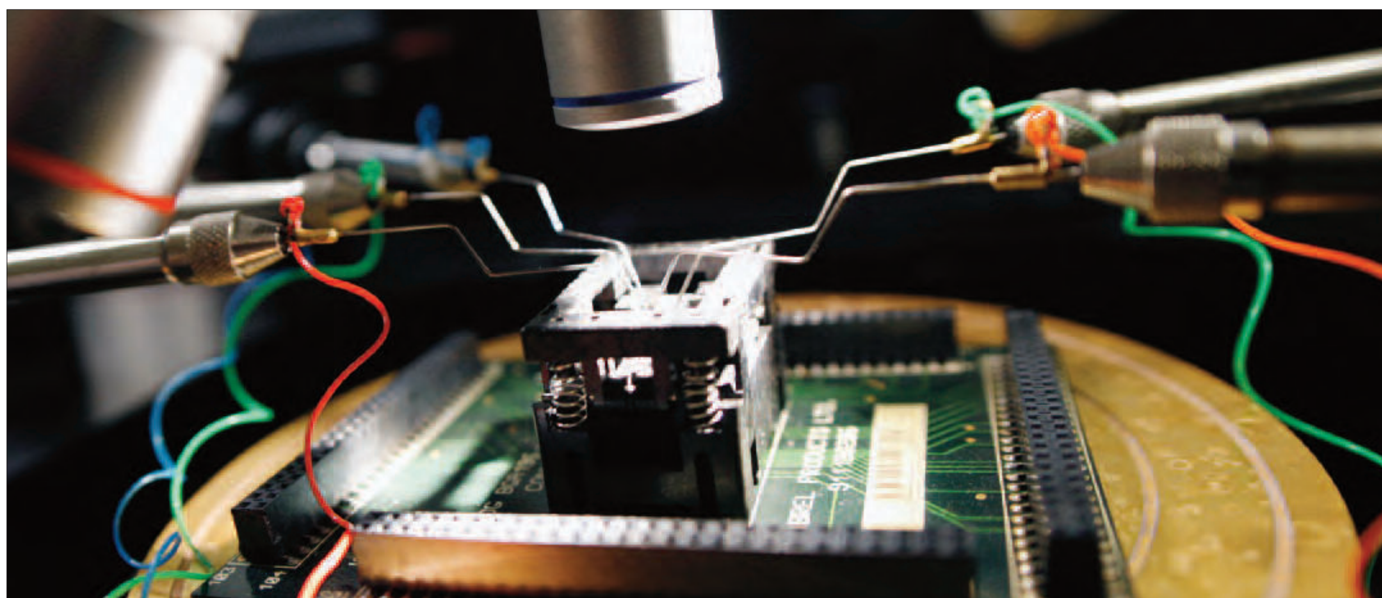
We outsource our wafer production to selected foundries, principally in Singapore and Taiwan, which provide high-quality products and have the ability to meet both our stringent qualification requirements and tight deadlines. Our choice of CMOS, rather than bipolar, technology enables more transistors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

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

Dialog operates a fabless model and minimises capital expenditure by outsourcing its manufacturing, assembly and test to Asian foundries – while maintaining control over the quality and reliability of its products.



Presentation to Dialog from our long-standing silicon foundry partner TSMC, in commemoration of the Swindon, UK, office opening.



Dialog's devices are de-capsulated, either fully or in part, and then inspected with a scanning electron microscope. This gives information about the device's surface topography, contamination and other properties.

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.

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.

Financial review

"A strong balance sheet with sustained, profitable growth positions us well going forward."

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 2009 and 2008:

	2009		2008		Change
	US$000	**% of revenues**	US$000	% of revenues	%
Revenues					
Audio & Power Management	**176,569**	**81.1**	121,355	75.0	45.5
Display systems	**5,987**	**2.8**	5,149	3.2	16.3
Automotive/Industrial	**33,531**	**15.4**	35,193	21.7	(4.7)
Corporate Sector	**1,526**	**0.7**	133	0.1	1,047.4
Revenues	**217,613**	**100.0**	161,830	100.0	34.5
Cost of sales	**(119,886)**	**(55.1)**	(99,217)	(61.3)	20.8
Gross profit	**97,727**	**44.9**	62,613	38.7	56.1
Selling and marketing expenses	**(14,183)**	**(6.5)**	(11,007)	(6.8)	28.9
General and administrative expenses	**(12,584)**	**(5.8)**	(9,853)	(6.1)	27.7
Research and development expenses	**(42,621)**	**(19.6)**	(36,721)	(22.7)	16.1
Other operating income	**333**	**0.2**	775	0.5	(57.0)
Restructuring and related impairment charges	**–**	**0.0**	145	0.1	(100.0)
Operating profit (loss)	**28,672**	**13.2**	5,952	3.7	381.7
Interest income and other financial income	**203**	**0.1**	874	0.5	(76.8)
Interest expense and other financial expense	**(212)**	**(0.1)**	(919)	(0.6)	(76.9)
Foreign currency exchange gains and losses, net	**162**	**0.1**	126	0.1	28.6
Result before income taxes	**28,825**	**13.3**	6,033	3.7	377.8
Income tax benefit	**3,902**	**1.7**	728	0.5	436.0
Net profit	**32,727**	**15.0**	6,761	4.2	384.1

Results of operations

Segment reporting

Revenues in the **audio & power management segment** for the year ended 31 December 2009 were US$176.6 million compared with US$121.4 million in 2008, an increase of 45.5%. The increase in this sector is primarily driven by the success of our growing range of 3G/HSPA integrated Power Management and audio products and Power Management solutions for Portable Media Players. Our 3G/HSPA customer base now includes six cellular customers. Additionally, we continue to see the adoption of our solutions by leading Smartphone manufacturers in more of their products. The operating profit in the **audio & power management** segment (see note 24a to the consolidated financial statements) increased to US$47.0 million compared with US$21.9 million in the same period 2008, an increase of 114.9%.

Revenues in the **display systems segment** were US$6.0 million for the year ended 31 December 2009 (2008: US$5.1 million). Whilst 2009 revenue was partially generated from funded research and development activity, in late Q2-2009, we started first shipment to Samsung of our innovative power-saving keypad driver using e-ink technology. The operating loss in this segment (see note 24a to the consolidated financial statements) for year ended 31 December 2009 was US$12.4 million (2008: US$11.0 million). These losses reflect our investment in the emerging ultra low power display technology.

Revenues from our **automotive/industrial applications** segment were US$33.5 million for the year ended 31 December 2009 (2008: US$35.2 million), representing 15.4% of our total revenues (2008: 21.7%). Operating loss in the segment (see note 24a to the consolidated financial statements) was US$3.6 million for the year ended 31 December 2009 (2008: US$875,000 operating losses). This set of results reflects the difficult global environment experienced during most of 2009 in the automotive industry.

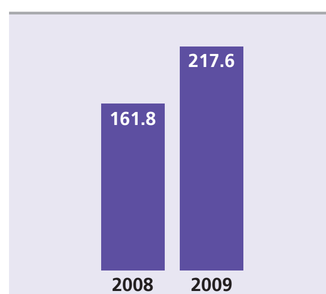
Revenues in the **corporate sector** for year ended 31 December 2009 were US$1.5 million (2008: US$0.1 million). The amount in 2009 primarily relates to the unexpected cash settlement against revenues which had not been recognised in 2006 as a result of the insolvency of BenQ Mobile. For further information, please refer to note 27.

The operating losses recorded in the **corporate sector** for the year ended 31 December 2009 of US$2.3 million (2008: US$4.1 million) (see note 24a to the consolidated financial statements) are primarily resulting from sales discounts for early payments, the costs of the holding company, stock option expenses and from expenses in relation to the Long Term Incentive Plan introduced in 2008.

Revenues

Total revenues for the year ended 31 December 2009 were US$217.6 million (2008: US$161.8 million. This increase of 34.5% results mainly from higher sales volumes in our audio & Power Management sector as described above. Excluding the effect of the cash settlement from BenQ Mobile insolvency recorded in April 2009 (see note 27), revenues for the full year 2009 would have been US$215.7 million.

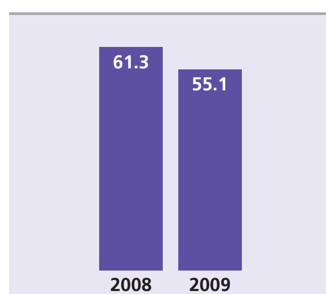
Revenues FY 2009



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 2009, cost of sales increased by 20.8% to US$119.9 million (2008: US$99.2 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 61.3% to 55.1%. This demonstrates the gains made possible by our continuous efforts to improve the Company's product mix, test time and yields. Excluding the effect of the cash settlement from BenQ Mobile insolvency (see note 27), cost of sales as a percentage of revenue would have been 55.6% for the full year 2009.

Cost of sales as % of revenue FY 2009



Gross profit

Gross profit for the year ended 31 December 2009 was US$97.7 million (2008: US$62.6 million). Our gross profit increased from 38.7% of revenues in 2008 to 44.9% of revenues for the year ended 31 December 2009, driven by lower cost of sales as a percentage of revenue and the accelerated introduction of new products as prescribed above. Excluding the effect of the cash settlement from BenQ insolvency recorded in Q2-2009 (see note 27), gross margin would have been 44.4% for the full year 2009.

Selling and marketing expenses

Selling and marketing expenses consist primarily of salaries, sales commissions, travel expenses, advertising and other marketing costs. In 2009, selling and marketing expenses increased to US$14.2 million (2008: US$11.0 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. However, given the increased revenues recorded in 2009 over 2008, selling and marketing expenses decreased from 6.8% of total revenues in 2008 to 6.5% of total revenues in the year ended 31 December 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 2009 general and administrative expenses increased to US$12.6 million (2008: US$9.9 million). This mainly reflects the increase in share-based compensation expenses recorded in 2009 in line with the Company share price performance during the same period. For the year ended 31 December 2009, general and administrative expenses as a percentage of revenues were 5.8% compared with 6.1% in 2008.

Research and development expenses

Research and development expenses consist principally of design and engineering-related costs associated with the development of new Application Specific Integrated Circuits ("ASICs") and Application Specific Standard Products ("ASSPs"). Research and development expenses (net of customer-funded projects) increased to US$42.6 million in 2009 (2008: US$36.7 million). The absolute US$ 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 22.7% (2008) to 19.6% (2009), resulting from a higher revenue base in the latter period.

Financial review

Other operating income

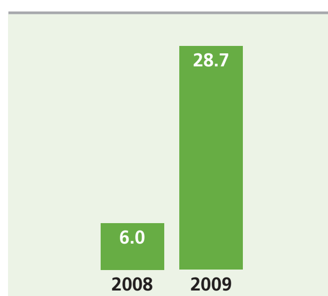
Other operating income of US$0.3 million in the year ended 31 December 2009 relates to the unexpected settlement against receivables which had been written down in 2006 as a result of the insolvency of BenQ Mobile. For further information, please refer to note 27.

Other operating income in 2008 relates to the release of two reserves: one in connection with the spin-off of the digital imaging business (DIS), the other in connection with a warranty claim. In 2008 the Company was able to release those reserves after both issues were closed.

Operating profit

We reported an operating profit of US$28.7 million for the year ended 31 December 2009 (2008: US$6.0 million). The improvement primarily resulted from increased revenues and gross profits recognised in 2009.

Operating profit FY 2009



Excluding the effect of the BenQ Mobile settlement recorded in Q2-2009 – see above and note 27 – operating profits for year ended 31 December 2009 would have been US$26.4 million or 12.2% of total revenues.

