



I n t e l l i g e n c e  
d e s i g n e d t o p e r f e c t i o n

# Dialog Semiconductor Plc – Five-Year Financial Summary

## Selected Financial Data

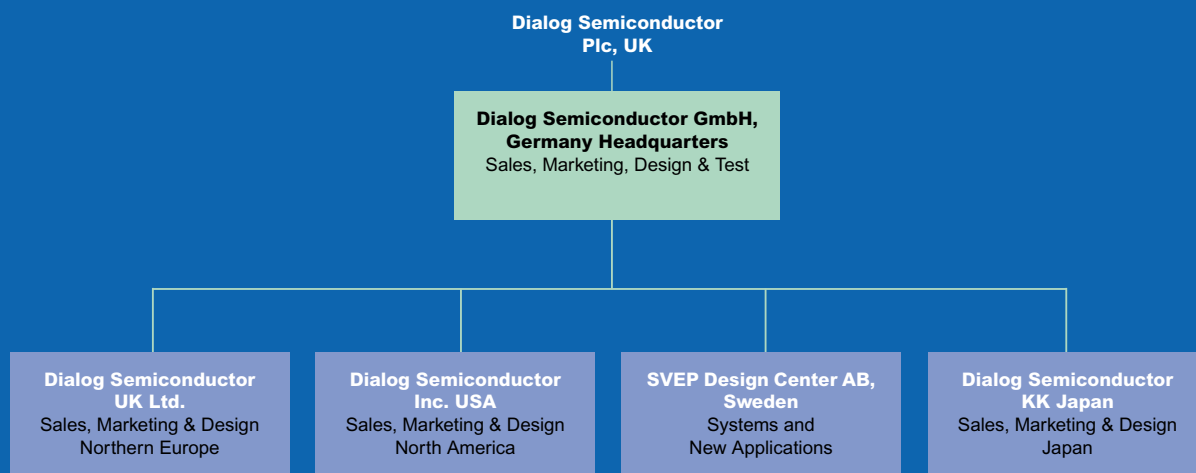
(in thousands of €)	2001	2000	1999	1998 <sup>1)</sup>	1997
<b>Earnings data</b>					
Revenues	<b>100,519</b>	214,459	87,246	44,478	38,528
EBITDA	<b>3,493</b>	49,177	15,351	7,855	3,451
EBIT (operating profit)	<b>(23,199)</b>	38,400	11,566	5,311	2,284
Research and development	<b>31,256</b>	22,898	11,108	6,656	3,773
Net income	<b>(41,679)</b>	26,557	6,680	2,372	1,023
Cash flow from operations <sup>2)</sup>	<b>15,139</b>	18,072	(907)	7,124	1,249
<b>Balance sheet data</b>					
Cash and cash equivalents	<b>32,626</b>	29,879	11,257	2,958	1,105
Shareholders' equity	<b>157,706</b>	199,194	68,611	3,036	4,408
Total assets	<b>178,443</b>	247,423	90,864	31,920	16,225
Redeemable preference shares	–	–	–	17,120	–
Capital expenditure	<b>3,157</b>	39,024	14,487	3,273	1,393
<b>Share data</b>					
Basic earnings (loss) per share <sup>3)</sup>	<b>(0.95)</b>	0.62	0.16	0.04	0.03
Number of shares in thousands (at December 31)	<b>44,069</b>	44,069	42,069	34,568	34,568
<b>Other data</b>					
Employees (at December 31)	<b>287</b>	268	142	105	91

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

<sup>2)</sup> In 2000 excluding advance payments to secure silicon capacity of € 23,201.

<sup>3)</sup> Earnings per share information for the fiscal year ended December 31, 1998 and 1997 is on a pro forma basis assuming that the weighted shares outstanding for the period from March 1, 1998 to December 31, 1998 were also outstanding for those periods.

## Overview of the legal Group structure



# Selected Key Figures 1999–2001

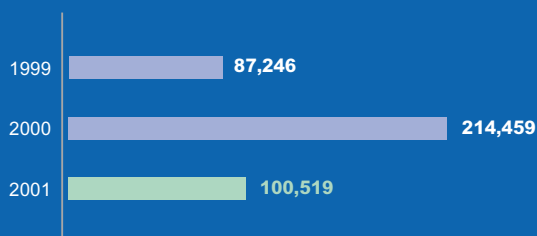
## Revenues by product-type (in thousands of €)

	2001	2000	1999
Wireless Communication	77,751	180,345	68,052
Wireline Communication	2,623	9,501	2,953
Automotive	5,923	7,948	6,980
Industrial	14,222	15,221	7,852
Other	–	1,444	1,409
	<b>100,519</b>	214,459	87,246

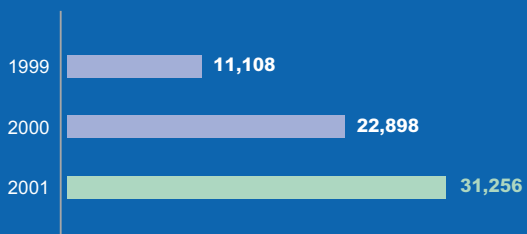
## Revenues by regions (in thousands of €)

	2001	2000	1999
Germany	22,912	40,941	21,024
Sweden	16,169	57,866	29,679
United Kingdom	4,356	21,480	5,737
Other European countries	17,534	35,726	19,136
China	20,084	2,562	–
Malaysia	7,773	35,582	5,145
Other countries	11,691	20,302	6,525
	<b>100,519</b>	214,459	87,246

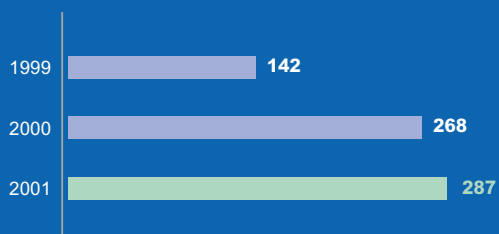
### Total Revenues



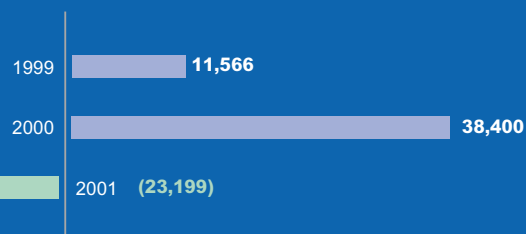
### Research and development



### Employees



### Operating profit



# Our Products: ASIC Applications

Wireless ASICs	Function	User benefit
<b>Audio and Power Management</b>	<p>The <b>Audio-CODEC</b> subsystem is responsible for the conversion of analog speech signals to the digital signals transmitted across the wireless link, and vice versa for received speech. The performance of the audio codec electronics is therefore the main contributor to the voice quality of a mobile phone and so is immediately apparent to the user.</p>	<ul style="list-style-type: none"> <li>Improved voice quality</li> </ul>
	<p>The <b>power management</b> subsystem takes the supply from the battery and generates the individual supplies required by each sub system within the phone. Each supply is optimized to give the best operating conditions and often has sophisticated power saving functions built in to maximize battery life. As well as monitoring the overall battery condition, the sub system also controls the charging of the battery when the phone is connected to the mains or a car charger. The power management subsystem is becoming more complex as new features are added such as fuel gauging to show the user the amount of charge left in the battery.</p>	<ul style="list-style-type: none"> <li>Longer battery life</li> <li>More standby time</li> </ul>
<b>Multimedia and other applications</b>	<p><b>Digital camera module</b></p> <p>The introduction of Multimedia Messaging Services (MMS) allows pictures as well as text to be sent between phones. To maximize the potential of MMS, a camera is integrated into the phone, allowing pictures to be taken at anytime and easily transmitted. As 3G phones become available with higher data transmission rates the camera will also be essential for applications such as video conferencing.</p>	<ul style="list-style-type: none"> <li>Enhanced user facilities</li> <li>Access to new services</li> </ul>
	<p><b>MP3</b></p> <p>Handling MP3 data brings music to mobile phones; it decodes a highly compressed bit stream into CD quality audio, turning the phone into a super compact and lightweight 'Walkman'. Music can be either downloaded over the phone line or loaded from a computer via a Flash memory card or USB interface.</p>	<ul style="list-style-type: none"> <li>Added functionality</li> </ul>
	<p><b>Force Sensor</b></p> <p>As phones become more complex and are used more to access wireless internet, there is a requirement to make the user interface as simple as possible. As an alternative to the standard keypad, a force sensor similar to a joystick can be used to enable the operator to move between functions and select options. This makes using the phone simpler and quicker.</p>	<ul style="list-style-type: none"> <li>Easier navigation through phone menus</li> </ul>
	<p><b>RF</b></p> <p>RF functionality, such as Bluetooth, employs a low power radio link to enable users to easily connect to a wide range of computing and telecommunication devices without the need to buy, carry, or connect cables. Bluetooth will be incorporated into a wide range of communications equipment.</p>	<ul style="list-style-type: none"> <li>Wider connectivity</li> <li>Ease of use</li> </ul>

Other applications	Function	User benefit
<b>Wireline communication</b>	<p>Line interface ASICs enable high-speed digital transmission within public and private networks. Custom interfaces for protocols such as T1, ISDN, xDSL feature low noise and low power consumption. They provide the interface between the transmission medium and communications equipment such as routers or modems.</p>	<ul style="list-style-type: none"> <li>Higher transmission data rates</li> </ul>
<b>Sensors</b>	<p>Sensors are the "eyes and ears" of automotive control systems. Sensors used in airbag systems relay signals to an electronic control unit, which determines deployment of the airbag. Similarly, braking and stability control systems rely on sensors to feed information to their controllers.</p>	<ul style="list-style-type: none"> <li>Improved safety</li> </ul>
<b>Motor control</b>	<p>Modern automobiles have electronic motors operating numerous functions from windows, air conditioning systems, windshield wipers to gauges on the dashboard. The controller function ensures optimum operation at all times.</p>	<ul style="list-style-type: none"> <li>Lower cost</li> <li>Lower weight</li> <li>Improved safety</li> </ul>
<b>Sensors and power management</b>	<p>Applied to lighting systems at home or at work, ASICs control a range of lamp technologies enabling fast starting, flicker free dimming and efficient power management.</p>	<ul style="list-style-type: none"> <li>Improved efficiency</li> <li>Longer bulb life</li> </ul>

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# Management Board



## **Roland Pudelko**

■ Chief Executive Officer and President (49), joined Dialog Semiconductor in 1989 as managing director and has served as Executive Director, CEO and President since March 1998. He has 24 years experience in electronics and microelectronics, primarily in management positions within the Daimler-Benz Group. During that time, he was a board member of a joint venture with the Taiwanese company, ACER, and for the TEMIC Group he was responsible for the coordination of worldwide design and engineering. Mr. Pudelko has a diploma in communication technologies from the vocational college (Fachhochschule) of Esslingen. He is also the managing director of Dialog Semiconductor GmbH and our other consolidated subsidiaries.



## **Richard Schmitz**

■ Vice-President, Engineering (45), joined Dialog Semiconductor in 1989. He received a diploma in engineering for communications electronics in 1983 from the vocational college (Fachhochschule) in Trier. Prior to joining Dialog Semiconductor, he held various design-related positions in Hewlett Packard's instruments division in Böblingen and at the Institute for Microelectronics, Stuttgart.



## **Martin Klöble**

■ Vice-President, Finance and Controlling (42), joined Dialog Semiconductor on July 1, 1999. He holds an MBA from the University of Stuttgart-Hohenheim and is qualified as a tax consultant (Steuerberater) as well as a certified public accountant in Germany (Wirtschaftsprüfer) and in the United States (CPA). Before joining Dialog Semiconductor he worked for KPMG and was appointed a partner at the beginning of 1999.



### **Yoshihiko Kido**

■ Vice President, Japan (49),  
joined Dialog Semiconductor in March 2001 and is responsible for Dialog's Japanese operation. He obtained his BA in English language from Kanagawa University in 1976. Before joining Dialog he worked as a consultant at Overseas Affiliates Pty. Ltd. and held management positions at General Electric, Act Japan Co. Ltd. and Seagate. As one of the initial employees of Nippon Ericsson he set up the purchasing office for Ericsson and he held the post of Procurement Director for mobile phone and base station components and modules.



### **Peter Hall**

■ Vice-President, IT and Quality (50)  
joined Dialog Semiconductor in July 1987. He obtained his BSc (Honours) in electrical and electronic engineering in 1974 from the University of Newcastle upon Tyne and his MSc in digital techniques in 1977 from the University of Edinburgh. Before joining Dialog Semiconductor he held various management and engineering positions at STC Semiconductors and MEM in Switzerland.



### **Gary Duncan**

■ Vice-President, Operations (46),  
joined Dialog Semiconductor in October 1987. He obtained a Higher National Certificate in electronics and mathematics in 1978 from Plymouth Polytechnic and is a chartered engineer. Before joining Dialog Semiconductor he held various senior engineering and management positions at Plessey and ES2 in quality and production, device engineering, software design and marketing.



### **Martin Sallenhag**

■ Director of Applied Technology (33),  
joined Dialog Semiconductor in May 2001 and is responsible for future technology and design development. He obtained his MSc in Electrical Engineering from the University of Lund, Sweden in 1992. Prior to joining Dialog Semiconductor, he held various management and engineering positions at Ericsson Mobile Communications and Axis Communications.



# Letter to our Shareholders

*Dear Shareholders*



2001 was a year of a worldwide economic downturn and an extremely testing time for our industry.

During 2001 the number of cellular handsets manufactured reached just 350 million, a reduction of 25 % compared to 2000. The semiconductor market suffered its worst ever decline, with chip sales falling by a dramatic 32 % from record sales in 2000.

In this difficult market environment full year revenues for Dialog Semiconductor were € 100.5 million. Gross margin (excluding a provision for excess inventory) was 31.4 % of revenues, despite significant pricing pressure and low utilisation rates of our test operations. This was a creditable result and reflects the benefits of the fabless business model.

With R&D expenses increasing by 37 % from € 22.9 million (2000) to € 31.3 million during the year under review and a one time charge for excess inventory of € 10.7 million, we incurred an operating loss of € 23.2 million. The EBITDA (earnings before financial income, taxes, depreciation and amortization) was positive at € 3.5 million for the full year 2001. When the € 42.4 million write down of our investment in the silicon supplier, ESM, is included, the net loss is € 41.7 million resulting in a loss per share of € 0.95. Excluding the provision for excess inventory and the write down of the investments in ESM, the loss per share would have been € 0.17. As we have secured silicon supplies from multiple sources and have a buffer stock on hand, we do not believe the financial difficulties of ESM will have any material negative impact on our operations going forward.

Our program to control working capital and expenditure levels was encouraging and resulted in an improved net cash position of € 32.6 million at the year end. This liquidity, our fabless business model and tight control of cost and expenditure levels has allowed us to maintain investment in our R&D programmes so that we are in a position to expand our customer and product base. It also gives us the flexibility to forge new partnerships, which we anticipate will bring added stability to the Company.

During 2000 and 2001 we launched strategic R&D programmes, including the important new area of multimedia and other applications, in order to leverage our mixed signal component and system level expertise for use in the new generation of mobile phones. We launched our Japanese operation in April 2001 to take advantage of changes in the wireless industry and of the advanced wireless technologies coming to fruition in Japan including mobile internet, i-mode and 3G. As recently announced, we have successfully developed, in collaboration with Sunarrow a major Japanese keypad manufacturer, the world's thinnest force sensor module to provide easier navigation of mobile phones, PDA's and other devices.



Over the last 2 years, based on growing demand for additional features, higher performance and new applications, we have launched smaller and more compact CMOS technologies. These include our 0.25  $\mu$  standard CMOS technology, which is able to integrate high performance analog, radio frequency circuits, power structures (20m W), high voltage (15 V) and high density digital functions. This technology allows mixed signal component and system level solutions to be produced at very competitive cost and supports the "Zero Chip" approach increasingly requested by the wireless industry. Power management, audio, the analog part of MP3/AAC/WMA, Bluetooth RF, noise cancellation and other functions can be merged into one chip. Our core skills match the development of the wireless industry which should result in an increased value for our products. To support our strategy in this area we opened an R&D centre in Austria in March 2001 where we are concentrating our efforts on developing high frequency applications based on CMOS technology.

During the year our R&D centre in Sweden developed a complete digital camera module for mobile phones. The camera consists of a CMOS image sensor, an image processor, flash memory, voltage regulators and interface components. The image processor includes an embedded 16bit RISC processor, image and program RAM, hardware accelerator blocks and interface blocks (> 20 million transistors). Our software for image enhancement includes the compression algorithm (JPEG) and a size conversion capability. We are currently using a glass lens system to achieve high level picture quality. This development means we are positioned to take advantage of the anticipated increased in demand for mobile devices with multimedia capabilities.

