

# Melexis

Microelectronic Integrated Systems



# Annual Report 2003

English Version

# Melexis Annual Report 2003

## Table Of Contents

<b>1. Letter to the Shareholders .....</b>	<b>1</b>
Worldwide Semiconductor Market Versus Melexis.....	1
Sales Per Business Unit Evolution .....	2
Sales & Profit Evolution.....	3
<b>2. Key Figures .....</b>	<b>5</b>
<b>3. Overview of Activities .....</b>	<b>6</b>
<b>4. Melexis Products .....</b>	<b>7</b>
4.1 Hall Effect Devices .....	7
4.2 Pressure and Acceleration Interface and Sensor chip.....	8
4.3 Systems-On-a-Chip & Embedded Micro-controllers .....	9
4.4 RFID.....	9
4.5 Infrared & Opto.....	10
4.6 Bus Systems.....	11
4.7 TPMS .....	11
4.8 Radio-Frequency Products.....	12
4.9 Consumer, Industrial and Medical .....	12
<b>5. Melexis Strategy.....</b>	<b>13</b>
A) Focus on automotive business .....	13
B) Focus on ASSPs (Application Specific Standard Products) 13	13
C) Preferred partner of automotive OEMs .....	13
D) Technological leadership for design of automotive semiconductors.....	13
E) Strengthen marketing to enlarge its customer base.....	13
F) Excellence in Quality.....	13
G) Licensing of certain products .....	13
H) Targeting the globe.....	13
I) Review of opportunities for acquisitions .....	13
<b>6. Management's Discussion and Analysis .....</b>	<b>14</b>
6.1 Introduction.....	14
6.2 Exchange Rates.....	15
6.3 Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
<b>7. Selected Summary Financial Data .....</b>	<b>19</b>
7.1. Detailed Consolidated Financial Statements .....	19
7.2. Notes to the consolidated financial statements.....	24
<b>8. Board of Directors .....</b>	<b>43</b>
8.1 Officers and Members of the Board of Directors and Key Employees .....	43
8.2 Compensation of Directors .....	44
<b>Appendix 1: Condensed Statutory Financial Statements (short version) .....</b>	<b>45</b>

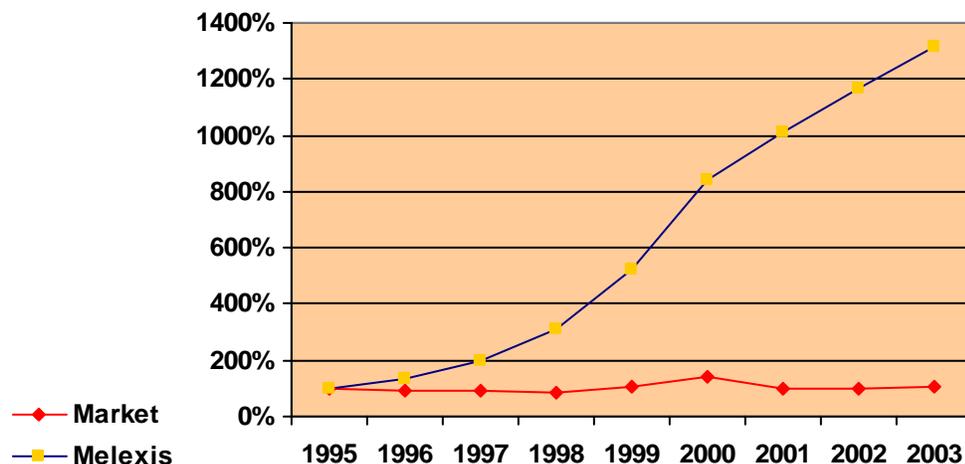
# 1. Letter to the Shareholders

During 2003, Melexis once gained market share with a 13% revenue growth compared to 2002. Taking into account the weakening of the US Dollar, the top line growth would have been 20% if the Dollar would have stayed stable. Yet again, Melexis is one of the very few semiconductor companies outperforming the average revenue growth in the semiconductor industry in general. Profits over 2003 were 24.6 million EUR, close to 14% up compared to 2002. These results are in line with the expectations, demonstrating the good visibility of Melexis business.



*Rudi De Winter*

Melexis is operating with better than average performance in the steadily growing market of automotive semiconductors. With a product range of sensor ICs and integrated systems, Melexis is strongly represented in the upcoming automotive markets. The constant drive towards better fuel economy, green cars and towards more safety and comfort can only be achieved by increased usage of electronics. Most mechanical and electromechanical systems in modern cars can be improved by adding electronic control. Electronic control or X-by-wire consists of sensors, signal conditioning, signal processing and actuators and it is in this area that Melexis is a specialist.



	Worldwide (\$ in Billions)		Melexis (Euro)	
1995	144	100%	10.133.373	100%
1996	132	92%	13.873.915	137%
1997	137	95%	19.751.187	195%
1998	126	88%	31.645.580	312%
1999	149	103%	53.076.307	524%
2000	204	142%	85.403.034	843%
2001	139	96%	102.400.224	1011%
2002	141	98%	118.191.252	1166%
2003	157	109%	133.549.184	1318%

## Worldwide Semiconductor Market Versus Melexis

Source: WSTS,  
World Semiconductor Trade Statistics



The automotive market is a leader in the applications of sensors. Also in other areas, an increasing amount of electromechanical systems get sophisticated electronic controls requiring sensors. Melexis is also serving other market areas such as industrial, medical and consumer with the same reliable components developed for the automotive industry.

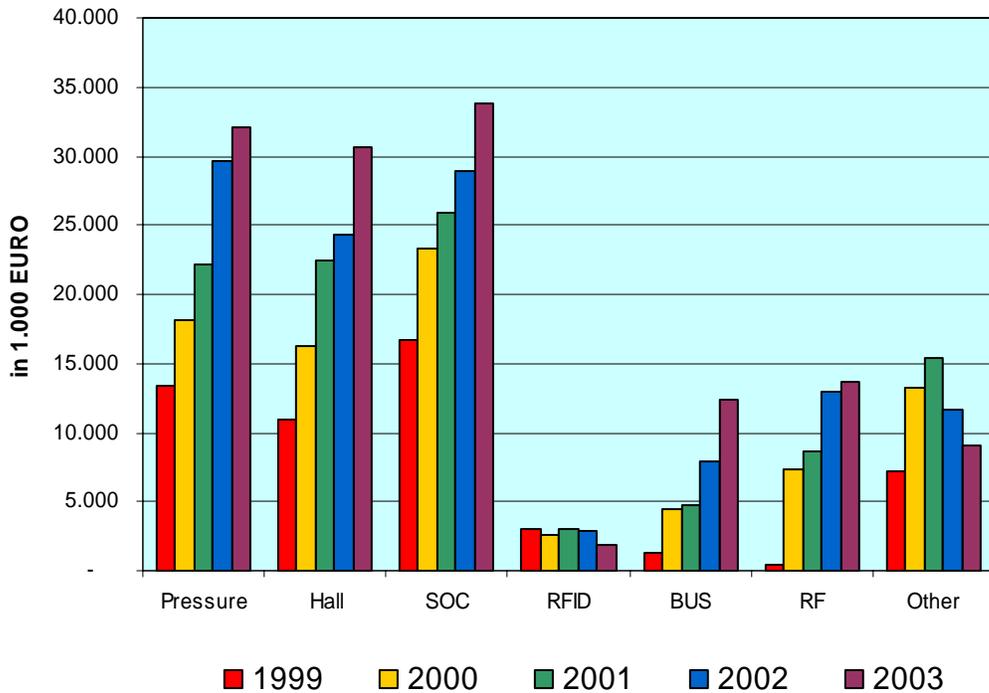
The lead-times from entering a development contract to delivering production volumes are typically 3 to 4 years in the automotive arena. This enables Melexis to gain a good perception of its future growth.



Though Western-Europe remains the stronghold in sales with 61,4% of the total revenue, sales to the Far East have grown by more than 50% to 32.6M€. Beside the continued growth in Japan, also other areas such as Taiwan, China and Korea are doing well. This is mainly due to our sales efforts which were specifically focused towards the Asian markets in 2003.

2003 has seen a major investment into product marketing. The website remains the tool of choice. Melexis continues to be active and take initiatives in automotive consortia, such as the LIN consortium and the Safe-by-Wire consortium. Automotive and sensor conferences and specialized trade shows, such as the Sensor 2003 show in Nürnberg, Sensors Expo in Detroit and Radio Solutions in Nice have again greatly improved our brand vesting. Additionally, the first Melexis Safety Trophy was held in April. This event is aimed at making the Melexis brand more known amongst the university communities all over the world. Thanks to its large success, the event will be repeated in April 2004.

