Dialog Semiconductor
Annual Report 2002

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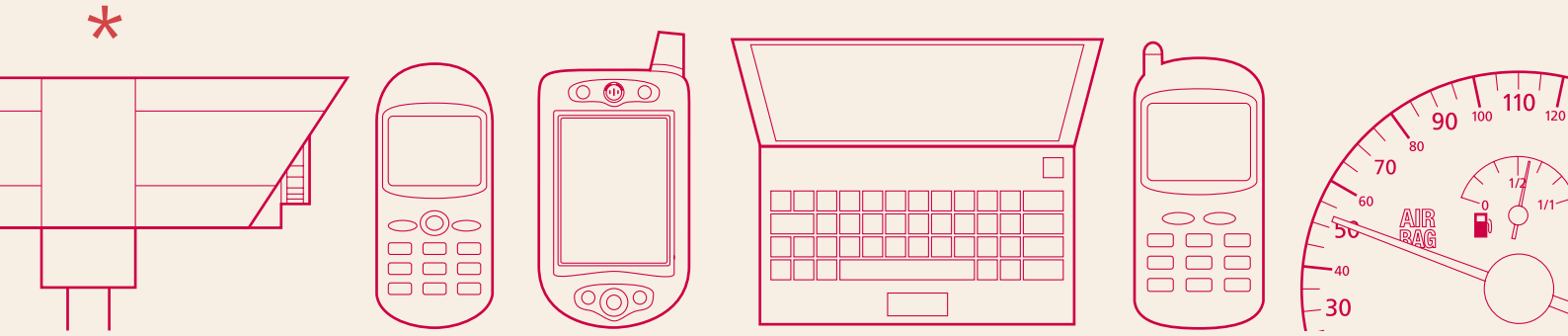


Innovative silicon for a mobile world

Dialog
Semiconductor

Dialog Semiconductor Plc – Five-Year Financial Summary
Selected Financial Data

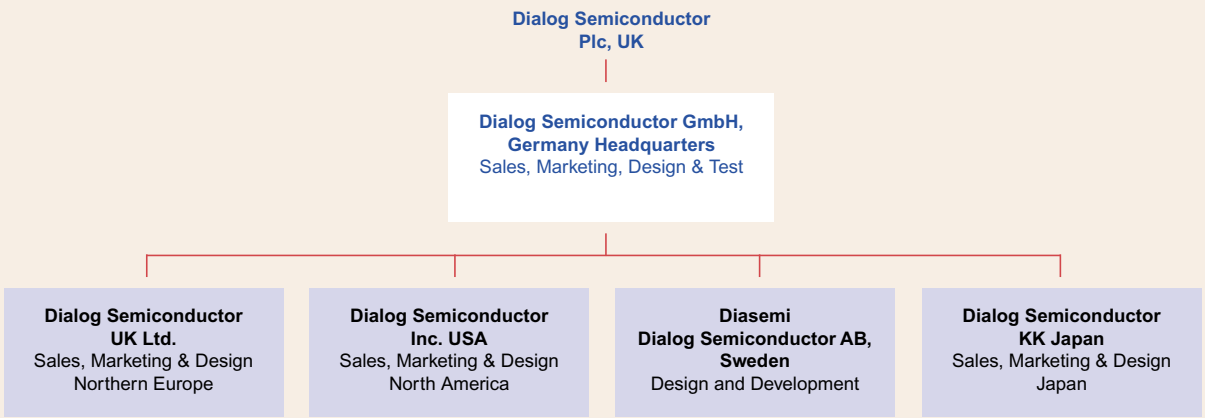
(in thousands of €)	2002	2001	2000	1999	1998[1]
Earnings data					
Revenues	77,104	100,519	214,459	87,246	44,478
EBITDA	(10,661)	3,493	49,177	15,351	7,855
EBIT (operating profit)	(27,400)	(23,199)	38,400	11,566	5,311
Research and development	(34,530)	(31,256)	(22,898)	(11,108)	(6,656)
Net income (loss)	(9,289)	(41,679)	26,557	6,680	2,372
Cash flow from operations[2]	(7,596)	15,139	18,072	(907)	7,124
Balance sheet data					
Cash and cash equivalents	31,005	32,626	29,879	11,257	2,958
Shareholders' equity	148,028	157,706	199,194	68,611	3,036
Equity ratio in %	88,7	88,4	80,5	75,5	9,5
Total assets	166,927	178,443	247,423	90,864	31,920
Capital expenditure	3,872	3,157	39,024	14,487	3,273
Share data					
Basic earnings (loss) per share[3]	(0.21)	(0.95)	0.62	0.16	0.04
Number of shares in thousands (at December 31)	44,069	44,069	44,069	42,069	34,568
Other data					
Employees (at December 31)	284	287	268	142	105

[1]1998 information is presented on a pro forma basis (unaudited) excluding the acquired in-process technology charge of € 9,300.

[2]In 2000 excluding advance payments to secure silicon capacity of € 23,201.

[3]Earnings per share information for the fiscal year ended December 31, 1998 is on a pro forma basis assuming that the weighted average shares outstanding for the period from March 1, 1998 to December 31, 1998 were also outstanding for the fiscal year ended December 31, 1998.

Overview of the legal Group structure



Unaudited Quarterly Financial Information

2002	Q1	Q2	Q3	Q4	Total
Revenues	19,063	17,051	17,903	23,087	77,104
Gross margin	**5,516**	**4,648**	**4,993**	**4,544**	**19,701**
Selling, general and administrative expenses	(2,297)	(2,603)	(2,696)	(3,000)	(10,596)
Research and development	(7,996)	(8,617)	(8,574)	(9,343)	(34,530)
Amortization of goodwill and intangible assets	(447)	(444)	(540)	(544)	(1,975)
Operating loss	**(5,224)**	**(7,016)**	**(6,817)**	**(8,343)**	**(27,400)**
Financial income (expense), net	244	(182)	320	288	670
Recovery of investment	6,457	755	2,675	2,082	11,969
Result before income taxes	**1,477**	**(6,443)**	**(3,822)**	**(5,973)**	**(14,761)**
Income taxes	(544)	2,307	1,363	2,346	5,472
Net Income (loss)	**933**	**(4,136)**	**(2,459)**	**(3,627)**	**(9,289)**
Basic earnings (loss) per share	0.02	(0.09)	(0.06)	(0.08)	(0.21)

2001	Q1	Q2	Q3	Q4	Total
Revenues	30,611	25,490	20,662	23,756	100,519
Gross margin	**10,439**	**(2,979)**	**5,939**	**7,483**	**20,882**
Selling, general and administrative expenses	(2,429)	(2,722)	(2,198)	(2,274)	(9,623)
Research and development	(6,630)	(8,421)	(7,830)	(8,375)	(31,256)
Amortization of goodwill and intangible assets	(790)	(813)	(817)	(782)	(3,202)
Operating profit (loss)	**590**	**(14,935)**	**(4,906)**	**(3,948)**	**(23,199)**
Financial income (expense), net	959	579	(615)	281	1,204
Write-down of investment	—	—	—	(42,405)	(42,405)
Result before income taxes	**1,549**	**(14,356)**	**(5,521)**	**(46,072)**	**(64,400)**
Income taxes	(692)	5,033	1,852	16,528	22,721
Net Income (loss)	**857**	**(9,323)**	**(3,669)**	**(29,544)**	**(41,679)**
Basic earnings (loss) per share	0.02	(0.21)	(0.08)	(0.67)	(0.95)

2000	Q1	Q2	Q3	Q4	Total
Revenues	40,980	51,104	60,100	62,275	214,459
Gross margin	**13,954**	**18,513**	**21,698**	**21,428**	**75,593**
Selling, general and administrative expenses	(2,384)	(2,936)	(3,410)	(2,914)	(11,644)
Research and development	(4,492)	(5,298)	(6,029)	(7,079)	(22,898)
Amortization of goodwill and intangible assets	(482)	(578)	(750)	(841)	(2,651)
Operating profit	**6,596**	**9,701**	**11,509**	**10,594**	**38,400**
Financial income (expense), net	348	1,446	2,219	554	4,567
Result before income taxes	**6,944**	**11,147**	**13,728**	**11,148**	**42,967**
Income taxes	(2,778)	(4,458)	(5,492)	(3,682)	(16,410)
Net Income	**4,166**	**6,689**	**8,236**	**7,466**	**26,557**
Basic earnings per share	0.10	0.16	0.19	0.17	0.62

Our Products – silicon solutions for a mobile world

Dialog Semiconductor's products allow us to deliver innovative silicon for an increasingly mobile world, enabling a range of chip and system-level solutions in:

Wireless communications

for advanced mobile and portable devices

Automotive and industrial

chips at the heart of safety, comfort and control systems

Imaging

leading digital camera and image processing products for wireless, automotive and industrial systems

Dialog designs and develops application specific integrated circuits (ASICs) and standard chip solutions with key products such as:

- **Audio and multimedia CODECs:** improved voice quality in mobile phones depends on conversion of analog speech signals to digital signals for transmission over the wireless link and vice versa. Our CODECs handle both speech and multimedia audio functions: turning a normal phone into a digital music player (such as MP3) with stereo CD quality sound, or a high performance wireless gaming device.

- **Power management:** for mobile phone handsets as well as lighting control and automotive applications, we design sophisticated electronic circuits to manage the power requirements of the various subsystems.

- **Camera modules:** multimedia messaging services (MMS) and even video conferencing are expected to revolutionize visual communications using mobile phone networks. Our products include high performance, high quality CMOS camera sensor modules complete with processor and lens for embedding a camera-on-a-chip into portable consumer electronics and automotive applications.

- **Sensors:** from mobile phones to in-car safety and control, we produce sensor signal conditioning ICs that enable better and safer end-user experiences.

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Management

Erwin Hopf

Vice President, Operations (48)

joined Dialog Semiconductor in July 2002. He received his Diploma in physics in 1980 from the Technical University of Darmstadt. From 1980 until 2002 he held various process engineering as well as R&D and production managing positions at Siemens Components and Infineon Technologies.

Martin Sallenhag

Director of Product Marketing (34)

joined Dialog Semiconductor in May 2001 and is responsible for the technical marketing of our product groups. He obtained his MSc in electrical engineering from the University of Lund, Sweden in 1992. Prior to joining Dialog Semiconductor, he held various management and engineering positions at Ericsson Mobile Communications and Axis Communications.

Martin Klöble

Vice-President, Finance and Controlling (43)

joined Dialog Semiconductor on July 1, 1999. He holds an MBA from the University of Stuttgart-Hohenheim and is qualified as a tax consultant (Steuerberater) as well as a certified public accountant in Germany (Wirtschaftsprüfer) and in the United States (CPA). Before joining Dialog Semiconductor he was a partner with KPMG.

Roland Pudelko

Chief Executive Officer and President (50)

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

Richard Schmitz

Vice-President, Engineering - Mixed Signal ICs (46)

joined Dialog Semiconductor in 1989 and is responsible for the design & development within the product groups of energy management & audio, RF, and automotive & industrial. He received a diploma in engineering for communications electronics in 1983 from the vocational college (Fachhochschule) in Trier. Prior to Dialog Semiconductor, he held various design-related positions at Hewlett Packard's instruments division in Böblingen and at the Institute for Microelectronics, Stuttgart.

Peter Hall

Vice-President, Quality and Technical Support (51)

joined Dialog Semiconductor in July 1987 and is responsible for all technical support, IT and quality issues. He obtained his BSc (Honours) in electrical and electronic engineering in 1974 from the University of Newcastle upon Tyne and his MSc in digital techniques in 1977 from the University of Edinburgh. Before joining Dialog Semiconductor he held various management and engineering positions at STC Semiconductors and MEM in Switzerland.

Gary Duncan

Vice-President, Engineering – Imaging (47)

joined Dialog Semiconductor in October 1987 and is responsible for the design and development of imaging products. He obtained a Higher National Certificate in electronics and mathematics from Plymouth Polytechnic in the UK and is a chartered engineer. Prior to Dialog, he held various senior engineering and management positions at Plessey and ES2.

Yoshihiko Kido

Vice President, Japan (50)

joined Dialog Semiconductor in March 2001 and is responsible for Dialog's Japanese operation. Before joining Dialog Semiconductor, he was a consultant at Overseas Affiliates Pty. Ltd., and held management positions at General Electric, ACT Japan Co. Ltd. and Seagate. He was also a founding employee of Nippon Ericsson, and was procurement director for mobile phones and base station components and modules.

Letter to our Shareholders

The subdued market conditions in 2002 allowed us to focus on developing our product strategy and market positioning, in preparation for next generation technology and products. While the year started with gloomy forecasts for the industry, we ended 2002 looking cautiously optimistic for the year 2003. Our product development focus culminated in an exciting new announcement this year: we introduced a unique new highly integrated audio and power controller for GSM/GPRS cellular phone handsets, developed by Dialog Semiconductor with Intel Corporation.

Our revenue for 2002 amounts to € 77 million reflecting the overall business situation. Dialog's investment in research and development has increased to a level of € 34 million. This expenditure is financed solely from existing funds and cash flow. We achieved a net loss of € 9 million, resulting in a loss per share of € 0.21. Dialog Semiconductor continues to be free from debt and can rely on a solid balance sheet structure. At the end of the reporting year 2002, our net cash amounted to € 31 million providing sufficient flexibility for future strategic decisions.

Dialog Semiconductor has historically been dependent for a significant part of its revenue from sales of integrated circuits and system-level component solutions to the mobile handset market. In 2002 we repositioned the company both from marketing and product development viewpoints.

So, while we continue to develop and evolve our excellent power management and audio products for current and next generation mobile phones, we have also focused on medium term and long term product development. Our acquisition of the CMOS imaging business from Sarnoff Corporation in the USA last year allows us to introduce imaging technology products. This addresses the near and medium term market requirements for camera phones and other hand-held products requiring high performance image capture and processing capabilities. In 2003, Dataquest predicts over 30 million camera phones will be sold worldwide.

Automotive control systems have also been a key area for Dialog Semiconductor. A collaboration was announced with Bosch to develop and qualify high voltage options for CMOS technology to integrate high performance analog circuits, embedded flash memory, microcontroller, high density digital logic, and high voltage (40V) circuits on a single system on a chip (SoC) to be used in automotive applications.

During the year, we introduced a range of imaging products, starting with a new camera module product family. The new 'camera-on-a-chip' modules provide VGA resolution and up to 30 frames per second, enabling high quality photo imaging and video capability to be embedded into next generation mobile phones and PDA products. We expect these modules to allow manufacturers to develop mobile phone handsets which also double up as good quality still cameras.

In introducing new products, we work closely in partnership with our customers to develop the best solution for their needs – something that has become a standard hallmark of Dialog Semiconductor, whereby we aim to achieve the best results for our customers in both product functionality and getting their products to market quickly. Our customer base is increasing in the Far East, and we are still maintaining our excellent existing base of blue-chip customers in Europe and America.

In 2002 we also refined and broadened our market position. Instead of appealing only to customers requiring application specific integrated circuits (ASICs), we also commenced marketing standard product solutions. We will add more standard products during 2003. In 2002 we laid the foundations for marketing new products by introducing basic corporate identity and brand development activities in our engineering and design operations worldwide.

In summary, Dialog Semiconductor continues to be a fabless semiconductor company, but with a broader technology product portfolio aimed at a more diverse customer base. 2002 was a year in which we could develop and prepare for the new applications made possible by breakthroughs in wireless and imaging technology.

Finally, in a difficult year which was impacted by negative political and economic influences, I would like to express sincere thanks for the continued commitment and dedication of our employees worldwide. Special thanks go to our business partners, customers and stakeholders and I look forward to further successful and prosperous cooperation in 2003.

Kirchheim/Nabern, February 2003.

Roland Pudelko
CEO & President

PICTURE THE MOMENT*

*Right now mobile phones are able to capture images and send them immediately to others. Dialog's image sensing and processing technology provides digital still camera quality pictures which can be taken even in low light using a mobile phone.