Interest income and other financial income

For the year ended 31 December 2009, interest income and other financial income from the Company's investments (primarily short term) was US$203,000 compared with US$874,000 in the previous year. The reduction is primarily the result of lower interest rates despite 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 2009 were US$212,000 (2008: US$919,000). The reduction is primarily the result of reduced factoring utilisation and lower interest rates.

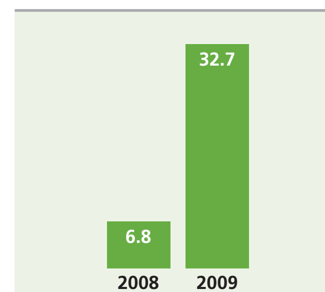
Income taxes

For the year ended 31 December 2009, an income tax benefit of US$3.9 million was recorded (2008: US$0.7 million). 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. In Q4 2009 previously unrecognised deferred tax assets were recognised. This resulted in a contribution of US$7.5 million to the Company's net profit (for further information, please refer to note 4).

Net profit

For the reasons described above, in 2009, net profit increased by US$26.0 million to US$32.7 million or 15.0% of total revenues (2008: US$6.8 million or 4.2% of total revenues). For the year ended 31 December 2009, basic earnings per share were US$0.67 (2008: US$0.15) and diluted earnings per share were US$0.60 (2008: US$0.15). Excluding the effect of the cash settlement from the BenQ Mobile insolvency recorded in April 2009 (see above and note 27), net income for year ended 31 December 2009 would have been US$30.4 million.

Net income FY 2009



Liquidity and capital resources

Cash flows

Cash generated from operating activities was US$33.2 million (2008: US$9.3 million). The cash inflow in 2009 mainly resulted from the operating income (before depreciation, amortisation and other non-cash effective expenses) and higher trade accounts payable. This cash inflow was partly offset by increased trade accounts receivables and inventory balances. The cash inflow in 2008 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 2009 was US$12.3 million (2008: cash generated US$12.1 million). Cash used for investing activities in 2009 consisted primarily of the purchase of tooling (masks), laboratory equipment, probe cards, load boards and other advanced test equipment for a total of US$5.9 million (2008: US$3.5 million), the purchase of intangible assets of US$1.8 million (2008: US$2.8 million) and payments related to capitalised development costs of US$1.0 million (2008: US$1.4 million). In addition, the cash outflow in 2009 includes a balance sheet reclassification of US$3.0 million from cash to restricted cash (for further information, please refer to note 25 of the consolidated financial statements). 2008 cash inflow from investing activities resulted primarily from the net sale of securities of US$19.7 million.

Liquidity

At 31 December 2009 we had cash and cash equivalents and restricted cash of US$123.1 million (31 December 2008: US$36.9 million). The working capital (defined as current assets minus current liabilities) was US$134.4 million (31 December 2008: US$47.4 million).

If necessary, we have available for use short-term credit facilities amounting to US$14.2 million that bear interest at rates between LIBOR +0.75 and LIBOR +1% per annum. At 31 December 2009 we had no amounts outstanding under these facilities. In addition, we have a factoring agreement which provides the Company with up to US$30.0 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.

Statement of financial position

	2009 US$000	2008 US$000	Change US$000	%
Assets				
Cash and cash equivalents and restricted cash	**123,148**	36,915	86,233	233.6
All other current assets	**45,663**	30,388	15,275	50.3
Total current assets	**168,811**	67,303	101,508	150.8
Property, plant and equipment, net	**9,807**	7,734	2,073	26.8
Intangible assets	**5,005**	4,640	365	7.9
All other non-current assets	**1,174**	676	498	73.7
Deferred tax assets	**7,514**	–	7,514	–
Total assets	**192,311**	80,353	111,958	139.3
Liabilities and Shareholders' equity				
Current liabilities	**34,380**	19,877	14,503	73.0
Non-current liabilities	**952**	271	681	251.9
Net Shareholders' equity	**156,979**	60,205	96,774	160.7
Total Liabilities and Shareholders' equity	**192,311**	80,353	111,958	139.3

Balance sheet total was US$192.3 million at 31 December 2009 (31 December 2008: US$80.4 million). Cash and cash equivalents and restricted cash increased by 233.6% to US$123.1 million at 31 December 2009 (31 December 2008: US$36.9 million). This increase is mainly related to the net cash proceeds from the September 2009 capital increase (US$59.7 million) received in Q4-2009 and an operating cash inflow as prescribed above. Other current assets increased by 50.3% to US$45.7 million (31 December 2008: US$30.4 million), driven by higher trade accounts receivables and inventory balances.

Total non-current assets increased by 80.1% to US$23.5 million. This increase is mainly due to recognised deferred tax assets in Q4-2009 amounting to US$7.5 million (2008: nil), higher balances of property, plant and equipment and intangible assets as capital expenditures and investments were higher than depreciation and amortisation and impairment charges.

Non-current liabilities relate to capital lease and hire purchase commitments.

Shareholders' equity increased to US$157.0 million (US$60.2 million at 31 December 2008) which is mainly the result of the September 2009 capital increase (please refer to note 19) and our net profit. The equity ratio (equity over total assets) was 81.6% (74.9% at 31 December 2008).

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 slow down in the wireless communications market by winning customers in other sectors.

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

Supplier risk
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 2009 (2008: 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 25 on page 76 for further information.)

Other price risks
IFRS 7 requires us to disclose how hypothetical changes in risk variables, such as stock exchange prices, would affect the price of financial instruments. In 2008, the Group sold all securities for cash, eliminating all price risk associated with such instruments.

Credit risk
The Company is exposed to credit risk from its operating activities and certain of its financing activities. We ensure that our exposure to bad debt is minimised by monitoring all customers who trade on credit terms, and receivable balances. In August 2007, we entered into a factoring agreement with a reputable German financial institution for a total of €10 million to finance our growth. In 2008, the amount was increased to US$ 30.0 million. Since the financial institution assumes all risks associated with the collection of receivables from selected customers, the agreement significantly reduces our risks associated with their collection. We, in turn, have pledged US$6.5 million of our securities to the financial institution concerned. These will be drawn on only if an action of ours partially or completely invalidates the claim on a receivable that had been financed through the factoring programme. In 2008, the securities were converted to cash.

Risks and their management

In 2009, the pledge amount was reduced to US$3.0 million and converted to cash. Our exposure to credit risks arising from other financial assets, such as cash and cash equivalents, available-for-sale and held-to-maturity financial investments, would arise from the default of a counterparty and is limited to the carrying amount of the particular instruments.

Liquidity risk

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

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 will be 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.

By providing an exciting work experience in an attractive environment, with investment in our people and resources, Dialog continues to attract leading talent in the industry.

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 2009, 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

Corporate social responsibility

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

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

Connecting with employees

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

We encourage employee feedback at all levels for new ideas to improve business efficiency and performance. We support initiatives and fundraising in the local communities in which we work.

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.

Management systems

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 at least to the same standard. To ensure that we constantly improve our management systems, we regularly review and audit internal and supply-chain management systems.

The environment and environmental protection

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

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

Within our supply chain, we continually emphasise that environmental issues should be an instinctive part of any decision-making process, and that suppliers should use environmentally friendly technology to:

- reduce and eliminate emissions of ozone-depleting, and other 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 to requirements is checked during regular supplier on-site audits.

Some recent examples of the environmental improvements implemented by our suppliers are:

- reduction of VOC Emissions through the use of local scrubbers;
- reduction in water usage by 2% due to water recycling and developing of rainwater drainage systems to increase the collection of rainwater for reuse;
- reduction of scrap (failed devices) by maximising product yields; and
- use of recycling facilities for extractions and reuse of precious metal and plastic. This has enabled a raw material recycle rate increase of around 7% compared to 2008.

Executive management

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

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.

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.

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.

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.

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.

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.

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

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

Mohamed Djadoudi
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 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.

Board of Directors

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

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.

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.

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.

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.

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.

Russ Shaw
Non-executive Director, Chair of Remunerations & Nominations 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.

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.

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 2009. 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 unique focus and expertise in system Power Management, Dialog brings decades of experience to the rapid development of integrated circuits for power and motor control, audio and display processing. Dialog's processor companion chips are essential for enhancing both the performance of hand-held products and the consumers' multimedia experience. Automotive applications include intelligent motor control for comfort and safety systems. With world-class manufacturing partners, Dialog operates a fabless business model. Dialog Semiconductor Plc is headquartered near Stuttgart, Germany, with operations in Austria, China, Germany, Japan, Korea, Taiwan, the UK and the USA. The Company employs 339 worldwide and is listed on the Frankfurt (FWB: DLG) stock exchange.

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

Future developments

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

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 2010 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 (2008: nil). They are committed to re-investing all profits into the business and believe that this policy is in the best interests of its Shareholders.

Purchase of own shares

The Company operates an Employee Share Option Trust which purchases shares in the Company for the benefit of employees under the Company's share option scheme. Since the Company has de facto control of the assets and liabilities of the Trust, they are included in the Company and Group balance sheets. At 31 December 2009, the Trust held 2,663,318 shares, which represented 4.3% of the total called-up share capital, at a nominal value of £266,332.

Share capital

Details of the share capital are set out in note 19 to the consolidated financial statements.

Substantial shareholdings

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

Directors

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

Retirement

On 22 April 2009, Michael Glover retired from the Company's Board of Directors.

Directors' remuneration and interests

Directors' remuneration and interests are detailed in the Directors' remuneration report on pages 32 to 34 of this annual report.

No Director had a material interest during the year ended 31 December 2009 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.

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 5 May 2010 at 9am.

Corporate Governance
The Company's Corporate Governance statement is set out on pages 29 and 31 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 2009 was 52 days (2008: 47 days).

Financial instruments
The Group's financial risk management and policies, and exposure to risks, are set out on pages 22 to 23.

Political and charitable contributions
The Group made no political contributions during the period. We made charitable contributions of US$6,542 to local community projects (2008: US$8,993).

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 26. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors affirms that:

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

Responsibility statement under the Disclosure and Transparency Rules
Each of the Directors listed on page 26 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 5 May 2010 at 9am.

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

By order of the Board

Dr Jalal Bagherli
Director

11 February 2010

Corporate Governance

Governance standards

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

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

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

Shareholders and the Annual General Meeting ("AGM")

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

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

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

Board of Directors

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

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

The Board, which met five times during the year, currently consists of seven non-executive Directors and one executive Director. The compensation provided to each Director is detailed in the Directors' remuneration report on pages 32 to 34. The executive Director's remuneration is performance related and is connected to a set of goals and Dialog's profitability.

Audit Committee, and Remuneration and Nomination Committee

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 frequently to analyse issues under their jurisdiction, usually on the day before each Board meeting.

Corporate Governance

Transparency

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

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

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

Takeovers directive

At 31 December 2009, 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 19 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 present 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).

Changes in the share capital of the Company in 2009 were as follows:

- 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;
- On 20 October 2009, the Company completed an offering of 3,500,000 previously unissued ordinary shares at 10 pence each to its employee share options trust.

Details of both changes in share capital can be found in note 19 to the consolidated financial statements. Besides that, the Company did not purchase 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 for voting rights.

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 occurs 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 page 32.

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

Internal control

In accordance with the EU Transparency Directive (DTR 7.2.5), 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 2009 and up to the date of the approval of the 2009 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 and from two additional independent IT audits performed during 2009.

Business conduct and ethics

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

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

Audit and auditors

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

The remuneration given to the auditors over the past two financial years is detailed in notes 3 and 31 to the consolidated financial statements on pages 55 and 84.

