



Dialog Semiconductor PLC
UK GAAP Report and Accounts 2004

Registered number 3505161

Directors' Report	Report of Independent auditors	Consolidated Financial Statements	Notes to the Consolidated Financial Statements	Additional Information
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Directors' report

The directors of Dialog Semiconductor Plc ("Dialog" or the "Company") are pleased to present their annual report to shareholders, together with the UK GAAP compliant financial statements for the year ended 31 December 2004.

Principal activities and results

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

Group revenue for 2004 was €116 million, reflecting the overall business situation. Dialog's investment in research and development has decreased to €29 million. This expenditure is financed solely from existing funds and cash flow. The Company achieved a net loss of €6 million, resulting in a loss per share of €0.13. Dialog Semiconductor continues to be free from debt and can rely on a solid balance sheet structure. At the end of the reporting year 2004, net cash and cash equivalents amounted to €14 million and we had marketable securities of €18 million, providing sufficient flexibility for future strategic decisions.

Annual General Meeting

The notice convening the 2005 Annual General Meeting of the Company will be published separately and posted on the Company's website. The Annual General Meeting will be held on 11 May 2005, 9 a.m. local time at Chichester House, 278/282 High Holborn, London WC1V 7HA.

Share capital

Details of the Company's share capital are set out in note 17 to the accounts.

Substantial shareholding

As at 31 December 2004 the Company had been notified of the following interests amounting to more than three per cent in the issued share capital of the Company in accordance with Sections 198 to 208 of the Companies Act 1985:

Name	Number	Percent
Apax Partners	8,460,793	18.4
Adtran, Inc.	2,520,960	5.5
Ericsson Radio Systems AB	2,101,554	4.5
Free float (1)	32,985,623	71.6
Total	46,068,930.0	100.0

(1) Of which 4,688,171 shares (10.2%) are held by the Capital Group Companies Inc as notified on 13 January 2005 on behalf of discretionary clients. 2,001,559 shares (4.3%) are held by the Dialog Semiconductor Plc Benefit Trust.

Directors' Report	Report of Independent auditors	Consolidated Financial Statements	Notes to the Consolidated Financial Statements	Additional Information
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Directors

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

- Tim Anderson
- Michael Glover
- Aidan Hughes (appointed 1 October 2004)
- John McMonigall
- Gregorio Reyes
- Roland Pudelko
- Michael Risman
- Jan Tufvesson

Directors' remuneration and interests

Statements of directors' remuneration and their interests in the shares of the Company as at 31 December 2004 are set out in the remuneration report on pages 7 to 10. No company in the Group was, during or at the end of the financial year, party to any contract of significance in which any director was materially interested.

Corporate governance

The Company's corporate governance statement is set out on page 6.

Supplier payment policy

It is the Group's policy to pay creditors when they fall due for payment. Trade creditors for the company at the year end represented 16 days (2003: 5 days).

Research and development

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

Proposed dividend

The directors do not recommend the payment of a dividend in 2004 (2003: nil).

Purchase of own shares

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

At 31 December 2003 the Trust held 71,981 shares. In 2004 because of the exercise of options the Trust sold 70,422 ordinary shares and generated proceeds of €30,083. On 24 September 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at £0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees. At 31 December 2004, the Trust held 2,001,559 shares, equalling the remaining balance of the 71,981 shares held at 31 December 2003 and the 2,000,000 shares acquired in 2004 (see note 17).

The maximum number of shares held by the Trust during 2004 was 2,001,559, which represents 4.3% of the total called up share capital, and a nominal value of £200,156.

The number of shares distributed during the year, 70,422, represents 0.15% of the total called up share capital, and a nominal value of £7,042.

Political and charitable contributions

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

People within the company

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

Auditors

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

By order of the board



Roland Pudelko

Director
12 April 2005

Registered Office:

Chichester House
278/282 High Holborn
London WC1V 7HA

Corporate governance

High corporate governance standards

Dialog Semiconductor Plc is committed to comply with German, US and internationally accepted standards for fair and responsible corporate governance. Accordingly, Dialog Semiconductor (as a foreign Company listed on the German stock exchange) has established and published its own Corporate Governance Principles corresponding in substance to the provision of the "German Declaration on Corporate Governance". Also, in accordance with the Sarbanes-Oxley Act of 2002, Dialog has adopted a Code of Business Conduct and Ethics and maintains an Audit Committee. Furthermore, as Dialog is listed on NASDAQ, the Code of Business Conduct and Ethics complies with NASDAQ's corporate governance rules. Dialog has adopted and will follow these principles and codes in order to further enhance the confidence of shareholders, customers, employees and the general public in the Company.

Full details of the Corporate Governance Principles and the Code of Business Conduct and Ethics are published on Dialog Semiconductor's internet site (www.dialog-semiconductor.com). In summary the Corporate Governance Principles cover the following key areas.

Shareholders rights and the Annual General Meeting (AGM)

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

Audit Committee and Compensation Committee

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

Transparency, including directors' dealing, insider dealing and loans

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

Business conduct and ethics

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

Directors' Remuneration report

The following information has not been audited

Policy on Directors' Remuneration

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

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

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

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

The executive director's remuneration consists of three components:

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

Bonus - based on objectives set by the Compensation Committee relative to the performance of the Group, as an incentive to the executive director to achieve relevant and demanding targets. The executive director received a bonus of €33,334 in respect of 2004. The Committee decides annually which objectives should be set for the executive director for the forthcoming financial year. For 2005 the Compensation Committee has set an incentive for the executive director to achieve a targeted operating profit.

Share options - The executive director has been granted share options under the Group's Share Option Scheme. These share options were not granted at a discount and, therefore, over time the vesting period will reward the executive director when shareholders are rewarded, but not otherwise, as is proper.

Compensation of non-executive

Non-executive directors who are not associated with any of our principal shareholders are paid £5,000 (€7,200) to £35,000 (€50,600) per annum for their role as directors. Additional payments of £1,000 (€1,400) per day are made for participation in the Company's board committees, the Audit Committee, the Compensation Committee and the Nomination Committee.