Corporate Profile

Our Mission

"To be the leading global supplier of mixed signal components and system level solutions to the wireless communications, automotive and industrial markets"

Our Business

Delivering intelligent solutions for a mobile future

Dialog Semiconductor is a fabless semiconductor company, whereby we design and develop innovative mixed signal and system level integrated circuit solutions, with world-leading chip designs for power management, audio processing and imaging. Production of these designs is then outsourced, and the final products are returned to Dialog for approval and testing before delivery to our customers.

Our core competence in the design of complex analog and digital circuits, combined with excellent customer relationships in the wireless and automotive sectors, enables sophisticated new end-user applications in an increasingly mobile world.

Our strong track record in delivering qualified and tested products directly to the world's leading wireless handset manufacturers is evinced by shipping over 300 million successful audio-CODEC and power management chips for mobile phones. This technology which optimizes power usage, processes audio signals, and converts analog or digital data in wireless handsets also provides competitive solutions for automotive and industrial applications.

With this experience of delivering mixed signal circuits in CMOS semiconductor technology, Dialog is enabling advanced applications and features in consumer electronics products and other systems. In 2002, we extended the influence of our technology by introducing components and systems for embedding advanced digital camera and video capabilities into portable electronic products.

Our History

Dialog Semiconductor originated from the European activities of a US semiconductor company, International Microelectric Products, Inc. ("IMP"), founded in 1981 in Silicon Valley (USA). The company specialized in mixed signal CMOS semiconductor technology. In 1990, Daimler-Benz AG, now DaimlerChrysler AG, acquired IMP Europe and we became part of the Daimler-Benz AG subsidiary, Temic GmbH.

In March 1998, three of our current shareholders, Apax Partners, Adtran and Ericsson provided funding to finance a management buy-out of the business from Daimler-Benz AG. Now, Dialog Semiconductor Plc is a public limited company constituted under the laws of England and Wales.

Dialog introduced one of the first mixed signal system level power management solutions in CMOS technology in 1996. Among other major achievements, we started developing a GSM audio processor in 1989, we provided one of the first combined GSM audio and RF interface devices in 1991, and in 2000 we first supplied a 3G power management and audio device. In 2001 we developed a complete digital camera accessory module for mobile phones, incorporating all the elements for capturing and manipulating images. In 2002, we announced full VGA resolution, commercially available standard camera modules enabling high quality photo imaging and video capabilities to be embedded into next generation mobile phones and personal digital assistant (PDA) products.

The Dialog Philosophy for Success

Our company philosophy is based on four key elements for success:

- Develop best-in-class technology
- Build strong customer partnerships for new product development
- Select the best suppliers for manufacturing and assembly
- Ensure the highest quality product delivery to customers through in-house testing

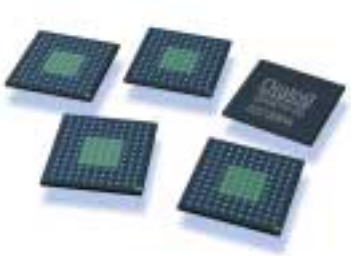
Our commitment to operating to worldclass quality standards throughout all our locations has won the approval of all our major blue-chip customers. Employing over 280 people worldwide, we are headquartered near Stuttgart, Germany with additional sales, marketing and design facilities in the UK, the USA and Japan; and design centers in Sweden and Austria.

Our Products

Dialog Semiconductor is a world-leading developer and supplier of power management, audio and imaging semiconductor technology. Our chips and system level solutions enhance the performance and features of wireless, hand-held and portable electronic products, enabling advanced applications on mobile phones, such as multimedia messaging, video, gaming and digital audio players. Our mixed signal technology also enables intelligent solutions in automotive and industrial systems, for airbag and safety systems, dashboard control and lighting control.

State of the art: Our latest innovations

Camera sensor modules embedded into phones, organizers, and cars enable quality photo and video.



Audio processing and power management combined in an extremely small chip enable longer lasting battery and CD quality sound.

Images are not actual size

Wireless Communications

Enabling advanced features in mobile and portable devices

Dialog Semiconductor has a long history of designing and supplying semiconductor components and solutions to the mobile and cellular handset market. Based on our core competence in mixed signal circuit design for power management and audio processing functionality, we are delivering technology that enables advanced solutions such as:

- Longer standby times and hi-fi quality voice on mobile phones
- Digital audio player (MP3 and others) functions on mobile phones
- Imaging technology for multimedia messages on mobile phones
- Plug-in or built-in digital camera module for mobile phones
- Force sensors – enabling joystick-like functions in mobile phones

These features are underpinned by the use of leading edge silicon and packaging technologies, using standard CMOS processes. Dialog's design, manufacturing and test methodologies are focused on enabling rapid, low risk development of complex devices and features customized to specific applications.

Imaging

High performance image sensing and processing

Digital photography and multimedia messaging using images are becoming standard 'must-have' features in a growing range of portable consumer and wireless hand-held products. Dialog Semiconductor's traditional strengths in designing power management and audio chips for these areas is enhanced by a range of CMOS sensors and stand-alone modules for image sensing and processing. These enable designers and manufacturers to embed high performance, high-resolution camera functionality into next generation consumer as well as automotive products.

With Dialog's advanced embedded camera-on-a-chip products, a completely new world of image-enabled applications can be efficiently and cost-effectively developed using the latest CMOS technology:

- Portable wireless multimedia messaging – send real-time video and still picture images while on the move
- Personal digital assistants (PDAs) and notebooks with integrated imaging
- Security and surveillance
- Digital watch cameras
- Television and video conferencing
- Automotive imaging for safety and convenience

Performance advantages: Dialog's imaging products enable high quality still photo and video capabilities to be embedded into next generation mobile phones and personal digital assistants (PDAs). The unique XDR® (extended dynamic range) technology ensures clear images are captured under widely contrasting ambient light with fast response times, and Dialog's products offer excellent performance in low light conditions.

Automotive

Chips at the heart of safety and information systems

Dialog Semiconductor's success in automotive electronics is focused on safety and dashboard semiconductor products. The company's design expertise has resulted in ASICs (application specific integrated circuits) and image sensing products which, when combined with micro-mechanical sensors enable solutions such as:

- Chips for sensors in automotive airbag systems
- Dashboard control for on-board sensors

The company is also working with automotive manufacturers in the area of high voltage (40V) system-on-a-chip (SoC) development – where the SoC includes a microcontroller, embedded flash memory, high voltage devices, and high performance analog components, all on the same silicon.

Dialog's semiconductor components and solutions technology provides integrated systems on a chip for areas such as information systems for road transport and traffic, emergency calling systems and links to wider forms of communications such as controlling electrical actuators.

Industrial systems

An established product range

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

Other applications

Wireline ASICs

Although the majority of customers using our technology are developing wireless, imaging and automotive/industrial systems, our mixed signal design expertise also addresses the needs of wireline communications and other applications.

In the wireline sector, the products we supply provide the interface between the transmission cable or telephone line and digital transmission equipment such as central office line cards, routers or multiplexers. Dialog products now support T1, T3, HDSL, SDSL and G.shdsl transmission standards, embracing the latest high-speed transmission technologies. Our solutions are designed to improve system efficiency, increase transmission distance and to cut the cost of providing high-speed connections throughout networks.

With the continued expansion of Internet based communication in business and the home, the demand for higher speed, wider bandwidth networks will continue to grow, increasing demand for the products we manufacture.

SOUND QUALITY*

*Right now mobile phones can be used as a fully-fledged digital audio player or as a full FM radio. Dialog's integrated circuits provide hi-fi quality sound from the smallest of devices.

Our Share

The International Stock Markets in 2002

The international stock markets reflected the overall weakening world economy in the reporting year 2002. Following two consecutive years of losses, the most important lead markets in Europe, the USA and Japan not only weakened again, but also rapidly declined. In Europe, the DAX returned the largest loss among all European markets. The German share index lost some 44 percent in 2002, representing the largest collapse since 1948 and nearly double the loss of the previous year. The Deutsche Börse NEMAX 50 index also continued its downhill ride. Many investors lost confidence in the shares represented on the Neuer Markt, leading to the NEMAX 50 losing some 68 percent during 2002, more than two-thirds of its value. The European standard shares, measured by the Stoxx 50, lost 35 percent overall, the highest loss since the index was introduced in 1987.

In the USA the Dow Jones Index lost 17 percent, the wider spread S&P 500 some 23 percent and the technology market, Nasdaq, 31 percent compared to the beginning of the year. The American stockmarket thus concluded the year with a loss for the third time in a row.

The Tokyo market also suffered substantial losses and finished the year 19 percent lower than at the end of 2001. With this annual loss, the Japanese stockmarket reached it lowest level in twenty years.

Reasons for the further drop in share prices are the continuing recession in the most important western industrial nations, associated with lower corporate profits in most industrial sectors. Balance sheet irregularities uncovered in Europe and the USA led to a loss of confidence among investors during the summer months, especially in many technology ratings. Furthermore, political factors such as the risk of war in the Middle East had a negative effect on share prices, especially in the second half of 2002.

The Dialog Semiconductor Share Performance

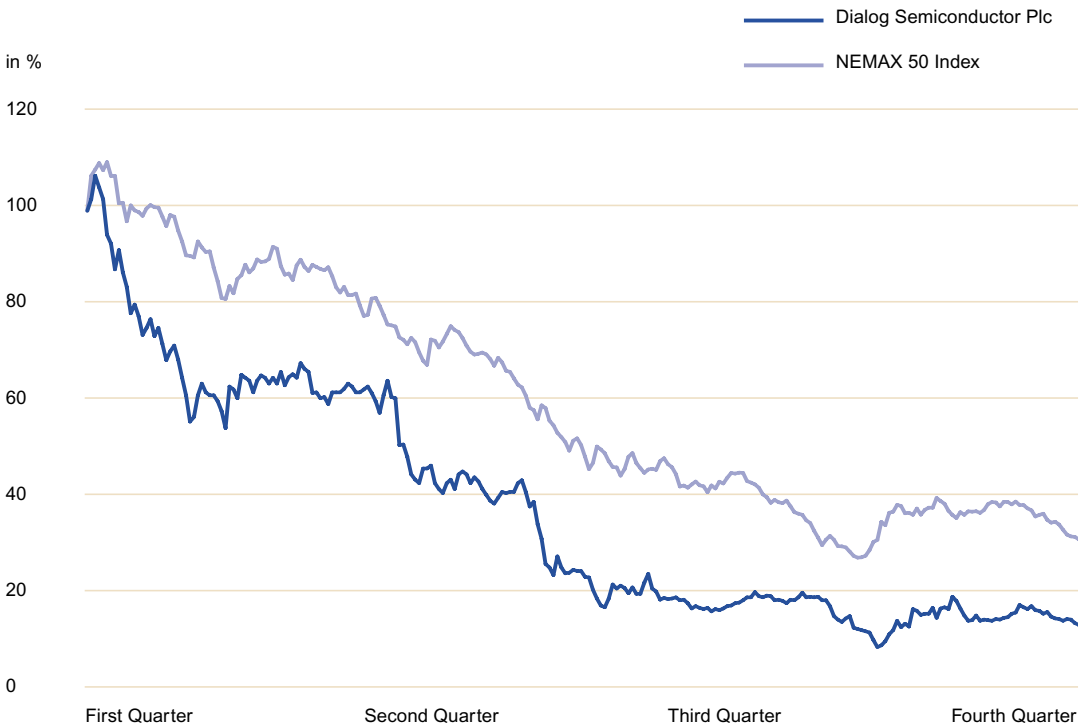
In keeping with the movement of many technology shares, the Dialog Semiconductor share price during 2002 also lost value. After an improvement in the last quarter of the previous year – supported, among other things, by the inclusion of the share in the Nemax 50 index - the Dialog Semiconductor share began the market year 2002 with a Xetra rating of € 8.20 (Nasdaq $ 7.25; Nasdaq Europe € 8.15). By 3rd January, with a high trading volume compared to the annual average, our share achieved its peak daily closing for the year of € 8.82 on the Neuer Markt technology market. Despite good business developments and results in the first quarter – Dialog Semiconductor achieved a moderate gain per share of € 0.02 – the share price fell in the first three months of the year and ended the first quarter at a closing price of € 5.24 (Nasdaq $ 4.35; Nasdaq Europe € 5.05).

During the second quarter of 2002, our share moved in line with the Nemax 50 index and dropped substantially to € 1.67 by the end of the quarter (Nasdaq $ 1.60; Nasdaq Europe € 1.49). The main factors contributing to this were the ongoing weakness in the semiconductor and mobile phone sectors, the uncertain outlook for economic growth in the industrial nations, and, for the first time, the effect of the crisis of confidence in capital markets due to the revelations of balance sheet irregularities in US and European companies; the latter affected markets more seriously.

Strongly affected by further, sometimes dramatic, price collapses, not only in the technology sector, but across all sectors and in all market indices, and by the continuing poor market and economic conditions, the Dialog Semiconductor share had little chance of recovering in the third quarter of 2002. Together with comparatively low Xetra turnover, the value sank as low as € 1.00 on the last trading day of the third quarter (Nasdaq $ 1.45; Nasdaq Europe € 1.00).

Prices did not rally during the final quarter of the trading year as they had in 2001. The capital markets had still not recovered from the loss of investor confidence, on top of which came negative geo-political factors in connection with the Iraq crisis. As a result, our share was quoted at its lowest price for the year, and its all-time historic low, of € 0.70 in Xetra trading on 8th October. The Dialog Semiconductor share ended the 2002 trading year at a closing price of € 0.91 (Nasdaq $ 1.29 $; Nasdaq Europe € 0.70).

Share price movement compared to NEMAX 50 Index.
January 2, 2002 – December 31, 2002



Market prices

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

		2002		2001	
		High	Low	High	Low
Neuer Markt (DLG)	First Quarter	€ 8.82	€ 4.40	€ 10.85	€ 3.88
	Second Quarter	€ 5.24	€ 1.67	€ 8.60	€ 4.61
	Third Quarter	€ 1.87	€ 1.00	€ 4.60	€ 2.75
	Fourth Quarter	€ 1.35	€ 0.70	€ 8.30	€ 3.85
Nasdaq Europe (DLGS)	First Quarter	€ 9.10	€ 5.00	€ 11.75	€ 4.00
	Second Quarter	€ 5.40	€ 1.49	€ 7.75	€ 5.00
	Third Quarter	€ 1.87	€ 1.00	€ 5.00	€ 2.80
	Fourth Quarter	€ 1.25	€ 0.45	€ 8.15	€ 3.50
Nasdaq (DLGS)	First Quarter	$ 7.55	$ 3.75	$ 9.69	$ 3.69
	Second Quarter	$ 4.55	$ 1.60	$ 7.50	$ 4.00
	Third Quarter	$ 1.99	$ 1.10	$ 4.35	$ 2.49
	Fourth Quarter	$ 1.42	$ 0.95	$ 7.30	$ 3.40
Average trading volume per day		**121,102**		**109,961**	

Investor Relations

Stronger commitment for our shareholders

Dialog Semiconductor pursues transparent and direct communication with investors and financial analysts to sustain and reinforce confidence in the Dialog share. As a company in the semiconductor industry with a parallel listing on Nasdaq and Nasdaq Europe, our financial communication is focussed on international markets. Thus, approximately half of our financial analysts who regularly report on us are based in Great Britain or the United States.

Besides the DVFA analysts' conference on the 2001 annual results, Dialog last year organized a total of six telephone conferences for analysts and investors. In addition to the regular telephone conferences, a conference call was also held on the occasion of the quarterly results in January 2002, on the special depreciation allowance for the wafer supplier, ESM (reporting year 2001), and a further telephone conference in July on the announcement of the acquisition of the imaging division of the Sarnoff Corporation. Some 25 to 30 analysts regularly took part in these events.

Furthermore, the Dialog management held a roadshow in August 2002 in Frankfurt, Cologne and London. In addition, some 40 individual meetings were held during the year with investors and analysts worldwide.

As a source of information, the investor relations web pages are one of the most important elements of communication with private investors, but also with institutional investors. To meet the increased need for information among our investors and customers, we comprehensively redesigned our homepage in July. In total, more than 300 private readers receive our newsletter.

Investor relations activities in 2002.