The Company's audited financial statements for the year ended 31 December 2008, 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 22 April 2009. E&Y, the Company's independent auditors, were reappointed until the following AGM.

Declaration of conformity with regard to the German Corporate Governance Code

Dialog Semiconductor Plc has established and published its own Corporate Governance principles corresponding in substance to the provisions of the German "Corporate Governance Code" as amended on 14 June 2007 thereby adopting in substance the recommendations of the Government Commission on the German Corporate Governance Code. This declaration is available on the internet at: www.dialog-semiconductor.com.

Gregorio Reyes
Chairman

11 February 2010

Directors' remuneration report

Policy on Directors' remuneration

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

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

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

No Director is involved in deciding his or her own remuneration. The Remuneration and Nomination Committee comprises non-executive Directors and its role is, *inter alia,* to apply the Board's policy on remuneration. The current members of the Committee are Russ Shaw (Chairman), 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, in relation to revenue growth, operating profit, design wins; and
3. **Share options** – details are set out in note 21 to the consolidated financial statements.

Compensation of non-executive Directors

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

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

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 21 to the consolidated financial statements, on pages 67 to 69.

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 21a, on page 67, in the notes to the consolidated financial statements.

Directors' pension arrangements

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

Non-executive Directors' terms

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

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$	**2009 Total US$**	2008 Total US$	**Directors' holdings at 31 December 2009 Shares**	**Options**
Dr Jalal Bagherli *Executive Director and CEO*	313,085	211,333	28,178	24,233	**576,829**	439,872	**600,576**	**102,624**
Chris Burke *Non-executive Director*	39,136	–	–	–	**39,136**	36,706	**15,493**	**69,378**
Michael Glover *Non-executive Director until 22 April 2009*	9,629	–	–	–	**9,629**	36,706	**262,000**	**–**
Aidan Hughes *Non-executive Director and Chairman of the Audit Committee*	46,963	–	–	–	**46,963**	45,876	**25,000**	**110,000**
John McMonigall *Non-executive Director*	39,136	–	–	–	**39,136**	36,701	**100,000**	**110,000**
Gregorio Reyes *Non-executive Chairman*	46,963	–	–	–	**46,963**	45,876	**130,000**	**58,340**
Russ Shaw *Non-executive Director and Chairman of the Remuneration and Nomination Committee*	46,963	–	–	–	**46,963**	41,288	**19,891**	**110,000**
Peter Tan *Non-executive Director*	39,136	–	–	–	**39,136**	36,701	**–**	**70,000**
Peter Weber *Non-executive Director*	39,136	–	–	–	**39,136**	36,701	**72,172**	**29,828**
	620,147	**211,333**	**28,178**	**24,233**	**883,891**	**756,427**	**1,225,132**	**660,170**

Share options granted to the executive Directors

As of 31 December 2009, Jalal Bagherli, executive Director held 102,624 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 2008	Forfeited	Exercised	Replaced	Returned	**31 December 2009**	Market price of exercised options[1] €	Gain on the exercise of options €
€2.00	12.09.2005	11.09.2015	4 years	60,000	–	(60,000)	–	–	**–**	7.32	319,500
€3.50	12.09.2005	11.09.2015	4 years	60,000	–	–	–	(60,000)	**–**	–	–
€5.00	12.09.2005	11.09.2015	4 years	60,000	–	–	–	(60,000)	**–**	–	–
€6.50	12.09.2005	11.09.2015	4 years	60,000	–	–	–	(60,000)	**–**	–	–
€8.00	12.09.2005	11.09.2015	4 years	60,000	–	–	–	(60,000)	**–**	–	–
£0.10	01.02.2006	18.07.2015	1-44 months	37,500	(2,907)	(34,593)	–	–	**–**	3.67	122,548
£0.10	01.02.2006	18.07.2015	1-44 months	23,055	(1,789)	(21,266)	–	–	**–**	3.67	75,643
€1.52	13.05.2009	12.05.2016	1-44 months	–	–	–	102,624	–	**102,624**	–	–
				360,555	**(4,696)**	**(115,859)**	**102,624**	**(240,000)**	**102,624**	**–**	**517,692**

1) The market price is a weighted average price.

Directors' remuneration report

Share options granted to the non-executive Directors

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

Director	Exercise price €	Date of grant	Expiry date	Vesting period	31 December 2008	Forfeited	Granted	Exercised	**31 December 2009**	Market price of exercised options €	Gain on the exercise of options €
Chris Burke	1.40	12.07.2006	11.07.2013	48 months	50,000	–	–	(40,622)	**9,378**	5.62	171,425
	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**	–	–
Michael Glover	1.27	19.06.2006	18.06.2013	48 months	50,000	(14,588)	–	(35,412)	–	6.20	174,581
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(20,000)	–	6.20	88,000
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	–	6.20	97,000
Aidan Hughes	1.27	19.06.2006	18.06.2013	48 months	50,000	–	–	–	**50,000**	–	–
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	–	**20,000**	–	–
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	–	**20,000**	–	–
	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	–	–	–	**50,000**	–	–
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	–	**20,000**	–	–
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	–	**20,000**	–	–
	1.17	22.04.2009	21.04.2016	12 months	–	–	20,000	–	**20,000**	–	–
Gregorio Reyes	1.27	19.06.2006	18.06.2013	48 months	50,000	–	–	(41,664)	**8,336**	5.60	180,405
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(9,996)	**10,004**	5.60	37,985
	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**	–	–
Russ Shaw	1.40	12.07.2006	11.07.2013	48 months	50,000	–	–	–	**50,000**	–	–
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	–	**20,000**	–	–
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	–	**20,000**	–	–
	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**	–	–
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(20,000)	**–**	7.33	110,500
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(20,000)	**–**	7.33	119,500
	1.17	22.04.2009	21.04.2016	12 months	–	–	20,000	–	**20,000**	–	–
Peter Weber	1.27	19.06.2006	18.06.2013	48 months	50,000	–	–	(42,706)	**7,294**	7.12	249,830
	1.80	10.05.2007	09.05.2014	12 months	20,000	–	–	(20,000)	**–**	7.12	106,400
	1.35	30.04.2008	29.04.2015	12 months	20,000	–	–	(17,466)	**2,534**	7.12	100,779
	1.17	22.04.2009	21.04.2016	12 months	–	–	20,000	–	**20,000**	–	–
Total					**720,000**	**(14,588)**	**140,000**	**(287,866)**	**557,546**		**1,436,405**

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

Tim Anderson
Secretary

11 February 2010

Statement of Directors' responsibilities

Statement of Directors' responsibilities

The Directors are responsible for preparing the IFRS report and accounts 2009 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 legislations in other jurisdictions.

Responsibility statement

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

Dr Jalal Bagherli	**Jean-Michel Richard**
Chief Executive Officer	CFO, Vice President Finance

11 February 2010

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 2009 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 34. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 35, 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 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 (APB'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 2009 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 pages 29 to 31 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.

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

Consolidated statement of financial position

As at 31 December 2009

	Notes	At 31 December 2009 US$000	At 31 December 2008 US$000
Assets			
Cash and cash equivalents	5	**120,148**	36,915
Restricted cash	25	**3,000**	–
Trade accounts receivable and other receivables	6	**17,486**	7,455
Inventories	7	**26,193**	19,938
Income tax receivables	4	**69**	80
Other financial assets	8	**–**	1,532
Other current assets	9	**1,915**	1,383
Total current assets		**168,811**	67,303
Property, plant and equipment	10	**9,807**	7,734
Intangible assets	11	**5,005**	4,640
Deposits		**804**	286
Income tax receivables	4	**370**	390
Deferred tax assets	4	**7,514**	–
Total non-current assets		**23,500**	13,050
Total assets		**192,311**	80,353
Liabilities and Shareholders' equity			
Trade and other payables	14	**17,304**	12,996
Other financial liabilities	15	**679**	994
Provisions	16	**1,784**	1,290
Income taxes payable	4	**3,305**	160
Other current liabilities	17	**11,308**	4,437
Total current liabilities		**34,380**	19,877
Provisions	16	**252**	–
Other non-current financial liabilities	18	**700**	271
Total non-current liabilities		**952**	271
Ordinary shares		**11,825**	9,328
Additional paid-in capital		**283,733**	223,005
Accumulated deficit		**(135,667)**	(169,758)
Other reserves		**(2,102)**	(2,231)
Employee stock purchase plan shares		**(810)**	(139)
Net Shareholders' equity	19	**156,979**	60,205
Total liabilities and Shareholders' equity		**192,311**	80,353

These financial statements were approved by the Board of Directors on 11 February 2010 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Consolidated income statement

For the year ended 31 December 2009

	Notes	2009 US$000	2008 US$000
Revenue	3, 24, 27	**217,613**	161,830
Cost of sales		**(119,886)**	(99,217)
Gross profit		**97,727**	62,613
Selling and marketing expenses		**(14,183)**	(11,007)
General and administrative expenses		**(12,584)**	(9,853)
Research and development expenses	24	**(42,621)**	(36,721)
Other operating income	3, 27	**333**	775
Gains and losses from restructuring		**–**	145
Operating profit	24	**28,672**	5,952
Interest income and other financial income	3	**203**	874
Interest expense and other financial expense	3	**(212)**	(919)
Foreign currency exchange gains and losses, net		**162**	126
Result before income taxes		**28,825**	6,033
Income tax benefit	4	**3,902**	728
Net profit		**32,727**	6,761

		2009	2008
Earnings per share (in US$)			
Basic		**0.67**	0.15
Diluted		**0.60**	0.15
Weighted average number of shares (in thousands)	2		
Basic		**48,868**	45,125
Diluted		**54,464**	45,408

Statement of comprehensive income

For the year ended 31 December 2009

	2009 US$000	2008 US$000
Net profit	**32,727**	6,761
Exchange differences on translating foreign operations	**(113)**	(249)
Available-for-sale financial assets	**–**	(312)
Cash flow hedges	**(179)**	(282)
Income tax relating to components of other comprehensive income	**421**	(887)
Other comprehensive income for the year, net of tax	**129**	(1,730)
Total comprehensive income for the year	**32,856**	5,031

Consolidated statement of changes in Shareholders´ equity

For the year ended 31 December 2009

				Other reserves				
	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Currency translation adjustment US$000	Cash flow hedges US$000	Available-for-sale securities US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2008	9,328	222,914	(177,844)	(902)	89	312	(205)	53,692
Total comprehensive income (loss)	–	–	6,761	(1,136)	(282)	(312)	–	5,031
Sale of employee stock purchase plan shares	–	91	–	–	–	–	66	157
Equity settled transactions, net of tax	–	–	1,325	–	–	–	–	1,325
Changes in Equity total	–	91	8,086	(1,136)	(282)	(312)	66	6,513
Balance at 31 December 2008/1 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	**11,825**	**283,733**	**(135,667)**	**(1,730)**	**(372)**	**–**	**(810)**	**156,979**