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

The following table (audited) sets out the amount of remuneration paid by the Company and its subsidiaries to each of the directors for services rendered during the year ended 31 December 2004.

Amounts in €					
Name	Position	Base salary	Bonus / Long-term incentives	2004 Total	2003 Total
Roland Pudelko	Executive Director, CEO and President	279,105	33,334	312,439	267,323
Tim Anderson ¹⁾	Non-executive Director	7,366	-	7,366	7,228
Michael Glover	Non-executive Chairman of the Audit Committee	51,565	-	51,565	30,717
Aidan Hughes	Non-executive Director (since 1 October 2004)	11,050	-	11,050	-
John McMonigall	Non-executive Director	29,466	-	29,466	22,285
Gregorio Reyes	Non-executive Director	44,198	-	44,198	3,614
Michael Risman	Non-executive Director	29,466	-	29,466	22,285
Jan Tufvesson	Non-executive Chairman	51,565	-	51,565	30,717
Tod Martin Wingren	Non-executive Director (resigned 11 April 2003)	-	-	-	1,807
		503,781	33,334	537,115	385,976

1) Tim Anderson is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered during the 2004 fiscal year amounted to €210,000.

Directors' contracts

The service agreement, dated 1 March 1998 with the executive director, Roland Pudelko, is of unlimited duration. The agreement is terminable by either party on 12 months' notice. In addition, shareholders are entitled to dismiss Mr. Pudelko by way of an ordinary resolution at any time, without prejudice to Mr. Pudelko's rights to compensation.

Performance graph



The graph above shows Dialog Semiconductor plc's total shareholder return for the period 1 January 2000 to 31 December 2004, together with, for general comparison, the TecDAX index. The TecDAX (NEMAX ALL SHARE until 21 March 2003) index was selected as it was considered the most relevant comparative index for the Company.

The market price of the shares at 31 December 2004 was €1.71 and the range during 2004 was €1.63 to €4.49 (as quoted on the Frankfurter Wertpapierbörse).

The following information has been audited

Share options

As of 31 December 2004, the executive director, Roland Pudelko, held 517,450 options over ordinary shares which entitle him to acquire 517,450 shares:

Exercise Price	Date of Grant	Expiry date	Vesting period	Number of options			
				at 01.01.2004	Granted	cancelled	at 31.12.2004
£ 0.20	22.02.1999	21.02.2009	5 years	150,000	-	-	150,000
£ 0.40	07.05.1999	06.05.2009	5 years	34,530	-	-	34,530
£ 0.60	29.07.1999	28.07.2009	2 years	80,000	-	-	80,000
£ 0.60	29.07.1999	28.07.2009	5 years	52,920	-	-	52,920
€ 7.00	18.12.2001	17.12.2011	2 years	-	-	-	-
€ 3.45	21.11.2003	20.11.2013	2 years	100,000	-	-	100,000
€ 3.45	21.11.2003	20.11.2013	5 years	100,000	-	-	100,000
				517,450	-	-	517,450

Fifty percent of the shares granted with a two year vesting period may be exercised on the first anniversary of the date of grant. Twenty percent of the shares granted with a five year vesting period may be exercised on each anniversary of the date of grant together with any unexercised portion from previous years.

There is no performance criteria linked to the exercise of these options.

Directors' share interests

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

	Number of shares			
	At 01.01.2004	Sold	Bought	At 31.12.2004
Tim Anderson	36,816	-	38,350	75,166
Michael Glover	195,000	-	-	195,000
Aidan Hughes	-	-	-	-
John Mc Monigall	-	-	-	-
Roland Pudelko	320,405	-	-	320,405
Gregorio Reyes	10,000	-	25,000	35,000
Michael Risman	1,172	-	-	1,172
Jan Tufvesson	175,062	-	-	175,062
	738,455	-	63,350	801,805

Directors' pension arrangements

There are no pension promises or similar arrangements for directors.

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

Tim Anderson
Secretary
12 April 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

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

We have audited the financial statements on pages 15 to 37. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual report and the directors' remuneration report. As described on page 11, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements and the part of the directors remuneration report to be audited give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements, including the unaudited part of the directors' remuneration report, and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the loss of the group for the year then ended and the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

12 April 2005

Chartered Accountants
Registered Auditor
Bristol

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Consolidated profit and loss account

for the year ended 31 December 2004

(in thousands of € except per share data)		2004	2003 as restated
Group turnover	2	116,044	92,893
Cost of sales		(79,783)	(62,374)
Gross profit from continuing operations		36,261	30,519
Distribution costs		(6,237)	(4,197)
Administrative expenses			
Research and development		(29,071)	(30,590)
Other administrative costs		(5,462)	(5,044)
Amortisation of goodwill and intangible assets	3	(1,383)	(17,522)
Exchange rate loss net		(719)	(432)
Restructuring and related impairment charges	6	-	(1,898)
Administrative expenses total		(36,635)	(55,486)
Other operating income	7	54	315
Group operating loss		(6,557)	(28,849)
Financial income, net	8	1,133	638
Loss on ordinary activities before taxation	3	(5,424)	(28,211)
Tax loss on loss on ordinary activities	9	(81)	(7,784)
Loss for the financial year		(5,505)	(35,995)
Loss per share:			
Basic and diluted (€)	10	(0.13)	(0.82)

The explanation of the calculation of earnings per share is detailed in note 10.

The explanation of the 2003 restatement is detailed in note 28.

There is no difference between the group results as reported and on an unmodified historical cost basis. Accordingly, no note of historical cost profits and losses has been included.