I would like to thank all employees for the hard work and commitment they have displayed in helping us to make progress towards our goals.

Kirchheim/Nabern, February 2002



Roland Pudelko  
CEO & President









How do you send pictures in seconds without a laptop or access to your email client? It's easy. Just use your mobile telephone. In the future, **multimedia messaging** will be established as SMS is today. The mobile telephones of tomorrow will have built-in digital cameras that can take both pictures as well as short video sequences. These can then be transmitted via the internet throughout the world. Dialog Semiconductor offers the mobile telephone industry a high quality, full color integrated CMOS camera system for multimedia messaging. Thereby enabling to communicate joyful events even faster.

# Corporate Profile

## Our History.

Dialog Semiconductor Plc is a public limited company constituted under the laws of England and Wales. Our business originated from the European activities of International Microelectric Products, Inc. ("IMP"), a US company active in the semiconductor industry in Silicon Valley, founded in 1981. In 1990, Daimler-Benz AG, now DaimlerChrysler AG, acquired IMP Europe and we became part of a Daimler-Benz AG subsidiary, Temic Telefunken Microelectric GmbH. In March 1998, three of our major shareholders, Apax Partners, Adtran and Ericsson provided funding to finance our buy out of the business from Daimler-Benz AG.

## Our Business.

We develop and supply mixed signal component and system level solutions for wireless communications and automotive applications. All of our innovative products are developed in 100 % CMOS and are used by major OEMs (original equipment manufacturers) around the world. Our core competence in the design of complex analog and digital (mixed signal) integrated circuits is complemented by our ability to rapidly deliver qualified and tested products directly to the customer. We draw on our team of highly skilled engineers and an extensive library of ASIC designs and know-how to respond to the requirements of our customers. We have historically focused on two applications for the mobile telephone market, namely audio codec and power management. More recently we initiated strategic research and development programs in order to leverage our expertise and to expand our product and customer base. New applications include multimedia, digital camera and MP3 modules, sensors and radio frequency (RF).

We have developed a strategy for outsourcing the manufacture and assembly of our ASICs. We have entered into partnerships with leading semiconductor foundries which maintain state of the art facilities. This enables us to offer high quality products without being required to make the substantial capital investment required by an in house foundry. We monitor and control the complete production process and ensure quality through in house final testing of every product.

The test programs are developed by our test engineers in parallel with the functional ASIC design and are based upon specifications determined by the individual customer. Following the return of the product from the assembler it is subject to a rigorous test procedure. This enables us to ensure the overall quality of the manufactured product prior to its delivery to our customer.

Dialog's products are sold worldwide through a combination of a direct sales force and specialist, independent sales representatives. We have direct sales offices in four countries. The company is headquartered near Stuttgart, Germany with additional design centres in the UK, the USA, Sweden, Austria and Japan.

Dialog's quality and Environmental Management system is certified in accordance with ISO 14001 and QS9000 at all major locations.

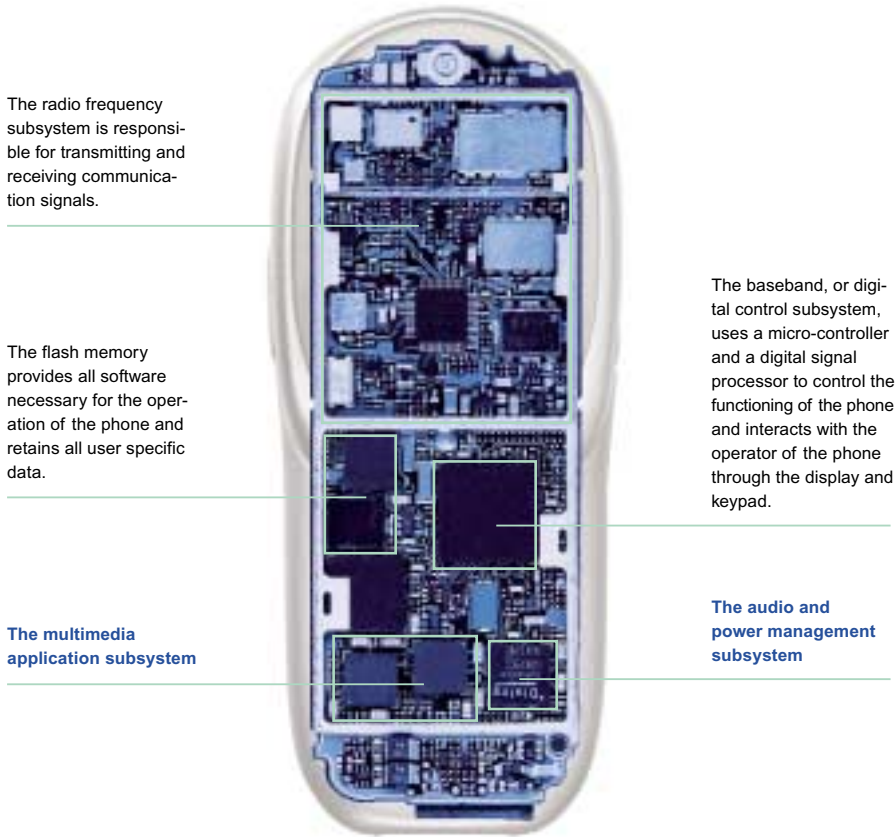
Since December 2001 the Company's share (Neuer Markt: DLG, Nasdaq and Nasdaq Europe: DLGS) is included in the Nemax 50 Index.

ASIC: An integrated chip which is individually custom designed for a specific application.

**Our Products.**

**Wireless Communication ASICs.**

The mobile phone can be divided into five subsystems:



Historically we have concentrated on the production of our Audio-CODEC and power management ASICs for mobile phones and have successfully developed 38 designs in these two areas. More recently, we have leveraged our expertise in new applications within wireless devices. These new applications include a plug in or built in digital camera module for mobile phones.



We have introduced combined audio codec and power management functions into a single device

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### **Audio and Power Management.**

Developments in both audio codec and power management have reached a point where these two functions can now be combined on a single circuit. Dialog's competence in both areas means that we can provide world class solutions without compromising performance. Increased integration of audio and power management systems is now the order of the day in mobile phone systems. We have been able to combine both functions into a single circuit by using the most advanced processes available. By doing so we have successfully met market demands for smaller and less expensive systems.

### **Audio-CODECs.**

The audio performance of a mobile phone is one of the most important features for consumers choosing a new handset. So we have concentrated on delivering high quality audio performance, integrating successive generations of audio codec functions. The audio processing subsystem works by taking the analog voice input from the microphone and converting this to digital information so that it can be processed and transmitted through the network. In the opposite direction it converts digital speech or digital music back to an analog signal and then drives the phone's loudspeaker. Built around the basic sound conversion are a host of other functions such as volume control and noise shaping to make the sound as clear as possible. These features are what make a phone pleasant to use, delivering speech sounds which are natural rather than harsh and metallic or muffled.

Historically the phone has been used to convey speech but recent advances in design now enable phones to be used like a "Walkman", either by incorporating a built in radio or by playing stored music through MP3 files. These functions extend the performance requirements of the audio codec to include 'Hi Fi' performance, and we have devoted significant resources to meet this new audio challenge.

### **Power management.**

Mobile phone users are, above all, looking for convenience when they buy a new handset. Two other critical features for any mobile phone user are standby and talk time. Both are governed by the power management subsystem within the phone. This controls the power supply to all the functions in the phone, ensuring power is used most effectively and that all the functions have the optimum operating environment. Efficient power management delivers maximum standby and talk time, and this is often a big deciding factor when a phone is purchased. The power management block is also responsible for charging and monitoring the battery and providing functions such as fuel gauging, where the user is able to see how much longer the phone can be used before re-charging.



## Multimedia Application.

### Digital camera module – MP3 playback – MMS.

We no longer use the phone just to talk. Increasingly it is becoming an information and entertainment tool. But as phones become more complex it is essential that they remain easy to use. That means more sophisticated ways are needed to handle information and better ways to enter information or navigate to the functions we require. For entertainment the phone is evolving to include Personal Stereo features such as FM radio and MP3 playback, the first stages of multimedia support. The next stage in developing multi-media phones is the inclusion of digital camera functionality, initially for still photography linked to MMS (Multimedia Messaging Services), and then moving on to full motion video applications such as video conferencing. The ability to add pictures to messages whilst on the move has many applications, and even in its simplest form, makes communication far more personal. Adding this function to a phone is a complex task. It requires competence in imaging, data conversion and digital signal processing, as well as advanced packaging and silicon technology. At Dialog we have already shipped products containing MP3 and stereo radio functions and have recently completed the development of a complete digital camera accessory including a customized image processor.

The mobile phones of tomorrow will have built-in digital cameras that can take both pictures and short video sequences.

### Force sensor.

To help phone users navigate these increasingly capable machines, an extension of the current keyboard has been developed to include a force sensor. This is similar to a joystick or touch screen function and allows the user to select items more easily without having to press a host of keys or scroll through multiple screens. Many users are familiar with navigating with a joystick as it is a common feature of the personal computer. Using natural hand/eye co-ordination, this kind of navigation has a much more natural feel. Dialog's focus in this area is on joystick sensor interfacing and signal conditioning, to ensure mechanical movements convert to electronic position data precisely. Our established expertise in mixed signal processing also places Dialog in a strong position for touch screen interfacing due to the precision data converter requirements of these applications.



### **Bluetooth™.**

As we generate and handle more information with the phone, communication is no longer just between individual phones in the traditional sense. Increasingly we need to have Machine-to-Machine interfaces, links in and between Personal Area Networks and ad hoc connections. These allow us to connect the phone to computers and other pieces of electronic equipment so that we can transfer data such as emails, photographs or software. In this way the phone becomes a wireless access point as well as a voice communicator. In the mobile world Bluetooth™ has been developed to allow short-range communication between devices at low cost and with low power consumption. Bluetooth™ enabled products are starting to become available in the market but remain relatively expensive. We are actively addressing this need to develop a low cost product with the development of “zero chip”, a highly integrated silicon solution that includes all analog and digital functionality on a single small device. This new product precisely encompasses our core competencies and we are actively developing ‘zero chip’ Bluetooth™ solutions to be integrated within our existing products.

### **Other Applications.**

#### **Wireline ASICs.**

The products we supply provide the interface between the transmission cable or telephone line and digital transmission equipment such as central office line cards, routers or multiplexers. Dialog products now support T1, T3, HDSL, SDSL and G.shdsl transmission standards, embracing the latest high-speed transmission technologies.

Our solutions are designed to improve system efficiency, increase transmission distance and to cut the cost of providing high-speed connections throughout networks.

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

#### **Automotive Asics.**

To date, we have concentrated our efforts in the automotive electronics sector in the areas of safety and dashboard semiconductor products. For TEMIC DaimlerChrysler we produce signal conditioning ASICs. These ASICs, when combined with micro-mechanical chips, form the principal components of the sensors used in airbag systems. These sensors relay electronic signals to an electronic control unit, which determines when the airbag is deployed. We believe increased consumer awareness of automotive safety, will lead to continuing growth in the use of sensors in cars as airbag and other safety systems become more sophisticated.



Automotive dashboards are now used to deliver more information and data to drivers for safety and convenience. We produce a variety of dashboard control ASICs for customers such as VDO and TRW, that relay information from various on board sensors through micro controllers to the dashboard. These include sensors to measure fuel level, oil pressure, speed and engine heat. Growth trends in this area are predicted to include information systems for road transport and traffic information, emergency calling systems and links to wider forms of communications such as the Internet, on board navigation systems and new wireless communications. As a result, we believe there will be increased demand for mixed signal ASICs in this sector.

**Industrial ASICs: Completion of the product line.**

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









Future generations of mobile phones will have much larger displays. These small screens allow not only applications like multimedia messaging or video streaming but also **multiplayer games**. This will increase the power requirements inside the mobile phones immensely. Dialog Semiconductor delivers power management ASICs for mobile phones. An especially long useful life can be achieved which can be used for unlimited fun – for example passing the time in the laundromat.

# Our Shares

## **The International Stock Markets in 2001.**

Despite a general optimistic prognosis for 2001, the downward trend in the markets beginning in 2000 continued during the year under review. As a result international stock markets suffered two negative years in a row for the first time since the oil crisis in 1973 and 1974. The Deutsche Aktienindex DAX lost 19.8 % of its value in the year to the end of December 2001. The loss for 2000 over the same period in 1999 was much less at 7.5 %. The 50 biggest companies listed on the Neuer Markt (NEMAX 50) lost a total of 59.9 % of their value compared with the same period in 2000. The American Nasdaq 100 fell by 32.7 % in the period, primarily due to the catastrophic losses posted by technology stocks.

Stock markets were hit by fears of recession in the USA from the end of the first quarter, and the uncertain sentiment was compounded by weak economic development in the Euro zone. These forces were made worse by a growing number of profit warnings from technology companies and of course by the psychological and political effects of the September 11, 2001 terrorist attacks.

## **The Dialog Semiconductor Share Performance.**

Given our position at the heart of the technology sector, Dialog was, not surprisingly, a victim of the general negative trend on the international stock markets. The semiconductor industry as a whole experienced a particularly bad year. According to market research conducted by Gartner Dataquest, the semiconductor market deteriorated by about 33 % in 2001. The ten biggest manufacturers recorded revenue declines of between 19 and 49 %.

Dialog Semiconductor shares opened at € 10.20 on the first day of Neuer Markt trading in 2001. After a short improvement at the beginning of the year, the share reached a high for 2001 at € 10.85 on January 19. For the most part, the share price tracked the overall performance of the Neuer Markt and the Nasdaq during the remainder of the first quarter.

Our shares showed some resilience during the second quarter of 2001 despite the lower revenues and profits recorded in the first quarter. But the ongoing difficulties in the semiconductor industry accompanied by profit warnings in the wider technology sector and the weakening economic situation in both Europe and in the USA depressed our share price significantly midway through the third quarter. Coupled to this, poor results for the second quarter were also in part responsible for the reduction in our share price. We were forced to post our first negative EBIT for the second quarter of 2001 and our shares fell to a low for 2001 of € 2.60 on July 27, 2001, as a result.

However, positive market expectations reported by a number of analysts combined with a buy recommendation for our shares reversed the slide in our share price and it was able to hold its own in late summer despite a weak overall market. The share price was stable at € 4 in this period and was not affected by the events on September 11. Starting in late September the share price showed marked improvement that continued through to the end of the year, even though we reported a second quarterly loss in a row. News that Dialog Semiconductor was to be included in the NEMAX 50 and a general rally in the semiconductor industry at the end of the year were the main factors behind this performance. The share closed the year at € 8.10. Despite a total decline of around 21 per cent in our share price during the period, our shares proved relatively resilient compared to other indexes, which lost much more ground.

With a performance of -21 % in 2001, our share lost less than other indexes

### Share price movement compared to NEMAX 50 Index.

January 2, 2001 – December 31, 2001



### Market Prices.

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

		2001		2000	
		High	Low	High	Low
Neuer Markt (DLG)	First Quarter	€ 10.85	€ 3.88	€ 72.50	€ 29.75
	Second Quarter	€ 8.60	€ 4.61	€ 65.95	€ 40.00
	Third Quarter	€ 4.60	€ 2.60	€ 59.00	€ 36.56
	Fourth Quarter	€ 8.30	€ 3.85	€ 37.95	€ 6.86
Nasdaq Europe (DLGS)	First Quarter	€ 11.75	€ 4.00	€ 74.00	€ 30.50
	Second Quarter	€ 7.75	€ 5.00	€ 67.50	€ 41.00
	Third Quarter	€ 5.00	€ 2.80	€ 60.00	€ 36.00
	Fourth Quarter	€ 8.15	€ 3.50	€ 36.00	€ 6.50
Nasdaq (DLGS)	First Quarter	\$ 9.69	\$ 3.69	–	–
	Second Quarter	\$ 7.50	\$ 4.00	\$ 50.25	\$ 49.38
	Third Quarter	\$ 4.35	\$ 2.49	\$ 54.88	\$ 33.00
	Fourth Quarter	\$ 7.30	\$ 3.40	\$ 32.88	\$ 6.25
<b>Average trading volume per day</b>		<b>109,961</b>		<b>82,916</b>	

### Investor Relations Activities: Our determination to deliver excellent value to shareholders.

Management capabilities and the overall strength of Neuer Markt listed companies are key factors behind the attraction of long-term shareholders to the business. We take investor relations extremely seriously, pursuing a policy of proactive, open communications with shareholders and analysts. Whenever possible, we try to accomplish this with one to one discussions. During the year we staged three Roadshows in six locations (Frankfurt, London, Paris, Milan, Munich and Zurich) and conducted more than 50 personal briefings with investors.