Consolidated statements of cash flows

For the year ended 31 December 2009

	Notes	2009 US$000	2008 US$000
Cash flows from operating activities:			
Net profit		**32,727**	6,761
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Interest expense (income), net	3	**9**	(103)
Income tax benefit	4	**(3,902)**	(728)
Impairment of inventories		**973**	1,220
Depreciation of property, plant and equipment	10	**4,473**	5,614
Amortisation of intangible assets	11	**2,146**	2,124
Losses on disposals of fixed assets and impairment of fixed and financial assets		**723**	1,016
Expense related to share-based payments	21	**1,364**	1,325
Changes in working capital:			
Trade accounts receivable and other receivables	6	**(12,498)**	(5,584)
Factoring	25	**2,485**	632
Inventories		**(7,228)**	(4,105)
Prepaid expenses		**(337)**	(73)
Trade accounts payable		**4,196**	(1,451)
Provisions		**416**	470
Other assets and liabilities		**7,573**	1,837
Cash generated from operations		**33,120**	8,955
Interest paid		**(109)**	(654)
Interest received		**219**	1,077
Income taxes paid		**(46)**	(45)
Cash flow from operating activities		**33,184**	9,333
Cash flows from investing activities:			
Cash transferred to Restricted cash	25	**(3,000)**	–
Sale of property, plant and equipment		**–**	64
Purchases of property, plant and equipment	10	**(5,925)**	(3,474)
Purchases of intangible assets	11	**(1,828)**	(2,758)
Payments for capitalised development costs	11	**(972)**	(1,431)
Investments and deposits made		**(530)**	(13)
Purchase of securities	6, 14	**–**	(3,050)
Sale of securities	6, 14	**–**	22,758
Cash flow from (used for) investing activities		**(12,255)**	12,096
Cash flows from financing activities:			
Cash flow from capital increase		**59,617**	–
Sale of employee stock purchase plan shares		**2,937**	157
Cash flow from financing activities		**62,554**	157
Cash flow from operating, investing and financing activities		**83,483**	21,586
Net foreign exchange difference		**(250)**	(594)
Net increase in cash and cash equivalents		**83,233**	20,992
Cash and cash equivalents at beginning of period		**36,915**	15,923
Cash and cash equivalents at end of period		**120,148**	36,915

Notes to the consolidated financial statements

For the year ended 31 December 2009

1. General

The consolidated financial statements of Dialog Semiconductor Plc ("Dialog or the Group") for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Directors on 11 February 2010. 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 24).

Company name and registered office

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

Basis of presentation

The consolidated financial statements are prepared on the historical cost basis except that financial instruments classified as available-for-sale and derivative financial instruments are stated at their fair value. 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

IAS 1 – Presentation of Financial Statements (revised)

The revised IAS 1 was issued in September 2007 and is effective for periods beginning on or after 1 January 2009. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements.

The Group has opted to present the items of comprehensive income in a separate statement.

IAS 23 – Borrowing Costs

The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change did not have an impact on these financial statements as there are currently no qualifying assets.

IFRS 7 Financial Instruments: Disclosures (amended)

The amended IFRS 7 was issued in March 2009 and is effective for periods beginning on or after 1 January 2009. The amendments improve the disclosure requirements about fair value measurements and reinforce existing principles for disclosures about the liquidity risk associated with financial instruments. The amendments to IFRS 7 introduce a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. In addition, the amendments clarify and enhance the existing requirements for the disclosure of liquidity risk. However, it is no requirement to provide comparative disclosures in the first year of application.

2. Summary of significant accounting policies continued

IFRS 8 – Operating Segments

IFRS 8 Operating Segments which replaces IAS 14 Segment Reporting was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. The IFRS requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segmental performance and deciding how to allocate resources to operating segments.

In contrast to the former reporting structure with two operating segments, in accordance with IFRS 8, the Group now separately reports on three operating segments which are Audio & Power Management, Display Systems and Automotive & Industrial. Prior-year figures have been adjusted accordingly.

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	First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and separate Financial Statements	1 January 2009
IFRS 2	Share-Based Payments (vesting conditions and cancellations)	1 January 2009
IAS 32	Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (Puttable Financial Instruments)	1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments Disclosures (Effective Date and Transition)	1 July 2008
IAS 39	Financial Instruments and IFRIC 9 Reassessment of embedded derivatives	30 June 2009[1]
Improvements to IFRSs	A collection of amendments to International Financial Reporting Standards (annual improvements project)	1 January 2009
IFRIC 12	Service Concession Agreements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008

1) for periods ending on or after that date

Principles of consolidation and investments in affiliated companies

As in 2008, the consolidated financial statements include Dialog Semiconductor Plc and its subsidiaries as at 31 December each year:

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

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

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

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

Foreign exchange

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

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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 2009	31 December 2008	**2009**	2008
Currency	**US$1 =**	US$1 =	**US$1 =**	US$1 =
Great Britain	**0.62**	0.69	**0.64**	0.54
Japan	**92.41**	90.43	**93.15**	103.43
Euro	**0.69**	0.72	**0.71**	0.68

Financial instruments

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

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

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

Financial assets

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

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

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

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

2. Summary of significant accounting policies continued

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.

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 2009 as well as 31 December 2008, loans and receivables of the Group comprise mostly trade accounts receivables from customers. The Group also classified cash, cash equivalents (except for deposits designated as hedging instruments) and restricted cash as loans and receivables. After initial recognition, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment, if necessary.

Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired. Interest 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.

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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).

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 2009 and 2008 the Group did not classify any financial liabilities as financial liabilities at fair value through profit or loss.

2. Summary of significant accounting policies continued

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 quoted derivatives is equal to their positive or negative market value. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the deposits is measured based on foreign currency market rates at each reporting date.

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

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 2009 and 2008.

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

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

If the 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.

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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.

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.

2. Summary of significant accounting policies continued

Impairment of non-monetary assets

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

Leases

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

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

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

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

Revenue recognition

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

Sale of goods

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

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

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

Research and development

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

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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 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. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009. In previous periods the Group expensed borrowing costs as incurred. The change in accounting policy did not result in amounts of borrowing costs being capitalised as there were no qualifying assets in 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.

2. Summary of significant accounting policies continued

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

Share-based payments

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

Stock options

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

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

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

Executives' Long Term Incentive Plan

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

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

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

Employee share trust – Treasury shares

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

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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:

	2009 000	2008 000
Basic number of shares	**48,868**	45,125
Effect of dilutive options outstanding	**5,596**	283
Dilutive number of shares	**54,464**	45,408

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

The amount of anti-dilutive share options outstanding was 650,800 (2008: 2,892,211).

Significant accounting judgements, estimates and assumptions

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

Subject to such estimates and judgements is the following:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. In case of such an indicator, an impairment test is made. This requires the determination of the value in use and the fair value less costs to sell respectively of the assets. Estimating the value in use requires management to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of such assets at 31 December 2009 was US$13,413,000 (2008: US$12,374,000). Further information regarding impairment charges is provided in notes 3 and 10.

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 2009, net deferred tax assets amounting to US$7,514,000 were recognised (2008: nil). The unrecognised deferred tax assets at 31 December 2009 were US$45,783,000 (2008: US$51,552,000). 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 and fluctuation. Due to the nature of these assumptions, such estimates are subject to significant uncertainty. In 2009, the expense related to stock options was US$851,000 (2008: US$940,000). For further information on stock options please refer to note 21.

2. Summary of significant accounting policies continued

Executives' Long Term Incentive Plan

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

In 2009 an expense of US$514,000 was booked (2008: US$385,000 for the period of nine months the LTIP was in place). Further information regarding LTIP is provided in note 21b.

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 2009 no receivables or liabilities from constructions contracts were outstanding (2008: 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 2009, the carrying amount of capitalised development costs was US$1,305,000 (2008: US$1,271,000).

Actual results may differ from those estimates.

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

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

The IASB has released a restructured version of IFRS 1 First-time-Adoption of International Reporting Standards in November 2008 (updated in respect of the effective date in December 2008) which is effective for periods beginning on or after 1 July 2009. The restructuring of IFRS 1 was aimed to make IFRS 1 easier for the reader to understand and to design it to better accommodate future changes. The new version of IFRS 1 retains the substance of the previous version, but within a changed structure.

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

The amended IFRS 1 was issued in July 2009 and is effective for periods beginning on or after 1 January 2010. The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets as well as exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result. The revised standard has not yet been endorsed by the EU.

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 revised standard has not yet been endorsed by the EU.

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

The revised IFRS 3 and the amended IAS 27 were issued in January 2008 and are effective for annual periods beginning on or after 1 July 2009. The changes made to the existing standards are comprehensive and mainly address the accounting for acquisition costs, contingent considerations, goodwill and non-controlling interests, step acquisitions, partial disposal of an investment while a controlling interest is retained or control is lost, and acquisition of additional shares after control is obtained.

Notes to the consolidated financial statements

For the year ended 31 December 2009

2. Summary of significant accounting policies continued

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 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.

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. The revised standard has not yet been endorsed by the EU.

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.

IAS 39 Financial Instruments: Recognition and Measurement

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

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 April 2009. This includes amendments to various existing IFRSs. The Group does not expect material changes on its accounting due to the changes. The revised standard has not yet been endorsed by the EU.

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]	1 January 2011
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
IFRIC 18	Transfers of assets from customers	1 July 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments[1]	1 July 2010

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

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.

3. Other disclosures to the income statements

a) Operating expenses and revenues

The operating result before income taxes is stated after charging:

	2009 US$000	2008 US$000
Auditors' remuneration for the audit [1]	**(443)**	(423)
Depreciation of property, plant and equipment	**(4,473)**	(5,614)
Amortization of intangible assets	**(2,146)**	(2,124)
Personnel costs		
Wages and salaries	**(36,771)**	(28,787)
Social and security costs	**(4,811)**	(2,758)
Share-based payment	**(1,364)**	(1,325)
Pension costs from defined contribution plans [2]	**(2,569)**	(2,321)
	(45,515)	(35,191)
Included in revenues		
Revenue from the sale of goods	**211,912**	157,569
Revenue from customer specific research and development contracts	**5,701**	4,261
Income attributable to prior periods from BenQ cash settlement (see note 27)	**1,961**	–
Included in cost of sales:		
Costs in relation to customer specific research and development contracts	**(5,701)**	(4,261)
Amount of inventory recognized as expense	**(98,947)**	(78,807)
Impairment of inventories recognized as an expense	**(973)**	(1,220)
Included in other operating income		
Income from recoveries on trade accounts receivable derecognized in prior periods	**349**	302

1) In addition to the auditors' remuneration included in the operating result, in 2009 US$ 287,000 was paid to the auditors in relation to the capital increase. These costs were deducted from equity (see note 19).

2) The pension costs from defined contribution plans include costs for the state funded pension plan in Germany of US$1,339,000 (2008: US$1,158,000).

b) Directors' remuneration

	2009 US$000	2008 US$000
Aggregate remuneration in respect of qualifying services	**884**	756

	2009 No.	2008 No.
Number of Directors who received shares in respect of qualifying services	**8**	8
Number of Directors who exercised share options	**6**	–

	2009 US$000	2008 US$000
In respect of the highest paid Director:		
Aggregate remuneration	**577**	440
Pension contribution for the year	**28**	30

The highest paid director exercised 115,859 share options during the year.

Notes to the consolidated financial statements

For the year ended 31 December 2009

3. Other disclosures to the income statements continued

c) Interest and other financial income and expense

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

	2009 US$000	2008 US$000
Interest income	**203**	776
Other financial income	**–**	98
	203	874
Interest expense	**(212)**	(673)
Other financial expenses	**–**	(246)
	(212)	(919)

ca) Interest income and interest expense

Interest income and expenses comprise the following items:

	2009 US$000	2008 US$000
Interest income	**203**	776
Interest expense	**(212)**	(673)
	(9)	103
Of which: from financial instruments relating to categories in accordance with IAS 39		
Loans and receivables	**94**	(519)
Financial liabilities measured at amortised costs	**(103)**	(18)
Available-for-sale financial assets	**–**	640
	(9)	103

cb) Other financial income and other financial expenses

Other financial income and expenses comprise the following items:

	2009 US$000	2008 US$000
Other financial income	**–**	98
Other financial expenses	**–**	(246)
	–	(148)
Composition and categories in accordance with IAS 39:		
Gain from the sale of available-for-sale financial assets	**–**	98
Loss from the sale of as held to maturity classified financial assets	**–**	(246)
	–	(148)

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 2009 the Group received grants in the amount of US$879,000 (2008: US$654,000). In the profit and loss account the grants received were deducted from research and development expenses.