### Sales Per Business Unit Evolution



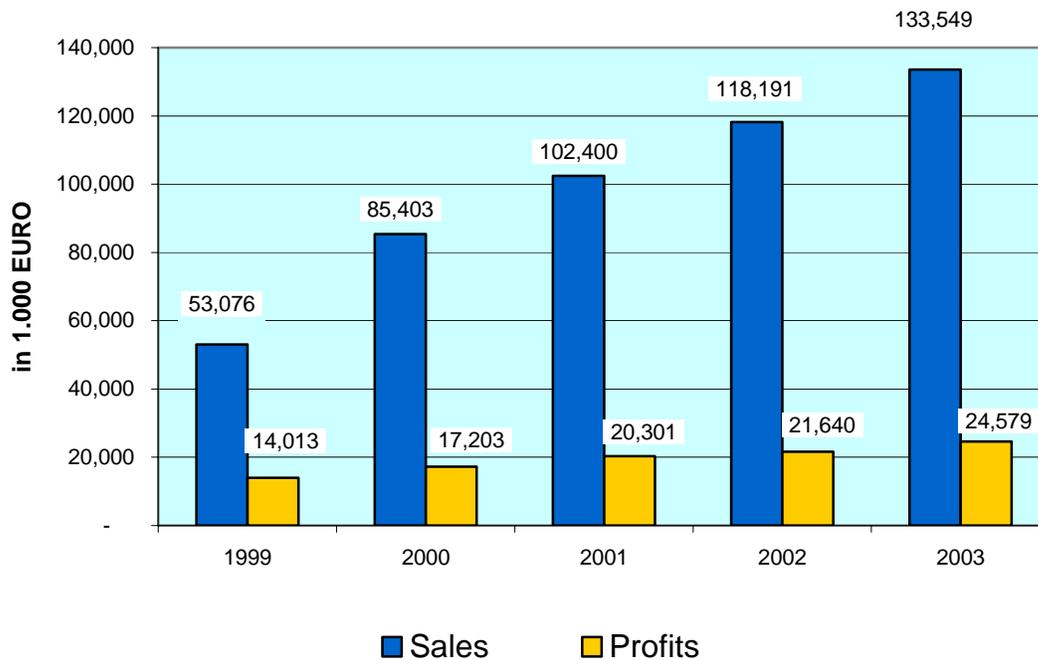
Melexis equally continues to invest efforts in efficiency improvements. The Oracle ERP system has meanwhile been deployed in all of our sites allowing an enhanced overall view and control of the supply chain.

Melexis has continued to invest in R&D with 14% of last years Sales. This includes a further expansion of the application support capability of Melexis. The highly innovative products require a high level of application support to our customers to assist them designing in Melexis ICs.

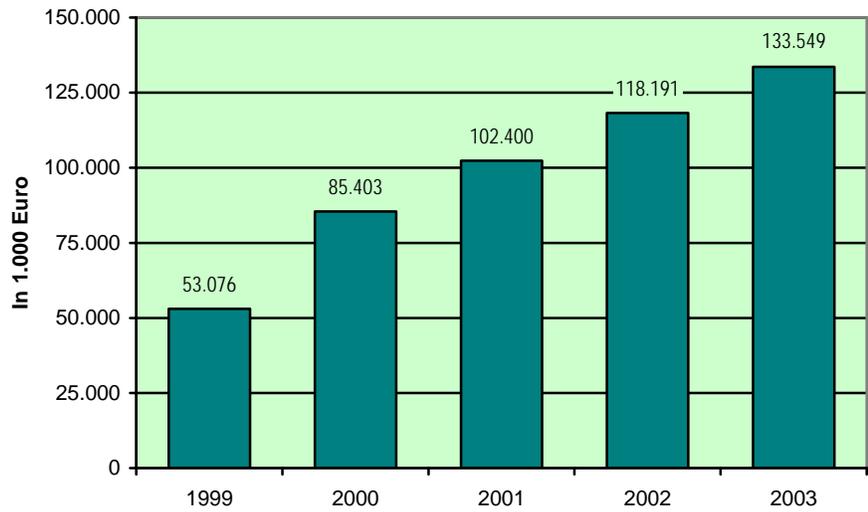
Yours sincerely,  
 Ieper, 18 February 2004  
 Roland Duchâtelet, Chairman  
 Rudi De Winter, CEO



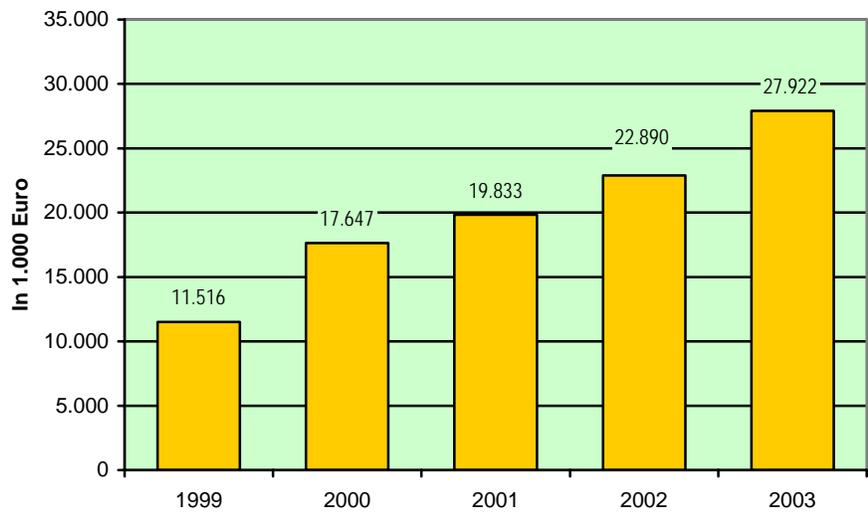
### Sales & Profit Evolution



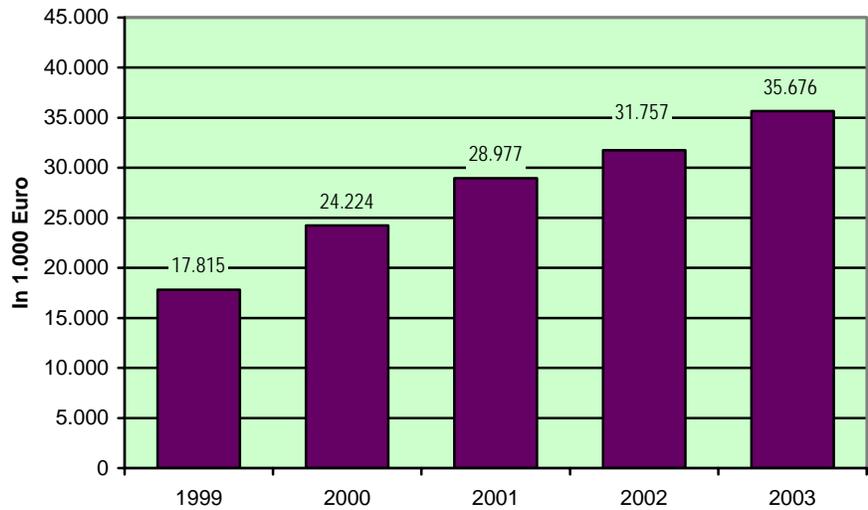
**Turnover  
Evolution**



**EBIT  
Evolution**



**Cash Flow  
Evolution**



## 2. Key Figures

(in 1.000 Euro)

Operating results	1999	2000	2001	2002	2003
Turnover	53.076	85.403	102.400	118.191	133.549
EBIT	11.516	17.647	19.833	22.890	27.922
EBITDA	15.317	24.669	28.509	33.007	39.019

Balance structure	1999	2000	2001	2002	2003
Shareholders' equity	53.884	70.905	91.432	86.867	86.153
Net indebtedness (*)	(16.018)	(34.721)	3.348	(2.580)	8.582
Working capital	28.899	45.065	60.899	47.244	59.930

(\*) : bank debts and overdrafts – cash and cash equivalents

Cash flow and capital expenditure	1999	2000	2001	2002	2003
Cash flow (*)	17.815	24.224	28.977	31.757	35.676
Depreciation + amortization	3.801	7.021	8.675	10.117	11.097
Capital expenditure	7.567	16.426	8.506	14.585	11.304

(\*) : cash flow = net profit + depreciation and amortization

Ratios	1999	2000	2001	2002	2003
ROE	26%	24%	22%	25%	29%
Liquidity	2.2	1.6	2.7	3.2	4.5
Solvency	69%	47%	67%	77%	71%

(\*) : liquidity = current assets / current liabilities

Melexis designs and markets advanced integrated semiconductor devices for use in the automotive industry. The Company's products are sold principally to European, North-American and Japanese Original Equipment Manufacturers (OEMs).

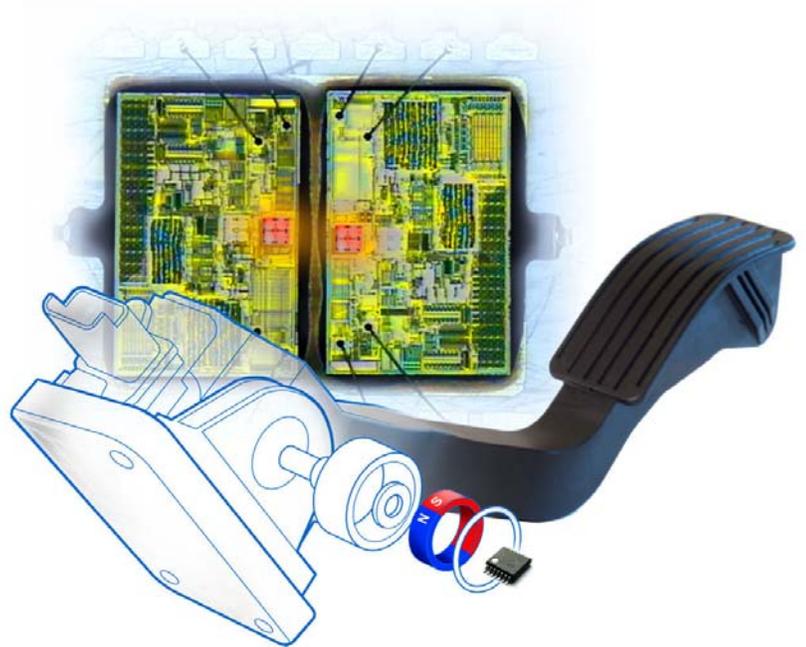
### 3. Overview of Activities

These OEMs, such as Bosch, Brose, Continental, Delphi, XFin, Nippon Seiki, Siemens-VDO, SKF, Texas Instruments, TRW, TT/AB Elektronik, Takata and Vishay incorporate the Company's products into automotive equipment they supply to vehicle manufacturers (VMs) around the world. Almost every major vehicle manufacturer worldwide has one or more models in production or development containing Melexis integrated circuits.