The accompanying notes form an integral part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2004

(in thousands of €)	2004	2003 as re- stated
Loss for the financial year	(5,505)	(35,995)
Gross exchange differences on the retranslation of net investments and related borrowings	18 (24)	(225)
Deferred taxation related to exchange differences	18 17	(141)
Total recognised gains and losses relating to the financial year	(5,512)	(36,361)
Prior year adjustment	28/30 (268)	(533)
Total gains and losses recognised since last annual report	(5,780)	(36,894)

Balance sheet

At 31 December 2004

(in thousands of €)	Notes	Consolidated		Company	
		2004	2003 as re- stated	2004	2003 as re- stated
ASSETS					
Fixed Assets					
Intangible Assets	11	3,144	4,181	-	-
Tangible Assets	12	21,238	20,590	-	-
Investments	13	194	183	112,254	127,854
Total Fixed Assets		24,576	24,954	112,254	127,854
Current Assets					
Stocks	14	29,794	13,242	-	-
Debtors (including for consolidated and company €17,202 and €4,786 (2003 €17,079 and €5,094) due after more than one year)	15	42,135	34,541	26,630	6,214
Cash and Cash equivalents		13,977	8,109	9,852	5,814
Marketable Securities	24	17,542	44,900	17,542	44,900
Total Current Assets		103,448	100,792	54,024	56,928
TOTAL ASSETS		128,024	125,746	166,278	184,782
LIABILITIES					
Capital and Reserves					
Called up share capital	17	7,028	6,737	7,028	6,737
Share premium reserve	18	168,505	168,527	168,505	168,527
Profit and loss reserve	18	(67,009)	(61,506)	(9,247)	8,495
ESOP shares	18	(297)	(26)	(297)	(26)
Shareholders' funds – equity	19	108,227	113,732	165,989	183,733
Creditors: amounts due within one year	20	19,797	12,014	289	1,049
TOTAL LIABILITIES		128,024	125,746	166,278	184,782

The explanation of the 2003 restatement is detailed in note 28.

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the board of directors on 12 April 2005 and were signed on its behalf by:



Roland Pudelko
Director

Consolidated cash flow statement

for the year ended 31 December 2004

(in thousand €)	Note	Consolidated	
		2004	2003 as re- stated
Operating activities			
Net cash (outflow)/inflow from operating activities	21	(9,712)	7,044
Returns on investments and servicing of finance			
Interest received		1,086	843
Interest paid		(5)	(86)
Net cash inflow from returns on investments and servicing of finance		1,081	757
Taxation			
Overseas corporation tax paid		(49)	(258)
UK corporation tax paid		-	(100)
UK corporation tax received		87	-
Net tax inflow/(outflow)		38	(358)
Capital expenditure and financial investment			
Recovery of investment		54	315
Payments to acquire tangible and intangible fixed assets		(12,996)	(7,311)
Net cash outflow from capital expenditure and financial investment		(12,942)	(6,996)
Acquisitions and Disposals			
(Purchase)/Sale of investments		(20)	21,670
Net cash (outflow)/inflow before management of liquid resources and financing		(21,555)	22,117
Management of liquid resources			
Purchases of marketable securities		(49,670)	(44,998)
Sale of marketable securities		77,087	-
Short term deposits (paid)/received		(4,727)	23,546
Net cash inflow/(outflow) from management of liquid resources		22,690	(21,452)
Financing			
Expenses paid in connection with share issue		(22)	-
Proceeds from sale of own shares		29	37
Net cash inflow from financing activities		7	37
Increase in cash for the year	22	1,142	702

The explanation of the 2003 restatement is detailed in note 28.

Notes to the consolidated financial statements

(forming part of the financial statements)

1. Accounting policies

With exception of the restatement below and refinement to the depreciation policy (page 20), the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

The explanation of the 2003 restatements is detailed in note 28.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

In the year ended 31 December 2003 the Company adopted a reporting currency of Euros. In 2002 the financial statements were drawn up in UK pounds sterling. This change was made because the functional currency of the group is Euro, and to provide a more direct comparison with US GAAP numbers.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2004. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

For additional information purposes the company has presented, after the notes to these financial statements, its own profit and loss account. These statements do not form part of the audited financial statements.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of a business the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

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

In the fourth quarter of 2004, the company determined that the useful life of its test equipment is eight years. Previously the useful life had been determined to be five years. The effect of this change in accounting estimate resulted in a lower depreciation of €1,349,000 (€842,000, net of tax, or €0.02 per share).

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Non monetary assets and liabilities denominated in foreign currencies are translated using the historical rate at the time of making the transaction.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

Leasing commitments

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Revenue recognition

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

Post-retirement benefits

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Research and development expenditure

Research and development costs are generally expensed as incurred and amounted to €29,071,000 (2003: €30,590,000).

Stocks

Stocks and work in progress are stated at the cost of direct materials and labour plus attributable overheads based on the normal level of activity.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Employee Share Option Trust

The Company maintains an Employee Share Option Trust which holds funds in order to purchase its own shares and make them available to its employees. As the Company has de facto control of these funds they are recognised as part of the balance sheet of the Company.

Cash and liquid Resources

Cash for the purposes of the cash flow statement comprises cash in hand.

Liquid resources are current assets investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise short term deposits and marketable securities.

2. Analysis of turnover

Turnover represents the invoiced amount of goods sold and services provided, stated net of value added tax and, in the case of contract work-in-progress, the value of work done during the year. The turnover is attributable to one activity, the design, development and supply of customised integrated circuit products.

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

(in thousands of €)	2004	2003
Germany	47,719	45,395
France	1,936	4,532
Other European countries	14,931	10,438
China	19,738	18,198
Other Asian countries	22,351	6,695
Other countries	9,369	7,635
	116,044	92,893

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

(in thousands of €)	At December 31,	
	2004	2003
Property, plant and equipment		
Germany	20,675	19,634
Japan	92	176
United Kingdom	189	358
USA	282	422
	21,238	20,590

Additional segmental analysis has not been provided, as in the opinion of the directors this may be prejudicial to the interests of the group.

Revenues by market sector consisted of the following:

(in thousands of €)	2004	2003
Wireless communication	90,617	69,849
Automotive	11,898	7,896
Industrial	13,529	15,148
	116,044	92,893

3. Loss on ordinary activities before taxation

(in thousands of €)	2004	2003
Loss on ordinary activities before taxation is stated after charging		
Auditors' remuneration:		
Group (including Company) - audit	174	169
- other	110	65
Company - audit	127	103
-other	2	2
Depreciation and other amounts written off tangible fixed assets owned:	11,501	12,611
Amortisation of goodwill and intangible assets	1,383	3,469
Impairment of goodwill (note 11)	-	14,053
Hire of plant and machinery - rentals payable under operating leases	127	190
Hire of other assets - rentals payable under operating leases	7,653	7,391
Research and development expenditure	29,071	30,590

4. Remuneration of directors

This information is provided in the directors' remuneration report on pages 7 to 10.