Date	Location	Event
January 8	Conference Call	Write-down of investment
February 20	Frankfurt	Press Conference of 2002 result
February 20	Conference Call	Announcement of 2002 result
March 21	Frankfurt	Analysts Conference on Financial Year 2002
April 24	Conference Call	Release of first quarter results
April 29	Frankfurt	DZ Bank Semiconductor Conference
May 16	London	Annual shareholders' meeting
July 1	Conference Call	Acquisition of CMOS imaging technology
July 24	Conference Call	Release of second quarter results
August 27-29	Frankfurt/Cologne/London	Roadshow with Bank Julius Bär
October 23	Conference Call	Release of third quarter results
November 13	Frankfurt	Press release regarding German Corporate Governance Code

Some further 40 meetings with investors or analysts and press interviews also took place during the year.

Research analyst coverage

We greatly appreciate the ongoing communication with financial analysts. During 2002 the following analysts published reports about Dialog Semiconductor or covered us in their semiconductor peergroup analysis.

Institution	Analyst
Areté Research	Brett Simpson
Berenberg Bank	Dr. Oliver Wojahn
BW Bank	Rüdiger Kühnle
Cazenove London	Ralph Jainz
Crédit Agricole Indosuez Cheuvreux	Bernd Laux
Deutsche Bank AG	William Wilson; Nicolas Gaudois
Dresdner Kleinwort Wasserstein	Annett Weber
DZ Bank	Harald Schnitzer
ING Bank	Stella Dombrowsky
Julius Bär	Ingo Queiser
LBBW	Uwe Barth
MM Warburg	Michael Bahlmann
SES Research	Oliver Drebing
Nomura	Sean Murphy
Puilaetco	Philippe Rochez
WestLB Panmure	Dr. Karsten Iltgen

Corporate Governance Declaration

Dialog Semiconductor complied with the corporate governance principles of the Nasdaq Europe stock exchange following the IPO in 1999. At that time we adopted requirements such as internal guidelines protecting against insider trading as well as establishing an Audit and Remuneration Committee. In November 2002 we publicly declared our commitment to German and international standards of fair and responsible corporate governance and were among the first companies to accept the Declaration on Corporate Governance. This Declaration contains all of the ("shall") recommendations in the German Corporate Governance Code put forward by the federal government as well as most of the Code's suggestions.

We are especially proud that our own Corporate Governance principles go beyond some of the requirements. For example,

- our fast close procedures enabled us during 2002 and prior years to publish our quarterly financial statements within a 30 day period, falling well below the requirement to report within 45 days
- a major shareholder must notify us if their interest in Dialog Semiconductor exceeds 3 % of any subsequent changes of 1 % or more
- we will not provide or guarantee any loans to directors or senior executives

As a Nasdaq listed company we also have to comply with these corporate governance standards. The NASDAQ Stock Market, Inc. has recently proposed certain rule changes and filed them with the U.S. Securities and Exchange Commission ("SEC") for approval. In addition to the requirements of the Sarbanes-Oxley Act the implementation of the Nasdaq (US) corporate governance principles will be our next challenge.

Related Information for Shareholders

Admission to Prime Standard of Deutsche Börse

In November 2002 the Exchange Council of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse – FWB) approved the proposed segmentation of the equity market of the Frankfurt Stock Exchange. The new structure, effective January 1, 2003, comprises the new Prime Standard segment with uniform postadmission responsibilities, in addition to the General Standard segment that applies the statutory minimum requirements set out for the Official Market ("Amtlicher Markt") or the Regulated Market ("Geregelter Markt"). These changes make investors the focus of market organization. They are aimed at raising investor confidence through the highest transparency standards in Europe as well as enabling simpler investment decisionmaking with a new index logic.

Dialog Semiconductor has complied with the requirements of the Prime Standard since its initial public offering. These are:

- Quarterly reporting
- Application of international accounting standards (IFRS or US GAAP)
- Publication of a financial calendar listing the most important corporate events
- At least one analysts' conference per year
- English language for current reporting and for ad hoc disclosures required under the German Securities Trading Act

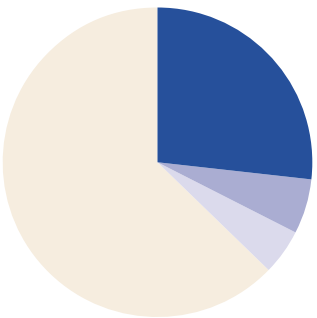
We will continue to maintain a high level of reporting and transparency and accordingly applied for admission to the Prime Standard. On December 19, 2002 Dialog Semiconductor was admitted on to the Prime Standard segment of the Frankfurt Stock Exchange as of January 1, 2003.

Share data as of December 31, 2002, (share prices derived from Neuer Markt).

Security identification Number (SIN)	Neuer Markt: 927 200
Symbols	Neuer Markt: DLG
	NASDAQ Europe: DLGS
	NASDAQ: DLGS
Stock Exchanges	Frankfurter Wertpapierbörse (Neuer Markt)
	NASDAQ Europe, Brussels
	NASDAQ, New York
Number of shares as of Dec. 31, 2002	44,068,930
Share price as of Dec. 31, 2002 (in €)	0.91
2002 High (in €)	8.82
2002 Low (in €)	0.70
Performance since offering	(90 %)
Trading volume per day (average 2002)	121,102
Market capitalization (in millions of €)	40.1
Basic loss per share 2002 (in €)	(0.21)

Principal shareholders

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



Name	Number	Percent
Apax Partners	11,795,793	26.8
Adtran, Inc.	2,520,960	5.7
Ericsson Radio Systems AB	2,101,554	4.8
Free float (1)	27,650,623	62.7
Total	**44,068,930**	**100.0**

(1) Of which 7,654,610 shares (17.4 %) held by the The Capital Group Companies Inc as of December 31, 2002 on behalf of discretionary clients and 712,455 shares (1.6 %) held by directors, see page 79 for further details.

Disclosure of Interests

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

RELIABILITY*

*Right now electronics technology enables more comfort and safety systems in cars. Dialog's chips provide the reliability that you'd expect for total control and reliability.

Economic development in 2002

Overall economic development

The economies of the major industrial nations remained subdued last year. Although a tendency towards stabilization was observed in the first half of 2002, no firm upswing resulted in the second half of the year. As before, the global situation is marked by high levels of uncertainty. On the one hand the possibility of a war in Iraq – with the corresponding effect on oil prices – and the fear of further terrorist attacks; on the other hand, the financial markets continue to suffer from a severe crisis of confidence. The international capital markets suffered collapses in 2002, sometimes dramatically. In total, these factors reduced the preparedness of consumers and investors to spend. Investment activity, above all, has failed to recover in many markets from the recession of the previous year – despite the expansive financial and fiscal policy measures introduced to stimulate public and private economic activity.

This overall economic situation displays differing characteristics in the major markets of the industrial nations. In the USA, despite difficult conditions, the recession was avoided by drastic interest rate cuts and an expansive financial policy. In particular, the strong drop in private investments characteristic of a weak phase seems to have come to a standstill. Japan, the United Kingdom and the South East Asian rim nations showed improvement in economic activity. In the Euro zone, however, the economy only grew very slowly as a result of subdued consumer spending and moderately improved foreign demand. Furthermore, the relatively weak economic policies were influenced by other factors including the uncertainty following the introduction of the Euro as a cash currency and, as the year continued, the upward valuation of the Euro.

The worldwide economic environment in our market

2002 showed some improvement within the semiconductor market, as the industry started to recover from the problems of 2001. Capacity utilization, whilst still low, improved towards the end of the year as end user markets started to recover. A threephase recovery is predicted starting with the cellular industry, followed by PC applications and finally other consumer applications.

The key target market for Dialog Semiconductor – mobile phone handsets – is now showing signs of recovery. Driven by growth in Asia, especially China, the worldwide cellular market saw a return to modest growth during 2002, with 411 million units sold (Dataquest, December 2002). This volume almost reached the reported levels for 2000.

A structural change began in the cellular market in 2002. Mobile phone manufacturing has moved to lower cost areas, primarily Asia, with many manufacturers not only outsourcing manufacturing but also some handset design. An increasing proportion of the market is being serviced by outsourced design and manufacturing. These changes give an improved cost base and help offset the increased component and investment costs associated with the more complex 2.5 and 3G platforms.

Operating and Financial Review

Forward-looking statements.

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

The following table sets forth historical consolidated statements of operations of Dialog Semiconductor Plc for the fiscal years ended December 31, 2002, 2001 and 2000 in thousands of Euros and as a percentage of revenues.

	Year ended December 31,					
	2002		2001		2000	
		%		%		%
Revenues	77,104	100.0	100,519	100.0	214,459	100.0
Cost of sales	(57,403)	(74.4)	(79,637)	(79.2)	(138,866)	(64.8)
Gross margin	**19,701**	**25.6**	**20,882**	**20.8**	**75,593**	**35.2**
Selling and marketing expenses	(4,149)	(5.4)	(4,054)	(4.0)	(5,672)	(2.6)
General and administrative expenses	(6,447)	(8.4)	(5,569)	(5.6)	(5,972)	(2.8)
Research and development	(34,530)	(44.8)	(31,256)	(31.1)	(22,898)	(10.7)
Amortization of goodwill and intangible assets	(1,975)	(2.5)	(3,202)	(3.2)	(2,651)	(1.2)
Operating profit (loss)	**(27,400)**	**(35.5)**	**(23,199)**	**(23.1)**	**38,400**	**17.9**
Interest income, net	1,121	1.5	898	0.9	1,940	0.9
Foreign currency exchange gains and losses, net	(451)	(0.6)	306	0.3	2,627	1.2
Write-down of investment	11,969	15.5	(42,405)	(42.2)	–	–
Result before income taxes	**(14,761)**	**(19.1)**	**(64,400)**	**(64.1)**	**42,967**	**20.0**
Income tax benefit (expense)	5,472	7.1	22,721	22.6	(16,410)	(7.6)
Net income (loss)	**(9,289)**	**(12.0)**	**(41,679)**	**(41.5)**	**26,557**	**12.4**

Results of Operations

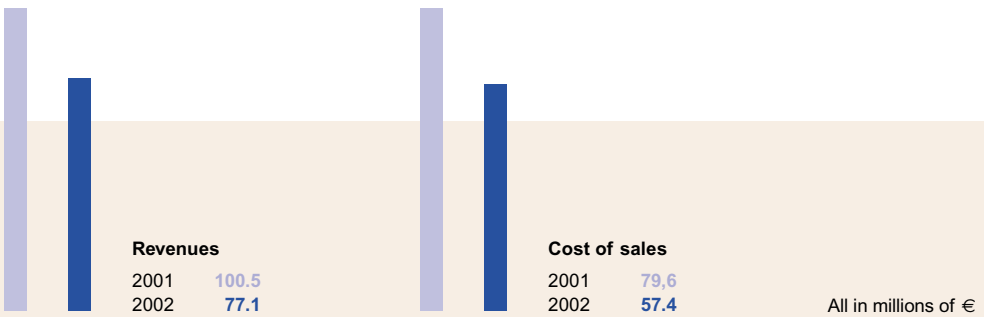
Revenues

Revenues were € 100.5 million for the year ended December 31, 2001 compared with € 77.1 million for the year ended December 31, 2002. The decrease in revenues is primarily due to lower sales volumes resulting from a continued decline in demand for cellular communications products. Revenues in the wireless communications business sector accounted for € 77.8 million or 77 % of total revenues in 2001 compared with € 54.7 million or 71 % of total revenues in 2002. Revenues from our industrial applications business sector were € 13.7 million or 18 % of total revenues in 2002, a decline of € 0.5 million when compared to the € 14.2 million or 14 % of total revenues in 2001. Revenues from our automotive applications business sector accounted for € 5.9 million and € 6.1 million, representing 6 % and 8 % of total revenues in 2001 and 2002, respectively. Revenues from our wireline communication applications were € 2.6 million or 3 % of total revenues in 2002 and 2001. For information on our revenue recognition policy, see Note 2 to the consolidated financial statements.

We expect that revenues for the year ended December 31, 2003 will increase compared to the year ended December 31, 2002 as we introduce new products to the market during 2003. However, our forward visibility with respect to customer demand is limited and a successful introduction of new products depends on the completion of new designs on a timely basis.

Cost of Sales

Cost of sales consists of the costs of outsourcing production and assembly, related personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales decreased from € 79.6 million for the year ended December 31, 2001 to € 57.4 million for the year December 31, 2002 in line with decreased production volumes. However, as a result of



lower production volume, our internal testing operation has been running at a reduced utilization level, which in turn has increased per unit production costs in 2002. Also, cost of sales in 2001 includes a provision for excess inventory of € 10.7 million compared to a provision for excess inventory of € 1.9 million for the year December 31, 2002.

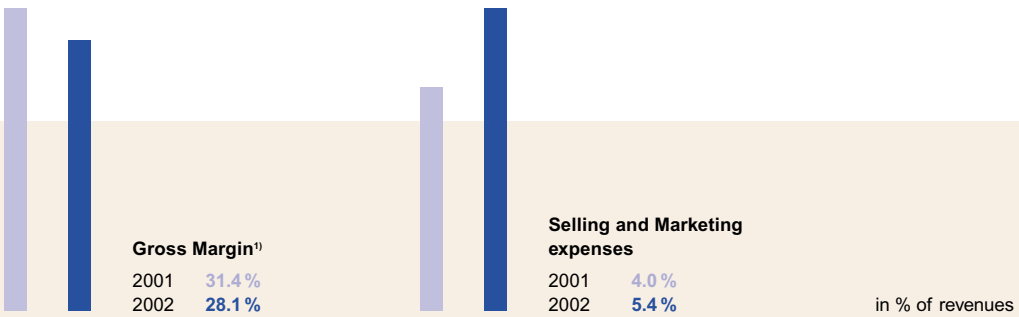
Gross Margin

Our gross margin increased from 20.8 % of revenues for the year ended December 31, 2001 to 25.6 % of revenues for the year ended December 31, 2002. Excluding the provisions for excess inventory, the gross margin was 31.4 % for 2001 and 28.1 % in 2002. The increase in per unit production costs in 2002 was the primary factor contributing to the decline in our gross margin from 31.4 % of revenues for the year ended December 31, 2001 to 28.1 % of revenues for the year ended December 31, 2002 (both years excluding the provision for excess inventory).

We expect the near term future gross margin percentage to approximate the gross margin percentage achieved in 2002 (without the provision for excess inventory) as a result of higher utilization and the expected introduction of new products (with lower initial margins in their ramp-up phase) during 2003.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of salaries, travel expenses and costs associated with advertising and other marketing activities. Selling and marketing expenses were approximately € 4.1 million for the year's ended December 31, 2001 and 2002. As a percentage of total revenues, selling and marketing expenses increased from 4.0 % to 5.4 % due to the proportionately lower revenue base.



[1)] excluding provisions for excess inventory

General and Administrative Expenses

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources, information systems and other management departments. General and administrative expenses increased 15.8 % from € 5.6 million for the year ended December 31, 2001 to € 6.4 million for the year ended December 31, 2002, primarily resulting from legal fees incurred in connection with the acquisition of the CMOS imaging technology and for patent applications filed in 2002. See “Capital Expenditures and Investment”. As a percentage of total revenues, general and administrative expenses increased from 5.6 % to 8.4 % due to the absolute increase and the proportionately lower revenue base.

Research and Development

Research and development expenses consist principally of unreimbursed design and engineering related costs associated with the development of new ASICs and ASSPs (application specific standard products). Research and development expenses increased 10.5 % from € 31.3 million for the year ended December 31, 2001 to € 34.5 million for the year ended December 31, 2002. The absolute increase in research and development expenses was due to costs incurred in assisting key customers in the development of new ASICs for them and costs incurred in the development of ASSPs. This increase occurred notwithstanding a significant drop in demand for our products from handset manufactures. In addition, we incurred € 1.3 million of development costs for imaging sensors to be completed in the first quarter 2003 (total costs are estimated to be € 1.7 million). See “Capital Expenditures and Investment”. Research and development expenses increased from 31.1 % to 44.8 % as a percentage of revenues, resulting both from an absolute increase in research and development costs and the proportionately lower revenue base.