3. Other disclosures to the income statements continued

e) Headcount

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

	2009	2008
Research and Development	**191**	154
Production	**46**	41
Sales and Marketing	**39**	28
Admin	**24**	22
IT	**10**	10
	310	255

4. Income taxes

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

	2009 US$000	2008 US$000
Germany	**31,490**	3,643
Foreign	**(2,665)**	2,390
	28,825	6,033

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

	2009 US$000	2008 US$000
Current taxes:		
Germany	**(3,069)**	(139)
Foreign	**(122)**	(20)
Deferred taxes:		
Germany	**7,514**	–
Foreign	**(421)**	887
Income tax benefit	**3,902**	728

	2009 US$000	2008 US$000
Current taxes:		
Current income tax charge	**(3,191)**	(159)
Adjustments in respect of current income tax of previous year	**–**	–
Deferred taxes:		
Relating to origination and reversal of temporary differences	**(421)**	887
Relating to recognition of previously unrecognised deferred tax assets	**7,514**	–
Income tax benefit	**3,902**	728

The deferred tax benefit in 2009 mainly relates to the recognition of previously unrecognised deferred tax assets on carryforwards of unused tax losses.

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.

Notes to the consolidated financial statements

For the year ended 31 December 2009

4. Income taxes continued

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%.

A reconciliation of income taxes determined using the combined German income tax rate of 28.376% (2008: 28.376%), is as follows:

	2009 US$000	2008 US$000
Expected income tax benefit (expense)	**(8,179)**	(1,712)
Tax rate differential	**2**	(9)
Non-deductible portion of share based payments	**176**	(332)
Tax free income (non-deductible expenses)	**(109)**	(186)
Recognised deferred tax assets from prior periods	**7,514**	–
Benefit from previously unrecognised deferred tax assets that is used to reduce current tax expense	**4,248**	2,046
Adjustments recognised for tax of prior periods	**(88)**	626
Temporary differences arising from differences between functional currency and tax currency	**342**	291
Other	**(4)**	4
Actual income tax benefit	**3,902**	728

Deferred income tax assets and liabilities are summarised as follows:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Property, plant and equipment	**206**	296
Net operating loss carryforwards	**46,427**	47,130
Liabilities	**2,841**	3,403
Deferred taxes in relation to share option expenses	**3,021**	–
Deferred taxes in relation to tax credits	**1,250**	1,049
Other	**33**	32
Deferred tax assets	**53,778**	51,910
Property, plant and equipment	**(7)**	(12)
Intangible Assets	**(363)**	(335)
Other	**(111)**	(11)
Deferred tax liabilities	**(481)**	(358)
Net deferred tax assets	**53,297**	51,552
Recognised net deferred tax assets	**7,514**	–
Unrecognised deferred tax assets	**45,783**	51,552

4. Income taxes continued

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

	31 December 2009				31 December 2008			
	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	**149,554**	**8,476**	**–**	**43,577**	161,918	10,590	–	47,725
UK	**11,974**	**11,160**	**4,465**	**7,728**	1,922	1,055	3,746	1,882
US								
Federal	**4,580**	**–**	**–**	**1,557**	4,486	–	–	1,525
State	**3,764**	**–**	**–**	**339**	3,871	–	–	348
Other	**28**	**222**	**–**	**96**	–	176	–	72
Total				**53,297**				51,552

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 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 ninth consecutive quarter of positive net income in the fourth quarter of 2009. Therefore, based on the expected positive net result for the near future, the management concluded to capitalise deferred tax assets in an amount of US$7,514,000 (2008: nil). The assessment was based on the business plan for 2010 and beyond. Due to uncertainties immanent in the business of the Group, no further tax assets have been recognised.

The Group did not recognise deferred tax assets in an amount US$ 45,783,000 (31 December 2008: 51,552,000).

The tax loss carryforwards in the US will expire between 2010 and 2023; other tax loss carryforwards have no expiration date.

Included in unrecognised deferred tax assets is an amount of US$1,250,000 (2008: US$1,049,000) (the increase results from foreign currency adjustments) in relation to tax credits in the UK. This asset may be recovered against future taxable profits derived from certain overseas dividends for the company concerned.

The amount shown under “income tax receivables” in the 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 2010. The amount that will be paid in 2010 is shown within the current assets.

5. Cash, cash equivalents and restricted cash

	2009 US$000	2008 US$000
Cash at bank	**40,552**	14,222
Short-term deposits	**33,050**	22,693
Deposits designated as a hedging instrument	**46,546**	–
Cash and cash equivalents	**120,148**	36,915
Restricted Cash	**3,000**	–
Cash, cash equivalents and restricted cash	**123,148**	36,915

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. Please refer to note 25 Financial risk management objectives and policies – Hedging activities. Cash and cash equivalents earn interest at the respective short-term deposit rates. The fair value of the cash and cash equivalents approximates its book value. As prescribed in note 25, in 2007 the Group entered into a selective factoring agreement. Included in cash at bank is an amount of US$12,030,000 (2008: US$ US$9,545,000) held at

Notes to the consolidated financial statements

For the year ended 31 December 2009

5. Cash, cash equivalents and restricted cash continued

the factoring bank which represents the cash value of selected receivables sold to the factoring bank. This amount is non-interest bearing until the related receivables have been entirely settled. The factoring bank charges interest on amounts drawn from the account.

Funds classified as long-term Restricted Cash serve as collateral for the Group's factoring agreement. As part of the factoring agreement, in the first quarter 2009 the Group had pledged US$6.5 million of cash to the factoring institution. 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. For further information on the Group's factoring agreement, please refer to note 25. In the second quarter 2009 the factoring bank decreased the pledged amount to $3.0 million.

6. Trade accounts receivable and other receivables

	2009 US$000	2008 US$000
Trade accounts receivables	**15,365**	3,837
Receivables from factoring agreement	**2,121**	3,618
	17,486	7,455

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

As described in note 25, 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$1,406,000 and US$1,656,000 at 31 December 2009 and 2008, respectively. The related allowance for doubtful accounts was US$1,406,000 and US$1,656,000 at 31 December 2009 and 2008, respectively.

The allowance for doubtful accounts developed as follows:

	2009 US$000	2008 US$000
Allowance for doubtful accounts at beginning of year	**1,656**	1,624
Additions charged to bad debt expense	**163**	16
Write-offs charged against the allowance	**–**	–
Reductions credited to income	**(349)**	(2)
Effect of movements in foreign currency	**(64)**	18
Allowance for doubtful accounts at end of year	**1,406**	1,656

6. Trade accounts receivable and other receivables continued

As at 31 December 2009 and 2008, the aging analysis of trade account receivables is as follows:

	2009 US$000	2008 US$000
Receivables neither past due nor impaired	**13,924**	3,076
Receivables past due, not impaired individually	**–**	–
Less than 30 days	**1,440**	646
30 to 59 days	**–**	–
60 to 89 days	**1**	92
90 to 280 days	**0**	23
Total	**15,365**	3,837

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

7. Inventories

Inventories are comprised of the following:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Raw materials	**4,260**	3,074
Work-in-process	**5,528**	4,814
Finished goods	**16,405**	12,050
	26,193	19,938

The carrying amount of inventories carried at net realisable value at 31 December 2009 is US$nil (2008: US$nil).

8. Other financial assets

Other financial assets comprise:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Deposits for hedging contracts	**–**	1,079
Hedging instruments	**–**	453
	–	1,532

The deposits for hedging contracts were 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 25.

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For the year ended 31 December 2009

9. Other current assets

Other current assets comprise:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Prepaid expenses	**1,165**	807
Other tax receivables	**448**	508
Other	**302**	68
	1,915	1,383

10. Property, plant and equipment, net

A summary of activity for property, plant and equipment for the years ended 31 December 2009 and 2008 is as follows:

	Test equipment US$000	Leasehold improvements US$000	Office and other equipment US$000	Advance payments US$000	Total US$000
Cost					
Balance at 1 January 2008	70,799	1,154	19,715	6	91,674
Effect of movements in foreign currency	(49)	(251)	(680)	(10)	(990)
Additions	1,358	209	2,334	50	3,951
Reclassifications	6	–	–	(6)	–
Disposals	(119)	–	(1,278)	–	(1,397)
Balance at 31 December 2008/1 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	**74,189**	**1,694**	**21,322**	**349**	**97,554**
Depreciation and impairment losses					
Balance at 1 January 2008	(63,334)	(900)	(16,988)	–	(81,222)
Effect of movements in foreign currency	47	204	618	–	869
Depreciation charge for the year	(3,930)	(101)	(1,583)	–	(5,614)
Impairment charges	(599)	(102)	–	–	(701)
Disposals	116	–	1,048	–	1,164
Balance at 31 December 2008/1 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	**(69,813)**	**(392)**	**(17,542)**	**–**	**(87,747)**
Net book value					
At 1 January 2008	7,465	254	2,727	6	10,452
At 31 December 2008/1 January 2009	4,295	213	3,186	40	7,734
At 31 December 2009	**4,376**	**1,302**	**3,780**	**349**	**9,807**

Impairment of property, plant and equipment

Impairment charges on test equipment in 2008 relate to the write-down of display testers to reduce the carrying amount to the value in use following an underutilisation of this equipment. In determining the value in use for test equipment the expected future cash flows were discounted at a rate of 10.5% on a pre-tax basis. In the income statement those impairment charges are recognised in the line item "cost of sales" and are allocated to the display systems segment. Impairment charges on leasehold improvements in 2008 relate to installed equipment in a rented office that the Group

10. Property, plant and equipment, net continued

vacated in 2009. The lease contract for this office was cancelled in December 2008. In the income statement this impairment charge was recognised in the line item "general and administrative expenses" and it is allocated to the corporate segment.

Finance leases

The carrying value of property, plant and equipment held under finance leases at 31 December 2009 was US$1,005,000 (31 December 2008: US$364,000). Additions during the year were US$940,000 (2008: US$481,000). As of the reporting date future minimum lease payments under those finance lease contracts were US$1,107,000 (2008: US$353,000). The present value of the net minimum lease payments was US$974,000 (2008: US$326,000).

11. Intangible assets

A summary of activity for intangible assets for the years ended 31 December 2009 and 2008 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 2008	13,672	–	724	14,396
Effect of movements in foreign currency	(382)	–	–	(382)
Additions	2,681	364	1,431	4,476
Disposals	(421)	–	–	(421)
Balance at 31 December 2008/1 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	**16,263**	**768**	**3,127**	**20,158**
Amortisation and impairment losses				–
Balance at 1 January 2008	(11,826)	–	(127)	(11,953)
Effect of movements in foreign currency	325	–	–	325
Amortisation charge for the year	(1,354)	(13)	(757)	(2,124)
Disposals	323	–	–	323
Balance at 31 December 2008/1 January 2009	(12,532)	(13)	(884)	(13,429)
Effect of movements in foreign currency	(102)	–		(102)
Amortisation charge for the year	(1,149)	(59)	(938)	(2,146)
Impairment charges	(343)			(343)
Disposals	867			867
Balance at 31 December 2009	**(13,259)**	**(72)**	**(1,822)**	**(15,153)**
Net book value				
At 1 January 2008	1,846	–	597	2,443
At 31 December 2008/1 January 2009	3,018	351	1,271	4,640
At 31 December 2009	**3,004**	**696**	**1,305**	**5,005**

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.