The ongoing communication with our investors and all other interested parties is handled primarily through the publication of our quarterly financial statements. We also provide constant, up to date information on our web site at [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com).

Interested parties can also order our quarterly and annual reports online and register on our homepage to receive the latest press releases by email.

At [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com) you will find more detailed information

### Investor relations activities in 2001.

Date	Location	Event
February 21	Press conference Frankfurt	Announcement of 2000 results
March 5-7	Laguna Niguel/USA	Morgan Stanley, Semiconductor & Systems Conference
March 25-27	Cannes	SG Cowen, Global Tech Conference
March 28	London	WestLB Panmure, Wireless Forum
April 6	Zurich	Deutsche Bank Roadshow
April 23	Brussels	Puilaetco, Innovative Technology Investment Opportunities Conference
April 25	Conference Call	Release of first quarter results
April 27	Hannover	DVFA Technology Forum
May 9-11	Monterey/USA	Salomon Smith Barney, Annual Semiconductor Conference
May 17	London	Annual shareholders' meeting
June 11-13	Cannes	Deutsche Bank, 5th European Technology Conference
July 9-13	Europe	Julius Bär Roadshow
July 25	Conference Call	Release of second quarter results
October 24	Conference Call	Release of third quarter results
November 13-15	Europe	Deutsche Bank Roadshow

### Research analyst coverage.

More than 20 analysts from leading investment banks published reports on Dialog Semiconductor in 2001. The significant number of analysts reporting on Dialog and the quality of the banks they represent illustrates the increasing profile of the company in the international capital markets and also establishes a basis for our market valuation.

Institution	Analyst
Areté Research	Brett Simpson; Jim Fontanelli
Berenberg Bank	Dr. Oliver Wojahn
BancBoston Robertson Stephens, Inc.	Arun Veerappan; Tore Svanberg, Gary Kelly
Crédit Agricole Indosuez Cheuvreux	Bernd Laux
Deutsche Bank AG	Ben Lynch; William Wilson
Goldman, Sachs & Co.	Gunnar Miller; Matthew Gehl; Justin McEntee
Julius Bär	Ingo Queiser
Morgan Stanley Dean Witter & Co.	Stuart Adrian; Nicolas Gaudois
Nomura	Sean Murphy
Puilaetco	Philippe Rochez
Société Générale	Marisa Baldo
Value Research	Michael Anschutz
WestLB Panmure	Dr. Karsten Iltgen



### Admission to the NEMAX 50.

The decision by the Deutsche Börse AG to include Dialog Semiconductor in the NEMAX 50 starting on December 27, 2001 was an important milestone for the company. With this admission we became a member of the most important European technology index. The prerequisites for inclusion in the NEMAX 50 were the market capitalization as of October 31, 2001 as well as the sales volume in Xetra and in floor trading on the Frankfurt Stock Exchange. Currently we represent approximately 1.2 % of the NEMAX 50.

Membership in the NEMAX 50 is important to companies on the Neuer Markt because they become more visible to institutional investors who focus on indices when purchasing shares. Our shares therefore became more attractive to institutional and private investors in Germany and abroad.

Goldman Sachs, Deutsche Bank and Archelon Deutschland provide designated sponsor services for our shares in electronic trading. The liquidity of our shares – a condition for remaining in the NEMAX 50 – is assured through their support.

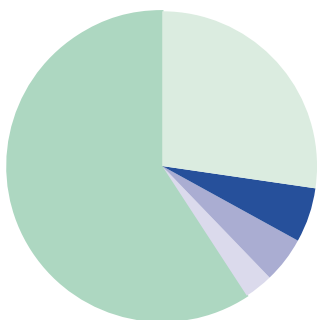
### Share data as of December 28, 2001, (share prices derived from Neuer Markt).

Security identification Number (SIN) Symbols	Neuer Markt: 927 200 Neuer Markt: DLG NASDAQ Europe: DLGS NASDAQ: DLGS
Stock Exchanges	Frankfurter Wertpapierbörse (Neuer Markt) NASDAQ Europe, Brussels NASDAQ, New York
Number of shares as of Dec. 31, 2001	44,068,930
Share price as of Dec. 28, 2001 (in €) 2001 High (in €) 2001 Low (in €) Performance since offering	8.10 10.85 2.60 (17 %)
Trading volume per day (average 2001) Market capitalization (in millions of €) Basic loss per share 2001 (in €)	109,961 357.0 (0.95)



### Principal Shareholders.

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



Name	Number	Percent
Apax Partners	12,054,793	27.3
Adtran, Inc.	2,520,960	5.7
Ericsson Radio Systems AB	2,101,554	4.8
All directors and executive officers as a group (9 persons) (1)	1,318,770	3.0
Free float (2)	26,072,853	59.2
<b>Total</b>	<b>44,068,930</b>	<b>100.0</b>

(1) Of the 1,318,770 shares held by the key management and members of our board of directors, Roland Pudelko holds 320,405 (0.73 %), Richard Schmitz holds 142,105 (0.32 %), Gary Duncan holds 162,105 (0.37 %), Peter Hall holds 162,105 (0.37 %), Martin Klöble holds 150,000 (0.34 %), Timothy Anderson holds 20,816 (0.05 %), Michael Risman holds 1,172 (0.00 %), Jan Tuftvesson and his wife hold 165,062 (0.37 %) and Michael Glover and his immediate family hold 195,000 shares (0.44%) in aggregate.

(2) Of which 8,470,108 shares (19.2%) held by the The Capital Group Companies Inc as notified on December 18, 2001 on behalf of discretionary clients.

### Disclosure of Interest.

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



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Navigation Systems are already common today. Modern wireless applications make navigation possible via the mobile telephone. These systems won't just bring the user to his destination but also show him what to expect when he gets there! These types of **information services** can provide information about hotels in the area, restaurant tips, movies showing in the nearest cinema and of course a detailed local map. Dialog is developing together with other partners a pointing device similar to a joystick which enables quick navigation on the display – for example on a city map. This will make it easy to find the way from the airport parking lot to the envisaged sushi bar.

# Management Report

## **Economic Development in 2001.**

### **The worldwide economic environment.**

The economic slowdown that started in the United States in the second half of 2000 and which extended to most countries in the European Union and Asia, turned into a global economic downturn in 2001. The most significant factors behind this economic slowdown were the severe correction in the high-tech sector and the delayed impact of a rise in oil prices. At the end of the summer, hopes of a return to moderate growth at the latest in early 2002 were destroyed by the terrorist attacks of September, 11th and the resultant political uncertainties in the months that followed.

Despite earlier expectations that the global downturn would affect Europe only marginally, growth in Gross Domestic Product (GDP) in the European Union weakened considerably during 2001. The downturn in business confidence has given rise to lower demand for capital and consumer goods in both domestic and export markets.

### **The economic development in our market.**

Following the exceptional growth experienced in 2000, the current year showed a reduction in the demand for cellular handsets. 350 million handsets were manufactured reflecting a reduction of 25 % from 2000. Over production of handsets and phone components in late 2000 left most phone manufacturers with overstocked inventories. With the global economy slowing at the same time, end-user demand was also depressed, extending the time taken to sell off the excess inventory. This situation has prompted a major restructuring of the industry. Key changes include the merger of the Ericsson and SONY mobile phone divisions, the decision by both Ericsson and Motorola to offer their IP in mobile phones to third parties, and the downsizing and outsourcing of production by many manufacturers. Some major companies have changed the focus of their activities concentrating on profitability rather than unit sales volumes. There has also been a consolidation of development resources in 3G, most notably in Japan, to speed up the time to market for new handsets, to assist interoperability and to share development costs.

In the market as a whole China has emerged as the single largest phone market surpassing the USA in 2001 with more than 120 million subscribers. As penetration rates in Western Europe and Japan have reached 70 to 80 %, these markets have become dominated by sales of replacement handsets. This in turn has focused development activities towards the support of new features and improved data capabilities. The success of i-Mode in Japan has demonstrated the viability of wireless data services and the introduction of 2.5G systems in 2001 is being seen as an opportunity finally to deliver effective data services after a disappointing false start in 2000.

Despite the turbulence in the wireless marketplace, Nokia has maintained its leading position, with Motorola, Ericsson, Siemens and Samsung following at some distance.

# Operating and Financial Review

## Forward-looking statements.

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

The following table sets forth historical consolidated statements of income for the Company in thousands of Euros and as a percentage of revenues for the years indicated.

	2001		Year ended December 31, 2000		1999	
		%		%		%
Revenues	100,519	100.0	214,459	100.0	87,246	100.0
Cost of sales (including excess inventory provision of 10,689 in 2001)	(79,637)	(79.2)	(138,866)	(64.8)	(56,749)	(65.0)
<b>Gross margin</b>	<b>20,882</b>	<b>20.8</b>	<b>75,593</b>	<b>35.2</b>	<b>30,497</b>	<b>35.0</b>
Selling and marketing expenses	(4,054)	(4.0)	(5,672)	(2.6)	(3,888)	(4.5)
General and administrative expenses	(5,569)	(5.6)	(5,972)	(2.8)	(2,698)	(3.1)
Research and development	(31,256)	(31.1)	(22,898)	(10.7)	(11,108)	(12.7)
Amortization of goodwill and intangible assets	(3,202)	(3.2)	(2,651)	(1.2)	(1,237)	(1.4)
<b>Operating profit (loss)</b>	<b>(23,199)</b>	<b>(23.1)</b>	<b>38,400</b>	<b>17.9</b>	<b>11,566</b>	<b>13.3</b>
Interest income, net	898	0.9	1,940	0.9	13	0.0
Foreign currency exchange gains and losses, net	306	0.3	2,627	1.2	(329)	(0.4)
Write-down of investment	(42,405)	(42.2)	-	-	-	-
<b>Result before income taxes</b>	<b>(64,400)</b>	<b>(64.1)</b>	<b>42,967</b>	<b>20.0</b>	<b>11,250</b>	<b>12.9</b>
Income taxes	22,721	22.6	(16,410)	(7.6)	(4,570)	(5.2)
<b>Net income (loss)</b>	<b>(41,679)</b>	<b>(41.5)</b>	<b>26,557</b>	<b>12.4</b>	<b>6,680</b>	<b>7.7</b>



# Results of Operations

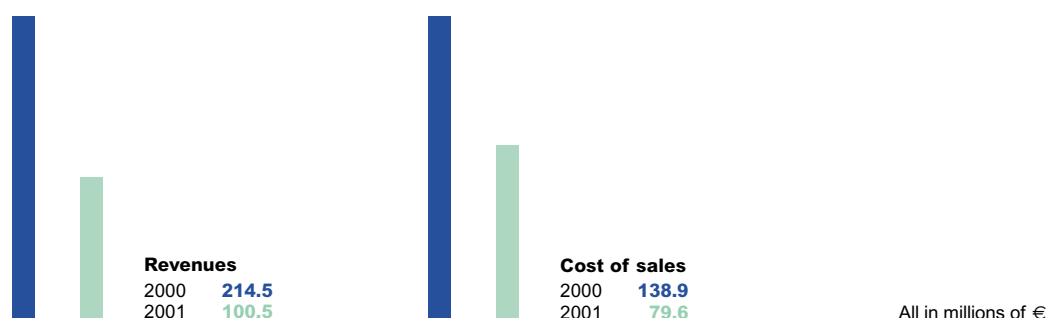
## Revenues.

Revenues were € 214.5 million for the year ended December 31, 2000 compared with € 100.5 million for the year ended December 31, 2001. This represents a 53 % decrease. Revenues in the business sector of wireless communications accounted for € 77.8 million or 77 % in 2001. The decrease in revenues is primarily due to lower sales volumes resulting from an industry wide decline in demand for mobile communications products. Handset manufacturers reduced their demand for mobile phone components, including mixed signal ASICs, during the year ended December 31, 2001 in an effort to reduce both existing on hand inventory levels and inventory remaining in their distribution channels from 2000. The industry wide decline in demand for mobile communications products also resulted in handset manufacturers requesting lower component prices as they implemented cost reduction programs. Such price reductions are common in the semiconductor industry and have a particular impact on ASICs which have been in volume production for a significant period of time, since pricing pressure tends to increase over the life of a given ASIC.

Revenues from our industrial applications reached € 14.2 million or 14 % of total revenues, a decline of € 1.0 million when compared to 2000. Revenues from our automotive applications accounted for € 5.9 million or 6 % of total revenues for 2001. This represents a decline of € 2.0 million when compared to 2000. Revenues from our wireline communication applications reached € 2.6 million or 3 % of total revenues, a decline of € 6.9 million when compared to 2000.

## Cost of Sales.

Cost of sales consists of the costs of outsourcing production and assembly, personnel costs and applicable overhead and depreciation of test and other equipment. Cost of sales decreased from € 138.9 million for the year ended December 31, 2000 to € 79.6 million for the year December 31, 2001 in line with significantly reduced produc-



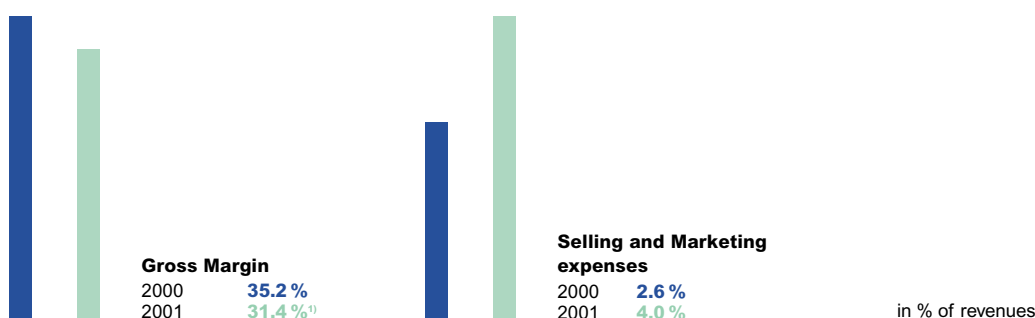
tion volumes. However, as a result of lower production volume during the year ended December 31, 2001 our internal testing operation has been running at a reduced utilization level, which in turn has increased per unit production costs. In addition, a charge of € 10.7 million for excess inventory was recorded under cost of sales during the second quarter of fiscal 2001. Due to the sudden and significant decrease in demand for our products accompanied by substantial order cancellations, inventory levels exceeded our requirements. The excess inventory charge was calculated based on the inventory levels in excess of estimated demand for each specific product. Based on our current forecast demand, we do not currently anticipate that the excess inventory subject to this charge will be used at a later date. We expect that the charge for excess inventory made in the second quarter of fiscal 2001 has brought our inventory in line with current requirements.

### Gross Margin.

The charge for excess inventory, the increase in per unit production costs and the lower component prices were the primary factors contributing to a decline in our gross margin from € 75.6 million (or 35.2 % of revenues) for the year ended December 31, 2000 to € 20.9 million (or 20.8 % of revenues) for the year ended December 31, 2001. Excluding the charge for excess inventory, the gross margin was 31.4 % of revenues for the year ended December 31, 2001. The gross margin was 30.2 % for the six months ended December 31, 2001. We expect the near term future gross margin percentage to approximate the gross margin percentage achieved in the later part of 2001.

### Selling and Marketing expenses.

Selling and marketing expenses consist primarily of salaries, travel expenses and costs associated with advertising and other marketing activities. Selling and marketing expenses decreased 28.5 % from € 5.7 million for the year ended December 31, 2000 to € 4.1 million for the year ended December 31, 2001 in line with significantly reduced sales volumes. As a percentage of total revenues, selling and marketing expenses increased from 2.6 % to 4.0 % primarily due to the proportionately lower revenue base.



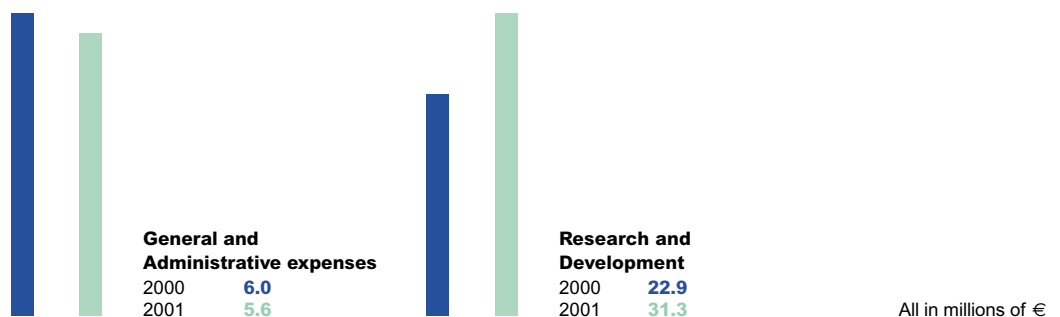
<sup>1)</sup> excluding a charge of € 10.7 million for excess inventory

### General and Administrative expenses.

General and administrative expenses consist primarily of personnel and support costs for our finance, human resources, information systems and other management departments. General and administrative expenses decreased 6.7 % from € 6.0 million for the year ended December 31, 2000 to € 5.6 million for the year ended December 31, 2001. As a percentage of total revenues, selling and administrative expenses increased from 2.8 % to 5.6 % primarily due to the proportionately lower revenue base.