5. Staff numbers and costs

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

	2004	2003
Research and development	155	162
Production	77	62
Sales and marketing	20	17
Admin	20	21
IT	9	11
	281	273

The aggregate payroll costs of these persons were as follows.

(in thousands of €)	2004	2003
Wages and salaries	18,245	17,515
Social security costs	2,893	3,116
Other pension costs	484	565
	21,622	21,196

6. Restructuring and related impairment charges

In the second quarter of 2003 the company closed its Swedish subsidiary. In connection with the closure of the facility, the group recorded restructuring charges of €1,613,000 and impairment charges of €285,000, totaling €1,898,000 for the year ended 31 December 2003. The restructuring charges include termination benefits of €1,076,000 that were paid to all employees affected by the closing and a provision of €537,000 for estimated costs that will continue to be incurred under an executory contract for its remaining term without economic benefit to the Company.

7. Other operating income

In the fourth quarter of 2001, the group determined that its ability to recover the full amount of its investments in silicon supplier ESM Holding Limited ("ESM") was impaired. Accordingly the company wrote off its investments in ESM (€42,405,000). In March 2002, International Rectifier acquired ESM. As a result the company was able to recover €54,000 and €315,000 for the years ended 31 December 2004 and 2003, respectively.

8. Financial income, net

(in thousands of €)	2004	2003
Interest receivable on short term deposits	1,086	843
Interest payable and similar charges on bank loans and overdrafts	(5)	(86)
Net loss from exchange rate changes	(7)	(21)
Income (expense) from revaluation of marketable securities	59	(98)
	1,133	638

9. Tax on loss on ordinary activities

a) Analysis of charge in period

(in thousands of €)	2004	2003
Current tax:		
UK corporation tax on profits of the period	-	42
Adjustment in respect of previous periods	-	231
Foreign taxation on profits of the period	38	51
Release of tax reserves	-	(475)
Total current tax expense/(benefit) (note 9(b))	38	(151)
Deferred tax:		
Origination and reversal of timing differences	(1,788)	(2,234)
Adjustment in respect of previous periods	(116)	(68)
Deferred tax write off	1,947	10,237
Total deferred tax expense (note 16)	43	7,935
Tax expense on loss on ordinary activities	81	7,784

b) **Factors affecting tax charge for the period**

The tax assessed for the period is higher (2003; higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

(in thousands of €)	2004	2003 as re- stated
Loss on ordinary activities before tax	(5,424)	(28,211)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	(1,627)	(8,463)
Expenses not deductible for tax purposes (goodwill amortisation)	-	4,676
Difference between capital allowances and depreciation	837	717
Timing differences with respect to FX revaluation	-	157
Unutilised tax losses	1,107	2,871
Foreign tax rate differential	(227)	(455)
Adjustment to tax charge in respect of previous periods	(28)	220
Other	(24)	126
Current tax charge/(credit) (note 9(a))	38	(151)

For factors that may affect future tax charge see note 16.

10. Loss per share

	2004	2003 as re- stated
Loss for the financial year - (€000)	(5,505)	(35,995)
Weighted averaged number of ordinary shares in issue - (000)	44,025	43,951
Loss per share - Euro (basic and diluted)	(0.13)	(0.82)

The increase in the weighted average number of ordinary shares results from the issue of shares in connection with the stock option plan.

11. Intangible fixed assets

(In thousands of €)	Goodwill	Software and Licences	Patents	Total
Group				
<i>Cost</i>				
At beginning of year	27,096	8,870	3,008	38,974
Additions	-	348	-	348
Disposals	-	(199)	-	(199)
Currency translation adjustment	-	(26)	-	(26)
At end of year	27,096	8,993	3,008	39,097
<i>Amortisation</i>				
At beginning of year	(27,096)	(7,191)	(506)	(34,793)
Charged in year	-	(1,046)	(337)	(1,383)
On disposals	-	199	-	199
Currency translation adjustment	-	24	-	24
At end of year	(27,096)	(8,014)	(843)	(35,953)
<i>Net book value</i>				
At 31 December 2004	-	979	2,165	3,144
At 31 December 2003	-	1,679	2,502	4,181

Software is being amortised over a period of 3 to 10 years. The patents shown, relate to the CMOS imaging technology and associated CMOS Active Pixel Sensor (APS) patent portfolio which the company acquired from Sarnoff Corporation in 2002. The expected weighted average useful life of these patents is 9 years.

The amortisation periods applied are considered to be appropriate useful economic lives of the assets.

Goodwill recognised in connection with the acquisition of Dialog Semiconductors' activities of Daimler Benz AG on 1 March 1998, was initially being amortised over a period of 15 years. In the period following the acquisition the group was exposed to significantly increased competition, technological innovation, dependency on a few customers and changes in the product portfolio. In addition, sales to the major customer pre acquisition diminished to almost nil during 2003. The directors have evaluated the amortisation period continually in light of subsequent events and circumstances that may warrant revision in the estimated life. Based on the loss of the major customer which materialised in 2003, a complete turnaround of the product portfolio, new strategies in place, new technologies used in the product development, as well as new supplier relationships (primarily foundries) the directors concluded that an amortisation period of five years was appropriate and accordingly, wrote-off the remaining goodwill balance as of 31 December 2003.

12. Tangible fixed assets

(In thousands of €)	Leasehold improve- ments	Plant, machin- ery and other equip- ment	Total
Group			
<i>Cost</i>			
At beginning of year	903	67,620	68,523
Additions	158	12,163	12,321
Disposals	(145)	(1,723)	(1,868)
Currency translation adjustment	(19)	(114)	(133)
At end of year	897	77,946	78,843
<i>Depreciation</i>			
At beginning of year	(550)	(47,383)	(47,933)
Charged in year	(121)	(11,380)	(11,501)
On disposals	62	1,662	1,724
Currency translation adjustment	13	92	105
At end of year	(596)	(57,009)	(57,605)
<i>Net book value</i>			
At 31 December 2004	301	20,937	21,238
At 31 December 2003	353	20,237	20,590

13. Fixed asset investments

(In thousands of €)	Loans	Investment in own shares	Total
Group			
<i>Cost</i>			
At beginning of year as previously stated	183	26	209
Adjustment with respect to UITF 38 (note 28)		(26)	(26)
At beginning of year as restated	183	-	183
Additions	161	-	161
Disposals	(137)	-	(137)
Currency translation adjustment	(13)	-	(13)
At end of Year	194	-	194

Loans:

The amount at 31 December 2004 relates mainly to security deposits paid for rented office space and other real estate.

