



Dialog Semiconductor PLC

IFRS Report and Accounts 2005

Registered number 3505161

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Directors' report

The directors of Dialog Semiconductor Plc ("Dialog" or the "Company") are pleased to present their annual report to shareholders, together with the IFRS compliant financial statements for the year ended December 31, 2005.

These accounts have been prepared for UK statutory reporting purposes. Separate accounts to comply with the rules governing the Company's US and German listing are available from the company's website.

Principal activities and results

Dialog is a fabless semiconductor company. 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 its customers.

In 2005 the Company has improved its operating profitability and grown its revenue. In early 2005 the Board decided to spin out the loss-making Imaging business, which, as it developed over time, did not fit with the Company's core business. Our then CEO Mr. Roland Pudelko was given the task to make the spin out possible; Dr Jalal Bagherli was hired as our new CEO for the remaining core business of the Company. As reported in February 2006, the refinancing of the Imaging business was successful, effective February 14, 2006. The Company will now concentrate on its key technology expertise, which is power management for mobile applications.

Group revenue from continuing operations for 2005 was €129 million, reflecting the overall business situation. Dialog's investment in research and development (from continuing operations) has decreased to €21 million. This expenditure is financed solely from existing funds and cash flow. The Company achieved a net group loss of €23 million, resulting in a loss per share of €0.53. Dialog Semiconductor continues to be free from debt and can rely on a solid balance sheet structure. At the end of the reporting year 2005, net cash and cash equivalents amounted to €17 million and we had marketable securities of €15 million, providing sufficient flexibility for future strategic decisions.

Annual General Meeting

The notice convening the 2006 Annual General Meeting of the Company will be published separately and posted on the Company's website. The Annual General Meeting will be held at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on Monday 19th June 2006 at 11.00 a.m.

Share capital

Details of the Company's share capital are set out in note 13 to the accounts.

Substantial shareholding

As at December 31, 2005 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Name	Number	Percent
Apax Partners	8,460,793	18.37
Adtran, Inc.	2,520,960	5.47
Free float (1)	35,087,177	76.16
Total	46,068,930	100.0

(1) Freefloat includes 5,043,095 shares (10.9%) held by the Capital Group Companies Inc. as notified on May 5, 2006 on behalf of discretionary clients, 1,780,000 shares (3.9%) held by Standard Capital Partners N.V. (Rhine Alpha and its associated funds) as notified on October 14, 2005 and 1,691,155 shares (3.7%) held by the Dialog Semiconductor Plc Benefit Trust.

Directors

The directors who held office during the year were as follows:

- Tim Anderson – until February 1, 2006
Mr Anderson continues to act as the Company secretary
- Dr. Jalal Bagherli - appointed September 12, 2005
- Michael Glover
- Aidan Hughes
- John McMonigall
- Gregorio Reyes
- Roland Pudelko – until February 14, 2006
- Michael Risman
- Jan Tufvesson
- Peter Weber – appointed February 1, 2006

Directors' remuneration and interests

Statements of directors' remuneration and their interests in the shares of the Company as at December 31, 2005 are set out in the remuneration report on pages 6 to 9. No company in the Group was, during or at the end of the financial year,

party to any contract of significance in which any director was materially interested.

Corporate governance

The Company's corporate governance statement is set out on page 5.

Supplier payment policy

It is the Group's policy to pay creditors when they fall due for payment. Trade creditors for the company at the year end represented 11 days (2004: 16 days).

Research and development

The Group believes that its future competitive position will depend on its ability to respond to the rapidly changing needs of its customers in the wireless communications and automotive sectors by developing new designs in a timely and cost effective manner. To this end, management of the Company is committed to research and development expenditures by employing design and engineering staff primarily for the development of new products and further customisation of existing products. To date, research and development projects have been in response to requests from key customers to assist in the development of their new products and for the development of application specific standard products ("ASSPs"). The Company does not expect any material change to this approach in the foreseeable future.

Proposed dividend

The directors do not recommend the payment of a dividend in 2005 (2004: nil).

Purchase of own shares

The Company operates an Employee Share Option Trust. The Trust purchases shares in the Company for the benefit of employees under the Company's share option scheme. Since the Company has de facto control of the assets and liabilities of the Trust, they are included within the Company and Group balance sheets.

At December 31, 2004 the Trust held 2,001,559 shares. In 2005 because of the exercise of options the Trust sold 310,404 ordinary shares and generated proceeds of €95,638. At December 31, 2005, the Trust held 1,691,155 shares.

The maximum number of shares held by the Trust during 2005 was 2,001,559, which represents 4.3% of the total called up share capital, and a nominal value of £200,156.

The number of shares distributed during the year, 310,404, represents 0.67% of the total called up share capital, and a nominal value of £31,040.

Political and charitable contributions

The group made no political or charitable contributions during the period.

People within the company

Our policy is to support our people by training, career development and opportunities for promotion. We believe in an open management approach and close consultation on matters of concern to our staff. Information is shared on the Company's performance which, together with performance related bonuses, encourage staff involvement. The Company's policy provides that disabled persons, whether registered or not, shall be considered for employment, training and career development having regard to their aptitude and abilities.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Dr. Jalal Bagherli

Director
May 24, 2006

Registered Office:

Chichester House
278/282 High Holborn
London WC1V 7HA

Corporate governance

High corporate governance standards

Dialog Semiconductor Plc is committed to comply with German and US 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 Principles corresponding in substance to the provision of the "German Declaration on Corporate Governance". Also, in accordance with the US Sarbanes-Oxley Act of 2002, Dialog has adopted a Code of Business Conduct and Ethics and maintains an Audit Committee.

Full details of the Corporate Governance Principles and the Code of Business Conduct and Ethics are published on Dialog Semiconductor's internet site (www.dialog-semiconductor.com). In summary, the Corporate Governance Principles 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 publishes key information relating to the AGM on its web site on the day of the annual meeting.

Audit Committee, Compensation Committee and Nomination Committee

Dialog has established an Audit Committee of the Board of Directors consisting of independent directors: Messrs. Hughes (Chairman of the Audit Committee), Glover and Tufvesson. To maintain independence, members of the Committee are not to receive payment from the Company for consulting, advisor, or other services other than for Board service and are not to be affiliated with the Company. The Compensation 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 consult-

ants. Our Compensation Committee consists of Messrs. Risman (Chairman of the Compensation Committee), Glover and Reyes. None of the members of this Committee should serve as an employee of the Company. Our Nomination Committee consists of Messrs. Reyes (Chairman of the Nomination Committee), Tufvesson and Glover and sits with the purpose of seeking to ensure that the Board has directors of the right skills and experience to help guide the Management.

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 should be reported to the Company 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 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.

Business conduct and ethics

The Company shall comply with all governmental laws, rules and regulations that are applicable to the Company's activities and expects that all Directors, officers and employees acting on behalf of the Company will obey the law. Directors, officers and employees should not be involved in any activity which creates or gives the appearance of a conflict of interest between their personal interests and the Company's interests. The Company is committed to promoting the values of honesty, integrity and fairness in the conduct of its business and sustaining a work environment that fosters mutual respect, openness and individual integrity. Directors, officers and employees are expected to deal honestly and fairly with the Company's customers, suppliers, competitors and other third parties.

Directors' Remuneration Report

The following information has not been audited

Policy on Directors' Remuneration

The board is responsible for setting the Company's policy on directors' remuneration and the Compensation Committee decides on the remuneration of each executive director.

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

The performance measurement of the executive director and the determination of his annual remuneration package is undertaken by the Compensation Committee.

No director is involved in determining or deciding his or her own remuneration. The Compensation Committee consists exclusively of non-executive directors and its role is, inter alia, to apply the board's policy on remuneration. The current members of this committee are Messrs. Risman (chairman of the Compensation Committee), Glover and Reyes.

There is now one executive director of the company – Dr. Jalal Bagherli. Dr. Bagherli was appointed on September 12, 2005. Up to February 14, 2006 Mr. Roland Pudelko was an executive director of the company.

The executive director's remuneration consists of three components:

Salary - which reflects the executive's experience, responsibility and market value.

Bonus – As part of his remuneration Dr. Jalal Bagherli received an amount of £16,500 (€24,130) as a signing bonus and an amount of £34,190 (€50,000) as supplementary bonus. The supplementary bonus is due on a quarterly basis until December 31, 2007. and relates to benefits associated with an early exit from his previous employment contract. Commencing January 1 2006 further bonuses are based on objectives set by the Compensation Committee relative to the performance of the Group, as an incentive to the executive director to achieve relevant and demanding targets. Based on objectives set by the Compensation Committee relative to the performance of the Group, as an incentive to the executive director to achieve relevant and demanding targets, Roland Pudelko received a Bonus of €42,995 as part of his remuneration.

Share options – Upon the commencement of his services as Chief Executive Officer of Dialog on a full-time basis on September 12, 2005, Dr. Jalal Bagherli received a stock option grant of 300,000 restricted shares of Dialog Semiconductor Plc. This option is exercisable in two tranches of 150,000 shares, the first after 91 days and the second after 181 days from his date of joining. These restricted shares will vest in 24 equal monthly tranches beginning September 2005. In addition the Company granted an option over 300,000 shares with exercise prices ranging from €2.00 to €8.00, vesting to occur on September 30, 2006, 2007, 2008 and 2009, in equal tranches of 15,000 options for each exercise price. A further 100,000 options with an exercise price of £0.10 and a grant of options with a value of €150 payable in cash or shares have been granted in February 2006 and are subject to the achievement of performance and market targets to vest in eight equal semi-annual tranches between March 31, 2006 and September 30, 2009.