General and Administrative expenses

2001	5.6
2002	**6.4**

Research and Development

2001	31.3
2002	**34.5**

All in millions of €

We expect continued demand from key customers for us to assist in the development of new products for them and also expect to continue to incur research and development costs in connection with the development of ASSPs. Accordingly, we expect research and development expenses to remain at approximately the same level in absolute terms in 2003 as in 2002. Our ability to generate long term revenues from our research and development programs depends on customers accepting our designs and implementing them in large scale production.

Amortization of Goodwill and Intangible Assets

Amortization expense for the year ended December 31, 2001 was € 3.2 million, of which € 1.4 million related to goodwill and assembled workforce (a value was previously assigned to an assembled workforce intangible asset, which represented the cost at that time to hire and train a replacement workforce) as compared to € 2.0 million for the year ended December 31, 2002. Future amortization expense for intangible assets (excluding goodwill) existing at December 31, 2002 is estimated to be € 1.9 million in 2003, € 1.2 million in 2004, € 0.7 million in 2005, € 0.5 million in 2006 and € 0.5 million in 2007. As discussed in Note 2 to the consolidated financial statements, we adopted a new accounting principle effective January 1, 2002 that requires goodwill no longer be amortized. Instead, we are required to evaluate the recoverability of goodwill at least annually and record a charge to earnings if and when we consider recoverability impaired. We have concluded currently that our ability to recover the carrying value of our goodwill is not impaired. Amortization expense for intangible assets primarily include amortization of capitalized costs related to ASIC design software, a 16 bit microprocessor core, certain imaging patents and other intangible assets. As a percentage of total revenues, amortization of goodwill and intangible assets decreased from 3.2 % to 2.5 % for the reasons stated above.

Amortization of Goodwill and Intangible Assets

2001	3.2
2002	**2.0**

All in millions of €

Operating Loss

We reported an operating loss of € 23.2 million for the year ended December 31, 2001 and € 27.4 million for the year ended December 31, 2002. Our operating loss for 2002 and 2001 included provisions for excess inventory of € 1.9 million and € 10.7 million respectively. Excluding the effects of these provisions, our operating loss for 2002 would have increased by € 13.0 million compared with the prior period. Lower sales volumes in 2002 and higher research and development expenses during the period contributed to that increase in the operating loss.

Interest Income, net

Interest income, net from the Company's investments (primarily short-term deposits) was € 0.9 million for the year ended December 31, 2001 and € 1.1 million for 2002, reflecting higher cash balances in the 2002 period.

Foreign Currency Exchange Gains and Losses, net

Foreign currency transaction gains and losses result from amounts ultimately realized upon settlement of foreign currency transactions and from the year end remeasurement of foreign currency denominated receivables and payables into the functional currency of the respective entity. A foreign currency exchange gain, net of € 0.3 million was recorded for the year ended December 31, 2001 compared to a foreign currency loss of € 0.5 for the year ended December 31, 2002. This decrease was due to the remeasurement of our outstanding US Dollar cash and receivable balances, which resulted in a foreign exchange gain in 2001, as the value of the Dollar against the Euro increased during this period, and resulted in a loss for the same period in 2002, as the value of the Dollar against the Euro decreased.

Operating Profit (Loss)

2001	(23.2)
2002	**(27.4)**

All in millions of €

Recovery (Write-Down) of Investments

In the fourth quarter of 2001, we determined that our ability to recover the full amount of our investments in silicon supplier ESM was impaired. Accordingly we wrote off the entire carrying amount of our investments in ESM. In March 2002, ESM was acquired by International Rectifier. As a result, we were able to recover a portion (€ 12.0 million) of our total investment in ESM.

Income Taxes

The income tax benefit was € 22.7 million for the year ended December, 31 2001 and € 5.5 million for the year ended December 31, 2002, representing effective income tax rates of 36.1 % and 37.4 %, respectively (before non-tax deductible amortization of goodwill and other intangible assets).

Net Loss

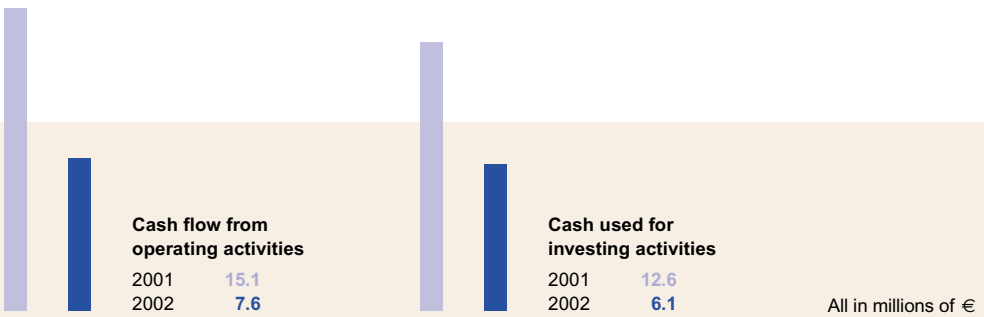
For the reasons described above, we reported net loss of € 41.7 million for the year ended December 31, 2001 compared with net loss of € 9.3 million for the year ended December 31, 2002.

Liquidity and Capital Resources

Cash Flows

Cash used for operating activities was € 7.6 million for the year ended December 31, 2002. During 2002, we used cash primarily to finance operating losses. For the year ended December 31, 2001, our working capital (excluding cash and cash equivalents) decreased in line with reduced business volumes and resulted in a related increase in cash and cash equivalents. Throughout the period under review we maintained significant cash deposits with silicon suppliers.

Cash provided by investing activities was € 6.1 million for the year ended December 31, 2002. Cash provided by investing activities in the year ended December 31, 2002, reflects primarily the payment we received in connection with the recovery of a portion of our ESM investment of € 12.0 million partially offset by the cash paid for the purchase of test equipment, tooling (masks) and EDP equipment of € 3.9 million and the cash paid for the first instalment of the CMOS imaging technology acquired of € 1.5 million. See Note 10 to the consolidated financial statements for further information.



Liquidity

At December 31, 2002 we had € 31.0 million in cash and cash equivalents and had working capital of € 56.5 million. Our primary sources of liquidity have historically been cash from operations as well as cash from the issuance of ordinary shares and from short-term borrowings as well as the recovery of the investment in ESM. As of December 31, 2002 we had no long-term debt. We have no arrangements with unconsolidated, limited purpose entities. We expect to use a portion of our cash and cash equivalents in 2003 to finance working capital resulting from expected increased business volumes. A decrease in customer demand for our products caused by prolonged unfavorable industry conditions or an inability to develop new products in response to technological changes could materially reduce the amount of cash generated from operations.

If necessary, we have available a short-term credit facility of € 12.8 million that bears interest at a rate of EURIBOR + 0.75 % per annum. At December 31, 2002 we had no amounts outstanding under these facilities. 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.

Cash and cash equivalents

2001 32.6
2002 **31.0**

Working capital

2001 50.4
2002 **56.5**

All in millions of €

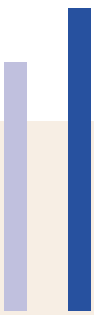
Capital Expenditures and Investments

Purchases of property, plant and equipment were € 3.9 million for the year ended December 31, 2002. Our capital expenditures in 2002 consisted primarily of purchasing new or replacement test systems, tooling equipment, handling systems and other equipment in the ordinary course of our business. During the year ended December 31, 2002, we acquired a CMOS imaging technology and associated CMOS Active Pixel Sensor (APS) patents for a total purchase price of € 3 million. A first installment of € 1.5 million was paid in cash during 2002. A second installment of € 1.5 million is payable in cash or company shares (at our option) in the first quarter of 2003 when certain CMOS imaging sensors ("imagers") have been successfully developed by Sarnoff Corporation. Development costs for these imagers were € 1.3 million during 2002 and total costs are estimated to be € 1.7 million. We expect to incur the remaining € 0.4 million of development costs in 2003. See Note 10 to the consolidated financial statements for further information.

A significant amount of our capital is held in a deposit by Chartered. See Note 8 to the consolidated financial statements for further information. We expect to recover our $ 20 million deposit from Chartered by January 1, 2004. Based on current market conditions, we do not believe that we will have to reserve further foundry capacity.

Dividends

We did not pay dividends in the years ended December 31, 2002, 2001 and 2000. We do not currently plan to pay dividends in the foreseeable future.



Capital expenditures

2001 3.2
2002 **3.9**

All in millions of €

Research and Development

Dialog Semiconductor is known for its strength in research and development. A major step in R & D was the acquisition of the CMOS imaging IP and related business assets from Sarnoff Corporation in the USA in July 2002. We continue to expand our system capability knowhow, including software development, state of the art digital system design, and leading-edge status in analog design. Our design teams consist of technical project leaders, project managers and dedicated designers and layout personnel.

Our R & D headcount was maintained in order to respond to our customers' expectations of our continuing commitment to devote resources to co-operate in the development of their new products and to meet the needs of our own strategic research and development program.

We continue to focus on technology issues in line with our customers' needs, including:

- Greater system on chip (SoC) integration – more sophisticated functions and smaller products require more system functions to be integrated onto a single chip.
- Technologies – we use state-of-the-art process CMOS technologies, from 0.35 µ down to 0.18 µ.
- Power and audio integration – addressing the challenge of combining high performance audio processing circuits with the power management circuit on the same piece of silicon for features such as digital audio players in a mobile phone.
- Imaging technology – targeting highend performance for consumer, mobile and automotive camera integrators.
- High voltage integration – the combination of high voltage (40V) circuits and low voltage circuits on the same chip is important for applications such as (but not limited to) automotive electronics.

Technologies

Our strategy is to use mainstream CMOS technology for integrating complex analog, high voltage and other circuits with minimum changes to the process flow. We use CMOS because it offers our customers cost savings over specialist analog or mixed manufacturing technologies (BiCMOS). Unit production costs can be up to 20-25 % lower in CMOS compared to alternative manufacturing technologies, for the same or similar functionality.

Power and audio integration

With mobile phones becoming more like entertainment centers, their design increasingly requires a combination of high performance audio processing circuits together with power management circuits. We have achieved considerable success in addressing the challenge of keeping the cost of the electronics sub-system low by integrating the power and audio circuits on the same piece of silicon.

The power management system typically contains voltage regulators, switching regulators, charger control blocks, support functionality such as ADCs/ DACs, reference voltage and current generation, and digital control circuits to handle turn-on and turn-off sequencing.

Realizing state of the art audio systems requires a high quality CODEC (COder and DECoder to convert digital signals to analog signals and vice versa), together with mono loudspeaker and stereo headphone drivers, and low noise microphone input stages. Latest CODEC designs support sampling rates ranging from 8 kHz for voice quality to 48 kHz for improved CD-sound quality.

Integration of the two sub-systems – audio and power – also requires complementary system partitioning, an area in which Dialog has achieved considerable success. The functions are combined into a single mixed signal IC, without compromising performance of either element whilst delivering a more compact and cost effective solution.

Imaging technology

Our developments in CMOS imaging are based on proven, mature technology focused on high volume markets, using standard fabrication processes to ensure lowest cost of manufacture of camera-on-a-chip designs. Our image sensing provides significant performance advantages, including high confidence image capture, natural looking imagery (using our XDR® technology), multiple resolution, anti-blooming, and superior video in uncontrolled lighting.

Our CMOS APS technology is therefore ideal for very low voltage, low power and high confidence image capture requirements. In a typical advanced camera-on-a-chip design, our technology would provide the full functionality on a single chip – only clock and power signals need to be added. This provides one of the smallest and lowest power vision systems capable of handling up to 100 frames per second operation from a power supply as low as 2.5V.

High voltage integration

Designers are increasingly faced with the challenge of integrating greater functionality within a smaller area. System blocks – such as power management, audio or video CODEC and image sensor circuits might also require high-voltage components – especially if connecting the chip directly to a battery (for example in a car) that might produce voltages of up to 40V. Integrating the high and low voltage components in a standard CMOS process is generally difficult. We took the approach of specifically developing these components in a CMOS process to allow integration of high performance analog circuits, embedded flash memory, microcontroller, high-density digital logic and high voltage circuits on a single chip. This offers the benefits of integration on a single chip, as well as the advantage of using standard CMOS technology.

Quality and Environment

Our development and operational practices are designed to ensure continuous improvement in our products and encompass both Quality and Environmental aspects. Dialog is accredited to the QS 9000/ ISO 9000 and ISO 14000 international quality standards. The components of our Quality and Environmental System model are represented as follows:

Overview of Dialog's quality management

The success of our strategic outsourcing business model is highly dependent on our uncompromising approach to quality assurance and our commitment to continually improving the environment within every area of our operations.

To assist us in our goals, it has long been our policy to build partnerships with suppliers that are certified to the QS 9000/ISO 9000 international quality standards. It is our standard practice when developing customized designs to go through a customer qualification/approval process for each product developed. We follow this timeconsuming process of using only QS 9000/ ISO 9000 approved suppliers in order to increase our customers' confidence that a successful product qualification will be achieved.

All of our products have to achieve world-class quality standards and we have been approved by all of our major blue-chip customers. Our main quality goals are zero defects and continuous improvement of both product and process quality. The implementation of our quality goals enhances the quality awareness of our employees within a proven, structured environment and demands the active participation of every individual within our company. The Quality Management team has a key role in ensuring that Company objectives are clearly understood at all levels throughout the organization and that they are aligned with departmental and individual objectives.

Qualification and approvals

The increase in new designs and products which require deep sub micron wafer processing technologies has resulted in over 90 % of our product qualification and monitoring programs requiring sub micron sampling.

We have successfully completed a formal automotive qualification program with chosen wafer fabrication and assembly partners.

As package technologies reduce in size and cost, the relative proportion of the costs associated with device handling increases. In order to keep these handling costs to a minimum we have invested in and qualified equipment to combine the final test stage with tape and reel capability.

The environment and environmental protection

Our ISO14001 certification demonstrates our commitment to facing the challenges of environmental protection at all levels because we believe that sustainable development can only be secured if we take care of our valuable resources.

Our Environmental Management System was designed to be a matrix system involving our main offices located in Kirchheim/Teck-Nabern and Heidelberg in Germany, Swindon in the UK and Clinton in the USA.

Dialog's integrated activities focus on the protection of our environment by using environmentally friendly production technology.
Examples of this are:

- implementation of lead free packaging
- reduction and ultimately elimination of ozone-depleting chemicals in the manufacturing processes
- reduction of hazardous substances
- reduction of waste by maximizing product yields

Good communication regarding key environmental aspects is aided by our policy of dealing only with suppliers that have complementary environmental goals to ourselves.

Our internal focus is on increasing awareness and knowledge of environmental issues throughout the organization, until this becomes an instinctive part of the decision making process.

Our Employees

Laying foundations for new business opportunities

Employees are our primary resource in ensuring development of the right products to create continuing growth and market opportunities. Their continued motivation, innovation and dedication means we have been able to withstand a second year of challenging industry conditions. As a result we were able to lay strong foundations for the new business opportunities we are now exploring. All areas were covered, including engineering, research and development.

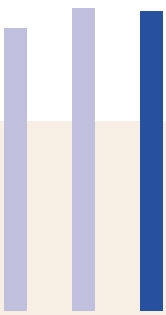
In the year to December 31, 2002 our workforce was 284 people in eight locations worldwide – the majority employed in R&D functions.

Employee retention & development

Our employee turnover rate remains one of the lowest in the industry, despite the market downturn, and some cost reduction measures. This is due to the availability of opportunities to work on the latest technological developments, as well as our continued investment in engineering and personal development training programs.

A word of thanks to our employees.

The Management would like to take this opportunity to thank all employees for their hard work and commitment during the past year.



Employees 2000–2002

2000	268
2001	287
2002	**284**

Our Facilities

Global presence enables local support for customers

Dialog Semiconductor is represented in the most important technology development and manufacturing markets worldwide. These activities are managed from Germany. We have a total of eight offices in Europe, the USA and Japan. This means we can support our customers close to where they need us. For example, we can support our customers in the Asian growth markets – especially in the mobile telephony sector – from our office in Tokyo. Our direct local support is highly valued by our customers and complements their development activities.

Effective development in the design centers

In addition to global presence, effective development work in small teams is one of the most important benefits of our business model. The individual design centers constantly exchange knowhow enabling them to focus on innovative design work and, using uniform design software and IT infrastructure, drive product developments forward at multiple locations simultaneously.