### Research and Development.

Research and development expenses increased 37 % from € 22.9 million for the year ended December 31, 2000 to € 31.3 million for the year ended December 31, 2001. The absolute increase in research and development expenses reflected the demand from key customers for us to devote further resources to assist in the development of new products for them in addition to our own strategic research and development program. This increase occurred notwithstanding a significant drop in demand for our products from handset manufactures. We increased research and development headcount from 145 at December 31, 2000 to 176 at December 31, 2001. Research and development expenses increased from 10.7 % to 31.1 % as a percentage of revenues, resulting both from an absolute increase in research and development costs and the proportionately lower revenue base. We expect research and development expenses to remain at approximately the same level in absolute terms in 2002 as in 2001. Despite the significant decline in demand for our products, we expect continued demand from key customers for us to assist in the development of new products for them. Our ability to generate long term revenues from our research and development programs depends on customers accepting our designs and implementing them in large scale production.





### Amortization of Goodwill and Intangible Assets.

Total amortization expense for the year ended December 31, 2000 was € 2.7 million (of which € 1.1 million related to goodwill) as compared to € 3.2 million (of which € 1.3 million related to goodwill) for the year ended December 31, 2001. Amortization expense for both periods related primarily to goodwill and other intangible assets recorded as part of the acquisition of the Dialogue Semiconductors activities of Daimler-Benz AG (now DaimlerChrysler AG) and the rights to a 16 bit microprocessor core acquired from National Semiconductor in 1999. The increase in amortization during the period ended December 31, 2001 reflects amortization of other ASIC design software acquired during the period as well as amortization of goodwill arising from the acquisition of SVEP Design Center AB for the entire twelve month period, whereas the period ended December 31, 2000 included only eight months amortization of SVEP goodwill. Goodwill recognized in connection with the acquisitions is being amortized over the expected period of benefit ranging from 7 to 15 years. As a percentage of total revenues, amortization of goodwill and intangible assets increased from 1.2 % to 3.2 % for the reasons stated above and due to the proportionately lower revenue base.

As discussed in Note 2 to the Consolidated Financial Statements, we are required to adopt a new accounting principle effective January 1, 2002. Consequently, goodwill will no longer be amortized in 2002 and subsequent periods. Instead, we will be required to evaluate the recoverability of goodwill on an annual basis and record a charge to earnings if and when recoverability is considered impaired.

### Operating Profit (Loss).

We reported an operating profit of € 38.4 million for the year ended December 31, 2000 compared with an operating loss of € 23.2 million for the year ended December 31, 2001. This decrease in operating profit was primarily due to significantly lower sales volumes in 2001, the charge for excess inventory recorded during the second quarter of fiscal 2001 and higher research and development expenses during the period.



**Interest Income, net.**

Interest income results from the Company's investments (primarily loans and short-term deposits). Interest income, net, decreased from € 1.9 million for the year ended December 31, 2000 to € 0.9 million for the year ended December 31, 2001. This decrease is primarily due to reduced interest income on lower cash balances.

**Foreign currency exchange gains and losses, net.**

Foreign currency transaction gains and losses result from amounts ultimately realized upon settlement of foreign currency transactions and from the year end remeasurement of foreign currency denominated receivables and payables into Euro. Foreign currency exchange gains, net decreased from € 2.6 million for the year ended December 31, 2000 to € 0.3 million for the year ended December 31, 2001. This decrease is primarily due to the reduced increase in value of the US Dollar against the Euro.

**Write-down of Investment.**

As discussed in Note 3 to the Consolidated Financial Statements, we have made certain investments since 1999 in one of our principal foundries, ESM Holdings Limited (ESM) to secure silicon supplies. Such investments comprised a cost basis equity interest, loans and advance payments for future silicon, which totaled an aggregate of € 42.4 million at September 30, 2001. We have continually monitored the recoverability of our investments in ESM in light of the decline in demand in the semiconductor industry and the deteriorating financial condition of ESM. Based on our estimates of the fair value of our investments in ESM, indications of continued third-party financial support of ESM, and our intentions with respect to these investments, we previously determined that the investments in ESM were recoverable. However, during the fourth quarter 2001, the financial condition of ESM continued to deteriorate and, in January 2002, ESM's lead bank withdrew its lending facilities. As a result, ESM was subsequently placed in receivership (a reorganization under UK law). Consequently, we currently believe that we will not recover our investments in ESM and therefore recorded an impairment charge of € 42.4 million in the fourth quarter of 2001. It is possible that we may be able to recover a portion of the investments in ESM. However, we are unable to estimate reliably what amount, if any may ultimately be recovered.

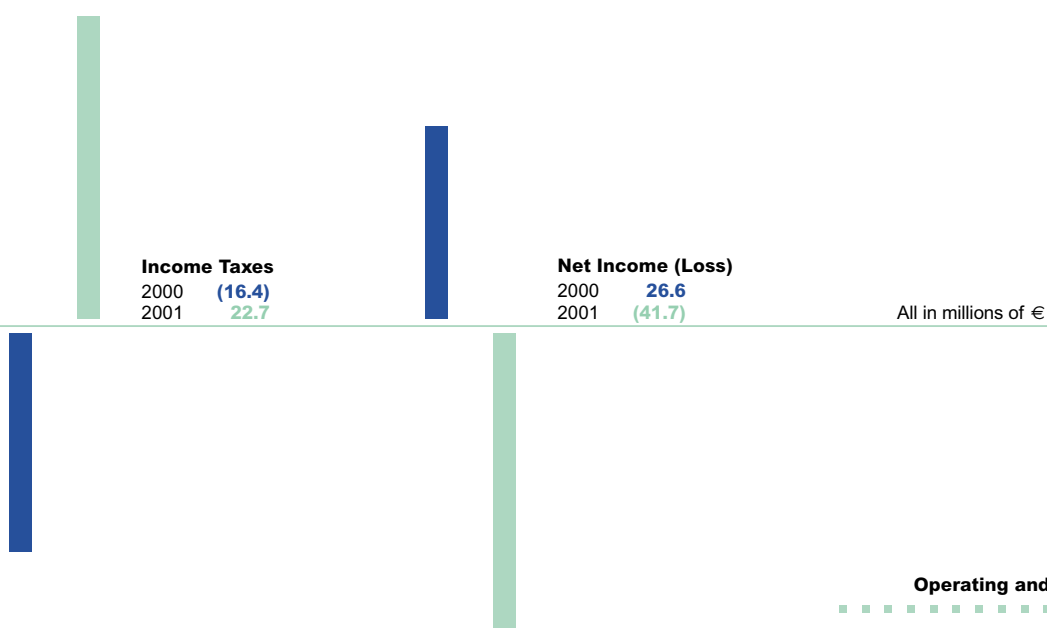
As we have secured supplies of silicon from multiple sources and have sufficient quantities of silicon on hand, we do not believe the current situation at ESM will have a material negative impact on our future operations.

### Income Taxes.

Income tax expense was € 16.4 million for the year ended December 31, 2000 compared with an income tax benefit of € 22.7 million for the year ended December 31, 2001, representing effective income tax expense (benefit) rates of 37.1 % and 36.1 %, respectively (before amortization of goodwill and other intangible assets). This decrease in the effective tax rate reflects primarily a reduction of the Company's statutory tax rate for its German subsidiary from 30 % on distributed earnings to 25 %, effective January 1, 2001.

### Net Income (Loss).

For the reasons described above, we reported net income of € 26.6 million for the year ended December 31, 2000 compared with net loss of € 41.7 million for the year ended December 31, 2001.

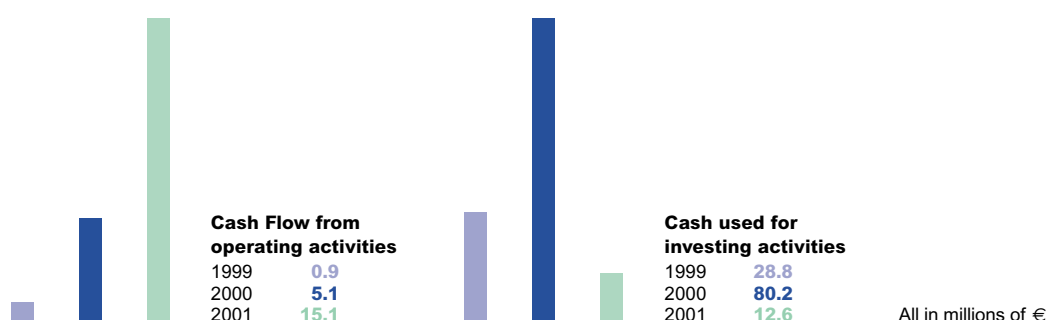


# Liquidity and Capital Resources

## Cash Flows.

Cash provided by operating activities was € 15.1 million for the year ended December 31, 2001. Cash used for operating activities was € 5.1 million for the year ended 2000 and € 0.9 million for the year ended 1999. Excluding advance payments of € 23.2 million due under the Wafer Supply Agreements described below, cash provided by operating activities was € 18.1 million for the year ended December 31, 2000. In the years 2000 and 1999, we used cash to finance our growing working capital requirements, primarily higher accounts receivable and inventory levels as our sales volumes increased. Because our revenues continued to grow by more than 100 % during 2000, our accounts receivable and accounts payable increased significantly.

Cash used for investing activities was € 12.6 million for the year ended December 31, 2001, € 80.2 million for the year ended 2000 and € 28.8 million for the year ended 1999. Cash used for investing activities for the year ended December 31, 2001 consisted mostly of the purchase of EDP equipment, test equipment and tooling (masks) of € 3.2 million and an additional capital contribution and loan to ESM Holdings Limited (ESM) of € 8.6 million. Cash used for investing activities for the year ended December 31, 2000 consisted mostly of payments under the Wafer Supply Agreements of € 28.2 million described below, the purchase of test equipment and tooling (masks) of € 33.3 million, the acquisition of technology and design software of € 4.8 million, the acquisition of the remaining outstanding interest of SVEP Design Center AB for € 4.4 million and an additional capital contribution and loan to ESM of € 3.3 million. In 1999, we invested a total of € 12.2 million in cash to acquire a 19.47 % equity interest in, and make a loan to, ESM. In addition, in 1999 we invested € 14.5 million in property, plant and equipment, primarily new test equipment. See "Capital Expenditures and Investments" below. For more information regarding the investments in ESM Holdings Limited, see Note 3 to the Consolidated Financial Statements.



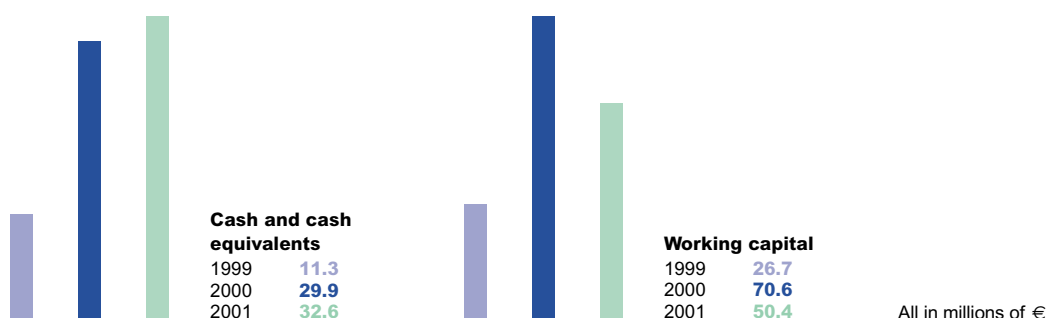
In July 2000, we received € 105.6 million in net cash proceeds from our secondary offering. Of this amount, we used approximately € 51.4 million to enter into silicon wafer supply agreements in order to facilitate capacity expansion and secure technological influence with silicon suppliers in Asia and Europe to further accelerate our anticipated growth. We also used approximately € 33.3 million of our net proceeds to purchase test equipment to expand our test capacity. Additionally, we used € 4.4 million to repay a credit line with Baden-Wuerttembergische Bank Aktiengesellschaft.

In October 1999, we received € 59.2 million in net cash proceeds from our initial public offering in Germany. Of this amount, we used € 19.6 million to redeem all of our then outstanding cumulative redeemable preference shares. We also used approximately € 12.2 million of the net offering proceeds to repay the short-term borrowings under a revolving line of credit with Deutsche Bank AG that we incurred in connection with our investment in ESM Holdings Limited. We also used approximately € 3.4 million of the net offering proceeds to repay all outstanding amounts then due under an overdraft facility with Deutsche Bank AG.

#### Liquidity.

At December 31, 2001 we had € 32.6 million in cash and cash equivalents and had a working capital surplus of € 50.4 million, as compared to € 29.9 million in cash and cash equivalents and a working capital surplus of € 70.6 million at December 31, 2000 and € 11.3 million in cash and cash equivalents and a working capital surplus of € 26.7 million at December 31, 1999.

Our primary sources of liquidity have historically been cash from operations as well as cash from the issuance of ordinary shares and from short-term borrowings. As of December 31, 2001 we had no long-term debt. We have no arrangements with unconsolidated, limited purpose entities. We expect that our principle source of liquidity will

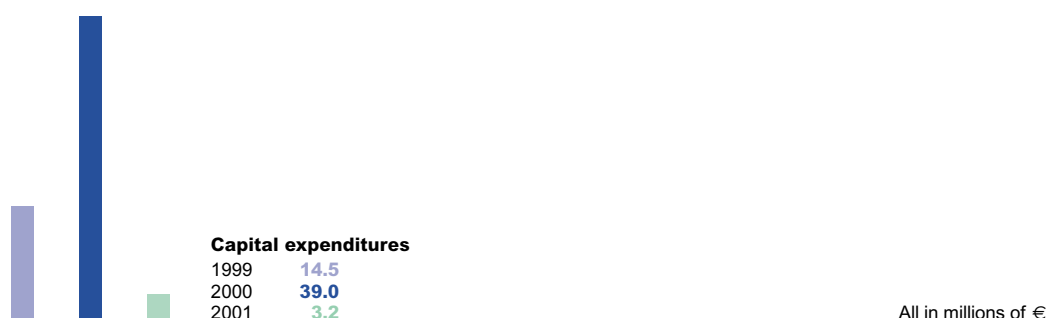


come from cash from operations in 2002. A decrease in customer demand for our products, caused by prolonged unfavorable industry conditions or an inability to develop new products in response to technological changes could materially reduce the amount of cash generated from operations. If necessary, we have available a short-term credit facility of € 12.8 million that bears interest at a rate of EURIBOR + 0.75 % per annum. At December 31, 2001 we had no amounts outstanding under this facility. Accordingly, we believe the funding available from these and other sources will be sufficient to satisfy working capital requirements.

### Capital Expenditures and Investments.

Our capital expenditures were € 3.2 million for the year ended December 31, 2001 compared to € 39.0 million for the year ended December 31, 2000 and € 14.5 million for the year ended December 31, 1999. Our capital expenditures in 2001, 2000 and 1999 consisted primarily of purchasing new or replacement test systems, tooling equipment, handling systems and other equipment in the ordinary course of our business. The significant amounts in capital expenditures in 2000 and 1999 primarily reflect the purchase of 15 additional testing machines in 2000 and 5 in 1999. Also in 1999, in order to secure an additional short-term supply of silicon, we purchased a minority stake in, and made a loan to, ESM Holdings Limited. In March 2001 and August 2000, the Company participated pro rata in an additional capital contribution and loan to ESM totalling € 8.6 and € 3.3 million, respectively. We expect capital expenditures in 2002 will approximate the 2001 level.

Our capital expenditures were financed principally with the cash proceeds from equity offerings and short-term borrowings in 2000 and 1999. The investment in and loan to ESM Holdings Limited in 1999 were financed by short-term borrowings under an additional revolving line of credit with Deutsche Bank AG. We used a portion of the net proceeds of our initial public offering to repay all outstanding amounts under this revolving facility.