Compensation of non-executive directors

Non-executive directors who are not associated with any of our principal shareholders are paid £5,000 (€7,300) to £35,000 (€51,200) per annum for their role as directors. Additional payments of £1,000 (€1,500) per day are made for participation in the Company's board committees, the Audit Committee, the Compensation Committee and the Nomination Committee.

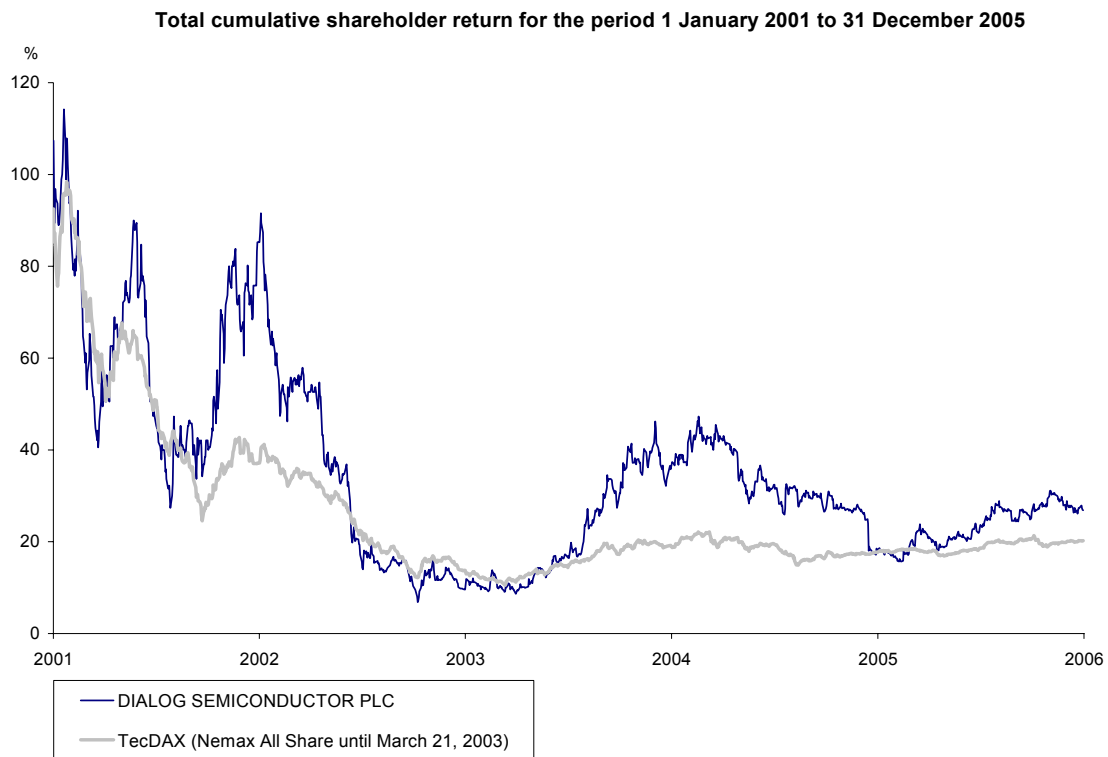
All of our directors are reimbursed for their reasonable travel expenses incurred in connection with attending meetings of the board or committees thereof. Under certain circumstances, directors are also eligible to receive share options.

Further information concerning the remuneration of directors is set out in the Notes to the Consolidated Financial Statements, note 18.

Directors' contracts

The service agreement, dated July 19, 2005 with the executive director, Dr. Jalal Bagherli, is of unlimited duration. The agreement is terminable by either party on 6 months' notice.

Performance graph



The graph above shows Dialog Semiconductor plc's total shareholder return for the period January 1, 2001 to December 31, 2005, together with, for general comparison, the TecDAX index. The TecDAX (NEMAX ALL SHARE until March 21, 2003) index was selected as it was considered the most relevant comparative index for the Company.

The market price of the shares at December 30, 2005 was €2.69 and the range during 2005 was €1.49 to €2.96.

The following information has been audited

Share options

As of December 31, 2005, the executive director, Jalal Bagherli, held 450,000 options over ordinary shares which entitle him to acquire 450,000 shares:

Exercise Price	Date of Grant	Expiry date	Vesting period	Number of options			
				at 01.01.2004	Granted	exercised	at 31.12.2005
€ 0.00	12.09.2005	11.09.2015	91 days	-	150,000	150,000	-
€ 0.00	12.09.2005	11.09.2015	181 days	-	150,000	-	150,000
€ 2.00	12.09.2005	11.09.2015	4 years	-	60,000	-	60,000
€ 3.50	12.09.2005	11.09.2015	4 years	-	60,000	-	60,000
€ 5.00	12.09.2005	11.09.2015	4 years	-	60,000	-	60,000
€ 6.50	12.09.2005	11.09.2015	4 years	-	60,000	-	60,000
€ 8.00	12.09.2005	11.09.2015	4 years	-	60,000	-	60,000
				-	600,000	150,000	450,000

25 percent of the shares granted with a 4 year vesting period may be exercised on September 30, 2006, 2007, 2008 and 2009. There is no performance criteria linked to the exercise of these options.

A further 100,000 options with an exercise price of €0.10 and a grant of options with a value of €150 payable in cash or shares have been granted in February 2006 and are subject to the achievement of performance and market targets to vest in eight equal semi-annual tranches between March 31, 2006 and September 30, 2009.

On December 15, 2005 Jalal Bagherli exercised 150,000 shares, the market value at the date of exercise was €2.59.

As of December 31, 2005, Roland Pudelko, held 517,450 options over ordinary shares which entitle him to acquire 517,450 shares:

Exercise Price	Date of Grant	Expiry date	Vesting period	Number of options			
				at 01.01.2005	Granted	cancelled	at 31.12.2005
£ 0.20	22.02.1999	31.12.2006	5 years	150,000	-	-	150,000
£ 0.40	07.05.1999	31.12.2006	5 years	34,530	-	-	34,530
£ 0.60	29.07.1999	31.12.2006	2 years	80,000	-	-	80,000
£ 0.60	29.07.1999	31.12.2006	5 years	52,920	-	-	52,920
€ 7.00	18.12.2001	31.12.2006	2 years	-	-	-	-
€ 3.45	21.11.2003	31.12.2006	2 years	100,000	-	-	100,000
€ 3.45	21.11.2003	31.12.2006	5 years	100,000	-	-	100,000
				517,450	-	-	517,450

Fifty percent of the shares granted with a two year vesting period may be exercised on the first anniversary of the date of grant. Twenty percent of the shares granted with a five year vesting period may be exercised on each anniversary of the date of grant together with any unexercised portion from previous years. There is no performance criteria linked to the exercise of these options.

As a result of Mr Pudelko leaving the board on February 14, 2006, it has been agreed that his share options will lapse on December 31, 2006.

The following information has not been audited

Directors' share interests

Directors' beneficial interests (as defined by the Companies Act 1985) in 10p ordinary shares of the Company were as follows:

	Number of shares			
	At 01.01.2005	Sold	Bought	At 31.12.2005
Tim Anderson	75,166	-	-	75,166
Jalal Bagherli			150,000	150,000
Michael Glover	195,000	-	-	195,000
Aidan Hughes	-	-	-	-
John Mc Monigall	-	-	-	-
Roland Pudelko	320,405	-	-	320,405
Gregorio Reyes	35,000	-	-	35,000
Michael Risman	1,172	-	-	1,172
Jan Tufvesson	175,062	-	-	175,062
	801,805	-	150,000	951,805

Directors' pension arrangements

The Company contributes 9% of the executive director's basic salary to a pension scheme. There are no pension promises or similar arrangements for non-executive directors.

Approved by the board of directors
and signed on its behalf by

Tim Anderson
Secretary
May 24, 2006

Statement of directors' responsibilities in respect of the IFRS Report and Accounts 2005 and the financial statements

The directors are responsible for preparing the IFRS Report and Accounts 2005 and the group and parent company financial statements in accordance with applicable law and regulations.

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

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

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

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Director's Report and Director's Remuneration Report that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the independent auditors to the members of Dialog Semiconductor Plc

We have audited the group and parent company financial statements (the “financial statements”) of Dialog Semiconductor Plc for the year ended December 31, 2005 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Cash Flow, the Consolidated and Parent Company Statements of Changes in Shareholders’ Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors’ Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the IFRS Report and Accounts 2005, the Directors’ Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors’ Responsibilities on page 10.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors’ Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for

our audit, or if information specified by law regarding directors’ remuneration and other transactions is not disclosed.

We read other information contained in the IFRS Report and Accounts 2005 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group’s affairs as at December 31, 2005 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Com-

panies Act 1985, of the state of the parent company's affairs as at December 31, 2005 and

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the financial statements, Article 4 of the IAS Regulation.