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

Location	Principal Use
Neue Strasse 95, Kirchheim/Teck-Nabern, Germany	Company headquarters, office operation for design, marketing and testing
Windmill Hill, Swindon, Wiltshire, United Kingdom	Office operation for marketing and design
54 Old Highway 22, Clinton, New Jersey USA	Office operation for marketing and design
S:t Lars väg 46 Lund, Sweden	Office operation for design and development
Aomi Frontier Building 9f 43, Aomi 2-chome Koto-ku/Tokyo, Japan	Office operation for marketing and design
Mannheimer Strasse 1 Heidelberg, Germany	Office operation for design
Industriestrasse 1 Munich/Germering, Germany	Office operation for design
Kärntner Strasse 518 Graz-Seiersberg, Austria	Office operation for design

Risk Factors

The market in which we compete is characterized by continuous development and technological improvement. As a result, our success depends on our ability to develop new designs and products on a cost effective, timely basis. Our future success also depends on our ability to anticipate and respond to new market trends, to rapidly implement new designs which satisfy customers' desires, and to keep abreast of technological changes within the semiconductor industry generally. It is not possible to predict or identify all relevant risk factors and, therefore, the following list should not be considered to be a complete statement of all potential risks or uncertainties.

- We have not been profitable for the last two fiscal years, and there is no guarantee that we will return to profitability
- Our revenues, profitability and growth could decline if the growth of the wireless communications market slows
- The semiconductor industry is highly cyclical in nature and this results in periodic overcapacity
- We face intense competition, and if we are unable to compete effectively or if we are unable to adapt rapidly to changing markets and technology, we could lose customers and be unable to develop new business
- The loss of one of our principal foundry relationships or assembly services or a delay in foundry or assembly production may result in a material loss of production and revenues
- Obtaining access to manufacturing capacity at semiconductor manufacturing plants may become increasingly difficult and could result in higher costs and a material loss of revenues
- We currently depend on a few customers for a substantial portion of our revenues, and the loss of one or more of these customers may result in a material decline in our revenues
- Our business, financial condition and reputation may be materially adversely affected if our ASICs, or the electronic systems of which they are a part, contain defects that cause damage or injury
- Our products are difficult to manufacture and manufacturing defects can adversely affect our results
- We may not be able to remain competitive if we lose any of our key executives or if we cannot hire and retain qualified engineers and sales and marketing personnel
- If we are unable to protect our intellectual property and knowhow from being copied or used by others, our competitors may gain access to its content and technology
- The profitability of our business may be adversely affected by currency fluctuations and by the economic and legal developments in the countries where we conduct our business

For more information, see also our annual report on Form 20-F, which we expect to file with the US Securities and Exchange Commission on or about February 26, 2003. In addition, we have identified the following accounting polices and related uncertainties with the accounting measures used in preparing our consolidated financial statements that we believe are essential to understanding the financial reporting risks present in the current economic environment.

Realizability of investments in wafer suppliers

In order to secure adequate sources of silicon supply, we made certain investments in suppliers in the form of equity interests, loans, deposits and advanced payments for products. As discussed in Note 3 to the Consolidated Financial Statements, due to significant financial difficulties at one of our suppliers, ESM, we wrote-off our total investments in this supplier which resulted in a € 42.4 million pre-tax charge to earnings in the fourth quarter of 2001. In March 2002, ESM was acquired by International Rectifier Corporation. As a result, we were able to recover a portion (€ 12.0 million) of our total investment in ESM in 2002.

As discussed in Note 8 to the consolidated financial statements, at December 31, 2002, our remaining investments in wafer suppliers consists of a $20 million deposit with Chartered, as well as advance payments of $8.6 million previously made to Chartered and another supplier. We expect to receive back our $20 million deposit from Chartered by January 1, 2004. Upon receipt of our deposit, we intend to settle our related hedging position and any related gain or loss resulting from the settlement of the forward contracts will be recognized in the consolidated statement of operations. See Note 14 to the consolidated financial statements. Based on our current production planning, the advance payments will be refunded to us in proportion to our future wafer purchases. Any remaining balance of the outstanding amounts with Chartered is payable as of January 1, 2004. We currently expect also to realize the entire amount of our advance payments with the other supplier. However, the industry-wide decline in demand for semiconductors has adversely affected the financial condition of several semiconductor manufacturers. Prolonged adverse market conditions could affect the ability of these semiconductor manufacturers to repay our deposits and any remaining balance of our advance payments and this could affect our estimates about the recoverability of our investments. Therefore, it is reasonably possible that future operating results could be materially adversely affected in the event that we determine that our ability to recover our remaining investments in wafer suppliers to be impaired.

Recoverability of long-lived assets

Goodwill

When we acquired our predecessor business, the excess of the purchase price for the acquisition over the fair value of the net assets acquired was recognized as goodwill. At December 31, 2002, the carrying value of our goodwill is € 11,786. Goodwill is no longer amortized, but we have (and will continue) to evaluate the recoverability of our goodwill at least annually (during the third quarter) or when significant events occur or circumstances arise which indicate that the fair value of the Company may be less than its net shareholders' equity. The fair value of the Company is determined by estimating the present value of future cash flows, which we believe is a more appropriate measure to determine fair value than the Company's current market capitalization (which is based on the quoted market price of the Company's ordinary shares). For the year ended December 21, 2002, the expected cash flows were derived from the Company's strategic plan and forecasts. The discount rate applied considered marketplace participant assumptions including a risk-free rate, market risk premium and a beta factor that is consistent with the Company's market peers. However, a prolonged general economic downturn and, specifically, a continued downturn in the semiconductor and wireless communications industries could cause us to change our strategic plan and forecasts, which could adversely impact our expected future cash flows and the discount rate assumptions used by us to estimate the fair value of the Company. Consequently, it is reasonably possible that our future operating results could be materially and adversely affected by an impairment charge related to the recoverability of our goodwill.

Other Long-Lived Assets

Our business is capital intensive and has required, and will continue to require, significant investments in long-lived assets, including property, plant, equipment and intangible assets (other than goodwill). At December 31, 2002, the carrying amount of our property, plant and equipment was € 27.8 million. As discussed in Note 2 to the consolidated financial statements, recoverability of these long-lived assets that will continue to be held and used is evaluated whenever an indication of impairment exists. Then we will compare the carrying amount of the asset or group of assets to the net undiscounted cash flows expected to be generated by the asset or group of assets. If the asset or group of assets is considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the impaired asset or group of assets exceeds its fair value.

We do not believe that our ability to recover the carrying value of our other long-lived assets has been impaired. However, a prolonged general economic downturn and, specifically, a continued downturn in the semiconductor industry would intensify competitive pricing pressure because of overcapacity in the industry, and we could be forced to decrease production and reduce capacity. Such events could adversely affect our estimates of future net cash flows expected to be generated by our long-lived assets. It is reasonably possible that our future operating results could be materially and adversely affected by an impairment charge related to the recoverability of our long-lived assets.

Realizable value of inventories

At December 31, 2002, our total inventory was € 14.5 million. In 2002 and 2001, we recognized provisions for excess inventory of € 1.9 million and € 10.7 million, respectively. We believe that our inventory levels are in line with current requirements. However, the demand for our products can fluctuate significantly in response to rapid technological changes in the semiconductor and wireless communications industries. In addition, demand for our products reflects, to a significant degree, the changing requirements of manufacturers of telecommunications devices. In particular, handset manufacturers have significantly reduced their demand for mobile phone components, including mixed signal ASICs, in recent periods. It is reasonably possible that future operating results could be materially and adversely affected if any additional excess inventory charges are needed.

Realization of deferred tax assets

Total net deferred tax assets are € 24.2 million at December 31, 2002, reflecting primarily € 70.7 million in loss carryforwards. While these losses may be carried forward indefinitely, their realization is dependent on generating sufficient future taxable income to utilize the losses. Although realization is not assured, we believe it is more likely than not that substantially all of our net operating loss carryforwards will be realized. The amount of total deferred tax assets considered realizable, however, could be reduced if our estimates change about our ability to generate future taxable income in the foreseeable future, or if changes in tax laws impose restrictions on the time or extent of our ability to utilize our loss carryforwards. In the recent German tax reform proposal (“Steuerverguenstigungsabbaugesetz – StVergAbG”), it is planned to restrict the use of German tax-loss carryforwards to one half of the taxable gain for fiscal years starting from 2003 and thereafter. If this reform is enacted as proposed, it would not subject us to the risk of losing the benefits of our tax loss carryforwards if they remain unused by a certain time period, but it could delay the ultimate realization of these tax benefits.

Outlook

Worldwide

A long term, recognizable economic recovery depends upon the negative factors responsible for the loss of economic dynamism in 2002 losing their effect in the current year. These particularly include the effect of the fall in share prices, the increase in oil prices and the general uncertainty over the course of events in the Middle East. Assuming the inhibiting effect of these decreases as the year goes on, one can expect an upward momentum, activated not least by the expansive monetary policy, to again win through. As a consequence an accelerated increase in overall economic production for 2003 could be predicted. However, a moderate recovery should be assumed as the pressure for consolidation remains strong both in the private and public sectors.

In our market

The worldwide cellular market is already showing signs of improvement compared to 2001. Phone sales in 2002 increased compared to the previous year and the long term outlook remains positive with 459 million phone sales forecast for 2003 (Dataquest, December 2002) and sequential growth of 10 % forecast over the next 5 years.

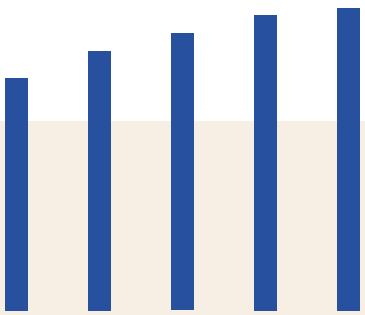
Two of our key markets over the next few years will be wireless handsets, and multimedia devices – including phones – with full color displays, digital photo imaging and video capability built in. The semiconductor content provided by Dialog Semiconductor for both these areas will include integrated power management and audio chips, camera modules and sensors. We will provide both application specific chips as well as standard products.

The driving force for market growth will be the desire for many endusers to purchase replacement phones with increased functionality over their current models. The key features being introduced in advanced terminals are color screens, multimedia support and built in cameras. Dataquest predicts over 30 million camera equipped phones will be sold in 2003.

New features, coupled with the introduction of Java 2 Micro Edition (J2ME) which enables downloading of new features and applications, increase the flexibility of the phone and give a more satisfying user experience as well as giving the network operators new applications from which new revenue streams may be generated.

Phone design is playing an important role in expanding the market, with new and innovative designs changing the phone from the previous black box to a sleek metallic or pastel shaded terminal. Clamshell designs, previously popular in Asia, are now taking an increased market share in Europe and the USA. These features will continue to drive demand for phones as lifestyle accessories whilst at the same time the form factor will facilitate the larger screen and keypad sizes required for new applications such as downloadable games and multimedia messaging.

Take up of third generation networks could be driven by a push from network operators to migrate subscribers to new frequency bands which are being made available. New applications like MMS (multimedia messaging services) are already generating significant traffic and could open up opportunities for take up of 3G.



Worldwide total handset production volume (in thousands of units)

2002	**411,155**
2003	**459,555**
2004	**490,283**
2005	**522,734**
2006	**535,372**

(Dataquest, December 2002)

*COMFORT**

* Right now the power of wireless networks allows for flexible lifestyles in millions of homes and offices. Dialog's latest chip design innovations provide sophisticated features for electronic products to run longer, and enable high levels of mobility..

Consolidated Financial Statements

Management's Responsibility for Financial Reporting

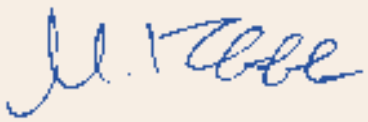
The accompanying consolidated financial statements and related notes of Dialog Semiconductor Plc were prepared by management, which has the primary responsibility for the integrity of the financial information therein. The statements were prepared in conformity with generally accepted accounting principles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

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

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

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

Roland Pudelko
CEO & President



Martin Klöble
Vice President Finance & Controlling

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Dialog Semiconductor Plc and subsidiaries (the "Company") as of December 31, 2002 and 2001 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

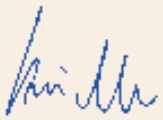
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dialog Semiconductor Plc and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the consolidated financial statements, the Company changed its method of accounting for goodwill and intangible assets in 2002 and its method of accounting for derivative financial instruments and hedging activities in 2001.

Stuttgart, Germany
February 25, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Helwig
Wirtschaftsprüfer



Kiechle
Wirtschaftsprüfer

Consolidated Statements of Operations

(In thousands of €, except per share data)	Notes	Year ended December 31, 2002	2001	2000
Revenues	15	77,104	100,519	214,459
Cost of sales	7	(57,403)	(79,637)	(138,866)
Gross margin		**19,701**	**20,882**	**75,593**
Selling and marketing expenses		(4,149)	(4,054)	(5,672)
General and administrative expenses		(6,447)	(5,569)	(5,972)
Research and development		(34,530)	(31,256)	(22,898)
Amortization of goodwill and intangible assets	2	(1,975)	(3,202)	(2,651)
Operating profit (loss)		**(27,400)**	**(23,199)**	**38,400**
Interest income, net		1,121	898	1,940
Foreign currency exchange gains and losses, net		(451)	306	2,627
Recovery (write-down) of investment	3	11,969	(42,405)	–
Result before income taxes		**(14,761)**	**(64,400)**	**42,967**
Income tax benefit (expense)	4	5,472	22,721	(16,410)
Net income (loss)		**(9,289)**	**(41,679)**	**26,557**
Earnings (loss) per share				
Basic earnings (loss) per share	16	(0.21)	(0.95)	0.62
Diluted earnings (loss) per share		(0.21)	(0.95)	0.60
Weighted average number of shares (in thousands)				
Basic		43,888	43,788	42,669
Diluted		43,888	43,788	44,300

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

Consolidated Balance Sheets

(In thousands of €)	Notes	At December 31, 2002	2001
ASSETS			
Cash and cash equivalents		31,005	32,626
Trade accounts receivable, net	6	16,034	16,489
Inventories	7	14,507	17,152
Deferred taxes	4	264	23
Prepaid expenses	8	8,227	1,107
Other current assets		2,971	830
Total current assets		**73,008**	**68,227**
Property, plant and equipment, net	9	27,801	36,940
Intangible assets	9, 10	6,922	5,701
Goodwill	2, 9	11,786	11,403
Deposits	8	19,390	22,974
Deferred taxes	4	26,818	24,684
Prepaid expenses	8	1,202	8,514
TOTAL ASSETS		**166,927**	**178,443**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Trade accounts payable		10,020	8,273
Accrued expenses		3,669	5,071
Income taxes payable		174	1,437
Deferred taxes	4	483	1,266
Other current liabilities		2,156	1,786
Total current liabilities		**16,502**	**17,833**
Deferred taxes	4	2,397	2,904
Total liabilities		**18,899**	**20,737**
Ordinary shares	11	6,737	6,737
Additional paid-in capital		168,781	168,788
Accumulated deficit		(26,726)	(17,437)
Currency translation adjustment		(557)	(270)
Derivative financial instruments		(158)	(42)
Employee stock purchase plan shares	12	(49)	(70)
Total Shareholders' equity		**148,028**	**157,706**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**166,927**	**178,443**