The automotive semiconductor market is a steady growing market (expected to be on average about 9%/ year in the coming years). Melexis is positioned with its product range to support these innovative growing segments of sensors within the overall automotive market. Melexis is active also in the MEMS area (micro-machined sensors) and their market growth over the coming 5 years is estimated to increase by 27% on average per year. This proves the Melexis strategy chosen a few years ago was the correct one.

The drive to improve fuel economy, for example, has created a demand for more sensors and electronics to help optimize the efficiency of the motor. This goes hand in hand with the regulations to build "green" cars. On the other hand, there is increasing pressure for more active and passive safety functions. Systems like ABS are standard on most cars and newer systems like ESP and tire pressure sensors are getting more and more popular. Most cars have 2 airbags as standard, and VMs are gradually going towards 4 or more. Electric windows with electronic protection have become mostly standard as well as regulated air-conditioning. There is a clear move from hydraulic systems towards electric systems, such as found in steering and breaking assistance. These systems use x-by-wire concepts. This means that mechanical controls are replaced by purely electronic ones.

Melexis' main products are Hall Effect Devices (magnetic sensors), Pressure and Acceleration Sensor Elements and Interfaces, Automotive Systems-On-a-Chip, embedded Microcontrollers, RF and RFID devices, Bus Systems, Optical Sensors and IR-Sensors. In each case the



products are principally for automotive applications.

Melexis is a multi-product company, selling its products to a wide customer base of automotive OEMs. The Company's top seven customers accounted for approximately 58 per cent of the Company's sales for the year ended 31st December 2003. As every year, Melexis has widened its global customer base. Melexis has always concentrated on the supply of silicon and, as part of this strategy, has chosen to work in partnership with Tier 1 and Tier 2 suppliers. As a result, Melexis components are designed in by nearly all leading automotive equipment suppliers. Few new car models do not contain Melexis chips...

Melexis concentrates its engineering resources and semiconductor design strengths in development of application specific standard products addressing new opportunities in the automotive market.

Melexis permanently reviews its engineering and development work to identify opportunities for patenting original work. Melexis currently has 70 patents filed, from which 12 are already granted, which strengthen Melexis' position as an innovative supplier. This effort will be continued in 2004 as it is seen as an important tool to protect gross margin. The patent opportunities cover all of the product areas in which Melexis operates

Melexis has been a supplier of semiconductors since 1989, initially in the field of Asics and 'chip on board' assembly and then increasingly supplying sensor chips and sensor interface ICs. These activities have been expanding in volume but have also been specifically and successfully focused on the automotive electronics arena.

## 4. Melexis Products

Sensors are increasingly important to the automotive industry where finer controls are needed for almost every aspect of the vehicle performance. They are essential for ensuring compliance with emissions legislation and also to the continually improving levels of safety, performance and reliability that customers demand. Melexis supplies sensor chips for position, movement detection, pressure and acceleration with both analogue and digital outputs and with optional on board micro-controllers.

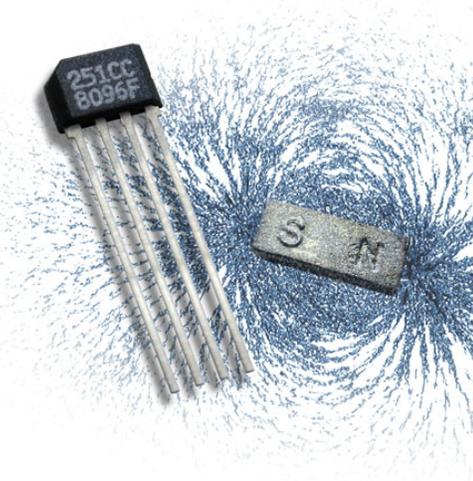
Embedded micro-controllers find a wider use in Melexis products. We find them today in Melexis Hall sensors, pressure sensors, acceleration sensors and sensor interfaces. This is a unique feature to the Melexis products that allows us to stay in front of the competition because it gives a great level of flexibility to adopt the function to specific applications. Much of this success comes from the ability of these Melexis parts to operate in the automotive environment with a minimum of external components.

Melexis also actively develops and produces micro-machined sensors, such as pressure, acceleration and infrared thermopile sensors. For each of the business areas in which Melexis operates, it offers products from its range of standard and semi-standard parts. If none of these are optimum or if a customer has a particular application and higher volumes, Melexis can supply a custom part to meet the need. These can be special versions of existing products or completely new designs.

It is Melexis policy to make all general-purpose ASICs developments available as a standard product after approval of the initial customer. This encourages faster growth with maximum utilization of design resources.

### 4.1 Hall Effect Devices

Hall Effect Devices detect magnetic flux density (mainly produced by a permanent magnet) and are used in both movement and position sensing. By integrating the sensing element onto the same silicon as its control logic and interface circuitry, Melexis has produced sensor chips with various degrees of 'intelligence' to suit most applications. Sensing the rotation of shafts (e.g. cam- and crank-shaft) in engine, monitoring movement in motors and actuators, sensing pedal, throttle and steering wheel position, Melexis Hall Devices offer a reliable, contactless method of movement and position detection. Melexis is a technological leader for the design, development and testing of integrated Hall Effect Devices.



Melexis Hall Effect Devices enable an optimal use of the smaller feature sizes of which semiconductor technology is capable today. Therefore, very sophisticated mixed analog-digital signal conditioning circuitry (such as Chopped Analog String, Digital Signal Processing Core, Microcontroller) can be integrated. Most of the devices can withstand the severe automotive conditions despite few external components. Melexis Hall Effect sensors can be seen, on the basis of their performance, as a competitive technical alternative for inductive speed sensors (Variable Reluctance VR), resistive position sensors (contacting potentiometer), bipolar Hall sensors and magneto-resistive sensors (Magneto Resistance MR, Giant Magneto Resistance GMR). The Melexis Hall Effect sensors not only outperform these alternate sensor technologies but also allow the integration of more signal-processing at a competitive cost.

The Company offers a wide variety of Hall sensors for applications such as position sensor (e.g. pedal, throttle, steering wheel, ride-height, fuel tank level, gearshift), speed sensor, engine timing management sensor (e.g. Variable Valve Timing system VVT) and electrical DC motor driver.

Thanks to its leadership position, Melexis designs the right products to fulfill the growing needs of reliable contactless position sensors to meet the harsh automotive environment and the numerous emerging "X-by-Wire" (gas-by-wire, brake-by-wire, steering-by-wire and ultimately drive-by-wire) automotive programs.

Melexis Management believes there is also considerable further potential for Hall sensors in automotive applications such as contactless magnetic switches to replace microswitches and contactless 360 degrees rotary position sensor to replace full-turn and multi-turns position sensors.

Melexis Management is also convinced in the potential of high volume industrial applications such as smart brushless DC motor drivers and controllers based on the Hall Effect.

Based on these automotive technologies, Melexis has developed a wide range of Hall sensors, used for fan drivers. Unique functions as low voltage operation, high start-up current, small die and package size (SOT23) are offered. Their cost effectiveness makes these products a preferred integrated solution for numerous applications.

## 4.2 Pressure and Acceleration Interface and Sensor chip

Acceleration sensors, pressure sensors, interface chips and gyroscopes find use in various automotive applications such as airbag systems, Electronic Stability Program systems, brake circuits, seat occupancy detection systems, air conditioning systems, ...

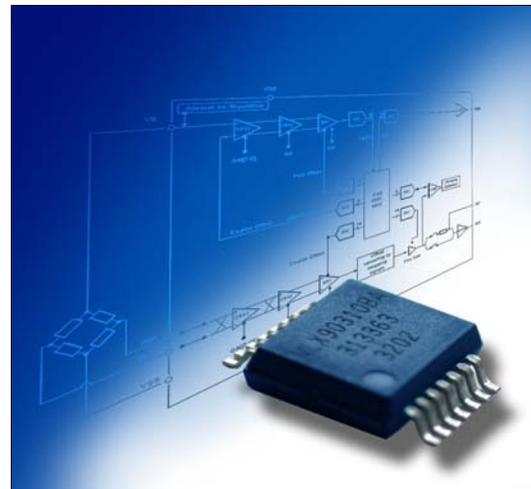
In an automobile a lot of pressure readings are taken (water, oil, manifold air, airco cooling liquid, brake fluid ...). These readings are taken either using standalone sensors, for which Melexis supplies the conditioning electronics, or using so-called integrated pressure sensors. Integrated pressure sensors incorporate both the sensing element (in the form of a deformable membrane) and the conditioning electronics on the same piece of silicon. Integrated pressure sensors can lead to significant cost savings in the final packaging of the device, due to the high integration level.