KPMG LLP

Chartered Accountants

Registered Auditor

Birmingham

May 24, 2006

Consolidated Financial Statements

Consolidated Income Statement

(in thousands, except per share data)	Notes	2005 (un-audited, see note 1c)	2005	2004
Revenue	17	\$153,243	€129,406	€115,786
Cost of sales		(109,573)	(92,529)	(79,293)
Gross profit		43,670	36,877	36,493
Selling and marketing expenses		(8,532)	(7,205)	(6,272)
General and administrative expenses		(7,518)	(6,349)	(5,557)
Research and development expenses		(24,423)	(20,624)	(22,369)
Operating profit	17	3,197	2,699	2,295
Interest income		1,009	852	1,086
Interest expense		(153)	(129)	(5)
Foreign currency exchange gains and losses, net		1,206	1,018	(726)
Other income		33	28	54
Profit before income taxes		5,292	4,468	2,704
Income tax expense	5	(18,114)	(15,296)	(64)
Net income from continuing operations		(12,823)	(10,828)	2,640
Loss from discontinued operations	3	(14,823)	(12,517)	(8,862)
Loss for the year		(27,645)	(23,345)	(6,222)
Loss per share				
Basic and diluted		(0.63)	(0.53)	(0.14)
(Loss) / Earnings per share from continuing operations	2			
Basic		(0.29)	(0.25)	0.06
Diluted		-	-	0.06
Weighted average number of shares (in thousands)	2			
Basic		44,173	44,173	44,025
Diluted		45,183	45,183	45,074

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

Consolidated Balance Sheet

(in thousands)	Notes	At December 31, 2005 (unaudited, see note 1c)	At December 31, 2005	At December 31, 2004
ASSETS				
Cash and cash equivalents	6	\$20,037	€16,920	€13,977
Marketable securities	6	17,633	14,890	17,542
Trade accounts receivable, net	7	33,589	28,364	24,036
Inventories	8	20,315	17,155	29,794
Prepaid expenses	9	598	505	616
Other current assets		1,489	1,257	281
Total current assets		93,661	79,091	86,246
Property, plant and equipment, net	10	18,603	15,710	21,238
Intangible assets	11	8,497	7,175	3,144
Deposits		243	205	194
Deferred taxes	5	-	-	15,245
Prepaid expenses	9	1,133	957	1,077
Total non-current assets		28,476	24,047	40,898
TOTAL ASSETS	17	122,137	103,138	127,144
LIABILITIES AND SHAREHOLDERS' EQUITY				
Trade accounts payable		10,643	8,987	15,429
Accrued expenses	12	4,230	3,572	2,204
Income taxes payable		28	24	9
Other current liabilities		2,043	1,725	1,275
Total current liabilities		16,944	14,308	18,917
Other non-current liabilities		3,472	2,932	-
Total non-current liabilities		3,472	2,932	-
Ordinary Shares		8,323	7,028	7,028
Share Premium		199,931	168,832	168,782
Retained deficit		(104,945)	(88,621)	(66,328)
Other reserves		(1,291)	(1,090)	(958)
Employee stock purchase plan shares		(297)	(251)	(297)
Total Shareholders' equity	13	101,721	85,898	108,227
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		122,137	103,138	127,144

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

These financial statements were approved by the board of directors on May 24, 2006 and were signed on its behalf by:

Dr. Jalal Bagherli
Director

Consolidated Statements of Cash Flow

(in thousands)	2005 (unaudited, see note 1c)	2005	2004
Cash flow from operating activities:			
Net loss	\$ (27,645)	€ (23,345)	€ (6,222)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Recovery of investment	(33)	(28)	(54)
Restructuring and related impairment charges	-	-	(387)
Stock compensation	1,246	1,052	675
Depreciation of property, plant and equipment	9,022	7,619	11,501
Write-down of imaging assets	4,639	3,917	-
Amortization of intangible assets	3,324	2,807	1,383
Increase in deferred tax asset valuation allowance	18,097	15,282	-
Losses on disposals of fixed assets	50	42	147
Interest income, net	(856)	(723)	(1,081)
Income tax expense	17	14	64
Changes in working capital:			
Trade accounts receivable	(5,100)	(4,307)	(9,697)
Inventories	14,967	12,639	(16,552)
Prepaid expenses	278	235	1,362
Trade accounts payable	(7,586)	(6,406)	8,276
Accrued expenses	1,602	1,353	(77)
Other assets and liabilities	(360)	(304)	942
Cash generated from operations	11,662	9,847	(9,720)
Interest paid	(1)	(1)	(5)
Interest received	570	481	1,086
Income taxes paid	(33)	(28)	(49)
Income taxes received	-	-	87
Cash provided by (used for) operating activities	12,198	10,299	(8,601)
Cash flow from investing activities:			
Recovery of investment	33	28	54
Purchases of property, plant and equipment	(4,779)	(4,036)	(12,321)
Purchases of intangible assets	(6,546)	(5,528)	(675)
Investments and deposits received (made)	(8)	(7)	(20)
Purchase of marketable securities	-	-	(49,670)
Sale of marketable securities	2,378	2,009	77,087
Cash provided by (used for) investing activities	(8,922)	(7,534)	14,455
Cash flow from financing activities:			
Costs for issuance of shares	-	-	(21)
Sale of employee stock purchase plan shares	114	96	30
Cash provided by financing activities	114	96	9
Cash provided by operating, investing and financing activities	3,390	2,861	5,863
Effect of foreign exchange rate changes on cash and cash equivalents	96	82	5
Net increase in cash and cash equivalents	3,486	2,943	5,868
Cash and cash equivalents at beginning of period	16,551	13,977	8,109
Cash and cash equivalents at end of period	20,037	16,920	13,977

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

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of €)	Ordinary Shares	Share Premium	Retained deficit	Other reserves		Employee stock purchase plan shares	Total
				Currency transla- tion ad- just-ment	Available for sale securities		
Balance at December 31, 2003	6,737	168,795	(60,781)	(924)	(69)	(26)	113,732
Loss for the year	-	-	(6,222)	-	-	-	(6,222)
Other net income / (loss) recognized in equity	-	-	-	(6)	41	-	35
Total net loss							(6,187)
New issuance of shares	291	(22)	-	-	-	(291)	(22)
Sale of employee stock purchase plan shares	-	9	-	-	-	20	29
Equity settled transactions, net of tax	-	-	675	-	-	-	675
Balance at December 31, 2004	7,028	168,782	(66,328)	(930)	(28)	(297)	108,227
Loss for the year	-	-	(23,345)	-	-	-	(23,345)
Other net income / (loss) recognized in equity	-	-	-	139	(271)	-	(132)
Total net loss							(23,477)
Sale of employee stock purchase plan shares	-	50	-	-	-	46	96
Equity settled transactions, net of tax	-	-	1,052	-	-	-	1,052
Balance at December 31, 2005	7,028	168,832	(88,621)	(791)	(299)	(251)	85,898

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

Notes to the Consolidated Financial Statements

1. General

a) Description of Business

Dialog Semiconductor Plc and subsidiaries ("Dialog" or the "Company") is a fabless semiconductor company that develops and supplies power management, audio and display driver technology, delivering innovative mixed signal standard products as well as application specific IC solutions for wireless, automotive and industrial applications. The Company's expertise in mixed signal design, with products manufactured entirely in CMOS technology, enhances the performance and features of wireless, hand-held and portable electronic products. Its technology is also used in intelligent control circuits in automotive and industrial applications. Production of these designs is then outsourced, and the final products are returned to Dialog for approval and testing before delivery to the customers.

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 and the ability to obtain adequate supply of sub-micron wafers.

The Company's products are generally utilized in the cellular communications and automotive industries. The Company generates a substantial portion of its revenue from the wireless communications market, which accounted for 80% and 78% of the Company's total revenue for the years ended December 31, 2005 and 2004, respectively.

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 Euros whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars. The Company also has foreign currency exchange risks with respect to its net investments in foreign subsidiaries in Japan, the United Kingdom and the United States. Fluctuations in these currencies could significantly impact the Company's reported results from operations.

The Company depends on a relatively small number of customers for a substantial portion of its revenues, and the loss of one or more of these customers may result in a significant decline in future revenue. During 2005 three customers individually accounted for more than 10% of the Company's revenues. Total revenues from these three customers were €82,996 or 64%. Net receivables from these three customers were €23,908 at December 31, 2005. During 2004 two customers individually accounted for more than 10% of the Company's revenues. Total revenues from these two customers were €75,651 or 65% of the revenues. Net receivables from these two customers were €15,724 at December 31, 2004. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

c) Basis of Presentation

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

In compliance with the European Parliament and Council Regulation on the application of International Financial Reporting Standards (IFRS) adopted in July 2002, all listed European Union companies are required to prepare their consolidated financial statements in accordance with IFRS for fiscal years commencing on or after January 1, 2005.

Therefore, for the first time, the accompanying consolidated financial statements have been prepared on the basis of the recognition and measurement requirements of IFRS and its interpretation adopted by the International Accounting Standards Board (IASB) as of December 31, 2005. Based on these standards, management has applied the accounting policies as set out below.

Although Dialog Semiconductor Plc is a UK company, its principal operations are located in Germany and all of its operating subsidiaries are held by the German subsidiary.

Accordingly, the financial statements are presented in thousands of Euro ("€") and for the year 2005 are also presented in U.S. Dollars ("\$"), the latter being unaudited and presented solely for convenience of the reader at the rate of €1 = \$1.1842, the Noon Buying Rate of the Federal Reserve Bank of New York on December 30, 2005.