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

Consolidated Statements of Cash Flows

(In thousands of €)	Year ended December 31,		
	2002	**2001**	**2000**
Cash flows from operating activities: Net income (loss)	(9,289)	(41,679)	26,557
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Write-down (recovery) of investment	(11,969)	42,405	–
Provision for excess inventory	1,930	10,689	–
Depreciation of property, plant and equipment	12,834	12,801	8,126
Amortization of goodwill and intangible assets	1,975	3,202	2,651
Change in deferred taxes	(3,613)	(23,491)	2,322
Changes in current assets and liabilities: Trade accounts receivable	450	25,597	(19,626)
Inventories	715	8,975	(26,793)
Prepaid expenses	190	4,153	(23,862)
Trade accounts payable	1,760	(18,525)	11,409
Accrued expenses	(1,381)	(2,815)	5,489
Income taxes payable	(1,224)	(7,013)	5,294
Other assets and liabilities	26	840	3,304
Net cash provided by (used for) operating activities	**(7,596)**	**15,139**	**(5,129)**
Cash flows from investing activities: Recovery of investment	11,969	–	–
Purchases of property, plant and equipment	(3,872)	(3,157)	(39,024)
Purchases of intangible assets	(2,101)	(577)	(4,769)
Investments and deposits made	94	(8,894)	(32,019)
Payments for the acquisition of businesses	–	–	(4,342)
Net cash provided by (used for) investing activities	**6,090**	**(12,628)**	**(80,154)**
Cash flows from financing activities: Proceeds from issuance of ordinary shares	–	–	105,627
Sale of employee stock purchase plan shares	58	69	33
Other	(44)	(6)	(58)
Net cash provided by financing activities	**14**	**63**	**105,602**
Net cash provided by (used for) operating, investing and financing activities	**(1,492)**	**2,574**	**20,319**
Effect of foreign exchange rate changes on cash and cash equivalents	(129)	173	(1,697)
Net increase (decrease) in cash and cash equivalents	**(1,621)**	**2,747**	**18,622**
Cash and cash equivalents at beginning of period	32,626	29,879	11,257
Cash and cash equivalents at end of period	**31,005**	**32,626**	**29,879**

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

(In thousands of €)	Issued ordinary shares				Accumulated other comprehensive income (loss)			
	Shares	Amount	Additional paid-in capital	Retained earnings (accumulated deficit)	Currency translation adjustment	Derivative-financial Instruments	Employee stock purchase plan shares	Total
Balance at December 31, 1999	**42,068,930**	**6,418**	**63,475**	**(2,315)**	**1,194**	**–**	**(161)**	**68,611**
Net income	–	–	–	26,557	–	–	–	26,557
Other comprehensive loss	–	–	–	–	(1,634)	–	–	(1,634)
Total comprehensive income								24,923
New issuance of shares	2,000,000	319	105,308	–	–	–	–	105,627
Sale of employee stock purchase plan shares	–	–	(7)	–	–	–	40	33
Balance at December 31, 2000	**44,068,930**	**6,737**	**168,776**	**24,242**	**(440)**	**–**	**(121)**	**199,194**
Net loss	–	–	–	(41,679)	–	–	–	(41,679)
Other comprehensive income (loss)	–	–	–	–	170	(42)	–	128
Total comprehensive loss								(41,551)
Cost of issuance of shares in 2000	–	–	(6)	–	–	–	–	(6)
Sale of employee stock purchase plan shares	–	–	18	–	–	–	51	69
Balance at December 31, 2001	**44,068,930**	**6,737**	**168,788**	**(17,437)**	**(270)**	**(42)**	**(70)**	**157,706**
Net loss	–	–	–	(9,289)	–	–	–	(9,289)
Other comprehensive loss	–	–	–	–	(287)	(116)	–	(403)
Total comprehensive loss								(9,692)
Cost of issuance of shares in 2000	–	–	(44)	–	–	–	–	(44)
Sale of employee stock purchase plan shares	–	–	37	–	–	–	21	58
Balance at December 31, 2002	**44,068,930**	**6,737**	**168,781**	**(26,726)**	**(557)**	**(158)**	**(49)**	**148,028**

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

Consolidated Fixed Assets Schedule

	Acquisition costs					
	Balance at January 1, 2002	Currency change	Additions	Reclassi-fications	Disposals	Balance at December 31, 2002
Test equipment	48,685	(13)	1,711	–	(100)	50,283
Leasehold improvements	1,779	(81)	12	–	–	1,710
Office and other equipment	13,398	(383)	2,202	–	(1,169)	14,048
Property, plant and equipment	**63,862**	**(477)**	**3,925**	**–**	**(1,269)**	**66,041**
Software, licenses and other	10,482	(113)	597	(515)	(1)	10,450
Patents	–	–	3,008	–	–	3,008
Intangible assets	**10,482**	**(113)**	**3,605**	**(515)**	**(1)**	**13,458**
Goodwill	**15,221**	**–**	**–**	**515**	**–**	**15,736**
Investments	3,093	–	–	–	(3,093)	–
Deposits	50,524	(3,491)	–	–	(27,643)	19,390
Investments and deposits	**53,617**	**(3,491)**	**–**	**–**	**(30,736)**	**19,390**

Investments in affiliated companies.

Name	Registered office	Participation
Dialog Semiconductor GmbH	Kirchheim/Teck - Nabern, Germany	100 %
Dialog Semiconductor (UK) Limited	Swindon, UK	100 %
Dialog Semiconductor Inc	Clinton, New Jersey, USA	100 %
Dialog Semiconductor KK	Tokyo, Japan	100 %
Diasemi Dialog Semiconductor AB	Lund, Sweden	100 %

	Depreciation/Amortization							Book Value	
	Balance at January 1, 2002	Currency change	Additions	Reclassi-fications	Disposals	Balance at December 31, 2002		Balance at December 31, 2002	2001
	17,916	(13)	9,648	–	(56)	27,495		22,788	30,769
	832	(30)	251	–	–	1,053		657	947
	8,174	(257)	2,935	–	(1,160)	9,692		4,356	5,224
	26,922	**(300)**	**12,834**	**–**	**(1,216)**	**38,240**		**27,801**	**36,940**
	4,781	(87)	1,806	(132)	(1)	6,367		4,083	5,701
	–	–	169	–	–	169		2,839	–
	4,781	**(87)**	**1,975**	**(132)**	**(1)**	**6,536**		**6,922**	**5,701**
	3,818	**–**	**–**	**132**	**–**	**3,950**		**11,786**	**11,403**
	3,093	–	–	–	(3,093)	–		–	–
	27,550	–	–	–	(27,550)	–		19,390	22,974
	30,643	**–**	**–**	**–**	**(30,643)**	**–**		**19,390**	**22,974**

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

(In thousands of €, unless otherwise stated)

1 General

(a) Description of Business

Dialog Semiconductor Plc and subsidiaries ("Dialog" or the "Company") is a fabless semiconductor company, whereby it designs and develops innovative mixed signal and system level integrated circuit solutions, with world-leading chip designs for power management, audio processing and imaging. Production of these designs is then outsourced, and the final products are returned to Dialog for approval and testing before delivery to the customers.

The Company was formed in March 1998 to effect the acquisition of the Dialogue Semiconductors Limited Group from Daimler-Benz AG (now DaimlerChrysler AG). Dialog was majority-owned by the venture capital company, Apax Partners ("Apax"), and its related investors prior to the Company's initial public offering in October 1999.

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

(b) Vulnerability Due to Certain Significant Concentrations

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

The Company has made significant investments in long-lived assets and in certain suppliers (currently in the form of deposits and advanced payments) to ensure sufficient future wafer deliveries. The industry wide decline in demand for semiconductors has adversely affected the financial condition of several semiconductor manufacturers, including certain wafer suppliers used by the Company. Prolonged adverse market conditions could adversely impact these suppliers' ability to supply the Company and could effect significantly financial statement estimates made by management, including the Company's ability to fully recover these investments and therefore could impact future operating results. The loss of one of the Company's principal foundry relationships or assembly services or a delay in foundry or assembly production may result in a material loss of production and revenues.

The Company's revenue base is diversified by geographic region and by individual customer. Changes in foreign currency exchange rates influence the Company's results of operations. The Company's sales are primarily denominated in US dollars and Euro whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars. In order to manage these foreign currency exchange risks, the Company attempts to match cash inflows and outflows (sales with supply costs) in the same currency, primarily the US dollar. The Company also has foreign currency exchange risks with respect to its net investments in foreign subsidiaries in Japan, the United Kingdom, Sweden and the United States. Fluctuations in these foreign currencies could significantly impact the Company's reported results from operations.

The Company's products are generally utilized in the mobile communications and automotive industries. The Company generates a substantial portion of its revenue from the wireless communications market, which experienced difficult conditions in 2002 and 2001. Revenues from wireless communications applications accounting for 71 %, 77 % and 84 % of the Company's total revenue for the years ended December 31, 2002, 2001 and 2000, respectively.

The Company depends on a relatively few 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 2002, 2001 and 2000, two customers individually accounted for more than 10% of the Company's revenues. Accounts receivable from these two customers totaled € 9,549 and € 10,538 or 60 % and 61 % of total accounts receivable at December 31, 2002 and 2001, respectively. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

(c) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Certain prior year balances have been reclassified to conform with current year presentation.

2 Summary of Significant Accounting Policies

Principles of Consolidation – The consolidated financial statements include Dialog Semiconductor Plc and all of its owned subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents – Cash and cash equivalents include highly liquid investments with original maturity dates of three months or less.

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

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

Other Current Assets – Other current assets principally represent tax refunds receivable and as of December 31, 2002 the fair value of forward foreign currency contracts (see note 14).

Property, Plant and Equipment – Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is charged on a straight-line basis over the estimated useful lives of the assets as follows:

Test equipment	3 to 5 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	3 to 13 years

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

Intangible Assets and Goodwill – On July 1, 2001 the Company adopted Statement No. 141 of Financial Accounting Standards ("SFAS"), *Business Combinations*, and on January 1, 2002 the Company adopted SFAS 142, *Goodwill and Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and certain intangibles no longer be amortized, but instead tested for impairment at transition and at least annually. Goodwill resulting from business acquisitions, represents the excess of purchase price over fair value of net assets acquired.

Intangible assets primarily consist of licenses, software, customer lists and patents and are recorded at acquisition cost less accumulated depreciation. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 17 years.

Impairment of Long-Lived Assets – Long-lived assets other than goodwill are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or group of assets to future undiscounted net cash flows expected to be generated by the asset or group of assets. If the carrying amount of an asset or group of assets exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

In accordance with SFAS 142, the Company now evaluates the recoverability of its goodwill at least annually (during the third quarter) or when significant events occur or circumstances arise which indicate that the fair value of the Company may be less than its net shareholders equity.

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

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

Currency	Exchange rate at December 31,		Annual average exchange rate		
	2002 € 1 =	2001 € 1 =	2002 € 1 =	2001 €1 =	2000 €1 =
Great Britain	0.65	0.61	0.63	0.62	0.61
Japan	124.19	115.72	118.05	108.76	–
United States	1.04	0.88	0.94	0.90	0.92
Sweden	9.15	9.33	9.16	9.25	8.47

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

Product-Related Expenses – Cost of sales consist of the costs of outsourcing production and assembly, personnel costs and applicable overhead and depreciation of test and other equipment. Provisions for estimated product warranty are recorded in cost of sales at the time the related sale is recognized. Expenditures for advertising and sales promotion and for other sales-related expenses are charged to marketing expenses as incurred. Shipping and handling costs amounting to € 221 (2001: € 241; 2000: € 684) are recorded within selling expenses.

Research and Development – Research and development costs are generally expensed as incurred and amounted to € 34,530 (2001: € 31,256; 2000: € 22,898) Research and development costs incurred in connection with customer service contracts are capitalized and then charged to cost of sales when the related service revenue if recognized. Research and development costs charged to customers and included in cost of sales, amounted to approximately to € 987 (2001: € 2,683; 2000: € 2,286).

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

Stock-Based Compensation – At December 31, 2002, the company has a stock-based employee compensation plan, which is described more fully in Note 12. The company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value

of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Year ended December 31,		
	2002	**2001**	**2000**
Net income (loss), as reported	(9,289)	(41,679)	26,557
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,166)	(1,123)	(748)
Pro forma net income (loss)	**(10,455)**	**(42,802)**	**25,809**
Earnings (loss) per share:			
Basic – as reported	(0.21)	(0.95)	0.62
Basic – pro forma	(0.24)	(0.98)	0.60
Diluted – as reported	(0.21)	(0.95)	0.60
Diluted – pro forma	(0.24)	(0.98)	0.58

Derivative Instruments and Hedging Activities – Beginning January 1, 2001, all derivative instruments are recognized in the consolidated financial statements and measured at fair value, regardless of the purpose for holding them. Changes in the fair value of derivative financial instruments are recognized periodically either in income or, in the case of a cash flow hedge, in shareholders' equity (as a component of other comprehensive income).

Earnings Per Share – Earnings per share has been computed using the weighted average number of outstanding ordinary shares for each year. Because the Company reported a net loss in 2002 and 2001, only basic per share amounts have been presented for those years. Had the Company reported net income in 2002 and 2001, the weighted average number of shares outstanding would have potentially been diluted by 2,634,382 and 2,672,506 stock options, respectively (not assuming the effects of applying the treasury stock method).

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

Prior to the adoption of SFAS 142, goodwill and assembled workforce were amortized over their estimated useful life. Amortization expense related to goodwill and assembled workforce was € 1,361 and € 1,166 for the years ended December 31, 2001 and 2000, respectively. Had the provisions of SFAS 141 and 142 applied for all periods presented, and therefore net income (loss) would have excluded amortization of goodwill for the years ended December 31, 2001 and 2000, net income (loss) and earnings (loss) per share would have been increased (decreased) to the pro forma amounts indicated below:

New Accounting Pronouncements Adopted – The Company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* and SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment to SFAS No. 133,* on January 1, 2001. Upon adoption

of this statement, the Company recorded a net transition gain of € 605 (net of income tax expense of € 340) in accumulated other comprehensive income. During 2001, the Company reclassified € 647 (net of income tax expense of € 364) from accumulated other comprehensive income to net loss relating to the transition adjustment recorded at January 1. 2001.

On July 1, 2001 the Company adopted SFAS 141, *Business Combinations,* and on January 1, 2002 the Company adopted SFAS 142, *Goodwill and Intangible Assets.* SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and certain intangibles no longer be amortized, but instead tested for impairment at transition and at least annually.

In connection with the adoption of SFAS 142, the Company was required to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new separation requirements at the date of adoption. The Company determined that an amount of € 383 (net of accumulated amortization) for assembled workforce, previously included in intangible assets, was required to be reclassified into goodwill in order to comply with SFAS 142. The Company was also required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments. The Company determined that amortization period adjustments were not necessary and that none of its intangible assets have indefinite useful lives. Further the Company had to perform a transitional assessment of whether there was an indication that goodwill was impaired as of January 1, 2002. The Company performed these transitional assessments and determined that its ability to recover the carrying value of its recorded goodwill was not impaired as of January 1, 2002.

Subsequent to the transitional assessment, a reduction in the outlook for future customer demand for wireless products and semiconductors was announced by several enterprises within these industries, including the Company's customers (the Company derives a substantial portion of revenues from a relatively small number of wireless communications manufacturers). Therefore, the Company evaluated goodwill for impairment in the third quarter of 2002 after a comprehensive forecasting process was completed. The fair value of the Company was determined by estimating the present value of future cash flows, which management believes is a more appropriate measure to determine fair value than the Company's current market capitalization (which is based on the quoted market price of the Company's ordinary shares). Consequently, the Company concluded that its ability to recover the carrying value of its goodwill is not impaired. If the current negative trends in the industries continue for a prolonged period of time, or if other market conditions change adversely, it is reasonably possible that the Company's future operating results could be materially and adversely affected by an impairment charge related to the recoverability of the carrying amount of goodwill.