In a broader sense the interface chips developed by Melexis are also applied to condition the outputs of other types of sensors. Sensor interface chips compensate the non-idealities of the sensor by amplification, linearization, calibration and buffering to provide a uniform output signal. The automotive environment poses some specific challenges to sensor interfaces: capability of fault detection on different levels, operation in harsh environments, operation in heavily disturbed electrical environments, ... Automotive sensor interface applications have also spin-offs in other markets such as for industrial, consumer and medical applications.

The core of every airbag system in a car consists of one or more acceleration sensors. These acceleration sensors determine the forces to which the car is subjected, such as an impact by another car or object. Based on the information gathered from the acceleration sensors the airbag system will decide whether airbag deployment should be initiated or not. Although first generation airbag systems used fairly simple mechanical switches to discriminate between deployment and non-deployment conditions, the present generation of sophisticated airbag applications, such as side

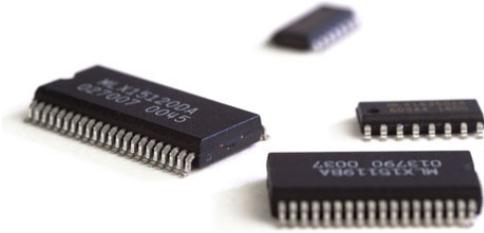
impact detection, are only possible through the use of advanced sensor technology, dedicated analog signal processing and sophisticated crash discrimination algorithms implemented in powerful microprocessors. The trend to locate crash sensors at the spots in the car where the crash can be sensed in the most accurate and fastest way, such as the car doors, pillars and crush zones, calls for highly integrated solutions. In this respect Melexis is well placed in the market because of the high integration levels it is able to offer, due to its broad technology portfolio. For many years Melexis has been supplying OEMs specialized in automotive safety applications with airbag sensors.

It is worthwhile to note that the technology, developed for acceleration sensors in crash detection applications, can also be used for acceleration sensors in other applications with different acceleration ranges. Examples of such applications are: vehicle rollover sensing, vehicle stability control, active suspension control, etc. The pressure sensor and acceleration sensor chips, developed by Melexis, are based on micro-machining technology, where the physical parameter being sensed causes a temporary and reversible deformation to a specifically designed mechanical structure etched into the solid silicon. These techniques produce sensors that are used in high volume in modern automotive applications. Micro-machining could be considered as equivalent to traditional machining (drilling, dicing, ...) but on a micro-scale. A typical micro-machined membrane for instance is only a few tenths of a millimeter wide. The most recent automotive safety applications introduced on the market, such as ESP (Electronic Stability Program), ACC (Adaptive Cruise Control) and Rollover sensing call for the use of angular rate sensors, also called gyroscopes. During 2003 Melexis has made significant progress in the development of its innovative gyroscope solution, which should give it a competitive edge in this emerging market.



### 4.3 Systems-On-a-Chip & Embedded Micro-controllers

These product ranges focus on the integration of high volume electronic systems in general. Basically two different product classes are observed: peripheral ICs and micro-controller ICs.



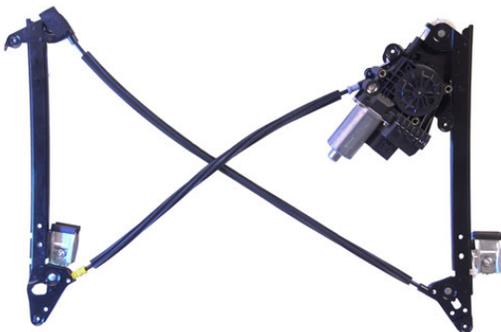
#### Peripheral ICs

Peripheral ICs can be part of an ECU (Electronic Control Unit) in our customer's product to assist the main processor of the ECU with special functions like analog, high-voltage, actuators, regulators, communication interfacing, etc. Target modules for these products are EPAS (Electrical Assisted Power Steering) and HVAC (Heating, Venting and Air-Conditioning). Peripheral ICs that are not part of an ECU are used for remote functions and interface to electrical motor systems. Typical examples are dashboard oriented switch interface ICs. Melexis offers ASSPs for applications like dashboard indicators, windscreen wipers, remote control door opening and audible warning systems.

#### Micro-controllers

The business unit puts their activities around all systems situated or surrounded at a car door. Applications are window lifters, door modules, door locks, mirror actuators, puddle lights and so on. Out of these "basic door" applications other similar applications using the same technological strength are derived. Examples are sunroof applications, interior lights and fuel pumps.

The products are supposed to be treated as standard products, however they are developed always with a very strong lead customer for an efficient product design and for insurance of a fast start up.



During the product design the Melexis intention is to make the product as flexible as possible and to minimize the number of external components by a very high level of integration choosing the right semiconductor technology. This target is reached by using microcontrollers with an embedded CPU surrounded by periphery like ROM, RAM, EEPROM, EPROM or FLASH and a lot of additional digital and analog blocks. They are systems having their flexibility in a single ROM mask. Hence, a single chip having several ROM mask versions can cover several applications. Melexis supports all necessary development tools (Assembler, Linker, C-compiler, Emulators and Simulators) in order to help our customers to develop the necessary software efficiently and in a short period of time. Besides that, the BU also offers standard software routines for the microcontroller based products to be used directly by the customers. Newest trends in the automotive markets like LIN are seen and are taken directly over in several products of the BU. This allows that the customers use the Melexis products in a very efficient way. LIN based products, for instance, allow completely new controlling principles in the car applications reducing also the overall costs of electronics.

### 4.4 RFID

Contactless Identification systems, or Tags, are used as their name implies to identify items without the need to make contact with them. This compares for example with bar code pens or plug-in systems. The tag itself is small enough to fit (invisibly, if required) inside an article and can be remotely read by a tag reader. The identification of the individual tag is by transmission of a code sequence. This sequence is either a fixed code unique to the tag or, for more secure systems, a 'rolling' code different for every successive interrogation. The code sequence is based on a mathematical pseudo-random code sequence generator in both the tag and the reader with millions of combinations.



Tags were first used to identify high value items, such as cattle and horses, but are more likely nowadays to be known for their use in automotive security as either keyless entry (a chip integrated in the key transmits a code to an ECU, which opens the lock) or engine immobilizer systems.

Tags are also starting to be used for transmitting information from the wheels (tire pressure, temperature, rotational acceleration, speed) to the car body. For access control and car immobilizers, the demand for a higher level of security is increasing. As an answer to this demand, Melexis is developing a new generation of crypto transponders and readers.

The Company also has a non-automotive contactless identification IC business. Non-automotive applications for tags include people access control systems and animal and products traceability applications. Wireless temperature tracking of perishable goods and blood pockets is the latest hot topic, where the synergies of Melexis sensor capabilities and leading edge RFID expertise are being leveraged.

The main competitive advantages of Melexis tags are their low power consumption, high reading distance and a highly integrated design. Moreover Melexis can offer both tag and reader chip as a complete solution, making life easier for system integrators.

## 4.5 Infrared & Opto

### IR sensors

Melexis this year successfully introduced their new developed infrared thermometer module. Qualification and production release has been given by Japanese and US car manufacturers during 2003 and production is started and ongoing. Several other OEMs are evaluating our module, and positive feedback is expected in 2004.

With the growing importance of passenger comfort features in vehicles, the Melexis IR device is offering more precise as well as more versatile and easier solutions for automotive climate control applications. Overall system cost is effectively reduced by offering performance superior to existing conventional systems. The module combines an IR sensor with a powerful signal-conditioning chip. With this approach a contactless measurement of the passenger's comfort temperature can be achieved, creating the possibility to compensate for incoming sunshine, type of clothing and even different personal preference for driver and passenger. No wiring to the remote places of interest is required (cost-improvement). Other future applications are windscreen mist over-detection (anti-fog), frost detection or seat occupancy detection for airbag systems. There is also growing interest from the industrial, medical and commercial market, where contactless temperature measurement is needed. Some



products are already in production and their volumes are expected to rise in 2004.

A new potential Melexis market for IR-applications is gas-analysis. Since every gas has its unique absorption spectrum for IR radiation, the Melexis IR sensor, with appropriate filter, can be used for CO and CO2 concentration measurements. This market can be very interesting for safety reasons when the air-conditioning systems in cars will work with CO2-gasses (expected in 2008).

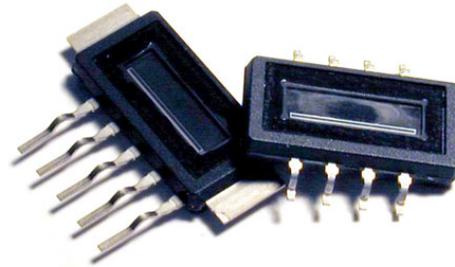
Since the signal-conditioning chip is implemented as a fully programmable building block, numerous configurations, functions and interfacing schemes can be supported by the same concept.

Melexis is expanding its IR-product range by developing array IR sensors that allow thermal 2D imaging. Primarily, these new array sensors will be targeted for automotive applications, but industrial equipment manufacturers will also benefit from the quality and price level offered. Demonstrators are already available and we have a development contract with a Japanese manufacturer, who is performing in-depth investigations.

### Optical Sensors

Since 2001, Melexis is in automotive production with an optical linear array. Volumes and acceptance from the market have grown during those last 3 years, resulting in a successful new design-in with a second big OEM manufacturer for 2 major trendsetting VMs.