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

IFRS 1, First-Time Adoption of International Financial Reporting Standards, requires disclosures that explain how the transition from previous GAAP to IFRS affected the entity's reported financial position, financial performance and cash flows and to comply with each IFRS effective at the reporting date for its first IFRS financial statements. An entity shall prepare an opening IFRS balance sheet at the date of transition and present at least one year of comparative information

under IFRS. Accordingly the Company's date of transition to IFRS is the beginning of business on January 1, 2004 (opening IFRS balance sheet date). As a UK company, Dialog has previously prepared its financial statements in accordance with accounting principles generally accepted in the United Kingdom ("UK GAAP"), which are filed at Companies House, for purposes of conversion from previous GAAP to IFRS.

An explanation of how the transition to IFRS has affected the reported financial position and financial performance of the group is provided in note 19. A summary of significant accounting policies is provided in note 2.

The Board of Directors authorized these consolidated financial statements for issue on May 24, 2006.

2. Summary of Significant Accounting Policies

These accounting policies have been applied consistently to all periods presented in these financial statements.

Principles of Consolidation and Investments in Affiliated Companies

The consolidated financial statements include Dialog Semiconductor Plc and all of its owned subsidiaries:

Name	Registered office	Activity	Participation
Dialog Semiconductor GmbH	Kirchheim/Teck - Nabern, Germany	Acquisition, sale and marketing of micro-electronic products especially Asics	100%
Dialog Semiconductor (UK) Limited *)	Swindon, UK	Design, development and sale of semiconductor components	100%
Dialog Semiconductor Inc *)	Wilmington, Delaware, USA	Design, development and sale of semiconductor components	100%
Dialog Semiconductor KK *)	Tokyo, Japan	Design, development and sale of semiconductor components	100%
Dialog Imaging Systems GmbH *)	Kirchheim/Teck - Nabern, Germany	Design, development and sale of camera modules	100%
Dialog Imaging Systems Inc *)	Wilmington, Delaware, USA	Design, development and sale of camera modules	100%

*) The shares are held by Dialog Semiconductor GmbH.

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.

Marketable Securities

Marketable securities at December 31, 2005 and 2004, respectively consist of exchange traded funds that are classified as available-for-sale and are accounted for on the basis of the settlement date and recorded at fair value as determined by the most recently quoted market price of each security at the balance sheet date. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. Any impairment losses on available-for-sale security are charged to earnings. Interest income is recognized when earned. All securities are measured at fair values that are determined based on observable market prices or rates.

Inventories

Inventories include assets held for sale in the ordinary course of business (finished goods), in the process of production (work in process) or in the form of materials to be consumed in the production process (raw materials). Inventories are valued at the lower of cost or net realisable value. 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. All trade accounts receivable are from customers. 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 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 based on current information and events regarding the customers' ability to repay their obligations. 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 credit 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 recovery is considered remote. In the profit and loss account, impairment losses are included in sales and marketing expenses. Recoveries of trade receivables previously written-off are recorded when received. Reversals of impairment losses, if any, would be included in other operating income. The Company does not have any off-balance-sheet credit exposure related to its customers.

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:

Equipment	Useful life
Test equipment	3 to 8 years
Leasehold improvements	Shorter of useful life or lease term
Office and other equipment	3 to 13 years

Intangible Assets

Purchased intangible assets with estimable useful lives primarily consist of licenses, software and patents and are recorded at acquisition cost less accumulated amortization. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 10 years. Amortization expenses are allocated to the cost of goods sold, selling expenses, research and development expenses or general administration expenses.

Liabilities

Trade accounts payable and other current liabilities are recognized at payment or redemption amounts.

Impairment of Long-Lived Assets

In accordance with IAS 36, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, 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 discounted net cash flows expected to be generated by the

asset or group of assets. If the carrying amount of an asset or group of asset 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. In accordance with IFRS 5, non-current assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

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 are translated at the average exchange rates during the year. Translation gains or losses are accumulated as a separate component of shareholders' equity. Foreign currency transaction gains and losses are included in financial income, net at each reporting period. They result from amounts ultimately realized upon settlement of foreign currency transactions and from the period end re-measurement of foreign currency denominated monetary assets and liabilities into the functional currency of the respective entity.

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		Annual average exchange rate	
	Dec 31, 2005	Dec 31, 2004	2005	2004
	€ 1 =	€ 1 =	€ 1 =	€ 1 =
Great Britain	0.69	0.71	0.68	0.68
Japan	139.13	139.83	136.88	134.46
United States	1.18	1.36	1.24	1.24

Revenue Recognition

Substantially all of the Company's revenue is derived from the sale of its products, applications specific integrated circuit ("ASIC") and application specific standard product ("ASSP") to end customers. These products are manufactured in accordance with the customer's technical specification and the Company performs a final test of the products prior to shipment in accordance with the specification. Revenue is recognized when title passes, the risks and rewards of ownership have been transferred to the customer, the fee is fixed or determinable, and collection of the related receivable is prob-

able. Revenues are recorded net of sales taxes and customer discounts, if any.

The Company has insurance for product claims and also records a provision for warranty costs as a charge in cost of sales, based on historical trends of warranty costs incurred as a percentage of sales, which management has determined to be a reasonable estimate of the probable costs to be incurred for warranty claims in a period. Returns are permitted only for quality-related reasons within the applicable warranty period and any potential warranty claims are subject to the Company's determination that it is at fault for damages, and

usually such claims must be submitted within a short period following the date of sale.

Product-Related Expenses

Cost of sales consists 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.

Selling and Marketing Expenses

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

General and Administrative Expenses

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

Research and development costs

Costs identified as research costs are expensed as incurred, whereas development costs are capitalized as an intangible asset and amortized if the Company can demonstrate all of the following:

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

As not all of these conditions were satisfied, development costs have not been capitalized as an intangible asset.

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 tax rates that have been enacted or substantially enacted by the balance sheet date expected to apply to taxable income in the years, in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. A deferred tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Stock-Based Compensation

The Company has established a share option scheme under which employees and executive directors may be granted stock options to acquire shares of the company. The fair value of options granted is recognized as a compensation expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the service period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Expectations of early exercise are accounted for within the average life of the options. The Company applies IFRS 2 to all options granted after November 7, 2002 that had not yet vested as of January 1, 2005.

Earnings (Loss) per Share

Earnings (loss) 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 each of the two periods presented, only basic per share amounts have been presented for those periods. In addition, the Earnings per share from continuing operations have been presented on a basic and diluted basis. Had the Company reported net income in 2005 and 2004, the weighted average number of shares outstanding would have potentially been as follows:

(in thousands)	2005	2004
Basic number of shares	44,173	44,025
Effect of dilutive options outstanding	1,010	1,049
Dilutive number of shares	45,183	45,074

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and judgments include the recoverability of the long-lived assets, the realizability of deferred income tax

assets and inventories, and the measurement of stock-based employee compensation awards. Actual results may differ from those estimates.

In the fourth quarter of 2004, the company determined that the useful life of its test equipment is eight years. Previously the useful life had been determined to be five years. Management determined that the estimated useful life of the equipment after investing in certain upgrades which enable the systems to test new and more complex power management integrated circuits and postponing replacement investments exceeded the initial estimate of five years and therefore extended the useful life of the systems. The effect of this change in accounting estimate resulted in a lower depreciation of €1,349 and in a lower net loss of €842 or €0.02 per share during the year ended December 31, 2004.

Recently Issued Accounting Standards

In August 2005, the IASB issued a complementary amendment to IAS 1 "Presentation of Financial Statements - Capital Disclosures". The amendment to IAS 1 adds requirements for all entities to disclose the entity's objectives, policies and

processes for managing capital and is effective for annual periods beginning on or after January 1, 2007. Earlier application is encouraged. As a result of the first time adoption of this amendment to IAS 1 the Company expects additional disclosure requirements within the notes to its consolidated financial statements.

In August 2005, the IASB issued IFRS 7 "Financial Instruments: Disclosures". IFRS 7 introduces new requirements to improve the information on financial instruments that is given in entities' financial statements and changes or amends certain disclosure requirements. It replaces IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and some of the requirements in IAS 32 "Financial Instruments: Disclosure and Presentation". IFRS 7 is effective for annual periods beginning on or after January 1, 2007. Earlier application is encouraged. As a result of the first time adoption of IFRS 7 the Company expects additional disclosure requirements within the notes to its consolidated financial statements.

3. Discontinued Operations

At 31 December 2005 the Company was actively pursuing the disposal of the Dialog Imaging Systems division and considered the likelihood of a sale to be highly probable. Accordingly the division has been classified as a discontinued operation in these financial statements.

On February 14, 2006 the Company concluded a disposition of its Imaging Division, Dialog Imaging Systems ("DIS"). The business of this division includes the development, design, manufacture, assembly, marketing and delivering of image sensor semiconductors and camera modules. Dialog transferred the assets of its Imaging Division to a newly created entity which will issue additional equity interests in exchange for consideration from investors. A total of €22.25 million will be invested in DIS by private equity investors, the management team and Dialog of which Dialog will invest €2 million due in two tranches of €1.2 million and €0.8 million.

As of December 31, 2005 Dialog recorded a write-down of the carrying value of assets to be contributed to DIS in 2006 of €3.9 million. The write-down was required because the consideration received in exchange for the assets contributed is a preferential right to receive proceeds following a future sale of DIS. However, such a contingent gain will only be recorded when realized. As a result of this impairment of the related assets there are no items that require disclosure as assets held for sale. The Company expects further losses from discontinued operations in 2006 of €1.8 million comprised of operating losses incurred before control was legally transferred on February 14, 2006 inclusive of transaction and legal costs.