Acquisitions to purchased software, licenses and other intangible assets in 2009 and 2008 mainly comprise software.

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11. Intangible assets continued

Hire purchase

The carrying value of intangible assets held under hire purchase leases at 31 December 2009 was US$441,000 (31 December 2008: US$253,000). Additions during the year were US$244,000 (2008: US$304,000). As of the reporting date future minimum payments under those hire purchase contracts were US$504,000 (2008: US$301,000). The present value of the net minimum payments was US$405,000 (2008: US$283,000).

12. Investments

The Group holds a 7.66% interest in Digital Imaging Systems GmbH (DIS), a private entity that is not listed on a public stock exchange. As the fair value cannot be reliably determined, the investment in DIS is accounted for at acquisition cost less accumulated impairment charges. The total investment in DIS was US$2,662,000. In 2007, based on business and cash flow projections, the Group recognised a 100% impairment loss. Accordingly the book value for DIS at 31 December 2009 and 2008 was nil.

13. Held-to-maturity securities

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

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

14. Trade and other payables

Trade and other payables comprise:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Trade accounts payable	**15,074**	11,033
Other payables	**2,230**	1,963
	17,304	12,996

Terms and conditions of the above other current liabilities:

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

15. Other financial liabilities

Other financial liabilities include hire purchase agreements and finance lease obligations. In addition other financial liabilities in 2008 included 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.

16. 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 is 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 2009 US$000	Currency change US$000	Discount US$000	Additions US$000	Used US$000	Released US$000	**At 31 December 2009 US$000**
Obligations for product warranties	515	–	–	326	(72)	–	**769**
Dilapidation	366	18	–	159	(241)	(50)	**252**
Rental obligations	387	44	–	–	(3)	–	**428**
Restructuring	22	(3)	–	–	(19)	–	**–**
Pending legal claims	–	7	–	328	–	–	**335**
Total current	**1,290**	**66**	**–**	**813**	**(335)**	**(50)**	**1,784**
Dilapidation	–		11	241	–	–	**252**
Total non-current	**–**	**–**	**11**	**241**	**–**	**–**	**252**
Total	**1,290**	**66**	**11**	**1,054**	**(335)**	**(50)**	**2,036**

17. Other current liabilities

Other current liabilities comprise:

	At 31 December 2009 US$000	At 31 December 2008 US$000
Obligations for personnel and social expenses	**7,836**	2,311
Advances received in relation to customer specific research and development contracts	**939**	1,000
Other	**2,533**	1,126
	11,308	4,437

Terms and conditions of the above other current liabilities:

- obligations for personnel and social expenses have an average term of three months (2008: three months); and
- other payables are non-interest bearing and are normally settled on 30 day terms.

18. Other non-current financial liabilities

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

19. 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 share options 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. At 31 December 2009 and 31 December 2008, the Trust continued to hold 2,663,318 and 641,259 shares respectively. These

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19. Shareholders' equity and other reserves continued

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.

Ordinary shares

At 31 December 2009, Dialog had authorised 104,311,860 (2008: 104,311,860) ordinary shares with a par value of £0.10 per share, of which 61,568,930 (2008: 46,068,930) shares were issued and outstanding.

	amount of shares	US$000
At 1 January 2008 and 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**

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

Share premium

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

Accumulated deficit

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

Other reserves

Currency translation reserve

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

Cash flow hedge reserve

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

Available-for-sale securities reserve

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

The related tax effects allocated to each component of other reserves for the years ended 31 December 2009 and 2008 are as follows:

	2009			2008		
	Pre-tax US$000	Tax effect US$000	Net US$000	Pre-tax US$000	Tax effect US$000	Net US$000
Unrealised losses on available-for-sale securities	–	–	–	(312)	–	(312)
Currency translation adjustment	(113)	421	308	(249)	(887)	(1,136)
Cash flow hedges	(179)	–	(179)	(282)	–	(282)
Other comprehensive income (loss)	**(292)**	**421**	**129**	(843)	(887)	(1,730)

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

20. 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$1,229,000 (2008: US$1,163,000). At 31 December 2009, contributions amounting to US$150,000 (2008: US$69,000) 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$1,339,000 (2008: US$1,158,000).

21. Share-based payments

a) Stock option plans

On 7 August 1998, the Group adopted a stock option plan (the "Plan") under which employees, the executive management and the Executive Directors may be granted from time to time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Group's authorised but unissued ordinary shares. On 16 May 2002 the Shareholders of the Group approved a resolution increasing the maximum amount of stock options which may be granted by the Group at any time, to 15% of Dialog's issued share capital on a diluted basis. At 31 December 2009, 10,865,105 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 2009 to expire 31 January 2012.

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.

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 below 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 2009 was estimated using the Black-Scholes option pricing model. Expectations of early exercise are considered in the determination of the expected life of the options. The Group does not have adequate historical development of the share price, particularly as a result of material unusual effects in the stock market in recent years. Furthermore, implicit volatility cannot be determined since none of the Group's options are actively traded. The Group has therefore based its calculation of expected volatility on an average of its own volatility and the historical development of other companies in its business segment.

The following assumptions were used for stock option grants for the years ended 31 December 2009 and 2008:

	2009	2008
Expected dividend yield	**0%**	0%
Expected volatility	**42–54%**	40–48%
Risk free interest rate	**4.25%**	4.2%
Expected life (in years)	**2.0–6.0**	2.0–6.0
Weighted average share price during the year (in US$)	**6.57**	1.32
Weighted average share price for Option grants (in US$)	**5.23**	1.43
Weighted average exercise price (in US$)	**5.23**	1.43
Weighted-average fair value (in US$)	**2.08**	0.84

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For the year ended 31 December 2009

21. Share-based payments continued

Stock option plan activity for the years ended 31 December 2009 and 2008 was as follows:

	2009		2008	
	Options	Weighted average exercise price US$	Options	Weighted average exercise price US$
Outstanding at beginning of year	5,796,510	2.56	5,372,006	2.77
Granted	1,244,901	6.58	997,776	1.43
Exercised	(1,558,152)	1.88	(405,128)	0.42
Forfeited	(115,157)	1.74	(168,144)	2.79
Options replaced	534,192	2.08	–	–
Options returned	(1,098,952)	5.33	–	–
Outstanding at end of year	4,803,342	3.27	5,796,510	2.56
Options exercisable at year end	1,877,812	2.26	3,329,250	3.09

The weighted average share price at the date of exercise of options was US$7.47 and US$1.12 in the years ended 31 December 2009 and 2008 respectively.

Liabilities from share option exercises to employees were US$614,000 at 31 December 2009 (2008: nil).

The following table summarises information on stock options outstanding at 31 December 2009:

	Options outstanding			Options exercisable	
Range of Exercise Prices	Number outstanding at 31 December 2009	Weighted average remaining contractual life (in years)	Weighted average exercise price US$	Number exercisable at 31 December 2009	Weighted average exercise price US$
€0.00 - 2.98	3,769,800	5.0	1.85	1,652,686	1.89
€3.00 - 8.00	1,033,542	6.2	8.46	225,126	5.00
€0.00 - 8.00	4,803,342	5.3	3.27	1,877,812	2.26

b) Executives' Long Term Incentive Plan (LTIP)

The Group also operates the Dialog Semiconductor Plc Long Term Incentive Plan (LTIP) which was approved by shareholders at the Annual General Meeting in April 2008. Under the LTIP, key executives are eligible to share in a percentage of the value created for shareholders in excess of an annual return hurdle measured over a three-year performance period. This value is delivered to a participant in the form of a series of so called 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.

At the Annual General Meeting in April 2009, the LTIP was extended by one year.

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.

21. Share-based payments continued

The fair values used in the calculations are as follows:

Inputs	Tranche 1	Tranche 2	Tranche 3	LTIP extension
Share price at grant date	€ 1.40	€ 1.40	€ 1.40	€ 4.077
Exercise price	£ 0.10	£ 0.10	£ 0.10	£ 0.10
Expected life (years)	0.64	1.64	2.64	2.35
Expected volatility	40%	40%	40%	42%
Risk-free-interest-rate	4.8202%	4.8202%	4.8202%	1.4900%

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.

Measurement date 31 January 2010 (subsequent event)

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 February 22nd 2010 and the remaining 75% exercisable for 4 years from 21 February 2011.

c) ESOP Trust

The Group established an employee share option trust (the "Trust"). The Trust purchases shares in the Group for the benefit of employees under the Group's share option scheme. At 31 December 2009 the Trust held 2,663,318 shares (2008: 641,259).

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For the year ended 31 December 2009

22. Additional disclosures on financial instruments

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

	Category in accordance with IAS 39	Amounts recognised in the statement of financial position according to IAS 39 Carrying amount 31 December 2009 US$000	Amortised cost US$000	Cost US$000	Fair value recognised in equity US$000	Fair value recognised in profit or loss US$000	Fair value 31 December 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 amortised cost (FLAC)		**(18,683)**	(17,304)	–	–	–	(17,304)

22. Additional disclosures on financial instruments continued

		Amounts recognised in the statement of financial position according to IAS 39					
	Category in accordance with IAS 39	Carrying amount 31 December 2008 US$000	Amortised cost US$000	Cost US$000	Fair value recognised in equity US$000	Fair value recognised in profit or loss US$000	Fair value 31 December 2008 US$000
Assets							
Cash at bank and short-term deposits	LaR	36,915	36,915	–	–	–	36,915
Trade accounts receivable and other receivables	LaR	7,455	7,455	–	–	–	7,455
Other non-derivative financial assets							
Deposits for hedging contracts	LaR	1,079	1,079	–		–	1,079
Derivative financial assets							
Derivatives without hedging relationship	n/a		–	–	–	–	–
Derivatives with hedging relationship	n/a	453	–	–	453	–	453
Liabilities							
Trade account payables	FLAC	11,033	11,033	–	–	–	11,033
Other payables	FLAC	1,963	1,963	–	–	–	1,963
Other financial liabilities	FLAC	619	619				619
Derivative financial liabilities							
Derivatives without hedging relationship	n/a	–	–	–	–	–	–
Derivatives with hedging relationship	n/a	646	–	–	646	–	646
Of which aggregated by category in accordance with IAS 39:							
Loans and receivables (LaR)		45,449	45,449	–	–	–	45,449
Held-to-maturity investments (HtM)		–	–	–	–	–	–
Available-for-sale financial assets (AfS)		–	–	–	–	–	–
Derivatives without hedging relationship		–	–	–	–	–	–
Derivatives with hedging relationship		(193)	–	–	(193)	–	(193)
Financial liabilities at amortised cost (FLAC)		(13,615)	(12,996)	–	–	–	(12,996)

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.