In that new module, the Melexis linear array will be the key sensing element for a high resolution and robust steering wheel, used as input for ESP systems. Production will start beginning of 2004, and the first cars on the road can be expected around mid 2004.



Following the first generation optosensor, used in the EPAS system, Melexis has finished in 2003 the redesign of the second generation. Together with the lead customer, the devices will be characterised and made ready for production in 2004.

With the growing success of optosensors, and the broadening of market possibilities, Melexis has designed and characterised a new OPTO package, based on a standard SO24. This package, designed to fulfill all high automotive reliability standards, should house all future opto designs, both for current and future developments. Due to the intrinsic lower price of this new package, this should open the range of possible applications and markets even more.

Besides the optical linear arrays, Melexis has also continued to put significant effort & resources in further development of automotive camera chips. After thoroughful characterisation and discussions with several OEMs, Melexis has launched an improved version of its 2 automotive cameras in 2003.

Key improvements are: sensitivity (both in the visible range and near IR), shutter efficiency, dynamical range, darkcurrent (temp range), programmability and ease to use. All key parameters for the automotive applications, the cameras are designed for: Seat-occupancy detection, lane departure warning, blind spot detection, night vision and park assist as the 5 major ones.

## 4.6 Bus Systems

In order to reduce the amount of copper wire in a car (can be as long as 5 km) the Vehicle Manufacturers are switching more towards Bus systems: a power line loop and a signal line loop connect all devices in a car. The commands to drive up the actuators are transmitted via the signal bus.



Bus Systems contain specific physical interfaces for automotive busses like LIN, K-Bus or CAN. The new sub-bus system LIN begin its establishment within the current and next car generations. With these physical interfaces the communication on main bus as well as on sub-busses in automotive systems can be realized. Additionally, the 1st products in which these physical interfaces are integrated as embedded blocks in more complex integrated circuits are available.

Melexis delivers K-Bus, CAN and LIN devices in mass production. In the new area LIN, Melexis has a leading position of supplying the physical interface and system ICs. Beside the transceiver products, the TH8080/82 and TH8061, Melexis has also developed next generation LIN ASSPs. This IC family has all necessary functions for a LIN node monolithically integrated and it allows network designers to make the lowest cost LIN slave nodes while retaining maximum flexibility. To achieve this, Melexis has developed a dedicated microcontroller which is optimized for the control of real time bus communication in combination with application tasks. All ASSPs in

this family have the same architecture with this microcontroller as core element.

This microcontroller is well suited for applications like switch modules for window lifters, mirror adjustment, seat adjustment, HVAC control panels as well as switch modules within the steering wheel or the dashboard.

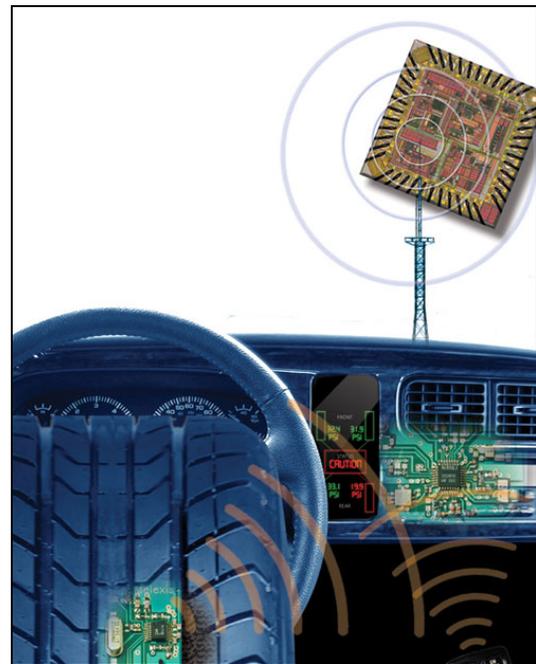
In the same family, a microcontroller to drive small motors via a LIN bus system was developed. This device is well suited for applications like flap control in HVAC systems, mirror adjustment and AFS (adaptive front-lighting system) control.

This new single chip integration enables Melexis customers to create customized and cost effective LIN system solutions.

Melexis is a specialist for mixed signal ICs used in applications for automotive bus systems and high voltage peripherals up to 80V. The products can be supplied directly from the in-vehicle battery and are robust against typical automotive environmental influences. All of the integrated circuits contain analog and digital parts. The mixed-signal devices serve as the connection between sensors and actuators and the highly intelligent signal conditioning in the electronic control unit of our customers

## 4.7 TPMS

Tire Pressure Monitoring Systems (TPMS) will become mandatory safety devices on all new cars. Therefore, they have to be produced in a very cost effective way. However, TPMS are complex systems which have to survive the harsh environment inside a car tire for 10 years. Today these systems are too expensive to fulfill the cost requirements for all new cars. The reason is that nowadays these systems are still too complex.



The TPMS systems that are available today consist of many components, typically more than twenty. The key to build cost effective electronic systems for automotive application is combining certain system functions to reduce the number of components at final assembly. Melexis combines its expertise in pressure and motion sensors on a chip, embedded microcontrollers and contactless identification systems with newly developed packaging techniques to achieve a highly integrated TPMS system. This 'system in a package' is fully tested and calibrated at Melexis before delivering it to the customer. It has an integrated microcontroller, which makes it very flexible. It can be programmed to fulfill the needs of different customers and vehicle platforms.

#### 4.8 Radio-Frequency Products

In this unit we develop and design Radio Frequency ICs (RFICs) that span the application frequency range of about 27 to 950 MHz. The variety of RFICs covers the fields of short range devices with wireless transmitter, receiver and transceiver circuits. Our key products are standard transmitters, receivers, transceivers and custom specific ICs for industrial-scientific-medical (ISM) band applications from 315 to 434 MHz and 868 to 930 MHz, such as remote keyless entry (RKE), tire pressure monitoring systems (TPMS), garage door openers, home automation, alarm systems, personal identification and general short range communication.

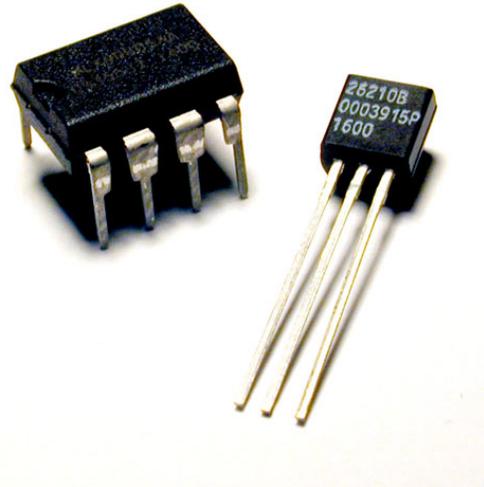


Additionally, significant design experience exists in high-precision analog circuit design for general signal conditioning, infrared (IR) receiver applications quickly and efficiently. Fully functional evaluation boards, available for all our standard products make it easy for an engineer to quickly design them into a new product.

#### 4.9 Consumer, Industrial and Medical

Melexis has developed a wide range of products taking advantage of our low cost technology with high voltage capabilities (up to 80V). This has resulted in the industrialization of more complex, low cost and high quality systems.

In household applications, there is an increasing demand for safety features, such as timer based auto-shut-off functions of heating elements. This can be combined with the position and movement detection, for example as a safety feature in irons. A new generation triac controller has been developed and is in production. Thanks to a dedicated DSP (digital signal processing) a very stable and precise regulation can be achieved.



This business unit also focuses on medical applications such as a dedicated ASIC for a personal blood pressure meter as a wrist-watch device or a professional device for 24-hour long-term monitoring. This ASIC offers possibility for instantaneous communication of high volume data, as well as ensures both high degree of computation and easy programming by software simulator and C-compiler.

Thanks to our experience we provide our customers with extremely fast implementation of their ideas onto our ASIC

## 5. Melexis Strategy

Melexis strategy has proven to be successful and Management feels there is no need for change: The main objective of the Company was and is to become a leading international provider of automotive semiconductor products. To reach this goal, the key elements of the Company's strategy are:

### A) Focus on automotive business

Management believes that the market for automotive semiconductors offers high growth opportunities and consequently advanced integrated semiconductor devices for automotive applications should continue to be Melexis core business. This will allow the Company to benefit from its experience, engineering excellence and competitive advantage in the design, development and testing of highly integrated analogue-digital semiconductor devices for the automotive sector. Electronics in the car will continue to grow. They allow carmakers to differentiate their cars from the competition by adding electronic comfort features, or offering higher standards of safety or economy.

### B) Focus on ASSPs (Application Specific Standard Products)

The Company will concentrate on ASSPs in order to leverage its design and development efforts on larger numbers of each product and thus enhance profitability.

### C) Preferred partner of automotive OEMs

The Company has close working relationships with several automotive equipment manufacturers and seeks to maintain such close collaborative relationships with its customers, in particular in the areas of development, engineering and technical support. By working with customers throughout the entire product cycle, Melexis is able to gain insights into its customers' future plans and needs, identify emerging industry trends and consequently deliver high-performance and cost effective products.

### D) Technological leadership for design of automotive semiconductors

Melexis has assembled a team of engineers with considerable expertise in product definition, design, development and testing of highly integrated analogue-digital semiconductor devices and sensor ICs for the automotive industry. The Company has committed and will continue to commit substantial resources to research and development to extend its technological excellence in these fields.