Losses from the Imaging Division in 2005 and 2004 are comprised of:

(in thousands of €, except per share data)	2005	2004
Revenues	1,449	258
Cost of sales	(1,661)	(652)
Gross loss	(212)	(394)
Selling and marketing expenses	(593)	(9)
General and administrative expenses	(315)	(11)
Research and development expenses	(7,480)	(8,448)
Write-down of assets to net realizable value		
Intangible assets	(2,019)	-
Property, plant and equipment, net	(1,898)	-
Operating loss	(12,517)	(8,862)
Income tax expense	-	-
Net loss from discontinued operations	(12,517)	(8,862)
Loss per share		
Basic and diluted	(0.28)	(0.20)

The discontinued operation affected the Company's cash flow statements as follows:

(in thousands of €)	2005	2004
Cash used for operating activities	(7,383)	(7,266)
Cash used for investing activities	(935)	(805)
Cash flows from financing activities	11	1
Cash used for operating, investing and financing activities	(8,307)	(8,070)

4. Other Disclosures to the Consolidated Income Statement

Result before income taxes is stated after charging:

(in thousands of €)	2005	2004
Auditors' remuneration		
audit	(192)	(174)
tax fees	(60)	(110)
	(252)	(284)
Depreciation of property, plant and equipment	(7,619)	(11,501)
Amortization of intangible assets	(2,807)	(1,383)
Personnel costs		
Wages and salaries	(19,759)	(18,245)
Social and security costs	(3,027)	(2,893)
Other pension costs	(653)	(484)
	(23,439)	(21,622)
Included in cost of sales:		
Amount of inventory recognized as expense	(79,591)	(67,437)
Write-downs of inventories recognized as an expense	(6,576)	(740)

5. Income Taxes

Loss before income taxes consists of the following:

(in thousands of €)	2005	2004
Germany	(9,660)	(3,537)
Foreign	1,611	(2,621)
	(8,049)	(6,158)

Benefit (provision) for income taxes are as follows:

(in thousands of €)	2005	2004
Current taxes:		
Germany	-	-
Foreign	(43)	(38)
Deferred taxes:		
Germany	(15,004)	-
Foreign	(249)	(26)
Income tax expense	(15,296)	(64)

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. The Company's statutory tax rate for its German subsidiary is 25%. Including the impact of the solidarity surcharge of 5.5%, the federal corporate tax rate amounts to 26.375%. A reconciliation of income taxes determined using the German corporate tax rate of 26.375% plus the after federal tax benefit rate for trade taxes of 11.225%, for a combined statutory rate of 37.6%, is as follows:

(in thousands of €)	2005	2004
Expected benefit for income taxes	3,026	2,315
Foreign tax rate differential	190	(186)
Non-deductible portion of stock-based compensation	(276)	(253)
Unrecognized deferred tax assets	(18,390)	(1,947)
Tax deduction related to the valuation of available for sale securities	81	-
Adjustments recognized for current tax of prior periods	(10)	3
Other	83	4
Actual expense for income taxes	(15,296)	(64)

Deferred income tax assets and liabilities are summarized as follows:

(in thousands of €)	Dec 31, 2005	Dec 31, 2004
Property, plant and equipment	493	374
Net operating loss and tax credit carryforwards	28,322	25,158
Liabilities	5,323	5,654
Other	103	12
Deferred tax assets	34,241	31,198
Property, plant and equipment	(706)	(1,020)
Other	(2)	(7)
Deferred tax liabilities	(708)	(1,027)
Net deferred tax assets	33,533	30,171
Recognized net deferred tax assets	-	15,245
Unrecognized deferred tax assets	33,533	14,926
Net deferred tax assets	33,533	30,171

The movement in deferred tax assets recognized in the balance sheet is reconciled as follows:

(in thousands of €)	2005	2004
At start of year	15,245	15,272
Credit / (charge) for the year	(15,253)	(26)
Deferred tax recognized in Equity	8	(1)
Deferred tax	-	15,245

Tax loss carryforwards and unrecognized deferred tax assets are summarized as follows:

	December 31, 2005			December 31, 2004		
	Tax loss carryforwards		unrecognized deferred tax asset	Tax loss carryforwards		unrecognized deferred tax asset
	Total	for which no deferred tax asset was recog- nized		Total	for which no deferred tax asset was recog- nized	
Germany	65,909	65,909	30,729	63,124	28,648	12,272
UK	4,520	4,520	1,785	6,384	6,286	2,026
US						
Federal	1,811	1,811	807	1,571	1,571	497
State	1,662	1,662	212	1,442	1,442	131
Total			33,533			14,926

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, benefits that could be realized from available tax planning strategies and other positive and negative factors in making this assessment. Considering the weight given to cumulative

losses incurred in Germany over the five-year period ended December 31, 2005, as well as the inherent uncertainties in projecting future taxable income, pursuant to IAS 12, management concluded that tax losses may not ultimately be realized. Consequently, the Company recognized an additional valuation allowance of €18,390 as of December 31, 2005.

The tax loss carryforwards in the US will expire between 2006 and 2019; other tax loss carryforwards have no expiration date.

6. Financial Instruments

a) 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 aggregate costs, fair values, carrying amounts and

unrealized losses of the Group's financial instruments are as follows:

(in thousands of €)	At December 31, 2005			At December 31, 2004		
	Cost	Fair value (carrying amount)	Unrealized gain (loss)	Cost	Fair value (carrying amount)	Unrealized gain (loss)
Cash and cash equivalents	16,920	16,920	-	13,977	13,977	-
Marketable securities (debt based funds)	15,201	14,890	(311)	17,581	17,542	(39)
Liquid assets	32,121	31,810	(311)	31,558	31,519	(39)

b) Marketable Securities

The Company has invested in "investment grade" rated debt securities and exchange traded funds, which invest in debt

securities. All marketable securities are classified as available for sale.

c) Contracted maturities of financial instruments

All financial instruments are contracted to mature within one year or less and/or incorporate a floating interest rate that is

reset as market rates change.

7. Trade Accounts Receivable, net

The recorded trade accounts receivable for which an impairment has been recognized was €15 and €34 at December 31, 2005 and 2004, respectively. The related allowance for doubtful accounts was €8 and €17 at December 31, 2005 and 2004, respectively.

The allowance for doubtful accounts developed as follows:

(in thousands of €)	2005	2004
Allowance for doubtful accounts at beginning of year	17	197
Additions charged to bad debt expense	133	16
Write-offs charged against the allowance	(131)	(186)
Reductions charged to bad debt expense	(11)	(10)
Allowance for doubtful accounts at end of year	8	17

8. Inventories

Inventories are comprised of the following:

(in thousands of €)	At December 31, 2005	At December 31, 2004
Raw materials	5,797	9,893
Work-in-process	7,193	13,906
Finished goods	4,165	5,995
	17,155	29,794

9. Prepaid Expenses

In 2000, the Company paid \$2.5 million as an advance payment to one of its suppliers. Those advance payments are classified in the balance sheet line items "Prepaid expenses". The outstanding balance is refunded in proportion to the Company's purchases of wafers from this supplier and, at this

time, the Company expects to have the entire advance payments refunded. The amount of advance payments classified in prepaid expenses on the consolidated balance sheet as current assets represents that amount of advance payments expected to be refunded in the next twelve months.

10. Property, Plant and Equipment, net

A summary of activity for property, plant and equipment for the years ended December 31, 2005 and 2004 is as follows:

(in thousands of €)	Test equip- ment	Leasehold improve- ments	Office and other equip- ment	Advance payments	Total
Cost					
Balance at January 1, 2004	53,050	903	14,303	267	68,523
Effect of movements in foreign currency	(2)	(19)	(112)	-	(133)
Acquisitions	8,028	158	2,412	1,723	12,321
Reclassifications	300	-	(33)	(267)	-
Disposals	(863)	(145)	(860)	-	(1,868)
Balance at December 31, 2004 / January 1, 2005	60,513	897	15,710	1,723	78,843
Effect of movements in foreign currency	5	37	203	-	245
Acquisitions	1,558	11	1,703	764	4,036
Reclassifications	853	-	-	(904)	(51)
Disposals	(179)	-	(228)	-	(407)
Balance at December 31, 2005	62,750	945	17,388	1,583	82,666
Depreciation and impairment losses					
Balance at January 1, 2004	(36,956)	(550)	(10,427)	-	(47,933)
Effect of movements in foreign currency	2	13	93	-	108
Depreciation charge for the year	(9,076)	(121)	(2,304)	-	(11,501)
Reclassifications	(6)	-	6	-	-
Disposals	809	62	850	-	1,721
Balance at December 31, 2004 / January 1, 2005	(45,227)	(596)	(11,782)	-	(57,605)
Effect of movements in foreign currency	(5)	(23)	(171)	-	(199)
Depreciation charge for the year	(5,035)	(53)	(2,531)	-	(7,619)
Write-down of imaging assets 1)	(1,016)	(11)	(871)	-	(1,898)
Disposals	138	-	227	-	365
Balance at December 31, 2005	(51,145)	(683)	(15,128)	-	(66,956)
Net book value					
At January 1, 2004	16,094	353	3,876	267	20,590
At December 31, 2004 / January 1, 2005	15,286	301	3,928	1,723	21,238
At December 31, 2005	11,605	262	2,260	1,583	15,710

1) Write-down of imaging assets: for further information see note 3 - Discontinued Operations

11. Intangible Assets

A summary of activity for intangible assets for the years ended December 31, 2005 and 2004 is as follows:

(in thousands of €)	Purchased software, licenses and other	Purchased patents	Total
Cost			
Balance at January 1, 2004	8,870	3,008	11,878
Effect of movements in foreign currency	(26)	-	(26)
Acquisitions	348	-	348
Disposals	(199)	-	(199)
Balance at December 31, 2004 / January 1, 2005	8,993	3,008	12,001
Effect of movements in foreign currency	61	-	61
Acquisitions	8,803	-	8,803
Reclassifications	51	-	51
Disposals	(610)	-	(610)
Balance at December 31, 2005	17,298	3,008	20,306
Amortization and impairment losses			
Balance at January 1, 2004	(7,191)	(506)	(7,697)
Effect of movements in foreign currency	24	-	24
Amortization charge for the year	(1,046)	(337)	(1,383)
Disposals	199	-	199
Balance at December 31, 2004 / January 1, 2005	(8,014)	(843)	(8,857)
Effect of movements in foreign currency	(58)	-	(58)
Amortization charge for the year	(2,487)	(320)	(2,807)
Write down of imaging assets 1)	(174)	(1,845)	(2,019)
Disposals	610	-	610
Balance at December 31, 2005	(10,123)	(3,008)	(13,131)
Net book value			
At January 1, 2004	1,679	2,502	4,181
At December 31, 2004 / January 1, 2005	979	2,165	3,144
At December 31, 2005	7,175	-	7,175

1) Write-down of imaging assets: for further information see note 3 – Discontinued Operations

During the years ended December 31, 2005 and 2004, the Company acquired software and licenses for a total purchase price of €8,803 and €348 respectively. The 2005 acquisitions primarily relate to three year licensing contracts for the use of electronic design automated tools. In connection with these contracts, the Company made payments of €4,450 and recorded the net present value of the unpaid portion of €3,275 (due in quarterly instalments) as a liability.

The expected weighted average useful life of the acquired intangible assets is 3 years. The aggregate amortization expense for the years ended December 31, 2005 and 2004 was €2,807 and €1,383 respectively. Amortization expense of the gross carrying amount of intangible assets at December 31, 2005 is estimated to be €2,983 in 2006, €2,894 in 2007, €992 in 2008, €120 in 2009 and €46 in 2010.

12. Accrued Expenses

Provisions for obligations for personnel and social expenses comprise mainly vacation entitlements and flexible working-time credits. The Company issues various types of contractual

product warranties under which it guarantees the performance of products delivered for a certain period or term. The provision is estimated based on historical warranty data.

Other obligations primarily include other of uncertain amounts. We expect that all provisions will mature within

the next twelve months.

The changes in the provision are summarized as follows:

	Balance at January 1, 2005	Currency change	Additions	Used	Released	At December 31, 2005
Obligations for personnel and social expenses	865	6	795	(94)	-	1,572
Obligations for product warranties	155	-	194	(155)	-	194
Outstanding invoices and other obligations	1,184	9	1,440	(735)	(92)	1,806
Total	2,204	15	2,429	(984)	(92)	3,572

13. Shareholders' Equity and Comprehensive Income

Ordinary shares

At December 31, 2004 and 2005, Dialog had authorized 104,311,860 ordinary shares with a par value of £0.10 per share, of which 46,068,930 shares were issued and outstanding. All of the Company's stock is issued in the form of bearer shares, all shares are fully paid.

On September 24, 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at £0.10 per share to its employee share option trust ("Trust"), to make such shares available for the exercise of stock option rights that had previously been granted to employees. At December 31, 2005 the Trust continued to hold 1,691,155 shares. These shares are legally issued and outstanding, but are not considered issued and outstanding for accounting purposes and accordingly have been reported in the caption "employee stock purchase plan shares" as a reduction of shareholders' equity.

Additional paid in capital

The account comprises additional paid-in capital in connection with the issue of shares. The reduction of €22 in 2004 relates to costs incurred from the offering of 2,000,000 shares to the employee benefit trust.

Accumulated deficit

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

Accumulated other comprehensive income

The related tax effects allocated to each component of other comprehensive income (loss) for the years ended December 31, 2005 and 2004 are as follows:

(in thousands of €)	2005			2004		
	Pretax	Tax effect	Net	Pretax	Tax effect	Net
Unrealized (losses) gains on available for sale securities	(271)	-	(271)	59	(18)	41
Currency translation adjustment	137	2	139	12	(18)	(6)
Other comprehensive income (loss)	(134)	2	(132)	71	(36)	35

In 2005, realized losses of €11 (net of €5 tax benefits) on the sale of available for sale securities were reclassified into net loss.

14. Pension Scheme

The group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the group to the funds and amounted to €653

(2004: €484). At December 31, 2005, contributions amounting to €8 (2004: €59) were payable to the funds and are included in creditors.

15. 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 at any time to 15% of the Company's issued share capital on a diluted basis. At December 31, 2005, 8,129,811 shares could be issued.

Stock options granted to employees are granted with an exercise price not less than the quoted price at the date of grant. Those stock options have terms of ten years and vest over periods of one to five years from the date of grant.

Upon the commencement of his services as Chief Executive Officer of Dialog on a full-time basis on September 12, 2005, Dr. Jalal Bagherli received a stock option grant of 300,000 restricted shares of Dialog Semiconductor Plc. This option is exercisable in two tranches of 150,000 shares, the first after 91 days and the second after 181 days from his date of joining. These restricted shares will vest in 24 equal monthly tranches beginning September 2005. In addition the Company granted an option over 300,000 shares with exercise prices ranging from €2.00 to €8.00, vesting to occur on September 30, 2006, 2007, 2008 and 2009, in equal tranches of 15,000 options for each exercise price.

A further 100,000 options with an exercise price of £0.10 and a grant of options with a value of €150 payable in cash or shares have been granted in February 2006 and are subject

to the achievement of performance and market targets to vest in eight equal semi-annual tranches between March 31, 2006 and September 30, 2009.

The fair value of all grants in the two-year period ended December 31, 2005 is estimated using the Black-Scholes option pricing model. Expectations of early exercise are considered in the determination of the expected life of the options. The Company does not have adequate historical development of the share price, especially due to material unusual effects in the stock market in recent years. Furthermore, an implicit volatility cannot be determined as none of the Company's options are actively traded. The Company has, therefore, based its calculation of expected volatility on the historical development of other Companies in its business segment.

The following assumptions were used for stock option grants for the years ended December 31, 2005 and 2004.

	2005	2004
Expected dividend yield	0%	0%
Expected volatility	18% (52)%	18% (52)%
Risk free interest rate	2.3% (3.3)%	3.4%
Expected life (in years)	1.0to 7.0	3.0to 7.0
Weighted average share price	2.31	3.70
Weighted average exercise price	2.30	3.70
Weighted-average fair value of options granted (in €)	1.31	1.60

Stock option plan activity for the years ended December 31, 2005 and 2004 was as follows:

(prices in €)	2005		2004	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	3,299,406	2.34	3,412,270	2.32
Granted	952,000	2.30	108,960	3.70
Exercised	(305,338)	0.27	(64,648)	0.44
Forfeited	(96,060)	3.13	(157,176)	3.48
Outstanding at end of year	3,850,008	2.45	3,299,406	2.34
Options exercisable at year end	2,250,648	2.03	1,827,076	1.53

The weighted average share price at the date of exercise of options was €2.45 and €3.23 in the years ended December 31, 2005 and 2004 respectively.

The following table summarizes information about stock options outstanding at December 31, 2005:

Range of Exercise Prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2005	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable at December 31, 2005	Weighted average exercise price
€0.00 - 2.98	1,773,028	5.7	€0.94	1,131,512	€0.60
€3.00 - 8.00	2,076,980	8.2	€3.75	1,119,136	€3.47
€0.00 (8.00)	3,850,008	7.0	€2.45	2,250,648	€2.03

b) ESOP Trust

The Company established an employee share option trust (the "Trust"). The Trust purchases shares in the Company for the benefit of employees under the Company's share option

scheme. At December 31, 2005 the Trust held 1,691,155 shares.

16. Commitments

The Company leases all of its office facilities, office and test equipment and vehicles under operating leases. In addition the Company has contracted consulting services related to CAD (computer aided designs) until June 30, 2009. Total rentals under these agreements, charged as an expense in the statement of operations, amounted to €2,906 and €7,780 for the years ended December 31, 2005 and 2004 respectively.

Future minimum lease payments under rental and lease agreements, which have initial or remaining terms in excess of one year at December 31, 2005 and 2004, are as follows:

(in thousands of €)	Operating leases	
	2005	2004
within 1 year	3,817	8,148
between 1 and 2 years	2,573	6,629
between 2 and 3 years	1,980	6,399
between 3 and 4 years	1,068	6,429
between 4 and 5 years	197	3,297
Thereafter	154	316
Total	9,789	31,218

At December 31, 2005, the Company had unused short-term credit lines of €12,500 (at December 31, 2004 €12,782). There were no amounts outstanding under these credit lines at December 31, 2005 and 2004.

The company has contractual commitments for the acquisition of property, plant and equipment in 2006 of €1,176 and for the acquisition of intangible assets of €88.