Company

Shares in Group undertakings:

Shares in Company undertakings of the company of €112,254,000 (2003: €127,854,000) represent the investment in Dialog Semiconductor GmbH. As of 31 December 2004 the directors have evaluated the carrying amount of the investment in Dialog

Semiconductor GmbH and determined that an impairment of €15,600,000 was required to record the investment at fair value. The fair value of the Company was determined by estimating the present value of future cash flows derived from the Company's strategic plan and forecasts.

The principal companies in which the company's interest at the year end is more than 20% (direct and indirect) is as follows:

	Country of incorporation	Activity	shares
Subsidiary undertakings			
Dialog Semiconductor GmbH	Germany	Acquisition, sale and marketing of micro-electronic products especially Asics	Ordinary share capital
Dialog Semiconductor Ltd	UK	Design, development and sale of semiconductor components	Ordinary share capital
Dialog Semiconductor Inc	USA	Design, development and sale of semiconductor components	Ordinary share capital
Dialog Semiconductor KK	Japan	Design, development and sale of semiconductor components	Ordinary share capital
Diasemi Dialog Semiconductor AB	Sweden	Dormant	Ordinary share capital

Dialog Semiconductor Plc holds 100% direct investment in Dialog Semiconductor GmbH and 100% indirect investment through this company in all of the other subsidiaries.

14. Stocks

Stocks are comprised of the following:

(In thousands of €)	At 31 December	
	2004	2003
Group		
Raw materials	9,893	2,738
Work-in-process	13,906	5,026
Finished goods	5,995	5,478
	29,794	13,242

15. Debtors

(In thousands of €)	Consolidated		Company	
	2004	2003	2004	2003
Due within one year				
Trade debtors	24,036	14,338	-	-
Amounts owed by group undertakings	-	-	21,687	351
Other debtors	281	993	147	727
Prepayments and accrued income	616	2,131	10	42
Total debtors due within one year	24,933	17,462	21,844	1,120
Due after one year				
Amounts owed by group undertakings	-	-	4,709	5,000
Deferred tax assets (note 16)	16,125	16,152	77	94
Prepaid expenses	1,077	927	-	-
Total debtors due after one year	17,202	17,079	4,786	5,094
Total debtors	42,135	34,541	26,630	6,214

16. Deferred tax

(In thousands of €)	Consolidated		Company	
	2004	2003	2004	2003
Tax losses carried forward	25,158	24,314	1,896	1,358
Liabilities	5,654	5,640	-	-
Accelerated capital allowances	(646)	(1,473)	-	-
Other	5	-	12	29
	30,171	28,481	1,908	1,387
Recognised deferred tax asset	16,125	16,152	77	94
Unrecognised deferred tax asset	14,046	12,329	1,831	1,293
	30,171	28,481	1,908	1,387
Net asset recognised at start of period	16,152	24,424	94	134
Group relief	-	(184)	-	(184)
Deferred tax (expense)/benefit in profit and loss account for period (note 9)	(43)	(7,935)	(17)	144
Deferred taxation taken to profit and loss reserve (note 18)	17	(141)	-	-
Currency translation difference	(1)	(12)	-	-
Net asset recognised at end of period (Note 15)	16,125	16,152	77	94

The directors have considered the future taxable profits of group entities and consider it probable that sufficient taxable profits will be generated to recover the deferred tax asset recognised.

In assessing the realisability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In December 2003, the German government enacted new tax legislation, which among other things, limits the use of German tax-loss carryforwards to 60% of the taxable income for fiscal years starting from 2004 and thereafter. As a result of this change in tax law, at 31 December

2003 the Company has re-evaluated its deferred tax asset position. The assessment requires the exercise of judgment on the part of management, with respect to, among other things, benefits that could be realised from available tax strategies and future taxable income, as well as other positive and negative factors. The assessment in 2003 considered the weight given to cumulative losses incurred in Germany over the three-year period ended 31 December 2003, as well as detailed forecasts of taxable income in the foreseeable future. Although the Company forecasted generating future taxable income to approximate available tax-loss carryforwards, the change in tax law increased the forecasted number of additional years that future taxable income must be generated in order to fully realise these loss carryforward benefits. Pursuant to FRS 19 and the inherent uncertainties in projecting future taxable income, management had concluded that it is more likely than not that a portion of the tax losses could not ultimately be realised.

Due to losses incurred in 2004, the company has not recognised additional deferred tax assets of €1,947,000 on the tax-loss carryforwards generated mainly in Germany in 2004. However, management has determined that it is more likely than not that the Company can recover the recognised deferred tax assets as at 31 December 2004.

The tax loss carryforwards in the US are expiring in 2005 through 2017, the other tax loss carryforwards have no expiration date.

17. Share capital

(Currency as stated)	2004	2003
Authorised		
104,311,860 ordinary shares of 10p each (€000)	10,431	10,431
Allotted, issued and fully paid		
in €000		
at beginning of year (44,068,930 ordinary shares of 10p each)	4,407	4,407
New issuance of shares (2,000,000 ordinary shares of 10p each)	200	-
at end of year (46,068,930 ordinary shares of 10p each)	4,607	4,407
in €000		
Called up share capital in € Balance sheet at beginning of year	6,737	6,737
New issuance of shares	291	-
Called up share capital in € Balance sheet at end of year	7,028	6,737

The Company has two legal shareholders, Clearstream Banking AG and Delengate Limited, whose names are the only two names in the Company's Register of Members. Clearstream Banking AG holds 46,068,928 Ordinary Shares and Delengate Limited holds 2 Ordinary Shares (as nominee for Clearstream Banking AG). The Company's principal listing is on the Frankfurter Wertpapierbörse (Prime Standard) and Clearstream Banking AG is the organisation through which the shares are held for the purposes of the listing. Accordingly, the investors in the Company (including those listed in the Directors' report) have a beneficial interest in the shares held by Clearstream Banking AG and, therefore, for the purposes of the financial statements are regarded as shareholders.