On May 9, 2000 we exercised our option to purchase the remaining 90.8% interest that we did not already own in SVEP Design Center AB, a Swedish company focused on system design for advanced consumer electronic products in the wireless communication area. SVEP's system design expertise has been used by a number of major companies, such as Ericsson, to develop prototypes for a wide range of wireless telecommunications devices. The purchase price of the 90.8% interest in SVEP was 36,320,000 Swedish Krona (approximately € 4.4 million). In future periods, we may also make strategic investments or acquisitions in connection with our plans to expand our business internationally.

#### **Foreign Currency Exposure.**

To hedge our economic currency exposure with respect to the \$26 million of deposits with Chartered Semiconductor Manufacturing and ESM Limited, we purchased foreign currency forward contracts to effectively change the US Dollar deposits into Euros. See Note 15 to the Consolidated Financial Statements.

We also have foreign currency risk with respect to our net investments in foreign subsidiaries in Japan, United Kingdom, Sweden and the United States. Foreign currency translation gains and losses with respect to these subsidiaries are included in other comprehensive income.

#### **Dividends.**

We did not pay dividends in the years ended December 31, 2001, 2000 and 1999. We do not currently plan to pay dividends in the foreseeable future.



# Research and Development

## **System on Chip integration.**

Research and development continues to be a major strength of Dialog Semiconductor. Traditionally, our focus has been on the integration of analog circuits with some digital elements for control functions and to interface with the rest of the system. We are now incorporating significantly greater digital functionality in excess of 20 million transistors successfully integrated. As a complementary development we have successfully proven, and used, voltages of up to 40V in a standard 0.35  $\mu$  process without adding complexity to the process flow. This capability will allow us to achieve real system level integration by combining the highest performance analog circuits with concentrated digital functions and high voltage structures in very advanced mixed signal processes.

## **Technologies.**

We have successfully moved to smaller technologies. All our new developments are using 0.35  $\mu$ , 0.25  $\mu$  and 0.18  $\mu$  CMOS technologies. We achieved production status for several designs in these technologies in 2001. Our strategy is still to use standard CMOS technologies for integrating complex analog, high voltage and RF circuits with minimum changes to the standard process flow. This allows us to provide system on chip solutions at very competitive cost. We achieve this thanks to our specialist design know-how, built up throughout our history, which has allowed us to exploit standard CMOS processes for maximum performance. We have an eFlash module capability that allows us to integrate microcontrollers with program and data eFlash together with the other systems on chip elements. One example of this capability is our ability to integrate highly complex systems connected directly to a car battery without the need for additional external protection circuitry.

## **Product developments in wireless communication.**

Responding to a clear demand from our customers we are now integrating power management and audio functions together on one chip. Increased audio performance is required from these chips. For pure voice applications a 13bit Codec is usually sufficient, but with the need to play high performance audio as MP3, AAC (Advanced Audio Coding) or WMA (Windows Media Audio), a 16bit digital to analog converter is required. We have provided products with these capabilities in our standard CMOS technology. We are also designing a product in our 0.25  $\mu$  CMOS process that requires the same high performance in the analog to digital converter as in the transmission path. This allows our customers to record and playback high performance audio or even to implement highly sophisticated noise cancellation. We are able to integrate switching regulators with these sensitive analog functions to deliver ever higher current demands. Combining these circuits with high performance audio circuits requires extremely efficient layout techniques, which we are able to achieve in cost efficient, standard CMOS technologies. We can integrate many functions on a single silicon chip, achieving the same or better performance than the equivalent standalone devices. Along with the demand



for higher integration is the need to withstand ever-higher voltages especially in the charger circuits. Dialog has established design techniques that enable us to handle 15 Volts in a standard 0.25  $\mu$  technology.

We have developed a complete camera module for integration into a mobile phone. This is an innovation for us and it has required the development of our most complex digital chip for the signal processing functions. In addition to the ASIC we developed a software package to handle picture compression and the interface with the phone plus the complete mechanical system and the system for volume production.

In 2001, we started designs for HF applications using standard CMOS processes. Our sophisticated 0.25  $\mu$  mixed signal CMOS process has enabled us to design HF circuits incorporating integrated digital functions and high performance analog functions. The circuits that we are developing are mainly aimed at RF applications together with audio and power management circuits.

#### **Automotive developments.**

Automotive designs have become more complex and therefore benefit from the use of sub-micron technologies. Our sensor signal conditioning designs have evolved from simple front ends to more complex systems that are remote from the central controller unit. They therefore need considerably greater functionality on the ASIC. We have also seen an increase in performance requirements. Acceleration sensors, for example, have to detect a crash whilst, at the same time, processing a small test signal to determine if the sensor is still active. As a result, the designs have migrated from 8 bits to 12 bits resolution, using sigma delta converters and DSP functions that we have spun off from our audio applications know-how. These ASICs are connected directly to the battery and therefore must be able to handle voltages of up to 40V. The same is true for the motor controller circuits that we have developed, but in this case, the complexity is even higher. For these applications it is mandatory to use a microcontroller with embedded eFlash. The first generation of these products has been developed and we are extending the development program to obtain even higher integration. This next step will lead to system level integration on chip that contains high resolution sigma delta converters together with a microcontroller, eFlash and the circuitry to drive the motor directly connected to the battery. These circuits are all integrated in our 0.35  $\mu$  CMOS technology with embedded flash.



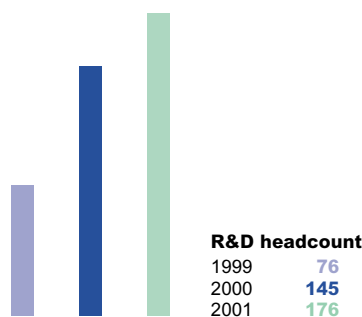
### R&D headcount increased in 2001.

We increased personnel in the research and development department to a total of 176 employees at the end of 2001, up from 145 at the end of 2000. This was in response to demands from our customers that we devote further resources to cooperate in the development of their new products and to meet the needs of our own strategic research and development program.

### Design process at Dialog Semiconductor: state of the art.

We use design tools from Cadence Design Systems, Inc. to increase design automation and we use top level simulation to identify system design incompatibilities at an early stage. In addition, we use tools from other suppliers to provide an optimum design environment for our engineers. We base our production around a standard CMOS semiconductor technology process in order to focus our design efforts more effectively. In the area of digital libraries we cooperate with our foundry partners so that we always have a silicon-proven solution. The same is true of the technology specific set up of our design flow.

We have broadened our system capability know-how, including software development. We have built up state of the art digital capabilities and have kept our leading-edge status in analog design. Our design teams consist of technical project leaders, project managers and dedicated designers and layout personnel. The size of a team in the main design phase is between 10 and 15 people.



# Quality and Environment

Our Quality and Environmental System is designed to ensure continuous improvement to our products and considers both quality and environmental aspects. The components of our System model are represented as follows:



## Overview of our Quality Management.

The success of our strategic outsourcing business model is highly dependent on our uncompromising approach to quality assurance and our commitment to an environment of continual improvement in every area of our operations.

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



### **Approvals by all major customers.**

All of our products have to achieve world class quality standards and we have been approved by all of our major customers such as Siemens, Motorola, Ericsson, Sagem, Adtran, Bosch and Temic. Our customers demand the highest levels of product quality and service. The attainment of QS 9000 certification in May 2000 (we have been ISO 9001 approved since 1993) further documented our main quality goals of zero defects and the continuous improvement of both product and process quality. The implementation of such a recognized international quality standard further enhances the quality awareness of our employees within a proven, structured environment and demands the active participation of every individual within our company.

### **Leading role of our Quality Management Team.**

The success of our quality system is, therefore, assured since our employees know they contribute to our success by the way they carry out their own responsibilities. The Quality Management team has a key role in ensuring that the objectives of our Company are clearly understood at all levels throughout the organization and that they align with departmental and individual objectives. A state of the art internal quality web site on our Company Intranet has also been established in order to enable global knowledge management, training aids and document controls. Fast and flat communication channels based on the concept of low status differentials further aid information dissemination.

### **Qualification and Approvals.**

During 2001 we saw a dramatic increase in new designs and products requiring deep sub micron wafer processing technologies. This has resulted in greater than 90% of our product qualification and monitoring programs requiring sub micron sampling. The ratio of all samples exposed to our continuous operating lifestest program exceeds 30 percent for 0.25um and 0.35um products.

We have also successfully completed a joint qualification program of micro packages (i.e. package outlines of 3mm x 3mm or smaller), with our assembly partners. As packages are reduced in size and cost the relative proportion of the costs associated with device handling increases. In order to keep these handling costs to a minimum we have invested in equipment to combine the final test stage with tape and reel capability. The installation, verification and approval of this capability along with the necessary quality procedures to ensure a stable process were also completed during 2001.

### **The Environment and Environmental Protection.**

The key achievement in 2001 was the successful attainment of ISO14001 certification. The protection of the environment and a respectful handling of natural resources should be a priority of any company worldwide. We at Dialog Semiconductor are committed to facing the challenges of environmental protection at all levels because we believe that sustainable development can only be secured if we take care of our valuable resources.

As a direct response to customer and market environmental requirements, in addition to a comprehensive body of environmental laws, rules and regulations in each jurisdiction in which we operate, Dialog Semiconductor implemented an Environmental Management System during 2000, which was intended to be compliant with ISO 14001 requirements.



### **Obtaining of the ISO 14001 Standard.**

Our Environmental Management System was designed to be a matrix system involving our main offices located in Kirchheim / Teck-Nabern and Heidelberg in Germany, Swindon in UK and Clinton in USA. The success of our Environment Management System was verified in July 2001 when we obtained official certification to the International Standard ISO 14001 from the TÜV Management Service.

Dialog's integrated activities focus on protection of our environment by using environmental friendly production technology.

Examples of this are:

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

### **Internal and external communications: key fact for achieving our environmental goals.**

Our environmental goals are further achieved by continuously improving environmental performance throughout the entire product and process life cycle by improving communications with our manufacturing partners and customers. Good communication regarding key environmental aspects is aided by our policy of dealing only with suppliers having similar environmental goals as ourselves. Additionally, internal communication is enhanced through Dialog's Intranet environmental WebPages which promote the active contribution of all employees to environmental aspects. Our internal emphasis is focused on increasing awareness and knowledge of environmental issues throughout the organization, until this becomes a natural part of the decision making process.



# Our Employees

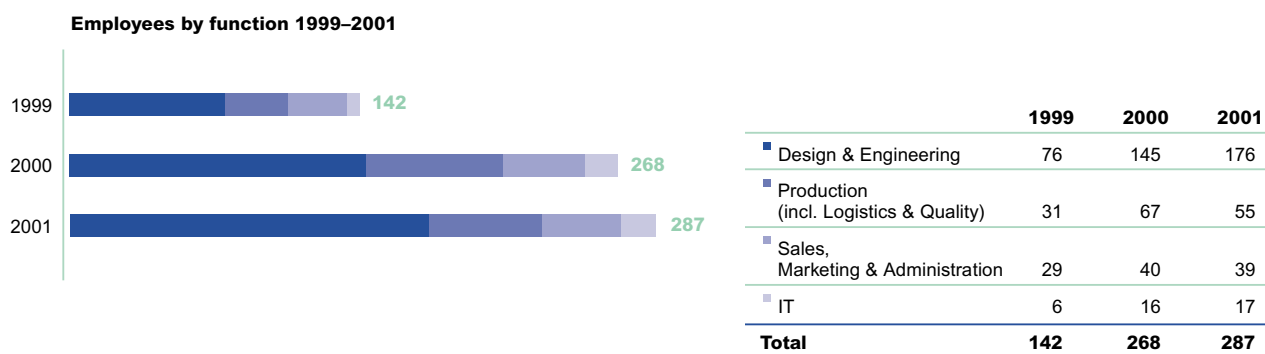
## Organisational changes strengthen our Engineering capabilities.

As ever, our employees remain our primary resource in ensuring we develop the right products to create continuing growth and market opportunity. Their motivation, innovation and dedication during the period meant we were able to withstand the challenging business environment of the past year. As a result we were able to lay strong foundations for the additional business opportunities we are now exploring.

During 2001, our human resources activity concentrated on four main areas:

- Making the organisational changes necessary to refocus all aspects of Engineering on our revised development program.
- Establishing a dedicated research and development group with a special remit to investigate future technologies and processes.
- Allocating resources effectively during a period when we did not wish to significantly increase headcount.
- Addressing the ongoing motivation and personal development of employees.

In the year to December 31, 2001 our global workforce grew to 287 employees – the majority employed in R&D functions – in 8 locations worldwide. This represents a 7 % headcount increase compared with the end of the preceding year.





### **Employee Retention & Development.**

As a result of the market downturn, we had to implement a number of cost reduction measures during 2001. Amongst these were the postponement of salary reviews, the suspension of all bonuses, and the halting of recruitment. Despite these measures, our employee turnover rate remains one of the lowest in the industry.

We also continued to invest in significant training opportunities for employees, with spend on courses increasing by 6.5%. A considerable proportion of these courses were specific to engineering disciplines (particularly analog design), and to Quality training.

Organisational changes we implemented during 2001 gave us the opportunity to offer new opportunities to a number of employees, developing their careers and offering new challenges.

### **Share option scheme.**

Our extensive employee share option scheme has been restructured but continues to help us attract, motivate and retain skilled staff. In June 2001, we cancelled share options granted in June and October 2000, which were exercisable at the relatively high market values prevailing at that time. In December 2001, we granted new options that are exercisable at prices reflecting current market values. Additionally, we offered share options to new employees, which are granted once newly recruited staff have completed an initial period of service.

### **A word of thanks to our employees.**

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



# Our Facilities

## International presence – close to our costumers.

Our business model is international, with more than 70 % of our 2001 revenues generated outside Germany and the United Kingdom. The priority given to our international business is underlined by our commitment to being physically close to our customers. Marketing and design of our products are therefore decentralised, located on three continents: Europe, North America and Asia.

## Two new Design Centers opened in 2001.

In March 2001, we opened our seventh Design Centre in Graz, Austria, specialising in high-frequency wireless applications for mobile telecommunications thereby extending our range of ASICs to include RF components. Our links with a technical university in Graz and with three technical colleges in the immediate area have helped us to build an office of 14 employees in only nine months.

In April 2001, we opened a new office in Tokyo, Japan, to build a local operation to support the new products we are developing for Japanese customers. The Tokyo office currently has 8 employees.

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

Location	Approximate area (m <sup>2</sup> )	Principal Use
Neue Strasse 95, Kirchheim/Teck-Nabern, Germany	4,365	Company headquarters, office operation for design, marketing and testing
Windmill Hill, Swindon, Wiltshire, United Kingdom	780	Office operation for marketing and design
54 Old Highway 22, Clinton, New Jersey USA	661	Office operation for marketing and design
S:t Lars väg 46, Ideon Park Lund, Sweden	2,070	Office operation for systems and new applications
Aomi Frontier Building 9f 43, Aomi 2-chome Koto-ku/Tokyo, Japan	686	Office operation for marketing and design
Mannheimer Strasse 1 Heidelberg, Germany	307	Office operation for design
Industriestrasse 1 Munich/Germering, Germany	530	Office operation for design
Kärntner Strasse 518 Graz-Seiersberg, Austria	197	Office operation for design

# Risk Factors

The market in which we compete is characterized by continuous development and technological improvement. As a result, our success depends on our ability to develop new designs and products on a cost effective, timely basis. Our future success also depends on our ability to anticipate and respond to new market trends, to rapidly implement new designs which satisfy customers' desires, and to keep abreast of technological changes within the semiconductor industry generally.

Although we expect the wireless communications market to continue to grow during the near future, the rate of any growth may be influenced by numerous factors. These include, among others:

- national and regional regulatory environments
- general economic conditions
- advances in competing telecommunication and information technologies
- manufacturing capacity
- perceived health risks to mobile phone users

In addition, we have identified the following critical accounting policies, and related uncertainties with the accounting measures used in the consolidated financial statements, that we believe are essential to understanding the financial reporting risks presented in the current economic environment:

■ **Realizability of investments in wafer suppliers.**

In order to secure adequate sources of silicon supply, we made certain investments in suppliers in the form of equity interests, loans, deposits and advanced payments for products. As discussed in "Write-down of Investment" above and in Note 7 to the Consolidated Financial Statements, due to significant financial difficulties at one of our suppliers, ESM, we wrote-off our total investments in this supplier which resulted in a € 42.4 million pre-tax charge to earnings in the fourth quarter of 2001. It is possible that we may be able to recover a portion of our investments in ESM. However, we are unable to estimate reliably what amount, if any, may be ultimately recovered. If we are able to recover a portion of our investment in ESM, it will be recognized in our Consolidated Financial Statements in the period the recovery is realized.