17. Segment Reporting

Segment information is presented according to Dialog's business and geographical segments. The primary format, business segments, is based on the Company's principal sales markets.

a) Business Segments

(in thousands of €)	2005						2004					
	Wireless	Automotive / Industrial	Corporate	Total continued operations	Imaging (discontinued operations)	Total	Wireless	Automotive / Industrial	Corporate	Total continued operations	Imaging (discontinued operations)	Total
Revenues 1)	103,359	26,047	-	129,406	1,449	130,855	90,359	25,427	-	115,786	258	116,044
Operating profit (loss)	4,514	1,048	(2,863)	2,699	(12,517)	(9,818)	5,228	(1,177)	(1,756)	2,295	(8,862)	(6,567)
Depreciation/amortization	6,882	2,243	-	9,125	1,301	10,426	7,001	4,310	-	11,311	1,573	12,884
Investments	8,444	3,460	-	11,904	935	12,839	10,108	1,756	-	11,864	805	12,669
	Dec 31, 2005						Dec 31, 2004					
Total assets	57,276	13,787	31,810	102,873	265	103,138	63,438	12,688	46,764	122,890	4,254	127,144
Liabilities	12,817	3,264	990	17,071	169	17,240	14,044	4,656	217	18,917	-	18,917

[1] All revenues are from sales to external customers.

Corporate expenses include the holding company and other expenses not specifically attributable to the business segments. Corporate assets include certain financial assets such as cash and cash equivalents, marketable securities and deferred taxes. Corporate liabilities include liabilities of the holding company and other liabilities not specifically attributable to business segments.

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

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

In 2005 and 2004 the Company had no inter-segment sales, income, expenses, receivables, payables or provisions.

All revenues and expenses relating to discontinued operations (see note 3) are shown within the imaging segment.

b) Geographical Segments

(in thousands of €)	2005	2004
Revenues		
Germany	25,446	47,719
Other European countries	19,762	16,868
China	21,558	19,738
Japan	18,886	4,839
Other Asian countries	33,533	17,512
Other countries	11,670	9,368
Total Revenues	130,855	116,044
Investments		
Germany	12,755	12,490
Japan	25	40
United Kingdom	46	84
USA	13	55
Total Investments	12,839	12,669

(in thousands of €)	Dec 31, 2005	Dec 31, 2004
Assets		
Germany	101.042	125.183
Japan	553	547
United Kingdom	700	874
USA	843	540
Total Assets	103.138	127.144

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

18. Transactions with Related Parties

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 the Company's legal adviser. Fees paid by Dialog Semiconductor Plc to Reynolds

Porter Chamberlain for legal services rendered were €257 and €172 in 2005 and 2004, respectively. Fees paid by Dialog's subsidiaries to Reynolds Porter Chamberlain were €30 and €40 in 2005 and 2004, respectively.

The compensation of the members of the board of directors is as follows:

Name	Position	Compensation (in €)				Directors holdings		
		Base salary	Bonus / long-term incentives	Other	2005 Total	2004 Total	Shares	Options
Tim Anderson	Non-executive Director	7,312	-	-	7,312	7,366	75,166	-
Dr. Jalal Bagherli	Executive Director and CEO since September 12, 2005	71,791	74,130	-	145,921	-	150,000	450,000
Michael Glover	Non-executive Director	57,400	-	-	57,400	51,565	195,000	-
Aidan Hughes	Non-executive Director and Chairman of the Audit Committee	71,658	-	-	71,658	11,050	-	-
John McMonigall	Non-executive Director	30,711	-	-	30,711	29,466	-	-
Roland Pudelko	Executive Director, CEO and President until September 12, 2005, non-executive Director until February 14, 2006	279,105	42,995	450,000 1)	772,100	312,439	320,405	517,450
Gregorio Reyes	Non-executive Director	43,872	-	-	43,872	44,198	35,000	-
Michael Risman	Non-executive Director	36,560	-	-	36,560	29,466	1,172	-
Jan Tufvesson	Non-executive Chairman	78,970	-	-	78,970	51,565	175,062	-
		677,379	117,125	450,000	1,244,504	537,115	951,805	967,450

1) Other compensation comprises compensation for loss of office.

The board of directors is considered to be the key management personnel of the company.

Further information concerning the remuneration of directors is set out in the Directors' Remuneration report on pages 6 to 9.

19. Explanation of transition to IFRS

As stated in note 2, these are the Company's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended December 31, 2005, the comparative information presented in these financial statements for year ended December 31, 2004 and in the preparation of an opening IFRS balance sheet at January 1, 2004 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of net shareholders' equity at December 31, 2004 and January 1, 2004

(in thousands of €)	Notes	December 31, 2004			January 1, 2004		
		UK GAAP	Effect of transition to IFRS	IFRS	UK GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Cash and cash equivalents		13,977	-	13,977	8,109	-	8,109
Marketable securities		17,542	-	17,542	44,900	-	44,900
Trade accounts receivable, net		24,036	-	24,036	14,338	-	14,338
Inventories		29,794	-	29,794	13,242	-	13,242
Deferred taxes	19a	16,125	(16,125)	-	16,152	(16,152)	-
Prepaid expenses	19b	1,693	(1,077)	616	3,058	(927)	2,131
Other current assets		281	-	281	993	-	993
Total current assets		103,448	(17,202)	86,246	100,792	(17,079)	83,713
Property, plant and equipment, net		21,238	-	21,238	20,590	-	20,590
Intangible assets		3,144	-	3,144	4,181	-	4,181
Deposits		194	-	194	183	-	183
Deferred taxes	19a	-	15,245	15,245	-	15,272	15,272
Prepaid expenses	19b	-	1,077	1,077	-	927	927
Total non-current assets		24,576	16,322	40,898	24,954	16,199	41,153
TOTAL ASSETS		128,024	(880)	127,144	125,746	(880)	124,866
LIABILITIES AND SHAREHOLDERS' EQUITY							
Trade accounts payable		15,429	-	15,429	7,157	-	7,157
Accrued expenses	19a	3,084	(880)	2,204	3,165	(880)	2,285
Income taxes payable		9	-	9	18	-	18
Other current liabilities		1,275	-	1,275	1,674	-	1,674
Total current liabilities		19,797	(880)	18,917	12,014	(880)	11,134
Ordinary Shares		7,028	-	7,028	6,737	-	6,737
Share Premium	19c	168,505	277	168,782	168,527	268	168,795
Retained deficit	19c, 19d, 19e	(67,009)	681	(66,328)	(61,506)	725	(60,781)
Other reserves	19d, 19e	-	(958)	(958)	-	(993)	(993)
Employee stock purchase plan shares		(297)	-	(297)	(26)	-	(26)
Total Shareholders' equity		108,227	-	108,227	113,732	-	113,732
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		128,024	(880)	127,144	125,746	(880)	124,866

Reconciliation of net loss for the year ended December 31, 2004

(in thousands of €, except per share data)	Notes	2004			IFRS
		UK GAAP	Effect of transition to IFRS	Reclassification of discontinued operations *)	
Revenues		116,044	-	(258)	115,786
Cost of sales	19f	(79,783)	(162)	652	(79,293)
Gross profit		36,261	(162)	394	36,493
Selling and marketing expenses	19f	(6,237)	(44)	9	(6,272)
General and administrative expenses	19f	(5,462)	(106)	11	(5,557)
Research and development expenses	19f	(29,071)	(1,746)	8,448	(22,369)
Amortization of intangible assets	19g	(1,383)	1,383	-	-
Exchange rate losses, net	19h	(719)	719	-	-
Other operating income	19i	54	(54)	-	-
Operating profit (loss)		(6,557)	(10)	8,862	2,295
Interest income		1,086	-	-	1,086
Interest expenses		(5)	-	-	(5)
Foreign currency exchange gains and losses, net	19h	(7)	(719)	-	(726)
Other income	19i	-	54	-	54
Income from revaluation of marketable securities	19e	59	(59)	-	-
Result before income taxes		(5,424)	(734)	8,862	2,704
Income tax expense	19e	(81)	17	-	(64)
Net income from continuing operations		(5,505)	(717)	8,862	2,640
Loss from discontinued operations				(8,862)	(8,862)
Net loss		(5,505)	(717)	-	(6,222)
Loss per share					
Basic and diluted		(0.13)	(0.01)		(0.14)

*) The reclassification of discontinued operations is presented solely for convenience of the reader to make this reconciliation comparable with the consolidated income statement. This does not represent a difference between UK-GAAP and IFRS.

19a Deferred taxes

In accordance with IAS 12.74, deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities. In addition, deferred tax assets and deferred tax liabilities must relate to income taxes levied by the same taxation authority for either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered. This was the case for the Company's deferred tax assets and its deferred tax liabilities. Therefore the Company offset the deferred tax assets and liabilities. Furthermore, in accordance with IAS 1.70 deferred tax liabilities and assets should always be classified as non-current. Therefore, in the IFRS balance sheet the net amount of all deferred tax assets and liabilities is shown under non-current assets. Under UK GAAP, the Company showed the net amount of its deferred tax assets under current assets.

19b Prepaid expenses

In accordance with IAS 1.57 an asset shall be classified as current when it is expected to be realized within twelve months after the balance sheet date. Included in the Company's prepayments are advance payments which are expected to be refunded to the Company after the next twelve months. This amount of the prepaid expenses is therefore shown under non-current assets in the Company's IFRS balance sheet. Under UK GAAP, the Company showed the total amount of prepaid expenses under current assets.

19c Consideration received on the sale of stock purchase plan shares

In accordance with IAS 32.33 the Company recognizes the consideration received on the sale of shares directly in equity. In the IFRS balance sheet the Company presents the gain on the sale of those shares as additional share premium. In the Company's UK GAAP balance sheet, the Company presented this gain within the accumulated deficit.