On 24 September 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at €0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

At 31 December 2004 rights to acquire new company shares were outstanding as follows:

(prices in €)	2004		2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of year	3,412,270	2.32	2,634,382	3.62
Granted	108,960	3.70	2,050,180	3.37
Exercised	(64,648)	0.44	(76,828)	0.52
Forfeited	(157,176)	3.48	(204,004)	6.21
Cancelled	-	-	(991,460)	7.29
Outstanding at end of year	3,299,406	2.34	3,412,270	2.32
Options exercisable at year end	1,827,076	1.53	1,013,356	0.70

Options granted under the share scheme are normally exercisable in the period between the first and tenth anniversaries of the date of their grant.

18. Share premium and reserves

(In thousands of €)	Share premium reserve	Profit and loss reserve	ESOP shares	Total
Group				
At beginning of year as previously stated	168,527	(61,506)	-	107,021
adjustment with respect to UITF 38 (note 28)	-	-	(26)	(26)
At beginning of year as restated	168,527	(61,506)	(26)	106,995
Loss for the financial year	-	(5,505)	-	(5,505)
New issuance of shares	(22)	-	(291)	(313)
Sale of ESOP shares	-	9	20	29
Deferred taxation related to exchange differences	-	17	-	17
Exchange adjustments, gross of tax	-	(24)	-	(24)
At end of Year	168,505	(67,009)	(297)	101,199

(In thousands of €)	Share premium reserve	Profit and loss reserve	ESOP shares	Total
	Company			
At beginning of year	168,527	8,495	-	177,022
adjustment with respect to UITF 38 (note 28)	-	-	(26)	(26)
At beginning of year as restated	168,527	8,495	(26)	176,996
Loss for the financial year	-	(17,751)	-	(17,751)
New issuance of shares	(22)	-	(291)	(313)
Sale of employee stock purchase plan shares	-	9	20	29
At end of Year	168,505	(9,247)	(297)	158,961

The charge to the share premium reserve in 2004 relates to share issues expenses in connection with the issue of shares in 2004. The UITF 38 adjustment is explained in note 28.

19. Reconciliation of movements in shareholders' funds

(in thousands of €)	Group		Company	
	2004	2003 as re-stated	2004	2003 as re-stated
Loss for the financial year	(5,505)	(35,995)	(17,751)	(4,672)
Deferred taxation related to exchange differences	17	(141)	-	-
New issuance of shares	(22)	-	(22)	-
Sale of employee stock purchase plan shares	29	37	29	37
Exchange adjustments, gross of tax	(24)	(225)	-	-
Net reduction in shareholders' funds	(5,505)	(36,324)	(17,744)	(4,635)
Opening shareholders' funds (group originally €113,758 company originally €183,759 restated for prior year adjustment of €26, see note 28)	113,732	150,056	183,733	188,368
Closing shareholders' funds	108,227	113,732	165,989	183,733

20. Creditors

(In thousands of €)	Group		Company	
	2004	2003	2004	2003
Amounts falling due within one year		-		
Amounts owed to group undertakings			-	391
Trade creditors	15,429	7,157	72	23
Taxation				
- corporation tax	9	18	-	-
- other tax liabilities	672	413	-	-
Other creditors including social security	603	1,261	-	386
Other accruals and deferred income	3,084	3,165	217	249
Total creditors	19,797	12,014	289	1,049

21. Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

(In thousands of €)	Group 2004	Group 2003 as re- stated
Operating loss	(6,557)	(28,849)
Recovery of investment (note 7)	(54)	(315)
Restructuring and related impairment charges	(387)	672
Depreciation	11,501	12,545
Amortisation	1,383	17,522
Loss on sale of tangible fixed assets	147	253
(Increase)/decrease in stocks	(16,552)	1,265
(Increase)/decrease in debtors and prepaid expenses	(7,715)	6,667
Increase/(decrease) in creditors	8,522	(2,716)
Net cash (outflow)/inflow from operating activities	(9,712)	7,044

22. Reconciliation of net cash inflow to movement in net funds

(In thousands of €)	2004	2003
Net cash inflow	1,142	702
Cash (outflow)/inflow from management of liquid resources	(22,690)	21,452
Change in net funds resulting from cash flows	(21,548)	22,154
Net gain/(loss) on marketable securities	59	(98)
Translation differences	(1)	(52)
Net funds at beginning of period	53,009	31,005
Net funds at end of period	31,519	53,009

23. Analysis of movements in net funds

(In thousands of €)	At 1 January 2004	Cash flow	Transla- tion differ- ences	Net gain on mar- ketable securities	At 31 December 2004
Cash	3,176	1,142	(1)	-	4,317
Marketable securities	44,900	(27,417)	-	59	17,542
Short term deposits - original ma- turity dates of three months or less	4,933	4,727	-	-	9,660
Net funds (cash and cash equiva- lents)	53,009	(21,548)	(1)	59	31,519

24. Marketable securities

The Company has invested in debt securities with maturing periods of up to six months. These marketable securities are subject to fixed interest rates. The aggregate costs, fair values, unrealised gains and losses per security class are as follows:

(In thousands of €)	Cost	Fair value	Gain	Loss
Debt based funds 2004	17,581	17,542	98	(39)
Debt based funds 2003	44,998	44,900	-	(98)

All debt securities are traded on a recognised stock exchange and market values have been used in the fair value disclosure above.

25. Derivative Financial instruments and Hedging Activities

Use of financial instruments

The Company's sales are primarily denominated in Euros and US dollars whereas purchases of raw materials and manufacturing services are primarily denominated in US dollars. In order to manage these foreign currency exchange risks, the Company attempts to match cash inflows and outflows (sales with supply costs) in the same currency, primarily the US dollar. 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 does not hold any commodity contracts. The Company does not engage in interest rate hedging.