23. Commitments

Operating lease, software and service commitments

The Group leases all its office facilities and vehicles, and some of its office and test equipment, under operating leases. Future minimum lease payments under rental and lease agreements, which have initial or remaining terms in excess of one year at 31 December 2009 and payments for other commitments are as follows:

Notes to the consolidated financial statements

For the year ended 31 December 2009

23. Commitments continued

	Operating leases and software commitments	Other commitments	Operating leases and software commitments	Other commitments
	2009 US$000	2009 US$000	2008 US$000	2008 US$000
Within one year	4,543	2,429	3,060	1,411
Between one and two years	2,287	2,497	1,608	205
Between two and three years	1,337	2,411	742	69
Between three and four years	853	1,173	397	–
Between four and five years	574	150	371	–
Thereafter	–	–	536	–
Total minimum payments	9,594	8,660	6,714	1,685

Total payments for operating leases and software commitments, charged as an expense in the income statement, amounted to US$4,689,000 and US$3,929,000 for the years ended 31 December 2009 and 2008 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	
	2009 US$000	2008 US$000
Within one year	793	418
Between one and two years	364	303
Between two and three years	341	–
Between three and four years	113	–
Total minimum payments	1,611	721
Less amounts representing finance charges	(232)	(50)
Present value of minimum payments	1,379	671

Capital commitments

The Group has contractual commitments for the acquisition of property, plant and equipment in 2009 of US$2,484,000 (2008: US$377,000) and for the acquisition of intangible assets of US$614,000 (2008: US$181,000).

24. Segmental reporting

Since 2009 the Group applies IFRS 8 “Operating Segments”. 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.

24. Segmental reporting continued

In contrast to the former reporting structure, 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. In accordance with IFRS 8, the former Wireless Segment was divided into the Audio and Power Management Segment and the Display Systems Segment which are now reported separately as operating segments. 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.

	2009					2008				
	Audio & Power Management US$000	**Display Systems [3/4] US$000**	**Automotive/ Industrial US$000**	**Corporate [5] US$000**	**Total US$000**	Audio & Power Management US$000	Display Systems [3/4] US$000	Automotive/ Industrial US$000	Corporate US$000	Total US$000
Revenues [1]	**176,569**	**5,987**	**33,531**	**1,526**	**217,613**	121,355	5,149	35,193	133	161,830
R&D expenses	**24,383**	**8,312**	**9,513**	**413**	**42,621**	19,816	7,025	9,453	427	36,721
Operating profit (loss) [2]	**47,048**	**(12,395)**	**(3,636)**	**(2,345)**	**28,672**	21,892	(10,972)	(875)	(4,093)	5,952
Depreciation/ amortisation	**3,535**	**1,490**	**1,594**	**–**	**6,619**	3,769	2,060	1,909	–	7,738
Impairment and disposal losses	**1,076**	**179**	**441**		**1,696**	1,171	454	362	249	2,236
Investments	**5,447**	**2,296**	**2,457**	**–**	**10,200**	4,110	2,247	2,083	–	8,440
	At 31 Dec 2009					At 31 Dec 2008				
Total assets	**43,605**	**4,308**	**13,366**	**131,032**	**192,311**	28,410	4,679	10,349	36,915	80,353
Liabilities	**16,025**	**6,756**	**7,227**	**5,324**	**35,332**	9,367	5,121	4,746	914	20,148

[1] All revenues are from sales to external customers
[2] Certain overhead costs are allocated mainly 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.
[5] Corporate revenue in 2009 includes US$ 1.961,000 relating to the BenQ Cash settlement (see note 27).

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

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

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

In 2009 and 2008 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 2009

24. 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

	2009 US$000	2008 US$000
Revenues		
United Kingdom	**434**	1,222
Hungary	**17,444**	17,056
Other European countries	**20,600**	9,205
China	**145,986**	100,323
Other Asian countries	**23,047**	12,546
Other countries	**10,102**	21,478
Total revenues	**217,613**	161,830
Investments		
Germany	**7,809**	7,658
Japan	**350**	32
United Kingdom	**2,022**	749
Other	**19**	1
Total investments	**10,200**	8,440

	At 31 December 2009 US$000	At 31 December 2008 US$000
Assets		
Germany	**185,656**	77,359
Japan	**854**	736
United Kingdom	**5,577**	2,083
Other	**224**	175
Total assets	**192,311**	80,353

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.

25. Financial risk management objectives and policies

Vulnerability due to certain significant risk concentrations

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

The Group's products are generally utilised in the wireless and automotive industries. The Group generates a substantial portion of its revenue from the wireless communications market, which accounted for 84% and 78% of its total revenue for the years ended 31 December 2009 and 2008, respectively.

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

25. 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 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. Net receivables from these two customers were US$9,342,000 at 31 December 2009. During 2008 two customers individually accounted for more than 10% of the Group's revenues. Total revenues from these two customers were US$104,227,000 or 64%. Net receivables from these two customers were US$344,000 at 31 December 2008. The Group performs ongoing credit evaluations of its customers' financial condition. Both customers are part of the Audio & Power Management Segment.

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 2009 and 2008, the Group's policy that no trading in derivatives shall be undertaken.

Exposure to market risk, credit risk and liquidity 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 spends interest on amounts received in connection with the factoring agreement as prescribed below.

The Group has no long-term debt and no amounts outstanding under short-term credit facilities as at 31 December 2009 (2008: 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.

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For the year ended 31 December 2009

25. 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
2009			
	17	**137**	**137**
	(17)	**(137)**	**(137)**
2008			
	12	29	29
	(12)	(29)	(29)

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$. The majority of other operating expenses are denominated in euros and pounds sterling. The Group has transactional currency exposures. Such exposure arises from the sales or purchases by an operating unit in currencies other than the unit's functional currency. In 2009 and 2008 nearly all the Group's sales were denominated in US$.

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 and in 2008 from the fair value of exchange contracts).

	Increase/decrease against US$	Effect on profit US$000	Effect on equity US$000
2009			
Euro	**7%**	**1,373**	**2,848**
Pound sterling	**12%**	**1,909**	**3,109**
Euro	**(12%)**	**(2,354)**	**(4,883)**
Pound sterling	**(7%)**	**(1,113)**	**(1,813)**
2008			
Euro	12%	161	1,621
Pound sterling	2%	35	151
Euro	(12%)	(161)	(1,621)
Pound sterling	(2%)	(35)	(151)

25. 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 German financial institution.

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

As part of the factoring agreement, the Group has pledged US$6.5 million of cash to the factoring institution in the first 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 second quarter of 2009, the factoring bank decreased the pledged amount to US$3.0 million. In the statement of financial position the amount is shown under restricted cash.

The Group's exposure to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalents and restricted cash, 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 2009, the Group had cash, cash equivalents and restricted cash of US$123,148,000 (2008: US$36,915,000).

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 2009, 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 2009				
Trade accounts payable	**15,074**	**–**	**–**	**15,074**
Other payables	**2,230**	**–**	**–**	**2,230**
Other financial liabilities [1)]	**679**	**–**	**–**	**679**
	17,983	**–**	**–**	**17,983**
Financial year ended 2008				
Trade accounts payable	11,019	14	–	11,033
Other payables	1,395	568	–	1,963
Other financial liabilities [1)]	956	38	–	994
	13,370	620	–	13,990

1) Other financial liabilities consist of derivative financial instruments

At 31 December 2009, the Group had unused short-term credit lines of US$14,200,000 (2008: US$8,945,000 (€6.4 million)). There were no amounts outstanding under these credit lines at 31 December 2009 (2008: nil).

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25. 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 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 2009 and 31 December 2008.

The Group monitors capital using an equity ratio (total equity divided by total assets). The equity ratio as of 31 December 2009 was 81.6% (2008: 75.0%). Capital includes net Shareholders' equity. The Group's policy is to finance business development and growth with equity rather than long-term liabilities. It is, therefore, also its policy to keep a strong equity ratio. This policy will be reconsidered as soon as sustainable profits are earned in order to achieve leverage.

Hedging activities

At 31 December 2009, 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 deposits and forward exchange contracts which equal the book values are as follows:

	At 31 Dec 2009		At 31 Dec 2008	
	Assets US$000	**Liabilities US$000**	Assets US$000	Liabilities US$000
Fair values				
Forward exchange contracts	**–**	**–**	453	646
Deposits	**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 May 2009 respectively were assessed to be highly effective and, at 31 December 2009, a net unrealised loss of US$372,000 was included in equity in respect of these cash flows (2008: loss of US$193,000). During the financial year 2009 a profit of US$197,000 (2008: loss of US$2,026,000) was recognised in equity and a profit of US$376,000 (2008: loss of US$1,744,000) 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.

25. 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:

Maturity	Nominal amount €000 Derivatives	Forward rate	Nominal amount €000 Deposits	Spot rate
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**
2008				
January 2009	2,000	1.3889	–	-
February 2009	2,000	1.3891	–	-
March 2009	2,000	1.3575	–	-
April 2009	2,000	1.2591	–	-
May 2009	1,000	1.3780	–	-

Maturity	Nominal amount £000 Derivatives	Forward rate	Nominal amount £000 Deposits	Spot rate
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**
2008				
January 2009	915	1.7645	–	–
February 2009	700	1.7626	–	–
March 2009	700	1.6352	–	–
April 2009	800	1.4849	–	–
May 2009	400	1.5399	–	–

Notes to the consolidated financial statements

For the year ended 31 December 2009

26. Transactions with related parties

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

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

Compensation of key management personnel of the Group

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

	2009 US$000	2008 US$000
Short term employee benefits	**3,499**	2,391
Post-employment benefits [1)]	**137**	147
Share-based payments	**635**	608
	4,272	3,146

1) The amounts include payments for defined contribution plans.

Compensation of Non-executive Directors

The compensation of Non-executive Directors was US$307,000 (2008: US$316,000). As at 31 December 2009 the amount of US$55,000 for Board member fees was outstanding (2008: US$38,000). For further information please see the Directors' remuneration report within the management and governance section on pages 32 to 34.

Other related party transactions

In 2009 and 2008 there were no other transactions with related parties.

27. 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.

28. Subsequent event

No subsequent events of material impact occurred after the reporting date.

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 2009

	Notes	At 31 December 2009 US$000	At 31 December 2008 US$000
Assets			
Cash and cash equivalents		**71,924**	21,630
Amounts owed by Group undertakings		**44,542**	33,533
Prepaid expenses		**67**	67
Other current assets		**296**	–
Total current assets		**116,829**	55,230
Investments	29	**97,521**	97,521
Amounts owed by Group undertakings (due after more than one year)		**–**	1,278
Total non-current assets		**97,521**	98,799
Total assets		**214,350**	154,029
Trade accounts payables		**475**	28
Other payables		**471**	330
Total current liabilities		**946**	358
Ordinary shares		**11,825**	9,328
Share premium		**283,733**	223,005
Retained deficit		**(80,972)**	(78,523)
Other reserves		**(372)**	–
Employee stock purchase plan shares		**(810)**	(139)
Total Shareholders’ equity	32	**213,404**	153,671
Total liabilities and Shareholders´ equity		**214,350**	154,029

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$2,449,000 (2008: profit of US$3,163,000).