As discussed in Note 7 to the Consolidated Financial Statements, at December 31, 2001 we maintain a \$ 20 million deposit with another supplier, as well as advance payments of \$ 8.6 million. These advance payments will be refunded to us in proportion to our future wafer purchases. We currently expect to realize the entire amount of our deposit and advance payments. However, the industry-wide decline in demand for semiconductors has adversely affected the financial condition of several semiconductor manufacturers. Prolonged adverse market conditions could affect our estimates about the recoverability of our investments. Therefore, it is reasonably possible that future operating results could be materially and adversely affected if we consider an impairment charge for our investments to be necessary.



■ **Recoverability of long-lived assets.**

Our business is capital intensive and has required, and will continue to require, significant investments in long-lived assets, including property, plant, and equipment. At December 31, 2001, the carrying amount of our property, plant and equipment was € 36.9 million. As discussed in Note 2 to the Consolidated Financial Statements, recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset or group of assets to future net cash flows expected to be generated by the asset or group of assets. If such assets are considered impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. At December 31, 2001, the carrying value of intangible assets, including goodwill, was € 17.1 million. Intangible assets are evaluated for recovery based upon projected future cash flows.

A prolonged general economic downturn and, specifically, a continued downturn in the semiconductor industry would intensify competitive pricing pressure because of overcapacity in the industry, and we could be forced to decrease production and reduce capacity. Such events could adversely affect our estimates of future net cash flows expected to be generated by our long-lived assets. It is reasonably possible that our future operating results could be materially and adversely affected by an impairment charge related to the recoverability of our long-lived assets.

■ **Realizable value of inventories.**

Due to the sudden and significant decrease in demand for our products accompanied by substantial order cancellations, our inventory levels in the second quarter of 2001 exceeded our requirements. Accordingly, we recorded a charge of € 10.7 million to write-off excess inventory as of June 30, 2001.

At December 31, 2001, our total inventory was € 17.2 million. We believe that our inventory levels are in line with current requirements. However, the demand for our products can fluctuate significantly in response to rapid technological changes in the semiconductor and wireless communications industries. In addition, demand for our products reflects, to a significant degree, the changing requirements of manufacturers of telecommunications devices. In particular, handset manufacturers have significantly reduced their demand for mobile phone components, including mixed signal ASICs, in recent periods. It is reasonably possible that future operating results could be materially and adversely affected if any additional excess inventory charges are needed.

■ **Dependence on few customers and concentration of credit risk.**

We derive a substantial portion of our revenues from a relatively small number of wireless communications manufacturers. Sales to our five largest customers accounted for 82% of our revenues in 2001, 89% of our revenues in 2000 and 86% of our revenues in 1999. At December 31, 2001, trade accounts receivable, net was € 16.5 million. We perform ongoing credit valuations of our customers' financial condition and, generally, require no collateral from our customers.

We establish an allowance for doubtful accounts that represents our estimate of amounts that may not be ultimately collected. We determine the allowance for doubtful accounts based on periodic review and evaluation performed as part of our credit-risk evaluation process, historical loss experience, current economic events and conditions and other pertinent factors. This evaluation is inherently subjective and may not accurately reflect the actual financial condition or credit worthiness of some of our customers.

Although we consider the allowance for doubtful accounts to be adequate based on information currently available, additional provisions may be necessary due to (i) changes in our estimates and assumptions about receivable collectibility or the creditworthiness of specific customers or (ii) changes in economic, industry and other events and conditions. Therefore, it is reasonably possible that a change in our allowance for doubtful accounts could occur in the near term, thereby negatively affecting future operating results.

■ **Realization of deferred tax assets.**

Total net deferred tax assets are € 20.5 million at December 31, 2001, reflecting primarily the year 2001 benefit of € 24.5 million in loss carryforwards. While these losses may be carried forward indefinitely, realization is dependent on generating sufficient taxable income to utilize the losses. Although realization is not assured, we believe it is more likely than not that all of the deferred tax assets will be realized. The amount of total deferred tax assets considered realizable, however, could be reduced if our estimates change about our ability to generate future taxable income in the foreseeable future, or if changes in tax laws impose restrictions on the time or extent of our ability to utilize our loss carryforwards.



# Outlook

## Worldwide.

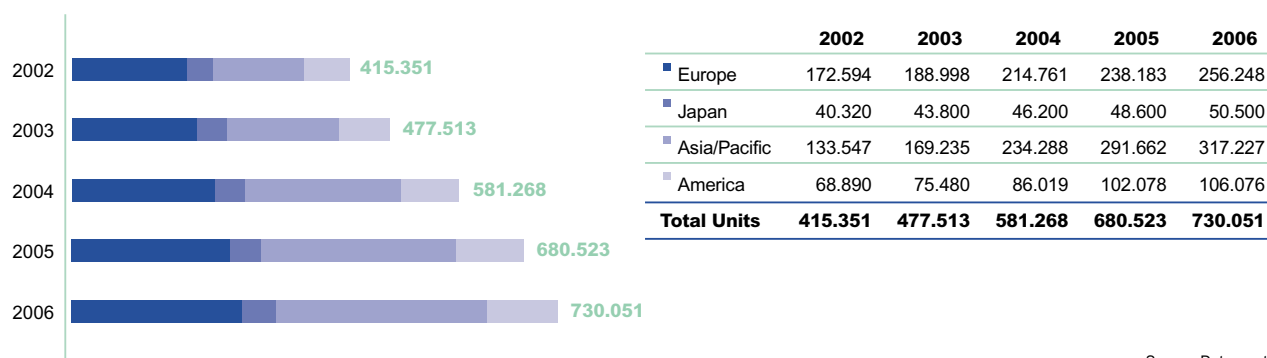
If the worldwide Economy is to recover in 2002 it is crucial that the sentiment of wide-spread insecurity prevailing since September 2001 among investors, businesses and consumers dissipates. Increased risk aversion is causing individuals and companies to be more cautious and to postpone spending decisions. Assuming that there are no adverse economic effects from political and military developments, uncertainty could be reduced during the first half of 2002. A gradual improvement in private sector sentiment would help to restore an attitude of "business as usual" and should provide the basis to reverse the present contraction in production capacity, encouraging firms to implement new investment plans. By mid 2002, the effects of concerted fiscal and monetary policy measures taken in many countries to maintain stability in these difficult times should also be felt.

## In our Market.

Despite the contraction seen in handset manufacture in 2001, all recent market analysis point to a continuing growth in the number of handsets produced. The long term outlook for the mobile handset market is more positive, with worldwide production forecast to register a compound annual growth rate (CAGR) of 15 per cent between 2002 and 2006. While the already saturated Japanese market shows signs of slower growth, less mature markets in the Americas, Europe and Asia/Pacific are expected to show double digit growth rates. The global market for digital handsets is forecast to reach nearly 730 million units in 2006.

The Strategis Group, a Washington, D.C.-based telecommunications research and consulting firm has said overall handset sales in 2002 will be up 17 percent worldwide, with burgeoning markets like China and Southeast Asia experiencing 40 percent increases.

Global Digital Mobile Phone Production (in million units, estimated)



Source: Dataquest



The introduction of 2.5 and 3G systems will herald a new range of applications as network providers seek to increase revenues by tapping into the demand for data based services. Already this is stimulating the development of more advanced terminals requiring more complex semiconductors. 2002 will see the adoption of GPRS by most network providers and by 2003 GPRS shipments are forecast to be almost double those of GSM only designs. It is envisaged that GPRS will not only meet consumer demands for basic data services, but will also stimulate demand for more advanced 3G devices and applications. In non GPRS markets more advanced CDMA2000 1X systems are starting to be introduced in a parallel activity to deliver higher speed data applications.

The market for 3rd generation terminals, although now launched in Japan as FOMA (Freedom Of Mobile multimedia Access), is likely to be relatively modest until the second half of the decade. It is now thought likely that no one killer application will emerge to drive the growth of 3G services. Instead it will be a range of diverse applications that push sales growth forward. Development of these applications will take time to establish.

The introduction of new technology and applications will help sustain terminal growth rates in markets reaching saturation for subscriber penetration by stimulating the replacement market as users upgrade to gain access to the latest data services in search of greater functionality or speed.

Looking ahead, it is widely expected that by 2004 operator revenues from data services will exceed those of voice based applications.

The more complex systems and services will also increase the value of semiconductors within phone terminals. Manufacturers will want better display technologies such as large colour displays. They will want better power management to control the increased power demands of more sophisticated multimedia applications. They will also need more complex processing functions to handle audio and visual information in applications like Multimedia Messaging (MMS).









Mobile telephones are being used more and more for electronic data transmission due to both developments in technology and new network standards like GPRS or UMTS. Originally mobile telephones were primarily used for speech transmission. It is also possible to use mobile telephones for other acoustic applications – such as for music. Modern methods of data compression like the MP3 format for audio files makes it possible to save and process several high quality pieces of music on a mobile telephone using minimal memory capacity. Dialog Semiconductor possesses vast know-how particularly regarding audio specific ASICs which can convert a mobile telephone to a high quality FM stereo radio or even to a **MP3 player**. This makes the most relaxing holiday even more relaxing.



# Consolidated Financial Statements

# Management's Responsibility for Financial Reporting

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

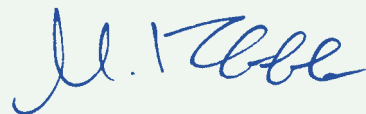
We have installed effective internal controlling and monitoring systems to ensure compliance with the accounting principles and the adequacy of reporting. They include the use of uniform guidelines group-wide, the use of reliable software, the selection and training of qualified personnel.

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

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



Roland Pudelko  
CEO & President



Martin Klöble  
Vice President Finance & Controlling



# Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Dialog Semiconductor Plc and subsidiaries as of December 31, 2001, 2000 and 1999 and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dialog Semiconductor Plc and subsidiaries as of December 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

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

Stuttgart, Germany

February 20, 2002

KPMG Deutsche Treuhand-Gesellschaft

Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft



(Held)

Wirtschaftsprüfer



(Kiechle)

Wirtschaftsprüfer



# Consolidated Statements of Operations

(In thousands of €, except per share data)	Notes	Year ended December 31,		
		2001	2000	1999
Revenues	16	100,519	214,459	87,246
Cost of sales (including excess inventory provision of 10,689 in 2001)		(79,637)	(138,866)	(56,749)
<b>Gross margin</b>		<b>20,882</b>	<b>75,593</b>	<b>30,497</b>
Selling and marketing expenses		(4,054)	(5,672)	(3,888)
General and administrative expenses		(5,569)	(5,972)	(2,698)
Research and development		(31,256)	(22,898)	(11,108)
Amortization of goodwill and intangible assets		(3,202)	(2,651)	(1,237)
<b>Operating profit (loss)</b>		<b>(23,199)</b>	<b>38,400</b>	<b>11,566</b>
Interest income, net		898	1,940	13
Foreign currency exchange gains and losses, net		306	2,627	(329)
Write-down of investment	3	(42,405)	–	–
<b>Result before income taxes</b>		<b>(64,400)</b>	<b>42,967</b>	<b>11,250</b>
Income taxes	4	22,721	(16,410)	(4,570)
<b>Net income (loss)</b>		<b>(41,679)</b>	<b>26,557</b>	<b>6,680</b>
<b>Earnings (loss) per share</b>	17			
Basic earnings (loss) per share		(0.95)	0.62	0.16
Diluted earnings (loss) per share		(0.95)	0.60	0.15
<b>Weighted average number of shares (in thousands)</b>				
Basic		43,788	42,669	35,980
Diluted		43,788	44,300	37,790

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

# Consolidated Balance Sheets

(In thousands of €)	Notes	At December 31,		
		2001	2000	1999
<b>ASSETS</b>				
Cash and cash equivalents		32,626	29,879	11,257
Trade accounts receivable, net		16,489	42,100	21,946
Inventories	6	17,152	36,818	10,019
Deferred taxes	4	23	182	38
Prepaid expenses	7	1,107	4,151	–
Other current assets		830	3,162	5,101
<b>Total current assets</b>		<b>68,227</b>	<b>116,292</b>	<b>48,361</b>
Property, plant and equipment, net	8	36,940	46,772	15,570
Intangible assets	8	5,701	6,993	3,738
Goodwill	8	11,403	12,730	9,762
Investments	8	–	2,638	2,404
Loans	8	22,974	41,867	10,507
Deferred taxes	4	24,684	445	522
Prepaid expenses	7	8,514	19,686	–
<b>TOTAL ASSETS</b>		<b>178,443</b>	<b>247,423</b>	<b>90,864</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Financial Liabilities	9	–	–	56
Trade accounts payable		8,273	26,815	15,289
Accrued expenses		5,071	7,573	1,920
Income taxes payable		1,437	8,428	3,195
Deferred taxes	4	1,266	1,106	604
Other current liabilities		1,786	1,781	614
<b>Total current liabilities</b>		<b>17,833</b>	<b>45,703</b>	<b>21,678</b>
Deferred taxes	4	2,904	2,526	575
<b>Total liabilities</b>		<b>20,737</b>	<b>48,229</b>	<b>22,253</b>
Ordinary shares	11	6,737	6,737	6,418
Additional paid-in capital		168,788	168,776	63,475
Retained earnings (accumulated deficit)		(17,437)	24,242	(2,315)
Currency translation adjustment		(270)	(440)	1,194
Derivative financial instruments		(42)	–	–
Employee stock purchase plan shares	12	(70)	(121)	(161)
<b>Total Shareholders' equity</b>		<b>157,706</b>	<b>199,194</b>	<b>68,611</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>178,443</b>	<b>247,423</b>	<b>90,864</b>

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

# Consolidated Statements of Cash Flows

(In thousands of €)	Year ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	(41,679)	26,557	6,680
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Write-down of investment	42,405	–	–
Provision for excess inventory	10,689	–	–
Depreciation of property, plant and equipment	12,801	8,126	2,548
Amortization of goodwill and intangible assets	3,202	2,651	1,237
Change in deferred taxes	(23,491)	2,322	1,135
Changes in current assets and liabilities:			
Trade accounts receivable	25,597	(19,626)	(14,065)
Inventories	8,975	(26,793)	(6,523)
Prepaid expenses	4,153	(23,862)	–
Trade accounts payable	(18,525)	11,409	10,445
Accrued expenses	(2,815)	5,489	333
Income taxes payable	(7,013)	5,294	1,795
Other assets and liabilities	840	3,304	(4,492)
<b>Cash provided by (used for) operating activities</b>	<b>15,139</b>	<b>(5,129)</b>	<b>(907)</b>
Cash flows from investing activities:			
Purchases of property, plant and equipment	(3,157)	(39,024)	(14,487)
Purchases of intangible assets	(577)	(4,769)	(1,372)
Investments and deposits made	(8,894)	(32,019)	(12,905)
Payments for the acquisition of businesses	–	(4,342)	–
<b>Cash used for investing activities</b>	<b>(12,628)</b>	<b>(80,154)</b>	<b>(28,764)</b>
Cash flows from financing activities:			
Additions to short-term borrowings	–	–	12,190
Repayment of short-term borrowings	–	–	(12,190)
Repayments of redeemable preference shares including accrued dividends	–	–	(19,563)
Proceeds from issuance of ordinary shares	(6)	105,627	59,152
Purchase of employee stock purchase plan shares	–	–	(185)
Sale of employee stock purchase plan shares	69	33	231
Changes in financial liabilities	–	(58)	(3,434)
<b>Cash provided by financing activities</b>	<b>63</b>	<b>105,602</b>	<b>36,201</b>
Cash provided by operating, investing and financing activities	2,574	20,319	6,530
Effect of foreign exchange rate changes on cash and cash equivalents	173	(1,697)	1,769
Net increase in cash and cash equivalents	2,747	18,622	8,299
Cash and cash equivalents at beginning of period	29,879	11,257	2,958
<b>Cash and cash equivalents at end of period</b>	<b>32,626</b>	<b>29,879</b>	<b>11,257</b>