Prior to the adoption of SFAS 142, goodwill and assembled workforce were amortized over their estimated useful life. Amortization expense related to goodwill and assembled workforce was € 1,361 and € 1,166 for the years ended December 31, 2001 and 2000, respectively. Had the provisions of SFAS 141 and 142 applied for all periods presented, and therefore net income (loss) would have excluded amortization of goodwill for the years ended December 31, 2001 and 2000, net income (loss) and earnings (loss) per share would have been increased (decreased) to the pro forma amounts indicated below:

	Year ended December 31,	
	2001	2000
Net income (loss)		
As reported	(41,679)	26,557
Pro forma	(40,318)	27,723
Basic earnings (loss) per share		
As reported	(0,95)	0,62
Pro forma	(0,92)	0,65
Diluted earnings (loss) per share		
As reported	(0,95)	0,60
Pro forma	(0,92)	0,63

In December 2001, The AICPA issued Statement of Position (SOP) 01-06, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others.* This SOP is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this SOP did not change the Company's recognition and measurement practices for trade accounts receivable. However, the provisions of the SOP now requires additional disclosures about the Company's trade accounts receivable and the related allowance for doubtful accounts, which is included in Note 2 to the consolidated financial statements.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 retains the current requirement to recognize an impairment loss only if the carrying amounts of long-lived assets to be held and used are not recoverable from their expected undiscounted future cash flows. However, goodwill is no longer required to be allocated to these long-lived assets when determining their carrying amounts. SFAS 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off, be considered held and used until it is disposed of. However, SFAS 144 requires the depreciable life of an asset to be abandoned be revised. SFAS 144 requires all long-lived assets to be disposed of by sale be recorded at the lower of its carrying amount or fair value less cost to sell and to cease depreciation (amortization). Therefore, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. The Company adopted SFAS 144 on January 1, 2002. The adoption of SFAS 144 had no impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS 145, *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS 145 rescinds SFAS 4, *Reporting of Gains and Losses from Extinguishment of Debt,* and an amendment of that Statement, SFAS 64, *Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements.* SFAS 145 also rescinds SFAS 44, *Accounting for Intangible Assets of Motor Carriers.* SFAS 145 amends SFAS 13, *Accounting for Leases,* to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 also amends other existing authoritative pronouncements to make various technical corrections, to clarify meanings, or describe their applicability under changed conditions. The provisions of SFAS 145 related to SFAS 13 are effective for transactions occurring after May 15, 2002, and the adoption of these provisions had no impact on the Company's consolidated financial statements. The Company will adopt the remaining provisions of SFAS 145 effective January 1, 2003.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure,* which amends SFAS 123, *Accounting for Stock-Based Compensation.* SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also requires more prominent disclosures in both interim and annual financial statements about the method of accounting used for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002 and the Company has included the required additional disclosures (see note 2).

3 Recovery (Write-down) of Investment

In the fourth quarter of 2001, the Company determined that its ability to recover the full amount of its investments in silicon supplier ESM was impaired. Accordingly the Company wrote off the investments in ESM. In March 2002, ESM was acquired by International Rectifier. As a result, the Company was able to recover a portion (€ 12.0 million) of its total investment in ESM.

4 Income Taxes

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

	Year ended December 31,		
	2002	**2001**	**2000**
Germany	(9,903)	(69,629)	23,965
Foreign	(4,858)	5,229	19,002
	(14,761)	**(64,400)**	**42,967**

The benefit (provision) for income taxes consists of the following:

	Year ended December 31,		
	2002	**2001**	**2000**
Current taxes:			
Germany	43	856	(8,444)
Foreign	1,685	(1,618)	(5,644)
Deferred taxes:			
Germany	3,387	23,914	(2,430)
Foreign	357	(431)	108
	5,472	**22,721**	**(16,410)**

Although Dialog is a UK company, its principal operations are located in Germany and all of its operating subsidiaries are owned by its German subsidiary. Accordingly, the following information is based on German corporate tax law. Until the end of 2000 German corporate tax law applied a split-rate imputation with regard to the taxation of the income of a corporation and its shareholders. In 2000, in accordance with the tax law, retained corporate income is initially subject to a federal corporate tax of 40 %, plus a solidarity surcharge of 5.5 % on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 42.2 %. Upon distribution of retained earnings to shareholders, the corporate income tax rate on the earnings is adjusted to 30 %, plus a solidarity surcharge of 5.5 % on the distribution corporate tax, for a total of 31.65 %, by means of a refund for taxes previously paid. In 2000, the Company applied the distributed corporate income tax rate of 30 % to earnings of its German subsidiary as the Company plans to distribute such earnings to the parent company.

In October 2000, the German government enacted new tax legislation, which, among other things, reduced the Company's statutory tax rate for its German subsidiary from 40 % on retained earnings and 30 % on distributed earnings to a uniform 25 %, effective January 1, 2001. Including the impact of the solidarity surcharge of 5.5 %, the federal corporate tax rate amounts to 26.375 % in 2002 and 2001. The change in German tax law did not have a material effect on the valuation of the Company's German source deferred tax assets and liabilities.

A reconciliation of income taxes determined using the German corporate tax rate of 26.375 % for 2002 and 2001 and 31.65 % for 2000 plus the after federal tax benefit rate for trade taxes of 11.225 % for 2002 and 2001 and 10.426 % for 2000, for a combined statutory rate of 37.6 % for 2002 and 2001 and 42.076 % for 2000, is as follows:

	Year ended December 31,		
	2002	**2001**	**2000**
Expected benefit (provision) for income taxes	5,550	24,214	(18,081)
Credit for dividend distribution	–	–	273
Foreign tax rate differential	(387)	395	2,200
Amortization of non-deductible Goodwill and intangible assets	(41)	(494)	(439)
Write-down of investment	–	(1,163)	–
Others	350	(231)	(363)
Actual benefit (provision) for income taxes	**5,472**	**22,721**	**(16,410)**

Deferred income tax assets and liabilities are summarized as follows:

	December 31,	
	2002	**2001**
Property, plant and equipment	219	157
Net operating loss and tax credit carryforwards	27,400	25,157
Other	94	24
Valuation allowance	(631)	(631)
Deferred tax assets	**27,082**	**24,707**
Property, plant and equipment	(2,397)	(2,905)
Accounts receivable	(38)	(93)
Prepaid expenses	(321)	–
Accounts payable	(124)	(1,172)
Deferred tax liabilities	**(2,880)**	**(4,170)**
Net deferred tax assets (liabilities)	**24,202**	**20,537**

At December 31, 2002, the Company has net operating loss carryforwards for federal income tax purposes of € 70,672 which are available to offset future federal taxable income, if any, and have no expiration date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income in specific tax jurisdictions sufficient to utilize its net operating loss carryforwards. The Company has not generated taxable income (it has generated additional net operating loss carryforwards) in 2002 and 2001. In spite of the recent historical level of taxable losses, management believes, based on projections for future taxable income and the fact that the net operating loss carryforwards do not expire, it is more likely than not that the Company will realize the benefits of these net deferred tax assets at December 31, 2002. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

5 Additional Cash Flow Information

The following represents supplemental information with respect to cash flows:

	Year ended December 31,		
	2002	**2001**	**2000**
Interest paid, net	9	83	143
Income taxes paid, net	911	7,622	5,214

At December 31, 2002, the Company had an unused short-term credit line of € 12,782. There are no amounts outstanding under this credit line at December 31, 2002.

6 Trade Accounts Receivable, net

The recorded trade accounts receivable for which an impairment has been recognized and the related allowance for doubtful accounts at December 31, 2002 and 2001 were € 616 and € 397, and € 486 and € 439, respectively.

The allowance for doubtful accounts developed as follows:

	Year ended December 31,		
	2002	**2001**	**2000**
Allowance for doubtful accounts at beginning of year	439	1,036	292
Additions charged to bad debt expense	222	9	744
Write-offs charged against the allowance	(139)	(189)	–
Reductions charged to bad debt expense	(125)	(417)	–
Allowance for doubtful accounts at end of year	**397**	**439**	**1.036**

7 Inventories

Inventories are comprised of the following:

	December 31,	
	2002	**2001**
Raw materials	5,346	7,358
Work-in-process	5,131	4,838
Finished goods	4,030	4,956
	14,507	**17,152**

Cost of sales includes a provision for excess inventory of € 1,930 and € 10,689 for the years ended December 31, 2002 and 2001, respectively.

8 Deposits and Prepaid Expenses

At December 31, 2002 and 2001, the Company maintained deposits of $20 million with Chartered Semiconductor Manufacturing Pte., Ltd. (“Chartered“). These deposits are due to be refunded to the Company by January 1, 2004, and therefore have been classified as non-current assets at December 31, 2002. Under the terms of these agreements, the deposits will guarantee access several generations of process technologies ranging from current products at 0.60-micron and 0.35-micron and will extend down to, and beyond 0.18-micron technologies. During 2000 to hedge the foreign currency exposure with respect to the $20 million of deposits with Chartered, the Company purchased foreign currency forward contracts to effectively change the US dollar deposits into Euros (see Note 14).

In addition, the Company paid Chartered a total of $10 million in 2000 as an advance payment for future wafer deliveries and $2.5 million to another supplier. Such advance payment is classified in the balance sheet line items “Prepaid expenses.” The outstanding balance of the advance payment is refunded in proportion to the Company’s purchases of wafers from these suppliers, and at this time, the Company expects to have the entire advance payment refunded. The amount of advance payment classified in Prepaid expenses on the consolidated balance sheet as current assets represents that the amount of

advance payment expected to be refunded in the next twelve months. As amounts are refunded for the purchase of wafers, these amounts are reclassified from “Prepaid Expenses” to “Inventories” and therefore are not reflected in the Company’s operating cash flow activities.

9 Other long-term assets

Information with respect to changes to the company’s property, plant and equipment, net, intangible assets, goodwill, investments and deposits is presented in the consolidated Fixed Asset Schedule included herein.

Depreciation expense amounted to € 12,834 €, 12,801 and € 8,126 for the years ended December 31, 2002, 2001 and 2000, respectively.

10 Intangible Assets

During the year ended December 31, 2002, the Company acquired the CMOS imaging technology and associated CMOS Active Pixel Sensor (APS) patent portfolio from Sarnoff Corporation, a research and development institute, for a total purchase price of € 3,008. The expected weighted average useful life of these patents is 9 years. A first installment of € 1,504 was paid in cash during the second quarter of 2002. A second installment of € 1,504 is payable in cash or Company shares in the first quarter 2003 when certain CMOS imaging sensors (“imagers”) have been successfully developed by Sarnoff. In addition, Sarnoff may be paid additional contingent consideration which will be determined as a percentage of the revenues received from sales of imagers used for camera applications and as an agreed sum for each imager used for mobile phone applications. Such contingent consideration is limited in absolute terms and has a fixed expiration date as specified in the purchase agreement.

The aggregate amortization expense for the years ended December 31, 2002, 2001 and 2000 was € 1,975, € 1,875 and € 1,519, respectively. Amortization expense of the gross carrying amount of intangible assets at December 31, 2002 is estimated to be € 1,888 in 2003, € 1,212 in 2004, € 686 in 2005, € 484 in 2006 and € 484 in 2007.

11 Shareholders’ Equity

At December 31, 2002, Dialog had authorized 104,311,860 ordinary shares with a par value of £ 0.10 per share. Issued and outstanding were 44,068,930 ordinary shares.

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

On September 24, 1999, Dialog approved a five-for-one split of the Company’s ordinary shares and effected changes in its capital structure. In connection with the changes in capital structure, the authorized number of ordinary shares of the Company was increased by 9,500,000 shares. The Company also amended its Articles to allow for only one class of ordinary shares and one class of preference shares. All previously outstanding “A” and “B” ordinary shares have been converted into an equal number of the Company’s ordinary shares. Each ordinary share entitles the holder to one vote.

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

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

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

12 Stock-based Compensation

a) Stock option plan

On August 7, 1998, the Company adopted a stock option plan ("Plan") under which employees and directors may be granted from time-to-time, at the discretion of the Board, stock options to acquire up to 3,840,990 shares of the Company's authorized but unissued ordinary shares. On May 16, 2002 the shareholders of the Company approved a resolution increasing the maximum amount of stock options which may be granted by the company to 15 %, after issue, of the Company's issued share capital. At December 31, 2002 15 %, after issue, of the Company's issued share capital amounted to 7,776,870. Stock options are granted with an exercise price not less than the estimated fair value at the date of grant. Stock options have terms of ten years and vest over periods of one to five years from the date of grant.

The fair value of all grants in the three-year period ended December 31, 2002 is estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used for stock option grants for the years ended December 31, 2002, 2001 and 2000.

	Year ended December 31,		
	2002	2001	2000
Expected dividend yield	0 %	0 %	0 %
Expected volatility	106 %	108 %	70 %
Risk free interest rate	3.7 %	4.6 %	4.8 %
Expected life (in years)	5	2.9	5
Weighted-average fair value of options granted (in €)	1.83	4.37	20.35

Stock option plan activity for the years ended December 31, 2002, 2001 and 2000 was as follows:

	Year ended December 31,					
	2002		2001		2000	
(prices in €)	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	2,672,506	3.78	2,849,778	14.01	1,840,500	0.54
Granted	124,060	2.33	1,193,460	6.86	1,192,520	33.00
Exercised	(79,174)	0.79	(159,006)	0.42	(57,108)	0.50
Forfeited	(83,010)	9.78	(145,106)	20.41	(126,134)	3.54
Cancelled	–	–	(1,066,620)	32.80	–	–
Outstanding at end of year	**2,634,382**	**3.62**	**2,672,506**	**3.78**	**2,849,778**	**14.01**
Options exercisable at year end	1,217,402	3.07	536,594	0.89	331,834	0.38

In June 2001, the Company's board of directors approved a resolution giving employees the right to cancel their options granted in June and October 2000. Employees elected to cancel a total of 250,040 options granted in June 2000 with an exercise price of € 55 and 816,580 options granted in October 2000 with an exercise price of € 26. In December 2001, approximately 1.0 million options were granted at an exercise price equal to fair value (at the date) of € 7 per share.

The following table summaries information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2002	Weighted-Avg. Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2002	Weighted-Average Exercise Price
€ 0.32–1.28	1,363,002	6.1	0.60	757,770	0.62
€ 3.00–9.00	1,248,200	9.0	6.44	456,864	6,94
€ 26.00	20,580	7.8	26.00	1,728	26.00
€ 55.00	2,600	7.5	55.00	1,040	55.00
€ 0.32–55.00	**2,634,382**	**7.5**	**3.62**	**1,217,402**	**3.07**

b) Employee Stock Purchase Plan

On March 26, 1998, in connection with the acquisition of the Company, the Company and its then majority owner, Apax, adopted a Subscription and Shareholders Agreement under which employees and directors were invited at the discretion of the Board, to purchase up to 3,456,890 ordinary shares of the Company from Apax or an established Employee Benefit Trust. The purchase price of the shares was equal to their estimated fair value on the date the employee or director subscribes for those shares. During the first quarter of 1999, the Trust acquired the remaining 668,800 ordinary shares from Apax, which were not sold to employees or directors for purposes of distributing them to employees under the Employee Stock Purchase Plan or for distribution in connection with the exercise of employee stock options. At December 31, 2002, the Trust continued to hold 137,969 shares.

13 Lease Commitments

The Company leases design software, all of its office facilities, office and test equipment, and vehicles under operating leases. Total rentals under operating leases, charged as an expense in the statement of income, amounted to € 7,229, € 8,446 and € 6,220 for the years ended December 31, 2002, 2001 and 2000, respectively.

Future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 2002 are as follows:

	2003	2004	2005	2006	2007	Thereafter
Operating leases	9,006	9,168	9,701	472	185	705

14 Derivative Financial Instruments and Hedging Activities

a) Use of Financial Instruments

Changes in exchange rates influence the Company's results of operations because sales are primarily denominated in US dollars and Euros whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars. In order to reduce foreign currency exposure, the Company attempts to match cash inflows and outflows (sales with supply costs) in the same currency, primarily the US dollar. In situations where the Company is not able to effectively match cash inflows and outflows in the same currency, management considers the use of derivative financial instruments. As a matter of policy, the Company does not engage in derivatives trading, derivatives market-making or other speculative activities.

The Company purchased foreign currency forward contracts in 2000 to effectively change $20 million of deposits with its manufacturers into Euros. At December 31, 2002, these derivative financial instruments had a maximum maturity of 12 months.

b) Information with Respect to Cash Flow Hedges

Recognized foreign-currency-denominated assets or liabilities for which a foreign currency transaction gain or loss is recognized in earnings qualify as a hedged item under SFAS 138. Cash flow hedge accounting is used for foreign-currency-denominated assets or liabilities hedging situations in which all of the variability in the functional-currency-equivalent cash flows are eliminated by the effect of the hedge. The hedging derivative is reported on the balance sheet at its fair value and the remeasurement of the foreign-currency-denominated assets or liabilities is based on the guidance in SFAS 52, *Foreign Currency Translation*. Subsequent changes in exchange rates result in the reclassification of unrealized gains or losses included in accumulated other comprehensive income related to the hedging derivative into earnings (financial income, net) in the same period as the changes in exchange rates affect the foreign-currency-denominated assets or liabilities.