19d Currency translation adjustment

In accordance with IAS 21.39(c) and IAS 21.44 exchange differences resulting from the translation of the financial statements of foreign entities for incorporation in the Company's financial statements shall be recognized as a separate component of equity. In the Company's UK GAAP balance sheet this equity component was presented within the Company's accumulated deficit.

19e Gains or losses on available-for-sale financial assets

In accordance with IAS 39.55 (b) a gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized directly in equity through the statement of changes in equity until the financial asset is derecognized. The Company considers it best practice to show this equity component in a separate line item within the equity section of its IFRS balance sheet. In the Company's UK GAAP financial statements such a gain or loss is shown as an income or an expense in the Profit and Loss account in the line "Expense from revaluation of marketable securities" with the relating tax effect in the line "income tax benefit". Accordingly in the Company's UK GAAP Balance sheet the net effect of such a gain or loss from the revaluation of marketable securities is presented within the Company's accumulated deficit.

19f Equity settled share based payment transactions

In accordance with IFRS 2.8 goods or services received or acquired in a share based payment transaction which do not qualify for recognition as assets, are recognized as expenses. The Company has a stock-based employee compensation plan which allows Group employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity (IFRS 2.7). The Company considers it best practice to increase retained earnings for the corresponding goods and services received. In the Company's IFRS Profit and Loss account, the employee expense is allocated to the corresponding operating expenses. Under UK GAAP the method of calculating the expense and change in equity was different from the method under IFRS.

19g Amortization of intangible assets

Amortization of intangible assets has been allocated to the functional costs.

19h Foreign currency exchange gains and losses

For UK GAAP, the Company allocated its foreign currency exchange gains and losses into operating and non-operating expenses. In the IFRS profit and loss account all foreign currency exchange gains and losses are classified as non-operating expenses.

19i Other income

The Company recovered a part of an investment which was previously written off (for further information see note 7 to the Company's December 31, 2004 consolidated financial UK GAAP statements). For UK GAAP, the Company showed this benefit within the operating result. In the IFRS Profit and Loss account this benefit is shown as non-operating income.

20. Staff numbers

The average staff numbers of persons employed by the group (including the executive director) during the year, analyzed by category, was as follows:

	2005	2004
Research and development	149	155
Production	80	77
Sales and marketing	23	20
Admin	20	20
IT	8	9
	280	281

The aggregate payroll costs of these persons are shown in note 4.

Company Balance sheet

(in thousands of €)	Notes	At December 31, 2005	At December 31, 2004
ASSETS			
Cash and cash equivalents		7,748	9,852
Marketable securities	6	14,890	17,542
Amounts owed by group undertakings		30,275	21,687
Prepaid expenses		38	10
Other current assets		371	147
Total current assets		53,322	49,238
Investments	21	57,986	112,254
Deferred taxes	22	-	77
Amounts owed by group undertakings (due after more than one year)		3,418	4,709
Total non-current assets		61,404	117,040
TOTAL ASSETS		114,726	166,278
LIABILITIES AND SHAREHOLDERS' EQUITY			
Amounts owed by group undertakings		186	-
Trade accounts payable		65	72
Accrued expenses		274	217
Other current liabilities		1	-
Total current liabilities		526	289
Ordinary Shares		7,028	7,028
Share Premium		168,832	168,782
Retained deficit		(61,110)	(9,496)
Other reserves		(299)	(28)
Employee stock purchase plan shares		(251)	(297)
Total Shareholders' equity	13	114,200	165,989
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		114,726	166,278

The accounting policies of the Company are consistent with the accounting policies of the Group set out in note 2

These financial statements were approved by the board of directors on May 24, 2006 and were signed on its behalf by:

Dr. Jalal Bagherli
Director

Company Statements of Cash Flow

(in thousands of €)	2005	2004
Cash flow from operating activities:		
Net income (loss)	(51,614)	(17,792)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Write-down of investment in GmbH	54,268	15,600
Foreign exchange (gain) / loss from revaluation of intercompany receivables and liabilities	(2,886)	1,903
Interest income, net	(1,998)	(1,228)
Income tax expense (income)	264	(184)
Changes in working capital:		
Prepaid expenses	(28)	32
Trade accounts payable	(7)	49
Accrued expenses	57	(32)
Other assets and liabilities	520	193
Cash used for operations	(1,424)	(1,459)
Interest paid	-	(2)
Interest received	431	1,054
Income taxes paid	-	-
Income taxes received	-	-
Cash used for operating activities	(993)	(407)
Cash flow from investing activities:		
Purchase of marketable securities	-	(49,670)
Sale of marketable securities	2,009	77,087
Cash provided by investing activities	2,009	27,417
Cash flow from financing activities:		
Amounts owed by group undertakings	(3,216)	(22,981)
Costs for issuance of shares	-	(21)
Sale of employee stock purchase plan shares	96	30
Cash used for financing activities	(3,120)	(22,972)
Cash (used for) / provided by operating, investing and financing activities	(2,104)	4,038
Net (decrease) / increase in cash and cash equivalents	(2,104)	4,038
Cash and cash equivalents at beginning of period	9,852	5,814
Cash and cash equivalents at end of period	7,748	9,852

Company Statement of changes in equity

(in thousands of €)	Ordinary Shares	Share Premium	Retained deficit	Available for sale securities	Employee stock purchase plan shares	Total
Balance at December 31, 2003	6,737	168,795	8,296	(69)	(26)	183,733
Loss for the year	-	-	(17,792)	-	-	(17,792)
Other net income recognised in equity	-	-	-	41	-	41
Total net loss						(17,751)
New issuance of shares	291	(22)	-	-	(291)	(22)
Sale of employee stock purchase plan shares	-	9	-	-	20	29
Balance at December 31, 2004	7,028	168,782	(9,496)	(28)	(297)	165,989
Loss for the year	-	-	(51,614)	-	-	(51,614)
Other net loss recognised in equity	-	-	-	(271)	-	(271)
Total net loss						(51,885)
Sale of employee stock purchase plan shares	-	50	-	-	46	96
Balance at December 31, 2005	7,028	168,832	(61,110)	(299)	(251)	114,200

21. Investments

This represents the investment of the Company in Dialog Semiconductor GmbH as of May 18, 2006. The directors evaluated the recoverable amount of the investment due to the net assets of Dialog Semiconductor GmbH being less than the carrying of the investment and determined that an impairment of € 54.0 m was required to record the investment at fair value less cost to sell. The fair value less cost to sell was determined by reference to an active market and the market price of the shares of Dialog Semiconductor plc. The market capitalisation of Dialog Semiconductor plc minus the cash, cash equivalents and marketable securities recorded by the Company at May 18, 2006 represents the fair value of the investment in Dialog Semiconductor GmbH. An impairment loss of € 54.0 m (in 2004: € 15.6 m) was recognised in profit and loss.

22. Deferred tax

(in thousands of €)	Dec 31, 2005	Dec 31, 2004
Net operating loss and tax credit carryforwards	1,263	1,896
Other	93	12
Deferred tax assets	1,356	1,908
Recognized net deferred tax assets	-	77
Unrecognized deferred tax assets	1,356	1,831
Net deferred tax assets	1,356	1,908

For further information on deferred taxes see note 5.

23. Auditors remuneration

(in thousands of €)	2005	2004
Auditors' remuneration - audit	157	127
Auditors' remuneration - tax fees	5	2

24. Share Capital and share options

Details of the company's share capital and share options are set out in note 13 and 15.

25. Staff numbers and costs

The company does not have any employees.

26. Reconciliation of net shareholders' equity at December 31, 2004 and January 1, 2004

(in thousands of €)	Notes	December 31, 2004		January 1, 2004			
		UK GAAP	Effect of transition to IFRS	UK GAAP	Effect of transition to IFRS	IFRS	
ASSETS							
Cash and cash equivalents		9,852	-	9,852	5,814	-	5,814
Marketable securities		17,542	-	17,542	44,900	-	44,900
Amounts owed by group undertakings		21,687	-	21,687	351	-	351
Prepaid expenses		10		10	42		42
Other current assets		147	-	147	727	-	727
Total current assets		49,238	-	49,238	51,834	-	51,834
Investments		112,254	-	112,254	127,854	-	127,854
Deferred taxes		77	-	77	94	-	94
Amounts owed by group undertakings (due after more than one year)		4,709	-	4,709	5,000	-	5,000
TOTAL ASSETS		166,278	-	166,278	184,782	-	184,782
LIABILITIES AND SHAREHOLDERS' EQUITY							
Amounts owed by group undertakings		-	-	-	391	-	391
Trade accounts payable		72		72	23	-	23
Accrued expenses		217	-	217	249	-	249
Other current liabilities		-	-	-	386	-	386
Total current liabilities		289	-	289	1,049	-	1,049
Ordinary Shares		7,028	-	7,028	6,737	-	6,737
Additional paid-in capital	19c	168,505	277	168,782	168,527	268	168,795
Accumulated deficit	19c, 19e	(9,247)	(249)	(9,496)	8,495	(198)	8,297
Accumulated other comprehensive loss	19e	-	(28)	(28)	-	(70)	(70)
Employee stock purchase plan shares		(297)	-	(297)	(26)	-	(26)
Net Shareholders' equity		165,989	-	165,989	183,733	-	183,733
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		166,278	-	166,278	184,782	-	184,782