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

# Consolidated Statements of Shareholders' Equity and Comprehensive Income

	(In thousands of €)						Total
	Ordinary shares	Additional paid-in capital	Retained earnings (accumulated deficit)	Accumulated other comprehensive income (loss)		Employee stock purchase plan shares	
				Currency translation adjustment	Derivative financial instruments		
<b>Balance at December 31, 1998</b>	<b>5,267</b>	<b>5,267</b>	<b>(7,969)</b>	<b>471</b>	<b>-</b>	<b>-</b>	<b>3,036</b>
New issuance of shares	1,151	58,001	-	-	-	-	59,152
Net income	-	-	6,680	-	-	-	6,680
Other comprehensive income	-	-	-	723	-	-	723
Total comprehensive income (loss)	-	-	6,680	723	-	-	7,403
Purchase of employee stock purchase plan shares	-	-	-	-	-	(185)	(185)
Sale of employee stock purchase plan shares	-	207	-	-	-	24	231
Accrued dividend – cumulative redeemable preference shares	-	-	(1,026)	-	-	-	(1,026)
<b>Balance at December 31, 1999</b>	<b>6,418</b>	<b>63,475</b>	<b>(2,315)</b>	<b>1,194</b>	<b>-</b>	<b>(161)</b>	<b>68,611</b>
New issuance of shares	319	105,308	-	-	-	-	105,627
Net income	-	-	26,557	-	-	-	26,557
Other comprehensive loss	-	-	-	(1,634)	-	-	(1,634)
Total comprehensive income (loss)	-	-	26,557	(1,634)	-	-	24,923
Sale of employee stock purchase plan shares	-	(7)	-	-	-	40	33
<b>Balance at December 31, 2000</b>	<b>6,737</b>	<b>168,776</b>	<b>24,242</b>	<b>(440)</b>	<b>-</b>	<b>(121)</b>	<b>199,194</b>
Cost of issuance of shares in 2000	-	(6)	-	-	-	-	(6)
Net loss	-	-	(41,679)	-	-	-	(41,679)
Other comprehensive income (loss)	-	-	-	170	(42)	-	128
Total comprehensive income (loss)	-	-	(41,679)	170	(42)	-	(41,551)
Sale of employee stock purchase plan shares	-	18	-	-	-	51	69
<b>Balance at December 31, 2001</b>	<b>6,737</b>	<b>168,788</b>	<b>(17,437)</b>	<b>(270)</b>	<b>(42)</b>	<b>(70)</b>	<b>157,706</b>

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

# Consolidated Fixed Assets Schedule

	Acquisition costs					Balance at December 31, 2001
	Balance at January 1, 2001	Currency change	Additions	Reclassifications	Disposals	
	Test equipment	47,808	5	872	–	
Leasehold improvements	1,588	13	178	–	–	1,779
Office and other equipment	11,725	65	2,107	–	(499)	13,398
<b>Property, plant and equipment</b>	<b>61,121</b>	<b>83</b>	<b>3,157</b>	<b>–</b>	<b>(499)</b>	<b>63,862</b>
Intangible assets	10,013	33	577	–	(141)	10,482
Goodwill	15,221	–	–	–	–	15,221
<b>Intangible assets and goodwill</b>	<b>25,234</b>	<b>33</b>	<b>577</b>	<b>–</b>	<b>(141)</b>	<b>25,703</b>
Investments	2,638	–	455	–	–	3,093
Loans	41,867	981	8,443	(763)	(4)	50,524
<b>Investments and loans</b>	<b>44,505</b>	<b>981</b>	<b>8,898</b>	<b>(763)</b>	<b>(4)</b>	<b>53,617</b>

## Investments in affiliated companies.

Name	Registered office	Participation
Dialog Semiconductor GmbH	Kirchheim/Teck - Nabern, Germany	100 %
Dialog Semiconductor Ltd	Swindon, UK	100 %
Dialog Semiconductor Inc	Clinton, New Jersey, USA	100 %
Dialog Semiconductor KK	Tokyo, Japan	100 %
SVEP Design Center AB	Lund, Sweden	100 %

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



Depreciation/Amortization					Book Value	
Balance at January 1, 2001	Currency change	Additions	Disposals	Balance at December 31, 2001	Balance at December 31,	
					2001	2000
8,414	4	9,498		17,916	30,769	39,394
590	7	235		832	947	998
5,345	43	3,068	(282)	8,174	5,224	6,380
<b>14,349</b>	<b>54</b>	<b>12,801</b>	<b>(282)</b>	<b>26,922</b>	<b>36,940</b>	<b>46,772</b>
3,020	28	1,875	(142)	4,781	5,701	6,993
2,491	–	1,327	–	3,818	11,403	12,730
<b>5,511</b>	<b>28</b>	<b>3,202</b>	<b>(142)</b>	<b>8,599</b>	<b>17,104</b>	<b>19,723</b>
–	–	3,093 <sup>1)</sup>	–	3,093	–	2,638
–	–	27,550 <sup>1)</sup>	–	27,550	22,974	41,867
–	–	<b>30,643</b>	–	<b>30,643</b>	<b>22,974</b>	<b>44,505</b>

<sup>1)</sup> Write-down of investment (see note 3)

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 (“Dialog” or the “Company”) develops and supplies mixed signal and system level solutions for wireless communications and automotive applications. Dialog’s products are used by major original equipment manufacturers across the world. Once developed the Company contracts with manufacturers for production of the chips.

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

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

### b) Business and Credit Concentrations

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

The Company has made significant investments in long-lived assets and in certain suppliers (in the form of equity interests, loans, deposits and advanced payments) to ensure sufficient future wafer deliveries. The industry wide decline in demand for semiconductors has adversely affected the financial condition of several semiconductor manufactures, including certain wafer suppliers used by the Company. Prolonged adverse market conditions in the industries could effect significantly financial statement estimates made by management, including the Company’s ability to fully recover these investments and therefore could impact future operating results.

The Company’s revenue base is diversified by geographic region and by individual customer. The Company’s products are generally utilized in the mobile communications and automotive industries. During 2001, 2000 and 1999, two customers individually accounted for more than 10% of the Company’s revenues. Such customers accounted for 67 % in 2001, 75 % in 2000 and 69 % in 1999 of total revenues. The Company performs ongoing credit evaluations of its customers’ financial condition and, generally, requires no collateral from its customers.

### c) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Certain prior year balances have been reclassified to conform with current year presentation.

## 2. Summary of Significant Accounting Policies.

**Principles of Consolidation** – The consolidated financial statements include all of the entities of the Company. Investments in which the Company has less than a 20 % ownership are accounted for using the cost method. All intercompany accounts and transactions are eliminated in consolidation.

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

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

**Other Current Assets** – Other current assets principally represent tax refunds receivable.

**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:

Machinery and equipment	3 to 5 years
Leasehold improvements	Shorter of useful life or lease term

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

**Intangible Assets** – Purchased software and licenses are stated at cost and amortized using the straight-line method over the estimated useful lives of three years for software and five years for licenses. Intangible assets resulting from the acquisition include customer lists, patents, trade names and an assembled workforce and are amortized over their useful lives of 9 years for customer lists, 17 years for a patent application, 15 years for trade names and 18 years for the assembled workforce. Such useful lives were determined based upon historical data with respect to customer and employer turnover and remaining contractual lives.

**Goodwill** – The excess of purchase price over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over the expected period of benefit ranging from 7 to 15 years. The Company assesses the recoverability of such amount by determining whether the amortization of the balance over its remaining life can be recovered from the undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of the excess of cost over net assets acquired will be impacted if estimated future operating cash flows are not achieved.

**Impairment of Long-Lived Assets** – The Company assesses impairment of long-lived assets and its intangible assets, excluding goodwill, 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 to future net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured

by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment losses have been recognized in the years presented.

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

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

Currency	Exchange rate at December 31,			Annual average exchange rate		
	2001 €	2000 €	1999 €	2001 €	2000 €	1999 €
Great Britain 1 GBP	1.64	1.60	1.61	1.61	1.65	1.52
Japan 100 YEN	0.86	–	–	0.92	–	–
United States 1 USD	1.13	1.07	1.00	1.11	1.08	0.94
Sweden 10 SEK	1.07	1.13	–	1.08	1.18	–

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

**Product-Related Expenses** – Expenditures for advertising and sales promotion and for other sales-related expenses are charged to expense as incurred. Provisions for estimated costs related to product warranty are made at the time the related sale is recorded. Shipping and handling costs amounting to € 241 (2000: € 684; 1999: € 636) are recorded within selling expenses.

**Research and Development** – Research and development costs are expensed as incurred. Research and development costs which are charged to customers and, accordingly, are included in cost of sales, amounted to approximately to € 2,683 (2000: € 2,286; 1999: € 1,492).

**Income Taxes** – Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the

years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records deferred tax valuation allowances, if any, to reduce the deferred tax assets to amounts which will more likely than not be realized.

**Stock-Based Compensation** – The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion 25, “Accounting for Stock Issued to Employees”, and related interpretations, for its stock option plan. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying shares exceeded the exercise price.

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

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

**Derivative Instruments and Hedging Activities** – The Company adopted Statement No. 133 of Financial Accounting Standards (“SFAS”), *Accounting for Derivative Instruments and Hedging Activities*, and SFAS 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of SFAS No. 133*, on January 1, 2001. Upon adoption of this statement, the Company recorded a net transition adjustment gain of € 605 (net of income tax expense of € 340) in accumulated other comprehensive income. During 2001, the Company reclassified € 647 (net of income tax expense of € 364) from accumulated other comprehensive income to net income relating to the transition adjustment recorded at January 1, 2001.

**New Accounting Pronouncements** – In July 2001, the FASB issued SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Intangible Assets*. SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. SFAS 142 will also require recognized intangible assets be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 121 and subsequently SFAS 144 after its adoption.

The Company adopted the provisions of SFAS 141 as of July 1, 2001 and SFAS 142 is effective on January 1, 2002. Goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized until December 31, 2001.

SFAS 142 will require the Company to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform with the new requirements in SFAS 141. Upon adoption of SFAS 142, the Company will be required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments by March 31, 2002.

As of the date of adoption of SFAS 142, the Company expects to have unamortized goodwill (after reclassification of its unamortized assembled workforce intangible asset into goodwill) of € 11.8 million. Total amortization expense related to goodwill and assembled workforce was € 1.4 million and € 1.2 million for the years ended December 31, 2001 and 2000, respectively. The adoption of SFAS 142 is not expected to result in any transitional goodwill impairment.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Company will adopt SFAS 143 on January 1, 2003. The adoption of SFAS 143 is not expected to have a material impact on the Company's financial statements.

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



### 3. Write-down of Investment.

The Company has made certain investments since 1999 in one of its principal foundries, ESM Holdings Limited (ESM) to secure silicon supplies. Such investments comprised of a cost basis equity interest, loans and advance payments for future silicon which totaled € 42.4 million at September 30, 2001. The Company has continually monitored the recoverability of its investments in ESM in light of the decline in demand in the industry and the deteriorating financial condition of ESM. Based on the Company's estimates of the fair value of its investments, indications of continued third-party financial support of ESM, and the Company's intentions with respect to these investments, management previously determined that its investments in ESM were recoverable. However, during the 4th quarter 2001, the financial condition of ESM continued to deteriorate and in January 2002, ESM's lead bank cancelled its lending facilities. As a result, ESM was subsequently placed in receivership (a reorganisation under UK law). Consequently, management currently believes that it will not recover its investments in ESM and therefore recorded an impairment charge of € 42.4 million in the 4th quarter of 2001. It is possible that the Company may be able to recover a portion of its investments in ESM. However, management is unable to estimate reliably what amount, if any, that may ultimately be recovered.

### 4. Income Taxes.

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

	Year ended December 31,		
	2001	2000	1999
Germany	(69,629)	23,965	8,570
Foreign	5,229	19,002	2,680
	<b>(64,400)</b>	<b>42,967</b>	<b>11,250</b>

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

	Year ended December 31,		
	2001	2000	1999
<b>Current taxes:</b>			
Germany	856	(8,444)	(2,286)
Foreign	(1,618)	(5,644)	(1,149)
<b>Deferred taxes:</b>			
Germany	23,914	(2,430)	(1,044)
Foreign	(431)	108	(91)
	<b>22,721</b>	<b>(16,410)</b>	<b>(4,570)</b>

Although Dialog is a UK company, its principal operations are located in Germany and all of its operating subsidiaries are owned by its German subsidiary. Accordingly, the following information is based on German corporate tax law. Until the end of 2000 German corporate tax law applied a split-rate imputation with regard to the taxation of the income of a corporation and its shareholders. In accordance with the tax law, retained corporate income is initially subject to a federal corporate tax of 40% in 2000 and 1999, plus

a solidarity surcharge of 5.5 % on federal corporate taxes payable. Including the impact of the surcharge, the federal corporate tax rate amounts to 42.2 % in 2000 and 1999. In 2000 and 1999, upon distribution of retained earnings to shareholders, the corporate income tax rate on the earnings is adjusted to 30 %, plus a solidarity surcharge of 5.5 % on the distribution corporate tax, for a total of 31.65 %, by means of a refund for taxes previously paid.

In 2000 and 1999, the Company applied the distributed corporate income tax rate of 30 % to earnings of its German subsidiary as the Company plans to distribute such earnings to the parent company.

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

A reconciliation of income taxes determined using the German corporate tax rate of 26.375 for 2001 and 31.65 % for 2000 and 1999 plus the after federal tax benefit rate for trade taxes of 11.225 % for 2001 and 10.426 % for 2000 and 1999, for a combined statutory rate of 37.6 % for 2001 and 42.076 % for 2000 and 1999, is as follows:

	Year ended December 31,		
	2001	2000	1999
Expected benefit (provision) for income taxes	24,214	(18,081)	(4,733)
Credit for dividend distribution	–	273	177
Foreign tax rate differential	395	2,200	343
Amortization of non-deductible Goodwill and intangible assets	(494)	(439)	(295)
Write-down of investment	(1,163)	–	–
Others	(231)	(363)	(62)
<b>Actual benefit (provision) for income taxes</b>	<b>22,721</b>	<b>(16,410)</b>	<b>(4,570)</b>

Deferred income tax assets and liabilities are summarized as follows:

	December 31,		
	2001	2000	1999
Property, plant and equipment	157	101	145
Net operating loss and tax credit carryforwards	24,526	526	415
Other	24	–	–
<b>Deferred tax assets</b>	<b>24,707</b>	<b>627</b>	<b>560</b>
Property, plant and equipment	(2,905)	(2,525)	(575)
Accounts receivable	(93)	(208)	(427)
Prepaid expenses	–	(417)	–
Accounts payable	(1,172)	(482)	(177)
<b>Deferred tax liabilities</b>	<b>(4,170)</b>	<b>(3,632)</b>	<b>(1,179)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>20,537</b>	<b>(3,005)</b>	<b>(619)</b>

The deferred tax assets at December 31, 2001 reflect management's estimate of the amount that will be realized as a result of future profitability. The amount of the deferred tax asset considered realizable could be reduced if estimates of future taxable income are reduced.

#### 5. Additional Cash Flow Information.

The following represents supplemental information with respect to cash flows:

	Year ended December 31,		
	2001	2000	1999
Interest paid	83	143	280
Income taxes paid	7,622	5,214	1,860

#### 6. Inventories.

Inventories are comprised of the following:

	December 31,		
	2001	2000	1999
Raw materials	7,358	11,827	2,527
Work-in-process	4,838	14,009	6,896
Finished goods	4,956	10,982	596
	<b>17,152</b>	<b>36,818</b>	<b>10,019</b>

#### 7. Prepaid Expenses.

At December 31, 2001, the Company maintained deposits of \$20 million with Chartered Semiconductor Manufacturing Pte., Ltd., (CSM) and \$ 6 million with ESM. These deposits are classified in the balance sheet line item "Loans". Under the terms of these agreements, the deposits will guarantee access to several generations of process technologies ranging from current products at 0.60-micron and 0.35-micron and will extend down to, and beyond 0.18-micron technologies. In addition, the Company paid a total of \$ 21.5 million in 2000 as an advance payment- for future wafer deliveries. Such advance payment is classified in the balance sheet line items "Prepaid expenses". As described in note 3 "Write-down of Investment", we recorded a € 42.4 million asset write-down in 2001 which includes the \$ 6 million deposit with ESM and advance payments for future wafer deliveries of \$ 8.3 million due to the financial uncertainty of ESM. The outstanding balance of the advance payment is refunded in proportion to the Company's purchases of wafers from CSM, and at this time, the Company expects to have the entire advance payment refunded. During 2000 to hedge the foreign currency exposure with respect to the \$ 26 million of deposits with CSM and ESM, the Company purchased foreign currency forward contracts to effectively change the US dollar deposits into Euros (see Note 15).

## **8. Other long-term assets.**

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

Depreciation expense amounted to € 12,801, € 8,126, and € 2,548 for the years ended December 31, 2001, 2000 and 1999, respectively.

## **9. Financial Liabilities.**

At December 31, 2001, the Company had an unused short-term credit line of € 12,782. There are no amounts outstanding under this credit line at December 31, 2001.