### E) Strengthen marketing to enlarge its customer base

The Company seeks to increase its customer base and is committed to further optimizing its product marketing effort in order to achieve this goal.

### F) Excellence in Quality

Melexis has demonstrated a quality management system complying with the stringent requirements of ISO9001:2000, ISO/ TS 16949:2002 and ISO14001.

Based on previous QS 9000 and VDA 6.1 certification Melexis achieved the initial ISO/ TS 16949:2002 certification for the main sites Ieper, Tessenderlo, Erfurt and Sofia end of 2003. The certification body was the leading German certifier DQS, member of the IQNet.

### G) Licensing of certain products

When an appropriate opportunity arises, the Company intends to grant licenses over certain advanced products to specified customers in order to allow those customers to purchase those advanced products. This will enable the Company to concentrate its engineers on specific projects.

### H) Targeting the globe

The Company plans to continue concentrating special marketing efforts towards the Far East and the Americas, as it sees these are areas for large potential growth in its sales.

### I) Review of opportunities for acquisitions

The automotive integrated circuit market is a relatively fast moving sector. Although no specific opportunities are currently under consideration, Management will keep the market under close review to enable it to take advantage of any acquisition opportunities if and when they arise. Management does not, however, currently envisage the Company diversifying outside the automotive integrated circuit market.

# 6. Management's Discussion and Analysis

## 6.1 Introduction

The selected financial data presented below have been extracted and derived from the IFRS consolidated financial statements of Melexis NV for the three years ended at 31 December, 2003, 2002, 2001 and have been audited by Deloitte & Partners Bedrijfsrevisoren (previously known as Arthur Andersen Bedrijfsrevisoren).

### Consolidated Income statements

	Years ended 31st December		
	2003	2002	2001
	EUR	EUR	EUR
Sales	128.271.746	112.450.957	91.859.398
Revenues from Research and Development	5.277.438	5.740.295	10.540.826
Cost of sales	(76.365.213)	(67.819.291)	(57.910.486)
Gross margin	57.183.971	50.371.961	44.489.738
Unrealized exchange gains/loss on foreign exchange contracts	-	-	(307.620)
Goodwill Amortization	(740.919)	(991.279)	(991.278)
Research and development expenses	(18.749.812)	(16.614.561)	(14.213.783)
General and administrative expenses	(5.043.344)	(5.081.029)	(4.067.480)
Selling expenses	(4.727.943)	(4.794.638)	(4.546.151)
Other operating expenses (net)	-	-	(529.950)
Income from operations	27.921.954	22.890.454	19.833.476
Financial results (net)	427.089	1.760.466	3.671.606
Other (net)	-	-	-
Profit before taxes	28.349.043	24.650.920	23.505.082
Income taxes	(3.770.386)	(3.010.786)	(3.203.958)
Minority interest	-	-	-
Net profit	<u>24.578.657</u>	<u>21.640.134</u>	<u>20.301.124</u>

### Condensed Consolidated Balance Sheets

	Years ended 31st December		
	2003	2002	2001
	EUR	EUR	EUR
Cash and cash equivalents	14.127.504	15.981.551	13.516.247
Total assets	121.077.672	113.041.642	135.533.156
Total current liabilities	17.103.333	21.831.038	36.337.753
Long-term debt	17.819.867	4.342.112	7.687.798
Shareholders' equity	86.153.411	86.867.431	91.431.574

## 6.2 Exchange Rates

Since the introduction of the EURO on January 1st 1999, and in accordance with Belgian law, Melexis NV keeps its books and prepares its consolidated financial statements in EURO. The functional currency of Melexis NV and of its subsidiaries Melexis Tessenderlo NV, Melexis GmbH and Melexis BV is the EURO. The functional currency for Melexis Inc. is the United States Dollar (USD), for Melexis Ukraine the Ukrainian Hryvnia (UAH) and for Melexis Bulgaria Ltd., the Bulgarian Leva (BGN). Assets and liabilities of Melexis Inc., Melexis Branch Office, Melexis Ukraine and Melexis Bulgaria Ltd. are translated at exchange rates in effect at the end of the reporting period, and revenues and expenses are translated at the average exchange rate during the period. Equity components have been translated at historical exchange rates. Gains or losses resulting from this translation are reflected in the component "cumulative translation adjustment" in the balance sheet. All discussions in this chapter are based on comparisons of EURO amounts.

## 6.3 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's financial statements for the years ended 31 December, 2003, 2002 and 2001.

### 6.3.1. Historic overview

Mr. Fred Bulcke, an electronics engineer who had accumulated experience with integrated circuits and assembly technology in Germany, incorporated the company at the end of 1988. The company invested significantly in product development tools and production equipment. Towards the end of 1993, activities relied on a limited number of customers and one major contract for a telecommunication company.

In April 1994, Mr. Bulcke sold his company to private shareholders. At that occasion, the company was renamed into Elex Sensors to reflect the desire of the new owners that integrated circuits for sensors should become the core business of the company. In the same year, the company developed its first Hall Sensors and acquired a license to produce and sell silicon pressure sensors chips.

The private shareholders sold their shares to ELEX NV, the current majority shareholder of Melexis NV, in the spring of 1996.

In October 1997, Melexis NV and its parent company, Elex NV, launched an Initial Public Offering (IPO) on the EASDAQ stock exchange market. At this IPO, 4.000.000 new shares were issued and 3.300.000 existing shares were sold by the selling shareholder.

In the last quarter of 1997, the company acquired US MikroChips Inc. (now Melexis Inc.), based in Webster, Massachusetts. US MikroChips Inc. was founded in January 1993 to take advantage of a rapidly growing market in Asia for Hall Sensors in cooling fans. Since April 1994, the cooperation between US MikroChips and Melexis NV has increasingly deepened. US MikroChips' Hall Sensor expertise coupled with Melexis' integrated circuit technology allowed US MikroChips to effectively become one of the largest volume Hall IC producers in the world.

US MikroChips has become a wholly owned subsidiary of Melexis NV serving as the marketing, sales and management group of Melexis' Hall Sensor business unit. Its corporate name has been changed into Melexis Inc.

Melexis currently buys its wafers from the X-FAB-group of companies, which is a related group. The purchase prices are based on market prices for processed wafers. X-FAB sells an important part of its production to other IC-vendors than Melexis. Melexis is currently responsible for 44% of total sales of the X-FAB group.

On October 1, 1999 Melexis NV acquired Thesys Mikroelektronik Produkte GmbH. With this acquisition of Thesys, the development team headcount has almost doubled and Melexis acquired knowledge in the area of RF (radio frequency applications) and Bus-systems (signaling and communication in cars). Its corporate name has been changed into Melexis GmbH.

At the end of 1999, Melexis Tessenderlo NV was incorporated as a subsidiary of Melexis NV. This newly created entity is active in the domains of Hall Sensors, Pressure Sensors and Household Applications.

In March 2000, Melexis NV incorporated a branch office in Bevaix, Switzerland.

In September 2000, Melexis NV incorporated Melexis Ukraine. This newly created entity is mainly active in the domain of microcontrollers.

On October 31, 2000, Melexis NV bought Melexis Bulgaria Ltd. from Sigma Delta Holding NV. This company is mainly active in test services and in the development of IP(Intellectual Property), Household Applications and IR Sensors.

At the end of 2000, Melexis NV sold Melexis AG, its 100 % subsidiary in Bevaix, Switzerland to Elex NV, its parent company.

In January 2001, Melexis NV incorporated Melexis BV, in Utrecht, The Netherlands. This company is mainly active in the field of development of IC's.

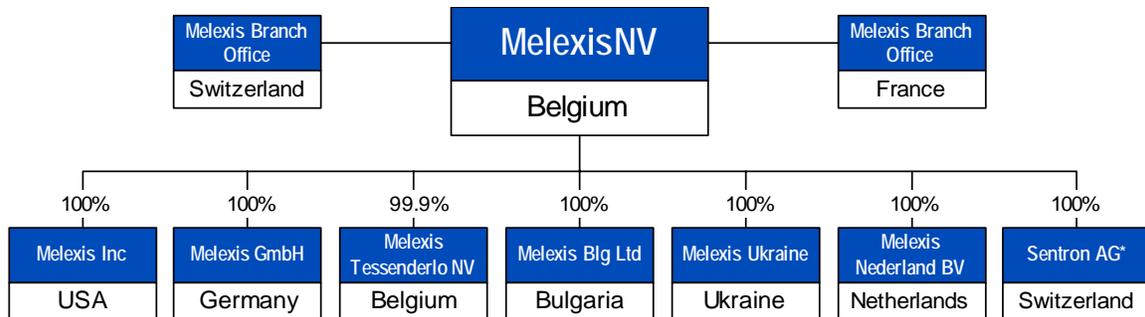
For management purposes, the group is organized on a worldwide basis into the business segments "automotive" and a segment "other", comprising all other products which are subject to different risks than those in the "automotive" segment.

In May 2002, Melexis NV and its parent company, Elex NV, launched a Second Public Offering (SPO) on the Euronext Brussels stock exchange market. At this SPO, 7.500.000 existing shares were sold by the selling shareholder.

Since January 2003 Melexis NV is delisted from NASDAQ EUROPE.

In January 2003 Melexis NV incorporated a branch office in Paris, France. This branch is mainly active in development of IP.