To hedge existing foreign currency exposure related to a \$20,000,000 deposit, the Company purchased foreign currency forward contracts in 2000 to effectively change the US Dollar deposits into Euro (€21,680,000) upon the expected return of the deposit as of 31 December 2003. These deposits were refunded to the Company in October 2003. Upon receipt of the deposit, the Company settled its currency hedging position related to this deposit and recognised a loss of €71,000 in the consolidated profit and loss account.

In the fourth quarter of 2003, the Company entered into derivative financial arrangements with a bank (the "counterparty") that obligates the Company, if directed to do so by the counterparty, to purchase a total of \$3,611,000 during the first half of 2004 at euro-dollar exchange rates ranging from 1.22 to 1.24. These arrangements do not qualify for hedge accounting treatment. Accordingly, the fair value of these derivative financial instruments, which are based on a Black-Scholes pricing model, are recognised on the balance sheet and the changes in fair value are recognised in earnings. At 31 December 2003, these transactions resulted in a net unrealised loss of €78,000 recognised in earnings. As at 31 December 2004, the transactions had taken place and there was no material impact on the financial statements.

Hedge accounting was not being applied as at 31 December 2004 to any foreign exchange derivatives. There were no hedging derivative contracts outstanding at the year end.

Fair value of financial instruments

Currency and interest rate exposure is as follows:

(In thousands of €)	At December 31,			
	2004		2003	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial instruments (other than derivative instruments)				
Cash and cash equivalents	13,977	13,977	8,109	8,109
Marketable securities (see note 24)	17,542	17,542	44,900	44,900
Deposits	194	194	183	183
Derivative instruments (currency contracts)				
Current liabilities	-	-	78	78

Short term debtors and creditors have been excluded from the above disclosures, and are disclosed within notes 15 and 20 respectively. Their fair values are not materially different to their carrying value. Cash and cash equivalents are all of less than one year maturity, have book values equal to fair values (as they are translated at the year end exchange rate) and earn interest at floating rates.

Other than the short term creditors in note 20 the Company does not have any borrowings or borrowing facilities as at 31 December 2004 or 31 December 2003, except as noted below.

The Company has available for use a short term credit facility of €12,500,000 that bears interest at a rate of EURBOR +0.75% per annum. At 31 December 2004 there were no amounts outstanding under this facility.

The Company does not have any material monetary assets or liabilities denominated in currencies other than the functional currencies of the entities included within the Company.

Currency exposures

The table shows the Company's currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Company that were not denominated in the operating (or "functional") currency of the operating unit involved.

At 31 December these exposures (Net foreign currency monetary assets/(liabilities)) were as follows:

(In thousands of €)	2004 Functional currency of group operation		
	Euro	Sterling	Total
Euro		(1)	(1)
US-Dollar	12,223	-	12,223
Sterling	57		57
Other	(110)	-	(110)
	12,170	(1)	12,169

(In thousands of €)	2003 Functional currency of group operation		
	Euro	Sterling	Total
Euro		(64)	(64)
US-Dollar	206	(70)	136
Sterling	595		595
Other	(47)	-	(47)
	754	(134)	620

26. Commitments

At 31 December 2004 the group was committed to making the following annual payments in respect of operating leases:

(In thousands of €)	2004		2003	
	Land and buildings	Other	Land and buildings	Other
Group				
Operating leases which expire:				
Within one year	578	684	229	832
In the second to fifth years inclusive	357	6,363	303	7,199
Over five years	166	-	167	-
	1,101	7,047	699	8,031

Company:

The Company held no operating leases in 2004 (2003: none).

27. Pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the fund and amounted to €483,886 (2003: €565,099). At 31 December 2004, contributions amounting to €58,681 (2003: €3,803) were payable to the fund and are included in creditors.

28. Employee Benefit Trust

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

During 2000 to 2004 the Trust distributed shares in connection with the exercise of employee stock options. At 31 December 2003, the Trust held 71,981 shares, with a total market value of €244,735.

On 24 September 2004, the Company completed an offering of 2,000,000 previously unissued ordinary shares at £0.10 per share to its employee benefit trust, to make such shares available for the exercise of stock option rights that had previously been granted to employees.

At 31 December 2004, the Trust held 2,001,559 shares, equaling the remaining balance of the acquired 668,800 shares and the 2,000,000 shares acquired in 2004. The total nominal value of the shares held at 31 December 2004 was £200,156 the market value of the shares was €3,422,666.

Until 31 December 2003 shares held by the Trust were included within investments and any gains or losses arising on the sale of shares from the Trust were accounted for in the profit and loss account of the Company as other operating income or expense.

Following the requirements of UITF 38, adopted on 1 January 2004, prior year amounts have been adjusted accordingly;

- shares are now reported in the caption employee share option plan (ESOP) shares as a reduction of shareholders' equity. The effect of the prior year adjustment in the balance sheet is to decrease investments and increase ESOP shares by €26,000, being the carrying value as at 31 December 2003;
- gains and losses arising on the sale of shares from the Trust are now accounted for directly in the profit and loss reserve of the Company rather than through the current year profit and loss account. The effect of the prior year adjustment is to deduct the €14,000 gain, relating to gains on share options exercised in 2003, through the 2003 current year profit and loss account;
- under the UITF there should be no movement shown through the statement of recognised gains and losses, and therefore the effect of the prior year adjustment is to adjust for the cumulative €268,000 net gain in the 2004 statement of recognised gains and losses;
- Opening shareholders' funds as at 1 January 2004 have been restated by €26,000 being the carrying value of the ESOP shares at 31 December 2003.

29. Related party transactions

Tim Anderson, a member of the Board, is also a partner in the law firm Reynolds Porter Chamberlain, which frequently acts as our legal adviser. Fees to Reynolds Porter Chamberlain for legal services rendered were €212,000 and €162,000 in 2004 and 2003, respectively. No amounts were outstanding at 31 December 2004 and 2003.

The company has, pursuant to FRS 8 "Related Party Disclosures", not included details of related party transactions with other companies which are members of the Dialog Semiconductor Group.