## **10. Cumulative Redeemable Preference Shares.**

In October 1999, Dialog repaid the carrying amount, including cumulative unpaid dividends, of 5,640,194 shares of cumulative redeemable preference shares with a par value of £ 1 per share, previously issued at a premium of £ 1 per share. The carrying amount of redeemable preference shares had been increased by € 2,005 through a charge to retained earnings in 1999 and 1998 resulting in a total repayment of € 19,563.

On May 18, 2000, the Company's shareholders approved a resolution reclassifying the 5,640,194 issued and redeemed preference shares of £ 1 per share as 56,401,940 ordinary shares of £ 0.10 per share ranking *pari passu* with the existing ordinary shares of the Company.

## **11. Shareholders' Equity.**

At December 31, 2001, Dialog had authorized 104,311,860 ordinary shares with a par value of £ 0.10 per share. Issued and outstanding were 44,068,930 ordinary shares.

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

On September 24, 1999, Dialog approved a five-for-one split of the Company's ordinary shares and effected changes in its capital structure. In connection with the changes in capital structure, the authorized number of ordinary shares of the Company was increased by 9,500,000 shares. The Company also amended its Articles to allow for only one class of ordinary shares and one class of preference shares. All previously outstanding "A" and "B" ordinary shares have been converted into an equal number of the Company's ordinary shares with a par value of £ 0.10 per share (after adjustment for the five-for-one split). Each ordinary share entitles the holder to one vote.

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

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

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

## 12. Employee Stock Purchase Plan.

On March 26, 1998, the Company and its then majority owner, Apax, adopted the Subscription and Shareholders Agreement under which employees and directors are invited from time-to-time, at the discretion of the Board, to purchase up to 3,456,890 ordinary shares of the Company from Apax or an established Employee Benefit Trust. The purchase price of the shares is equal to their estimated fair value on the date the employee or director subscribes for those shares. Employees and directors are immediately vested in their purchased shares. During the first quarter of 1999, the Trust acquired 668,800 ordinary shares from Apax for purposes of distributing them to employees under the Employee Stock Purchase Plan. For the period from March 1, 1998 to December 31, 1998 and for the year ended December 31, 1999, employees and directors purchased 2,581,360 and 473,480 ordinary shares, respectively, at fair value on the date of purchase. During 2001 and 2000 the Trust distributed 159,006 and 57,108 shares, respectively, in connection with the exercise of employee stock options. At December 31, 2001, the Trust continued to hold 216,616 shares.

## 13. 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. Stock options are granted with an exercise price not less than the estimated fair value at the date of grant. Stock options have terms of ten years and vest over periods of one to five years from the date of grant.

The fair value of the stock option grants was estimated using the Minimum Value Method prior to the Company's initial public offering in October 1999. The fair value of all subsequent grants is estimated using the Black-Scholes option pricing model. The following weighted-average assumptions were used for stock option grants for the years ended December 31, 2001, 2000 and 1999.

	Year ended December 31,		
	2001	2000	1999
Expected dividend yield	0 %	0 %	0 %
Expected volatility	108 %	70 %	–
Risk free interest rate	4.6 %	4.8 %	4.0 %
Expected life (in years)	2.9	5	5
Weighted-average fair value of options granted (in €)	4,37	20,35	0,15

Stock option plan activity for the years ended December 31, 2001, 2000 and 1999 was as follows:

(prices in €)	Year ended December 31,					
	2001		2000		1999	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	2,849,778	14.01	1,840,500	0.54	1,077,710	0.28
Granted	1,193,460	6.86	1,192,520	33.00	773,140	0.88
Exercised	(159,006)	0.42	(57,108)	0.50	–	–
Forfeited	(145,106)	20.41	(126,134)	3.54	(10,350)	0.28
Cancelled	(1,066,620)	32.80	–	–	–	–
<b>Outstanding at end of year</b>	<b>2,672,506</b>	<b>3.78</b>	<b>2,849,778</b>	<b>14.01</b>	<b>1,840,500</b>	<b>0.54</b>
Options exercisable at year end	536,594	0.89	331,834	0.38	–	–

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

The Company applies APB Opinion 25 in accounting for the Plan and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, "Accounting for Stock-Based Compensation", the Company's net income (loss) would have been the pro forma amounts indicated below for the years ended December 31, 2001, 2000 and 1999 (in thousands of Euro, except per share data):

	Year ended December 31,		
	2001	2000	1999
Net income (loss):			
As reported	(41,679)	26,557	6,680
Pro forma	(42,802)	25,809	6,666
Net income (loss) per share-basic:			
As reported	(0.95)	0.62	0.16
Pro forma	(0.98)	0.59	0.16



The following table summarizes information about stock options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2001	Weighted-Avg. Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at December 31, 2001	Weighted-Average Exercise Price
€ 0.32–1.28	1,446,366	7.1	0.61	533,070	0.67
€ 3.00–9.00	1,191,740	9.9	6.86	–	–
€ 26.00	29,000	8.8	26.00	2,444	26.00
€ 55.00	5,400	8.5	55.00	1,080	55.00
<b>€ 0.32–55.00</b>	<b>2,672,506</b>	<b>8.4</b>	<b>3.78</b>	<b>536,594</b>	<b>0.89</b>

#### 14. Lease Commitments.

The Company leases design software, certain of its office facilities, office and test equipment, and vehicles under operating leases. Total rentals under operating leases, charged as an expense in the statement of income, amounted to € 8,446, € 6,220 and € 2,528 for the years ended December 31, 2001, 2000 and 1999, respectively.

Future minimum lease payments under rental and lease agreements which have initial or remaining terms in excess of one year at December 31, 2001 are as follows:

	2002	2003	2004	2005	2006	Thereafter
<b>Operating leases</b>	9,938	2,713	678	572	504	1,018

#### 15. Derivative Financial Instruments and Hedging Activities.

##### a) Use of Financial Instruments

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

The Company purchased foreign currency forward contracts in 2000 to effectively change \$ 26 million of deposits with its manufacturers into Euros. At December 31, 2001, these derivative financial instruments had a maximum maturity of 24 months. Because of the write-off of our investments in ESM, \$ 6 million of deposits no longer qualify for hedge accounting. Consequently, future changes in the fair value of the related foreign currency forward contract will be recognized in results of operations.

#### b) Information with Respect to Cash Flow Hedges

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

The Company anticipates that € 21 of losses included in accumulated other comprehensive income at December 31, 2001, which were also included in accumulated other comprehensive income at January 1, 2001, will be reclassified into earnings during the next year.

#### c) Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, other current assets and current liabilities approximates fair value due to the short maturity of these financial instruments.

At December 31, 2000 the notional amounts, carrying amounts and fair values of the forward contracts and deposits were as follows:

	<b>Notional amounts</b>	<b>Carrying amounts</b>	<b>Fair values</b>
Currency contracts	28,190	–	1,194
Deposits	–	28,190	26,996

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

## 16. Segment Reporting.

The Company operates in one segment, the design and supply of semiconductor chips.

Revenues by product-type consisted of the following:

	Year ended December 31,		
	2001	2000	1999
Revenues:			
Wireless communication	77,751	180,345	68,052
Wireline communication	2,623	9,501	2,953
Automotive	5,923	7,948	6,980
Industrial	14,222	15,221	7,852
Other	–	1,444	1,409
	<b>100,519</b>	<b>214,459</b>	<b>87,246</b>

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

	Year ended December 31,		
	2001	2000	1999
Revenues:			
Germany	22,912	40,941	21,024
Sweden	16,169	57,866	29,679
United Kingdom	4,356	21,480	5,737
Other European countries	17,534	35,726	19,136
China	20,084	2,562	–
Malaysia	7,773	35,582	5,145
Other countries	11,691	20,302	6,525
	<b>100,519</b>	<b>214,459</b>	<b>87,246</b>

Long-term assets are allocated according to their location.

	Year ended December 31,		
	2001	2000	1999
<b>Long-term assets</b>			
Germany	95,795	116,386	36,079
Japan	564	–	–
United Kingdom	11,694	12,801	5,457
USA	857	1,390	967
Sweden	581	554	–
	<b>109,491</b>	<b>131,131</b>	<b>42,503</b>

## 17. Earnings Per Share.

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

	Year ended December 31,		
	2001	2000	1999
Net income (loss)	(41,679)	26,557	6,680
Less preference share dividend	–	–	(1,026)
<b>Net income (loss) applicable to ordinary shareholders</b>	<b>(41,679)</b>	<b>26,557</b>	<b>5,654</b>
Weighted average number of shares outstanding (in thousands)-basic	43,788	42,669	35,980
Dilutive effect of stock options (1)	–	1,631	1,810
<b>Weighted average number of shares outstanding (in thousands)-diluted</b>	<b>43,788</b>	<b>44,300</b>	<b>37,790</b>
Earnings (loss) per share-basic	(0.95)	0.62	0.16
Earnings (loss) per share-diluted	(0.95)	0.60	0.15

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

# Board of Directors

## Report of the Board of Directors

Throughout 2001 the company experienced difficult economic and market conditions. Consequently, marketing and sales activity was focused on optimising existing and developing new customer relationships. Our business unit in Tokyo was set up with this new customer focus in mind. From an engineering standpoint the company continued to develop its position as one of the world's leading suppliers of mixed signal ASICs. Focusing on improving existing applications and initiating a program of strategic new applications the aim has been to create the foundations for a broader customer and product base. Financially, considerable emphasis was placed on maintaining the cash resources of the company by tight control of all expenditure and effective asset management.

During the year the Board oversaw the functioning of executive management of the Company. At the quarterly Board Meetings of 15th February, 19th April, 18th July and 19th October 2001 assured itself of the proper conduct of executive management during that year. At such Board Meetings the Board received and analysed reports from the chief executive as to the achievements of the Company against financial budgets and the progress made in achieving the commercial aims for the year.

At such Board Meetings guidance was given by the Board to the chief executive both in relation to business concerns and business opportunities. Action items were authorised which were reported on and reviewed as to achievement at the following Board Meeting.

The Remuneration Committee, comprising of Jan Tufvesson, Michael Glover and Tim Anderson met on 12th December 2001 to discuss the achievements of the Management during that year and to establish the individual objectives of the Management team for 2002. In May 2001, because substantial employee share options were exercisable at a price significantly higher than the then share price, thereby having a limited value, the Company offered employees the right to cancel options with a view to new options being granted later in the year. Approximately 1,200,000 options were cancelled and subsequently a similar number was reissued at market price on 18th December 2001.

The Audit Committee, comprising of Jan Tufvesson and Michael Glover, met on 14th February 2001, 23rd April, 17th July, 17th (and at adjourned meetings thereof on 18th and 19th) October and 12th December 2001. These meetings concentrated on a review of the financial information to be reported on for the relevant prior financial period. In addition, discussion at these meetings was held on a broad range of issues, including the Company's financial management and its compliance with the financial reporting requirements of the Neuer Markt, Nasdaq Europe and Nasdaq.

The audited accounts of the Company, for the year ended 31st December 2000, and the reports from the Directors and Auditors thereon were laid before, and approved by, the shareholders at the third annual general meeting of the Company, held on 17th May 2001, at which KPMG, the Company's independent auditor was reappointed to hold office until the following annual general meeting of the Company.

On 5th November 2001 Mark Smith retired from the Board of Directors of the Company for personal reasons. He joined the Board of Directors of the Company in March of 1998. The Chairman would like to express his thanks to Mr Smith for his services as a director to the Company.

The Board extends its thanks and appreciation to the Executive Management and all employees for their hard work and considerable achievements in 2001.

London, February 2002



Jan Tufvesson,  
Chairman

# Members of the Board of Directors

## **Jan Olof Ingemar Tufvesson, Chairman (63)**

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

## **Roland Pudelko, Chief Executive Officer and President (49)**

joined us in 1989 as managing director and has served as Executive Director, CEO and President since March 1998. He has 24 years experience in electronics and microelectronics, primarily in management positions within the Daimler-Benz Group. During that time, he was a board member of a joint venture with the Taiwanese company, ACER, and for the TEMIC Group he was responsible for the coordination of worldwide design and engineering. Mr. Pudelko has a diploma in communication technologies from the vocational college (Fachhochschule) of Esslingen. He is also the managing director of Dialog Semiconductor GmbH and our other consolidated subsidiaries.

## **Timothy Richard Black Anderson (40)**

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

## **Michael John Glover (63)**

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



### **John McMonigall (58)**

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

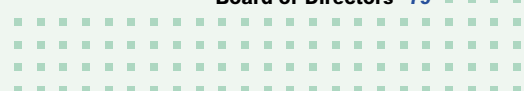
### **Michael Risman (33)**

joined us as a director in August 1999, having been closely involved with our company since March 1998. He is a director at Apax Partners where he is responsible for investments in information technology including semiconductors, software and e-commerce infrastructure. Before joining Apax Partners in 1995, Mr. Risman worked for The MAC Group as a strategy consultant and for Jaguar Cars as an engineer. He earned an MBA from Harvard Business School and an MA (Honors) in Electrical Engineering and Management from Cambridge University. He is also a director of Streamserve Inc., ARC International Plc and Integrated Silicon Systems Ltd.

### **Tord Martin Wingren (41)**

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

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



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# Investor Information

## Annual Meeting

The year 2002 annual meeting of Dialog Semiconductor Plc will be held on May 16, 2002 9 a.m. local time  
Conrad International London  
Chelsea Harbour  
London SW10 0XG  
United Kingdom

## Corporate Calendar

April 24, 2002  
Release of first quarter results

May 16, 2002  
Annual shareholder's meeting

July 24, 2002  
Release of second quarter results

October 23, 2002  
Release of third quarter results

## Corporate Counsel

Reynolds Porter Chamberlain  
London, United Kingdom

## Certified Public Accountants

KPMG Deutsche Treuhand-Gesellschaft  
Stuttgart, Germany

## US Listing

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

## ADS Administrator

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

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

The Bank of New York  
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New York, NY 10011  
Telephone: +1 (888) 269-2377  
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## [www.dialog-semiconductor.com](http://www.dialog-semiconductor.com)

All our recent press releases are accessible together with the latest Annual and Interim Reports.

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

Please order within the investor relations section of our homepage.

# Technical Glossary

## **AAC**

Advanced Audio Coding is a development of the MP3 audio compression, and standardized as part of the MPEG-2 specification.

## **Analog**

A type of signal in an electronic circuit that takes on a continuous range of values rather than only a few discrete values.

## **Analog circuits**

Circuits that process analog signals.

## **ASIC**

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

## **Audio-CODEC**

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

## **Audio-CODEC ASICs**

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

## **Bluetooth™**

A radio technology designed to standardize the transmission of signals over short distances between telephone, computers and other devices without the use of wires.

## **Chips**

Electronic integrated circuits which are typically made of silicon.

## **CDMA**

The term CDMA (code-division multiple access) refers to any of several protocols used in so-called second-generation (2G) and third-generation (3G) wireless communications. As the term implies, CDMA is a form of multiplexing, which allows numerous signals to occupy a single transmission channel, optimizing the use of available bandwidth. The technology is used in ultra-high-frequency (UHF) cellular telephone systems in the 800-MHz and 1.9-GHz bands.

## **CMOS**

Complementary Metal Oxide Semiconductor, the most popular class of semiconductor manufacturing technology.

## **CODEC**

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

## **Digital**

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

## **DSP**

Digital Signal Processing is the electronic manipulation of digitized speech and other digital signals.

## **Embedded applications**

Applications which have been integrated with other functions on a single integrated circuit.

## **Foundry**

A manufacturing plant where wafers are produced.

## **GPRS**

General Packet Radio Services is a packet-based wireless communication service which data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users. The higher data rates will allow users to take part in video conferences and interact with multimedia Web sites and similar applications using mobile handheld devices as well as notebooks. GPRS is based on Global System for Mobile (GSM) communication and will complement existing services such circuit-switched cellular phone connections and the Short Message Service (SMS).

## **GSM**

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

## **IC**

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

## **ISDN**

Integrated Services Digital Network.

## **Microcontroller**

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

## **Mixed signal**

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

## **MP 3**

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

## **Power management subsystem**

See cover page 4.

## **Semiconductor**

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

## **Silicon**

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

## **System-on-chip**

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

## **UMTS**

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

## **Wafer**

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

## **WMA**

Windows Media Audio is a new file format by Microsoft, which allows getting files less in size than MP3, but better sound quality.

# Financial Glossary

## Cash Flow

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

## Cash flow from operating activities

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

## Comprehensive Income

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

## Deferred taxes

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

## EBIT

Earnings before Interest and Tax.

## EBITDA

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

## Goodwill

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

## Gross Margin

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

## NEMAX 50

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

## Shareholders' equity

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

## Stock option plans

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

## Total Assets

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

## Working Capital

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