Within the company, different product groups are identified which form the discussion basis for this Management's Discussion and Analysis.



(\*) On the 3rd of February 2004, Sentron AG was purchased. This company is mainly active in the development of Magnetic Sensor product development.

## 6.3.2. Results of operations

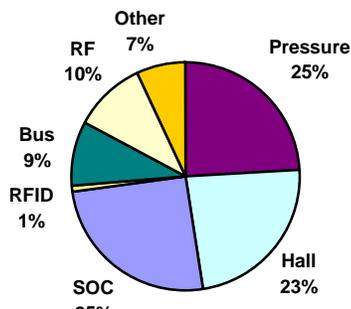
### Revenues

For 2003 total revenues increased by 13 % as compared to 2002. The major relative increase can be found in the Hall Sensor business unit, SOC and BUS business unit.

The largest business unit is SOC business unit (25,3%), which includes both microprocessors and ASICS activities, followed by Pressure Sensor business unit (24%). The Hall sensor product line is the third major business unit, realizing 23% of the total revenues of the company.

Specific research and development activities are included in the revenues per business unit. These specific R&D activities are performed under contract for customers. For the year 2003, the company invoiced EUR 5.277.438 research and development costs to its customers, compared to EUR 5.740.295 in 2002 and EUR 10.540.826 in 2001.

The following table shows a break down of total revenues by business unit:

		Years ended 31st December		
		2003	2002	2001
		EUR	EUR	EUR
	Systems-On-a-Chip	33.775.709	28.855.688	25.913.160
	Hall Effect Devices	30.639.986	24.351.005	22.431.959
	Pressure & Acc. Sensors	32.068.235	29.624.721	22.140.566
	RFID	1.923.642	2.867.165	3.005.139
	Bus Systems	12.444.584	7.957.562	4.813.466
	RF	13.624.607	12.938.918	8.689.407
	Other-miscellaneous	9.072.422	11.596.193	15.406.527
	<b>Total</b>	<b><u>133.549.184</u></b>	<b><u>118.191.252</u></b>	<b><u>102.400.224</u></b>

### Costs of sales

Costs of sales consist of materials (raw material and semi finished parts), subcontracting, labor, depreciation and other production expenses. They increased from EUR 57.910.486 in 2001, EUR 67.819.29 in 2002 up to EUR 76.365.213 in 2003.

Expressed as a percentage of total revenues, the cost of sales was stable at 57 % in 2003 compared to 2002.

### Gross margin

The gross margin, as a percentage of total revenues, was stable at 43 % in 2003 and 2002.

### Research and Development expenses

Research and development expenses amounted to EUR 18.749.812 in 2003, representing 14% of total revenues. The 13 % increase over 2002 is in line with the growth in sales. The research and development activities concentrate further on the development of Hall Sensors, Integrated Pressure and Acceleration Sensors and Gyroscopes, 16 bit microcontrollers, Infrared and Opto Sensors, Bus ICs and RF components.

### General, administrative and selling expenses

General, administrative and selling expenses consist mainly of salaries and salary related expenses, office equipment and related expenses, commissions, travel and advertising expenses. General, administration and selling expenses were stable during the year 2003.

### Financial results

The net financial results (gains) decreased from EUR 1.760.466 to EUR 427.089. The (net) interest result decreased from a gain of EUR 1.312.715 in 2002 to a loss of EUR 63.051 in 2003 and no gain on shares have been realized in 2003, compared to a gain of EUR 774.919 in 2002. The net exchange gains (both realized and unrealized) in 2003 amounted to a profit of EUR 722.141, compared to EUR 234.201 loss during 2002.

### Net income

The company recorded a net income for 2003 of EUR 24.578.657. This represents a 13.6 % increase compared to 2002, which is in line with the growth in sales from 2002 to 2003.

### 6.3.3. Liquidity, Working Capital and Capital Resources

Cash and cash deposits amounted to EUR 14.127.504 as of December 31, 2003 in comparison to EUR 15.981.551 as of December 31, 2002 and EUR 13.516.247 as of December 31, 2001.

In 2001, cash flow from operating activities amounted to EUR 21.319.752. The net profit amounted to EUR 20.301.124 and was used to finance increased working capital needs. The cash flow from investing activities was negative for EUR 6.042.279. This is the result of on the one hand, the negative cash flow as a result of the investments in fixed assets in order to realize the growth in turnover, and on the other hand, the positive cash flow as a result of the financial investments.

The cash flow from financing activities was negative for EUR 67.232.525, mainly as a result of increased lending by Melexis NV to its parent company Elex NV.

In 2002, cash flow from operating activities amounted to EUR 22.201.450. The company realized a net profit of EUR 21.640.134 and was used to finance increased working capital needs.

The cash flow from investing activities was negative for EUR 10.419.531 as a result of the purchase of own shares and increased investments in fixed assets to realize the growth in turnover. The cash flow from financing activities was negative for EUR 9.231.248. This is mainly the net result of on the one hand, the payment of an interim dividend of EUR 22.800.000 and on the other hand, the repayment of inter-company debt by the mother company Elex NV.

In 2003, cash flow from operating activities amounted to EUR 22.860.305. The company realized a net profit of EUR 24.578.657 that was used to finance increased working capital needs.

The cash flow from investing activities was negative for EUR 12.889.456 as a result of the purchase of own shares and increased investments in fixed assets to realize the growth in turnover. The cash flow from financing activities was negative for EUR 11.719.800. This is mainly the combined result of on the one hand, the payment of an interim dividend of EUR 22.320.788 and on the other hand, the increased proceeds from long term debt.

# 7. Selected Summary Financial Data

## 7.1. Detailed Consolidated Financial Statements

### 7.1.1. Independent Auditor's report

To the Shareholders of Melexis NV,

We have audited the consolidated balance sheet of MELEXIS, NV and subsidiaries as of December 31, 2003, and the related consolidated statements of income, the consolidated statement of cash flows, the consolidated statement of changes in equity, the notes and the consolidated directors' report for the year then ended. These consolidated annual accounts have been prepared under the responsibility of the Board of Directors. The balance sheet total as of December 31, 2003 is EUR 121.078(000) and the profit for the year then ended is EUR 24.579(000).

We did not audit the financial statements as of December 31, 2003 of certain subsidiaries, which statements reflect assets and annual revenues respectively of 28,6 % and 26 % of the related consolidated totals.

Those accounts were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Unqualified audit opinion on the consolidated annual accounts

Our audit was made in accordance with the auditing standards of the Belgian Institute of Company Auditors. These require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free of material misstatement, taking into account Belgian Law and regulations with respect to the consolidated annual accounts. In accordance with these standards, we have taken into consideration the administrative and accounting procedures and system of internal control of the company. We examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts. We also assessed the valuation rules, the principles of consolidation, significant accounting estimates made by management and the presentation of the consolidated annual accounts as a whole.

We received from the management of the company the information and explanations we requested. We believe that these procedures and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the annual accounts referred to above present fairly, in all material respects, the assets, liabilities and consolidated financial position of MELEXIS, NV and subsidiaries as of December 31, 2003, and the consolidated results of their operations, cash flows and statement of changes in equity for the year then ended in accordance with the accounting standards issued by the International Financial Reporting Standards Board and the information given in the notes to the consolidated annual accounts is adequate.

#### Additional statements

We complete our report with the following additional statements which do not modify the scope of the above-mentioned opinion on the annual accounts:

- The consolidated directors' report for the year ended December 31, 2003 is in agreement with the consolidated annual accounts and includes the information required by the law;
- In accordance with applicable law and regulations, we confirm that the company's administrative organization is adapted to apply International Financial Reporting Standards as indicated above;
- Regardless of formal aspects of minor importance, the consolidated annual accounts are established in conformity with applicable law and regulations.