These financial statements were approved by the Board of Directors on 11 February 2010 and were signed on its behalf by:

Dr Jalal Bagherli
Director

Company financial statements

Company statement of changes in equity

For the year ended 31 December 2009

	Ordinary Shares US$000	Additional paid-in capital US$000	Accumulated deficit US$000	Other reserves: Cash flow hedges US$000	Other reserves: Available-for-sale securities US$000	Employee stock purchase plan shares US$000	Total US$000
Balance at 1 January 2008	9,328	222,914	(81,686)	–	312	(205)	150,663
Total comprehensive income (loss)	–	–	3,163	–	(312)	–	2,851
Sale of employee stock purchase plan shares	–	91	–	–	–	66	157
Changes in Equity total	–	91	3,163	–	(312)	66	3,008
Balance at 31 December 2008 / 1 January 2009	**9,328**	**223,005**	**(78,523)**	–	–	**(139)**	**153,671**
Total comprehensive income (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	**11,825**	**283,733**	**(80,972)**	**(372)**	**–**	**(810)**	**213,404**

Company statement of cash flows

For the year ended 31 December 2009

	2009 US$000	2008 US$000
Cash flows from operating activities:		
Net profit (loss)	**(2,449)**	3,163
Adjustments to reconcile net profit (loss) to net cash provided by (used for) operating activities:		
Interest income, net	**(713)**	(3,267)
Hedging	**(372)**	–
Losses on disposals financial assets	**–**	147
Changes in working capital:		
Trade accounts payable	**415**	(218)
Other assets and liabilities	**(122)**	(10)
Cash generated from (used for) operations	**(3,241)**	**(185)**
Interest received	**165**	1,002
Cash flow from (used for) operating activities	**(3,076)**	817
Cash flows from investing activities:		
Loans made to other group companies	**(9,184)**	240
Purchase of securities	**–**	(3,050)
Sale of Securities	**–**	22,758
Cash flow from (used for) investing activities	**(9,184)**	19,948
Cash flows from financing activities:		
Cash flow from capital increase	**59,617**	–
Sale of employee stock purchase plan shares	**2,937**	157
Cash flow from financing activities	**62,554**	157
Net increase in cash and cash equivalents	**50,294**	20,922
Cash and cash equivalents at beginning of period	**21,630**	708
Cash and cash equivalents at end of period	**71,924**	21,630

Company financial statements

Notes to the Company financial statements

For the year ended 31 December 2009

29. Investments

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

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

	2009 US$000[1]	2008 US$000
Capital and reserves	**(28,226)**	(3,068)
Profit (loss) for the year	**25,889**	3,938

1) Based on preliminary unaudited results.

30. Deferred tax

	At 31 December 2009 US$000	At 31 December 2008 US$000
Net operating loss carryforwards	**1,732**	173
Deferred taxes in relation to tax credits	**1,250**	1,049
Other	**(104)**	–
Net deferred tax assets	**2,878**	1,222
Recognised net deferred tax assets	**–**	–
Unrecognised deferred tax assets	**2,878**	1,222

For further information on deferred taxes see note 4.

31. Auditors' remuneration

	2009 US$000	2008 US$000
Auditors' remuneration		
audit	**388**	355
in relation to capital increase	**287**	–
	675	**355**

32. Share capital and share options

Details of the Company's share capital and share options are set out in notes 19 and 21.

33. Headcount and costs

The Company does not have any employees.

34. Events after the reporting period

No subsequent events of material impact occurred after the reporting period.

Glossary

Technical glossary

Analog A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.
ASIC Application Specific Integrated Circuit: an integrated chip, custom designed for a specific application.
ASSP Application Specific Standard Product: a semiconductor device integrated circuit (IC) dedicated to a specific application and sold to more than one user.
Audio CODEC The interface between analog signals (such as the human voice) and the digital data processing inside a mobile phone, determining voice quality.
CAD Computer Aided Design: usually refers to a software tool used for designing electronics hardware or software systems.
CDMA Code Division Multiple Access: an alternative to GSM technology for mobile wireless networks.
Chips Electronic integrated circuits.
CMOS Complimentary Metal Oxide Semiconductor: the most popular class of semiconductor manufacturing technology.
DC-DC A DC-to-DC converter accepts a direct current input voltage and produces a direct current output voltage. The output is typically at a different voltage level than the input, and often the component provides power bus regulation.
Digital A type of signal used to transmit information that has only discrete levels of some parameter (usually voltage).
Fabless A company that designs and delivers semiconductors by outsourcing the fabrication (manufacturing) process.
Foundry A manufacturing plant where silicon wafers are produced.
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 analog 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) coordinates.
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.
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.

Glossary

Financial glossary

AGM Annual General Meeting.
CAGR Compound Annual Growth Rate: a method of assessing the average growth of a value over time.
Cash flow The primary purpose of a statement of cash flow is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. It helps to assess the enterprise's ability to generate positive future net cash flows. A statement of cash flows shall explain the change in cash and cash equivalents during the period by classifying cash receipts and payments according to whether they stem from operating, investing, or financing activities.
Cash flow from operating activities includes all transactions and other events that are not defined as investing or financing activities in paragraphs. Operating activities generally involve producing and delivering goods and providing services. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income.
Comprehensive Income The purpose of reporting comprehensive income is to report a measure of all changes in equity of an enterprise that result from recognised transactions and other economic events of the period other than transactions with owners such as capital increases or dividends. An example of items effecting comprehensive income is foreign currency translation adjustments resulting from the process of translating an entity's financial statements in a foreign currency into the reporting currency.
Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance.
Deferred taxes Deferred tax assets or liabilities are temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled, respectively.
Derivative financial instruments A financial instrument that derives its value from the price or expected price of an underlying asset (e.g. a security, currency or bond).
Dividends are payments made by a company to its shareholders. When a company earns a profit, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders of the company as a dividend.
EURIBOR (Euro Interbank Offered Rate) is the rate at which euro interbank term deposits within the euro zone are offered by one prime bank to another prime bank.
Freefloat the proportion of an issuer's share capital that is available for purchase in the public equity markets by investors.
Gross margin equals the difference between revenues and cost of sales as presented in the statement of operations.
Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value (the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset).
IFRS (International Financial Reporting Standards) accounting standards generally to be used for financial years commencing on or after 1 January 2005 by all publicly-listed European Union companies in compliance with the European Parliament and Council Regulation adopted in July 2002.
Prime Standard The new segmentation of the equity market of the German Stock Exchange comprises a Prime Standard segment in addition to the General Standard segment that applies the statutory minimum requirements. The Prime Standard segment addresses companies that wish to target international investors. These companies are required to meet high international transparency criteria, over and above those set out by the General Standard.
Restructuring charges Costs associated with an exit or disposal activity, e.g. termination benefits provided to employees that are involuntarily terminated.
Securities Debt securities are instruments representing a creditor relationship with an enterprise and include government securities, corporate bonds, commercial paper, and all securitised debt instruments. Available-for-sale securities are debt securities not classified as held to maturity or trading securities.
Shareholders' equity reflects the investment of shareholders in a company. Shareholders' equity comprises ordinary shares, additional paid-in capital, retained earnings and accumulated other comprehensive income.
Stock option plans include all agreements by an entity to issue shares of stock or other equity instruments to employees. Stock option plans provide employees the opportunity to receive stock resulting in an additional compensation based on future share price performance. The purpose of stock option plans is to motivate employees to increase Shareholder value on a long-term basis.
Total assets include all current and non-current assets. Total assets equal total liabilities and shareholders' equity.
Working capital is represented by the excess of current assets over current liabilities and identifies the relatively liquid portion of total enterprise capital that constitutes a margin or buffer for meeting obligations within the ordinary operating cycle of the business.

Advisers and corporate information

Public relations

FD
Holborn Gate
26 Southampton Buildings
London EC4R 9HA
UK

FD GmbH
Park Tower
Bockenheimer Anlage 44
60322 Frankfurt am Main
Germany

Legal adviser

Reynolds Porter Chamberlain LLP
Tower Bridge House
St Katharine's Way
London E1W 1AA
UK

Auditors

Ernst & Young LLP
Apax Plaza
Reading
Berkshire RG1 1YE
UK

Principal banker

Deutsche Bank AG
Global Banking
Am Hafenmarkt
D-73728 Esslingen
Germany

Designated sponsor

Close Brothers Seydler
Schillerstrasse 27-29
D-60313 Frankfurt
Germany

Shares

Information on the Company's shares and on significant shareholdings can be found on pages 7 to 9.

Registered office

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

Website: www.dialog-semiconductor.com

Registered number

3505161

Financial calendar

Annual General Meeting	5 May 2010
Q1 2010 Results	10 May 2010
Q2 2010 Results	20 July 2010
Q3 2010 Results	26 October 2010
Preliminary results for 2010	February 2011

Group directory

Germany
Dialog Semiconductor GmbH
Neue Strasse 95
D-73230 Kirchheim/Teck-Nabern
Germany
Phone: (+49) 7021 805-0
Fax: (+49) 7021 805-100
Email: dialog.nabern@diasemi.com

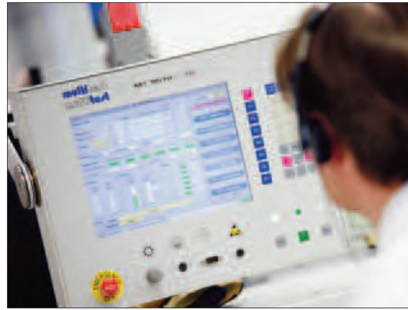
United Kingdom
Dialog Semiconductor (UK) Ltd
Delta 200
Delta Business Park
Welton Road
Swindon, Wiltshire
SN5 7XB,UK
Phone: (+44) 1793 757700
Fax: (+44) 1793 757800
Email: dialog.swindon@diasemi.com

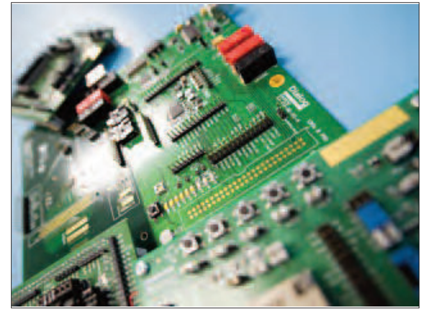
North America
Dialog North America
440 Oakmead Parkway
Sunnyvale, CA 94085
USA
Phone: (+1) 888-809-3816
Fax: (+1) 408-328-9275
Email: NA_sales_enquiries@diasemi.com

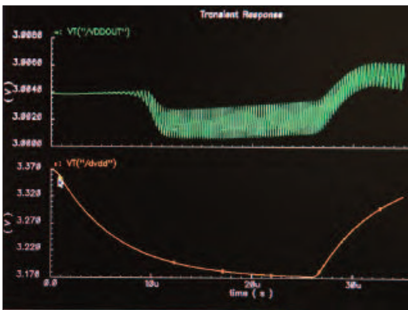
Japan
Dialog Semiconductor K.K.
Mita Kokusai Bldg 16F
1-4-28, Mita, Minato-ku
Tokyo, 108-0073
Japan
Phone: (+81) 3 3769 8123
Fax: (+81) 3 3769 8124
Email: dialog.tokyo@diasemi.com

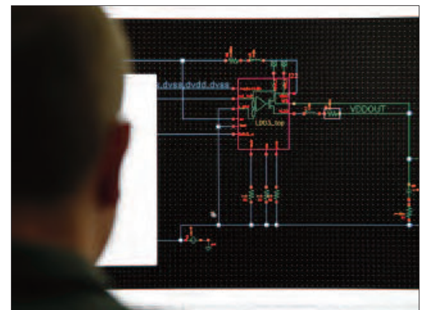
Taiwan & Greater China
Dialog Semiconductor GmbH
Taiwan Branch
Chu-Nan 3rd Factory No. 118
Chung-Hua Road
Chu-Nan, Miao-Li 350
Taiwan R.O.C.
Tel: (+852) 9055 3888
Tel: (+886) 22542 1579
Email: dialog.taiwan@diasemi.com

Korea
Dialog Semiconductor (UK) Ltd Korea Branch
#3010, 30th Floor, Trade Tower
159-1, Samsung-Dong,
Gangnam-gu, Seoul, 135-729, Korea
Phone: (+82) 2 6007 2303
Fax: (+82) 2 6007 2723
Email: dialog.korea@diasemi.com









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CarbonNeutral® company

Dialog Semiconductor Plc
Tower Bridge House
St Katherine's Way
London E1W 1AA
UK

www.dialog-semiconductor.com