30. Foreign currency translation – Prior year adjustment 2003

During the year ended 31 December 2003, it came to the attention of the directors that its previous accounting treatment for an advance payment for the supply of goods made in US Dollars was not in compliance with SSAP 20 Foreign Currency Translation. Previously, the advance payment was accounted for as a non-monetary asset and translated at the historic rate of exchange. As a result, no exchange gains or losses arose. The directors concluded that this treatment did not comply with SSAP 20 since the payment was not associated with purchases sufficiently committed to justify treatment as a non-monetary asset. Accordingly the advance payment should have been accounted for as a monetary asset from the date payment was made, retranslated at the appropriate year end rates and accounting for the resulting foreign exchange translation differences in the profit and loss account. The effect of this correction, which was shown as a prior year adjustment, was to increase the loss for the financial year ended 31 December 2002 by €919,000 and reduce shareholders' funds at that date by €533,000.

Additional information

The following information does not form part of the audited statutory financial statements, and is included solely for the information of management.

Differences between United States and United Kingdom generally accepted accounting principles

It is a US and German stock exchange requirement that the Company's financial statements are prepared in accordance with US GAAP but it is a UK law requirement that financial statements are prepared in accordance with UK GAAP. Accordingly, the financial statements set out in this report (prepared in accordance with UK GAAP) differ from those in the Annual Report 2004.

The following are the main differences between UK and US GAAP which are relevant to the group's financial statements.

a) Goodwill

Under US GAAP, the group has accounted for the acquisition of the Dialogue Semiconductors Limited Group from Daimler-Benz AG (now DaimlerChrysler AG) using the purchase method of accounting. Accordingly, the costs of the acquisition were allocated to the assets acquired and liabilities assumed based upon their respective fair values. Amounts allocated to acquired in-process technology (€9,300,000) have been expensed at the time of acquisition. Amounts allocated to the customer list have been allocated to intangible assets and are amortised over a period of 15 years. In addition, the Company purchased SVEP Design Center AB (now Diasemi Dialog Semiconductor AB), a Swedish Company and recorded goodwill of €4,100,000 which was to be amortised over 7 years. On 1 January 2002 the Company adopted SFAS 142, Goodwill and Intangible Assets. SFAS 142 requires that goodwill and certain intangibles no longer be amortised, but instead tested for impairment at transition and at least annually.

Under UK GAAP, the difference between the fair value of the separable assets and liabilities acquired and the cost of the acquisition is goodwill. Goodwill from the acquisition of the Dialogue Semiconductor Limited Group and the acquisition of Diasemi Dialog Semiconductor AB has been capitalised (€27,096,000) and is amortised over 15 and 7 years respectively. In the period following the acquisition the group was exposed to significantly increased competition, technological innovation, dependency on a few customers and changes in the product portfolio. In addition, sales to the major customer pre acquisition diminished to almost nil during 2003. The directors have evaluated the amortisation period continually in light of subsequent events and circumstances that may warrant revision in the estimated life. Based on the loss of the major customer which materialised in 2003, a complete turnaround of the product portfolio, new strategies in place, new technologies used in the product development, as well as new supplier relationships (primarily foundries) the directors concluded that an amortisation period of five years was appropriate and accordingly, wrote-off the remaining goodwill balance as of 31 December 2003.

Under US-GAAP goodwill is treated the same way as an intangible asset determined to have an indefinite useful life, and therefore Goodwill is not amortised but rather tested for impairment. Although the purchased goodwill diminished with the passage of time, the potential for economic benefits that was purchased initially has been progressively replaced by the potential for economic benefits resulting from subsequent enhancements of goodwill and therefore the total carrying value of the goodwill has not decreased over time.

b) Employee Stock Purchase Plan

Under US GAAP, gains or losses upon distribution of employee stock purchase plan shares to employees are recognised in the company's additional paid in capital.

Under UK GAAP (UITF 38, which the company adopted on 1 January 2004) those gains and losses are accounted for directly in the profit and loss reserve of the Company (not through the current year profit and loss account).

c) Lease termination provision

The provision included in the US GAAP report in 2003 was based on the anticipated lease payments less the anticipated subletting income. Subsequently, a settlement was agreed with the landlord. The UK GAAP report therefore included for 2003 a provision equal to the agreed settlement.

d) Unrealised gains/(losses) on marketable securities

Under US GAAP unrealised gains and losses on available for sale securities are excluded from earnings and are reported as a component of other comprehensive income/ losses until realised.

Under UK GAAP the marketable securities are classified as current investments. Gains/ losses resulting from market value fluctuations on current investments are reported as part of the profit or loss for the period.

e) Derivative financial instruments

Under US GAAP, recognised foreign-currency denominated assets or liabilities for which a foreign-currency transaction gain or loss is recognised 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 re-measurement 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 unrealised 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.

For UK GAAP the hedge is held off balance sheet, and the hedged item is stated on the hedged basis.

f) Deferred taxes

Under US GAAP, deferred taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognised 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 recognised in income in the period that includes the enactment date.

Under UK GAAP, provision is made for deferred tax in so far as a liability or asset arose as a result of transactions that had occurred by the balance sheet date and give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future.

g) Net income and shareholders' equity reconciliation statements

The following statements summarise the material estimated adjustments, gross of their tax effect, which reconcile net income and shareholders' equity from that reported under US GAAP to that which would have been reported had UK GAAP been applied.

(In thousands of €)	2004	2003 as re- stated
Group		
Net loss		
Net loss applicable to shareholders under US GAAP	(5,743)	(20,420)
Amortisation on goodwill and intangible assets	137	(15,449)
Lease termination provision for office space rented in Sweden	59	(59)
Unrealised gains (losses) on marketable securities revaluation, net of tax	41	(69)
Other	1	2
Net loss as adjusted for UK GAAP	(5,505)	(35,995)
Shareholders' equity		
Shareholders' equity under US GAAP	121,135	126,843
Goodwill and intangible assets	(12,908)	(13,045)
Lease termination provision for office space rented in Sweden	-	(59)
Deferred taxes	-	(7)
Shareholders' equity as adjusted for UK GAAP	108,227	113,732