The Company anticipates that € 158 of losses included in accumulated other comprehensive income at December 31, 2002 will be reclassified into earnings during the next year.

c) Fair value of financial instruments

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

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

	December 31,			
	2002		2001	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial instruments (other than derivative instruments)				
Cash and cash equivalents	31,005	31,005	32,626	32,626
Deposits	19,390	19,390	22,974	22,974
Derivative instruments (currency contracts)				
Current assets	2,231	2,231	–	–
Current liabilities	–	–	1,061	1,061

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

15 Segment Reporting

The Company has one operating segment, which is the design and supply of semiconductor chips. The Company is managed by revenue derived by significant product-type.

Revenues by product-type consisted of the following:

	Year ended December 31,		
	2002	2001	2000
Revenues:			
Wireless communication	54,715	77,751	180,345
Wireline communication	2,583	2,623	9,501
Automotive	6,074	5,923	7,948
Industrial	13,732	14,222	15,221
Other	–	–	1,444
	77,104	**100,519**	**214,459**

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

	Year ended December 31,		
	2002	**2001**	**2000**
Revenues:			
Germany	31,478	22,912	40,941
France	9,348	5,510	15,003
Sweden	319	16,169	57,866
United Kingdom	1,397	4,356	21,480
Other European countries	9,982	12,024	20,723
China	13,006	20,084	2,562
Malaysia	694	7,773	35,582
Other countries	10,880	11,691	20,302
	77,104	**100,519**	**214,459**

Two customers individually accounted for more than 10 % of the Company's revenue during 2002, 2001 and 2000. Total revenues from these customers were € 46,746, € 67,139 and € 161,054 or 61 %, 67 % and 75 % in 2002, 2001 and 2000, respectively.

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

	December 31,	
	2002	**2001**
Property, plant and equipment		
Germany	25,881	34,056
Japan	243	297
United Kingdom	683	1,222
USA	560	784
Sweden	434	581
	27,801	**36,940**

16 Earnings (loss) Per Share

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

	Year ended December 31,		
	2002	**2001**	**2000**
Net income (loss)	(9,289)	(41,679)	26,557
Weighted average number of shares outstanding (in thousands)-basic	43,888	43,788	42,669
Dilutive effect of stock options (1)	–	–	1,631
Weighted average number of shares outstanding (in thousands)-diluted	**43,888**	**43,788**	**44,300**
Earnings (loss) per share-basic	(0.21)	(0.95)	0.62
Earnings (loss) per share-diluted	(0.21)	(0.95)	0.60

(1) Options issued in 2000 were not included in the computation of diluted earnings per share because the options' underlying exercise price was greater than the average market price for Dialog ordinary shares for the year ended December 31, 2000. Because the Company reported a net loss for the years ended December 31, 2002 and 2001, only basic per share amount has been presented for this period.

17 Transactions with Related Parties

Adtran Inc. ("Adtran") holds a substantial ownership interest in our company. We sell components to Adtran in the ordinary course of business. Revenues amounted to € 2,582, € 2,623, and € 9,501 in 2002, 2001 and 2000, respectively. Net receivables due from Adtran were € 306 and € 24 at December 31, 2002 and 2001, respectively. Timothy Anderson, a member of the Company's Board of Directors, is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered were € 268, €159, and € 353 in 2002, 2001 and 2000, respectively.

Board of Directors

Report of the Board of Directors

As reported in this document, 2002 was a year of consolidation and preparation for new opportunities from a broadening product and technology portfolio. Collaboration with partners and customers, as well as an acquisition, ensured that we made progress in the development of products for a more diverse customer base.

During the year the Board oversaw the functioning of executive management of the Company at the quarterly Board Meetings of February 4, April 17, July 18, October 17, 2002 and assured itself of the proper conduct of executive management during that year. At such Board Meetings the Board received and analyzed reports from the chief executive as to the achievements of the Company as compared to budget and progress made in achieving the commercial goals for the year.

The Remuneration Committee, comprising Jan Tufvesson, Michael Glover and Tim Anderson met in December 2002 to discuss the achievements of the Management during that year and to establish the individual objectives of the Management for 2003. The Audit Committee, comprising of Jan Tufvesson and Michael Glover, met on a quarterly basis. These meetings concentrated on a review of the financial information to be reported on for the relevant prior financial period and on the internationally accepted standards for fair and responsible financial reporting and corporate governance.

The Company's audited financial statements, for the year ended December 31, 2001, and the reports from the Directors and Auditors thereon were presented to, and approved by, the shareholders at the fourth annual general meeting of the Company, held on May 16, 2002, at which KPMG, the Company's independent auditor was reappointed until the following annual general meeting of the Company.

The Board extends its thanks and appreciation to the Executive Management and all employees for their hard work and considerable achievements in 2002.

Corporate Governance

Implementing high corporate governance standards

On November 13, 2002 Dialog Semiconductor Plc publicly declared its commitment to comply with German and internationally accepted standards for fair and responsible corporate governance. Accordingly, Dialog Semiconductor (as a foreign company listed on the German stock exchange) has established and published its own Corporate Governance Standards corresponding in substance to the provision of the "Declaration on Corporate Governance". Dialog has adopted and will follow these principles in order to further enhance the confidence of shareholders, customers, employees and the general public in the Company.

Full details of the corporate governance principles are published on Dialog Semiconductor's internet site (www.dialog-semiconductor.com), but in summary they cover the following key areas.

Shareholders rights and the Annual General Meeting (AGM)

Each share carries one vote, and there are no multiple voting rights or preferential voting rights (golden shares). All financial and independent audit reports are presented to the AGM. The AGM is where the directors will obtain authorization to approve and pass resolutions related to Company business, such as auditor's remuneration, and issue of new shares. The Company will also facilitate the personal exercising of shareholders' voting rights. The company shall publish key information relating to the AGM on its web site on the day of the annual meeting.

Board of Directors' responsibilities, composition and compensation

Dialog has six non-executive directors and one executive director on the Board, to supervise the general management and develop the Company's strategy. The non-executive directors do not play an active role in day-to-day operations providing an independence and objectivity in the making of key decisions. During 2002, directors received the remuneration listed below and their shareholding's in Dialog Semiconductor are as follows.

		Compensation (in €)			Directors Holdings	
Name	**Position**	**Base salary**	**Bonus**	**Long-term incentives**	**Shares**	**Options**
Roland Pudelko	Executive Director, CEO and President	267,323	–	–	320,405	417,450
Tim Anderson 1)	Non-executive Director	7,955	–	–	20,816	–
Michael Glover	Non-executive Chairman of the Audit Committee	25,192	–	–	195,000	–
John McMonigall	Non-executive Director	23,866	–	–	–	–
Jan Tufvesson 2)	Non-executive Chairman	25,192	–	–	175,062	–
Michael Risman	Non-executive Director	7,955	–	–	1,172	–
Tord Martin Wingren	Non-executive Director	23,866	–	–	–	–
		381,349	**–**	**–**	**712,455**	**417,450**

1) Tim Anderson is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered during the 2002 fiscal year amounted to € 267,884.

2) During 2002, Jan Tufvesson received a consultancy fee of € 43,401. In anticipation of new corporate governance principles of Nasdaq, to document Jan Tufvesson's independence the consultancy contract was terminated as of October 31, 2002.

Variable compensation of the Chief Executive Officer is measured based on the profitability on the Company as well as success in reaching specific strategic goals.

Audit Committee and Remuneration Committee

Dialog has established an Audit Committee of the Board of Directors consisting of independent directors: Messrs. Glover (Chairman of the Audit Committee) and Tufvesson. To maintain independence, members of the Committee are not to receive payment from the Company for consulting, advisory, or other services other than for board service and are not to be affiliated with the Company. The Remuneration Committee determines the salaries and incentive compensation of Dialog's officers and the officers of the Company's subsidiaries and provides recommendations for the salaries and incentive compensation of other employees and consultants. Our Remuneration Committee consists of Messrs. Tufvesson, (chairman of the Remuneration Committee), Glover and Anderson. None of the members of this Committee should serve as an employee of the Company.

Transparency, including director's dealing, insider dealing and loans

Dialog promptly discloses price sensitive information to the stock exchanges and then publishes the information electronically. Significant shareholder interests are reported according to the UK Companies Act 1985. Transactions in securities of the Company's own shares carried out by members of the Board of Directors and of their family members will be reported and published without delay pursuant to section 15a of the German Securities Trading Act (Wertpapierhandelsgesetz). With regard to insider dealing Dialog has adopted a Code of Dealing, in which we comply with stringent guidelines to ensure against suspicion of abusing the possession of price sensitive information, by prohibiting dealing in any of the company's financial instruments during defined periods. In addition, the Company will not provide or guarantee any loans to directors or senior executives.

Auditor's independence

KPMG provided tax and audit related services of € 99,739 during 2002. Tax services to be rendered in 2003 amount to € 54,640. Our Auditor, KPMG, confirmed their independence at each quarterly audit committee meeting and declared the following:

"We hereby confirm, that as of February 25, 2003, we are independent accountants with respect to the Company within in the meaning of the Securities Acts administered by the Securities and Exchange Commission of the United States and the requirements of the Independence Standards Board, German law, the German Coporate Governance Code and professional standards in Germany and the United States. In particular

1. We verified that no professional relationships to the Company exist that may reasonably be thought to bear on our independence. This relates especially to board membership and employee relationships with the Company.

2. We verified that no financial relationships exist that may reasonably be thought to bear on our independence. This relates especially to direct investments such as stocks, bonds and similar investments. We are also independent in respect to the requirements of § 319 paragraph 2 no. 8 HGB. For each of the last five years our annual revenues generated from services to the Company and other entities for which the Company holds more than 20 % ownership amounted to less than 30 % – in fact less than 1% – of our total revenues. This is also expected to be the case for the current fiscal year.

3. We will also ensure that anything which may reasonably be thought to bear on our independence with regard to the self review threat will be avoided. In particular, apart from the audit we have not taken part in the maintenance of any books or records or the preparation of financial statements and will not do so in future.

4. We will comply with the requirements regarding internal rotation (§ 319 paragraph 3 no. 6 HGB).

5. We are not aware of any other relationships or matters which may reasonably be thought to bear on our independence such as close family or personal relationships with the board members or management of the Company.

Our internal organization complies with the requirements of the "Gemeinsamen Stellungnahme der Wirtschaftsprüferkammer und des Instituts der Wirtschaftsprüfer in Deutschland: Zur Qualitätssicherung in der Wirtschaftsprüferpraxis" (VO 1/1995). Our partners are prohibited to have any financial investment in a KPMG audit client. All other professional staff is prohibited to have any financial investment in an audit client he or she delivers services to. The affected persons have to declare that they comply with these regulations on a regular basis."

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 "Declaration on Corporate Governance" as published on November 13, 2002 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/Investor Relations/ Corporate Governance.

London, February 2003

Jan Tufvesson,
Chairman

Members of the Board of Directors

Jan Olof Ingemar Tufvesson, Chairman (64)

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

Roland Pudelko, Chief Executive Officer and President (50)

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

Timothy Richard Black Anderson (41)

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

Michael John Glover (64)

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

John McMonigall (59)

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

Michael Risman (34)

joined us as a director in August 1999, having been closely involved with our company since March 1998. He is a director of Apax Partners where he has responsibility for their European IT investments efforts and is a member of the International Approval Committee. Before joining Apax Partners in 1995, Mr. Risman worked for Cap Gemini as a consultant and for Jaguar Cars as an R&D engineer. He earned an MBA from Harvard Business School and an MA (Hons) degree in Electrical Engineering and Management from Cambridge University. He is also a director of ARC International Plc, Red-M (Communications) Limited and Streamserve Inc.

Tord Martin Wingren (42)

joined us as a director in March 1998. Mr. Wingren has been employed by the Ericsson company for 17 years. Starting in R & D working on ASIC development he progressed through different roles within Ericsson's mobile phone development activity. He was technically responsible for the pioneering development of GSM handsets as well as establishing and heading up the UMTS business development unit. Mr. Wingren was appointed President of the newly formed Ericsson Mobile Platforms (EMP) on its launch on September 1, 2001.

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

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letter C marks cover pages

Investor Information

- **Annual Meeting**
  The year 2003 annual meeting of Dialog Semiconductor Plc will be held on May 15, 2003
  9 a.m. local time
  278/282 High Holborn
  London WC1V 7HA
  United Kingdom

- **Corporate Calendar**
  April 30, 2003
  Release of first quarter results

  May 15, 2003
  Annual shareholders' meeting

  July 23, 2003
  Release of second quarter results

  October 22, 2003
  Release of third quarter results

- **Corporate Counsel**
  Reynolds Porter Chamberlain
  London, United Kingdom

- **Certified Public Accountants**
  KPMG Deutsche Treuhand-Gesellschaft
  Stuttgart, Germany

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

  Dialog Semiconductor is subject to the regulations of the Securities and Exchange Commission (SEC) in the USA as they apply to foreign companies and files with the SEC its Annual Report on Form 20-F and other information as required.

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

  The Bank of New York
  101 Barclay Street, 22W
  New York, NY 10011
  Telephone: +1 (888) 269-2377
  Facsimile: +1 (212) 571-3050

- **Please Direct Inquiries To:**
  Dialog Semiconductor
  Birgit Hummel
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  D-73230 Kirchheim/Teck - Nabern
  Telephone: +49-7021-805-412
  Fax: +49-7021-805-100
  E-mail: birgit.hummel@diasemi.com

- **www.dialog-semiconductor.com**
  All our recent press releases are accessible together with the latest Annual and Interim Reports.

  Publications of interest to current and potential investors (Form 20-F, Annual and Interim Reports) are available without charge upon request.

  Please order within the investor relations section of our homepage.

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.

Analog circuits ■ Circuits that process analog signals.

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

ASSP ■ An ASSP (application specific standard product) is a semiconductor device integrated circuit (IC) product that is dedicated to a specific application market and sold to more than one user (and thus, "standard").

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

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

Chips ■ Electronic integrated circuits which are typically made of silicon.

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

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

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

Foundry ■ A manufacturing plant where wafers are produced.

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

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

Imaging ■ See cover page 4.

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

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

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

Multimedia messaging services (MMS) ■ MMS is a standardized messaging service for the mobile environment. For the phone user, MMS is very similar to short message service (SMS), in that it provides automatic, immediate delivery of user-created content from phone to phone. An MMS message can contain any combination of graphics, photographic imagery and audio.

Personal digital assistant (PDA) ■ A PDA is a lightweight, hand-held computer designed for use as a personal organizer with communications capabilities. A typical PDA has no keyboard, relying instead on special hardware and pen-based computer software to enable the recognition of handwritten input, which is entered on the surface of a liquid crystal display screen. In addition to including such applications as a word processor, spreadsheet, calendar, and address book, PDAs are used as notepads, appointment schedulers, and wireless communicators for sending and receiving data, faxes, and electronic-mail messages.

Power management ■ See cover page 4.

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

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

System on chip ■ Advances in semiconductor manufacturing technology and design methodologies are enabling the development of complex system on chip (SOCs) devices with millions of transistors embedding custom logic blocks and large third-party intellectual property (IP) elements such as 32- and even 64-bit processor cores into large single chip solutions.

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

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

Financial Glossary

Cash Flow ■ The primary purpose of a statement of cash flows 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 ■ 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 recognized 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 ■ 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 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).

EBIT ■ Earnings before Interest and Tax.

EBITDA ■ Earnings before Interest, Tax, Depreciation and Amortization. Important figure to measure the operating performance of a company.

Goodwill ■ Goodwill is to be recorded in a purchase business combination for an excess of the cost of the acquired enterprise over the total amount assigned to the identifiable assets acquired less liabilities assumed.

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

Hedging ■ A strategy used to minimize exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.).

Impairment ■ 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).

NEMAX 50 ■ Stock index comprised of the 50 biggest companies listed on Neuer Markt based on market capitalization and sales volume of a stock.

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.

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

Stock option plans ■ 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 the 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 ■ Total assets include all current and non-current assets. Total assets equal total liabilities and shareholders' equity.

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

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