The Statutory Auditor,

DELOITTE & PARTNERS  
Bedrijfsrevisoren

Ludo De Keulenaer  
February 19, 2004

## 7.1.2. Detailed Consolidated Financial Statements

### Melexis NV Consolidated balance sheets

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
<b>Assets</b>			
<b>Current assets</b>			
Cash, and cash equivalents (notes 7.2.4.a)	14.127.504	15.981.551	13.516.247
Current investments (notes 7.2.4.b)	-	-	3.370.209
Accounts receivable –trade (notes 7.2.4.c)	20.195.709	16.591.571	16.748.857
Accounts receivable –Related companies (notes 7.2.4.ab)	9.965.278	13.832.697	43.310.056
Inventories (notes 7.2.4.d)	27.754.465	19.654.346	15.722.723
Other current assets (notes 7.2.4.f)	4.990.741	3.014.398	4.568.954
<b>Total current assets</b>	<b>77.033.697</b>	<b>69.074.563</b>	<b>97.237.046</b>
<b>Non current assets</b>			
Intangible assets (notes 7.2.4.h)	1.516.973	1.968.858	573.566
Property, plant and equipment (notes 7.2.4.i)	36.551.703	35.152.186	31.087.482
Other non-current assets	-	-	320.175
Deferred taxes (notes 7.2.4.w)	5.419.610	5.549.427	4.027.000
Goodwill (notes 7.2.4.g)	555.689	1.296.608	2.287.887
<b>Total non current assets</b>	<b>44.043.975</b>	<b>43.967.079</b>	<b>38.296.110</b>
<b>TOTAL ASSETS</b>	<b><u>121.077.672</u></b>	<b><u>113.041.642</u></b>	<b><u>135.533.156</u></b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities :</b>			
Bank loans and overdrafts (notes 7.2.4.l)	3.333.333	3.816.741	3.937.737
Current portion of long-term debt (notes 7.2.4.m)	1.779.871	5.242.676	5.238.781
Accounts payable – trade	3.853.249	4.043.618	3.965.824
Accounts payable –related companies (notes 7.2.4.ab)	2.596.338	2.244.788	16.959.524
Accrued expenses, payroll and related taxes (notes 7.2.4.j)	3.882.564	4.417.832	3.978.692
Other current liabilities	88.466	501.321	237.166
Deferred income (notes 7.2.4.k)	1.569.512	1.564.062	2.020.029
<b>Total current liabilities</b>	<b>17.103.333</b>	<b>21.831.038</b>	<b>36.337.753</b>
<b>Non current liabilities</b>			
Long-term debt less current portion (notes 7.2.4.m)	17.596.459	4.342.112	7.687.798
Deferred tax liabilities	223.408	-	75.282
Minority interests	1.061	1.061	749
<b>Total non current liabilities</b>	<b>17.820.928</b>	<b>4.343.173</b>	<b>7.763.829</b>
<b>Shareholders' capital</b>			
Share premium	30.135.419	30.135.419	30.135.419
Reserve treasury shares	(5.416.365)	(3.087.697)	
Legal reserve	56.520	56.520	56.520
Retained earnings	37.234.017	37.914.671	40.413.547
Current year's profit	24.578.657	21.640.134	20.301.124
Cumulative translation adjustment	(1.000.034)	(356.813)	(40.233)
<b>Total shareholders' equity (notes 7.2.4.n)</b>	<b><u>86.153.411</u></b>	<b><u>86.867.431</u></b>	<b><u>91.431.574</u></b>
<b>TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTERESTS</b>	<b><u>121.077.672</u></b>	<b><u>113.041.642</u></b>	<b><u>135.533.156</u></b>

The accompanying notes to these balance sheets form an integral part of these consolidated financial statements.

## Melexis NV Consolidated Income Statements

	Years ended 31st December		
	2003	2002	2001
	EUR	EUR	EUR
Sales	128.271.746	112.450.957	91.859.398
Revenues from Research and Development (notes 7.2.4.y)	5.277.438	5.740.295	10.540.826
Cost of sales (notes 7.2.4.p)	(76.365.213)	(67.819.291)	(57.910.486)
Gross margin	57.183.971	50.371.961	44.489.738
Unrealized exchange gains/loss on foreign exchange contracts	-	-	(307.620)
Goodwill Amortization	(740.919)	(991.279)	(991.278)
Research and development expenses (notes 7.2.4.q)	(18.749.812)	(16.614.561)	(14.213.783)
General and administrative expenses (notes 7.2.4.r)	(5.043.344)	(5.081.029)	(4.067.480)
Selling expenses (notes 7.2.4.s)	(4.727.943)	(4.794.638)	(4.546.151)
Other operating expenses (net) (notes 7.2.4.z)	-	-	(529.950)
Income from operations	27.921.954	22.890.454	19.833.476
Financial income (notes 7.2.4.v)	6.344.004	9.504.543	10.726.000
Financial charges (notes 7.2.4.v)	(5.916.915)	(7.744.077)	(7.054.414)
Other expenses (net)	-	-	-
Income before taxes	28.349.043	24.650.920	23.505.082
Income taxes (notes 7.2.4.w)	(3.770.386)	(3.010.786)	(3.203.958)
Minority interest	-	-	-
Net income of the period	24.578.657	21.640.134	20.301.124
Earnings per share (Note 7.2.4.x)	0.54	0.47	0.45

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

## Melexis NV Consolidated Statements of Changes in Equity

	Number of Shares	Share capital	Share premium	Legal reserve	Retained earnings	Reserve treasury shares	CTA	Total equity
		EUR	EUR	EUR	EUR	EUR	EUR	EUR
December 31,1998	45.600.000	565.197	30.135.419	56.520	22.877.383		(21.094)	53.613.425
Net income					14.013.274			14.013.274
CTA movement							(63.037)	(63.037)
Interim dividend					(13.680.000)			(13.680.000)
December 31,1999	45.600.000	565.197	30.135.419	56.520	23.210.657		(84.131)	53.883.662
Net income					17.202.890			17.202.890
CTA movement							(181.063)	(181.063)
December 31,2000	45.600.000	565.197	30.135.419	56.520	40.413.547		(265.194)	70.905.489
Net income					20.301.124			20.301.124
CTA movement							224.961	224.961
December 31,2001	45.600.000	565.197	30.135.419	56.520	60.714.671		(40.233)	91.431.574
Net income					21.640.134			21.640.134
CTA movement							(316.580)	(316.580)
Interim dividend					(22.800.000)			(22.800.000)
Reserve treasury shares						(3.087.697)		(3.087.697)
December 31,2002	45.600.000	565.197	30.135.419	56.520	59.554.805	(3.087.697)	(356.813)	86.867.431
Net income					24.578.657			24.578.657
CTA movement							(643.221)	(643.221)
Interim dividend					(22.320.788)			(22.320.788)
Reserve treasury shares						(2.328.668)		(2.328.668)
December 31,2003	45.600.000	565.197	30.135.419	56.520	61.812.674	(5.416.365)	(1.000.034)	86.153.411

Since November 2002, Melexis started a share buy back program on the stock exchange. By the end of 2003 958.482 shares had been repurchased at an average price of EUR 5,65 per share. In accordance with IFRS, treasury shares are presented as a deduction from equity.

## Melexis NV Consolidated Statements of Cash Flows

(indirect method)	Years ended 31st December		
	2003 EUR	2002 EUR	2001 EUR
Cash flows from operating activities :			
Net profit	24.578.657	21.640.134	20.301.124
Adjustments for:			
Operating activities:			
Deferred taxes	353.225	(1.522.427)	(1.299.426)
Unrealized exchange gains	1.973.138	2.106.823	307.620
Reserve for uncollectible receivables	713.105	658.333	601.510
Government grants	(850.471)	(2.491.621)	(955.126)
Depreciation	10.355.983	9.125.270	7.684.191
Amortization Goodwill	740.919	991.279	991.278
Income tax	3.417.161	4.533.213	4.476.863
Income taxes paid	(4.669.830)	(4.496.003)	(3.039.259)
Unrealized exchange results	-	-	424.192
Financial results	63.051	(2.086.834)	(3.671.606)
Operating profit before working capital changes:			
Accounts receivable, net	(5.581.056)	(1.254.700)	483.361
Accounts receivables, affiliates	1.626.115	(3.778.098)	-
Other current assets	132.248	3.514.928	(20.838)
Other non-current assets	-	320.175	(228.644)
Due to (from) related companies	-	-	(1.407.917)
Accounts payable	109.631	84.690	(369.268)
Accrued expenses	(535.268)	419.361	(474.604)
Other current liabilities	(412.856)	264.155	(373.101)
Inventories	(8.347.569)	(4.030.840)	(295.749)
Interest paid	(805.878)	(1.796.388)	(1.814.849)
Net cash from operating activities	22.860.305	22.201.450	21.319.752
Cash flows from investing activities :			
Treasury shares	(2.328.668)	(3.087.697)	-
Purchase of property plant and equipment and intangible assets	(11.303.615)	(14.585.265)	(8.505.697)
Interest received	742.827	3.109.103	3.669.047
Proceeds from current investments	-	4.144.328	976.366
Acquisition of current investments	-	-	(2.181.995)
Net cash used in investing activities	(12.889.456)	(10.419.531)	(6.042.279)
Cash flows from financing activities :			
Proceeds from long-term debt	-	1.825.247	614.471
Repayment of long-term debt	-	(5.167.038)	(3.960.680)
Proceeds from bank loans and overdrafts	9.308.134	1.876.614	9.176.518
Repayment of bank loans and overdrafts	-	(1.997.610)	(19.697.579)
Proceeds from (repayment of) related party financing	1.292.854	17.031.228	(53.365.384)
Interim dividend payment	(22.320.788)	(22.800.000)	-
Other	-	311	129
Net cash used in financing activities	(11.719.800)	(9.231.248)	(67.232.525)
Effect of exchange rate changes on cash and cash equivalents	(105.096)	(85.367)	18.920
(Decrease) increase in cash and cash equivalents	(1.854.047)	2.465.304	(51.936.132)
Cash and cash equivalents at beginning of period	15.981.551	13.516.247	65.452.379
Cash, cash equivalents at end of period	14.127.504	15.981.551	13.516.247

The accompanying notes to these cash flow statements form an integral part of the consolidated financial statements.

## 7.2. Notes to the consolidated financial statements

### 7.2.1. General

Melexis NV is a limited liability company incorporated under Belgian law. The company has been operating since 1989. The company designs, develops, tests and markets advanced integrated semiconductor devices for the automotive industry. The company sells its products to a wide customer base of Original Equipment Manufacturers (OEM's) of automotive equipment in Europe, Asia and North America.

The Melexis group of companies employed on average 550 people in 2003, 445 people in 2002 and 436 people in 2001.

The registered office address of the Group is located at Rozendaalstraat 12, 8900 Ieper, Belgium.

The financial statements were authorized for issue by the Board of Directors subsequent to their meeting held on 18 February 2004 in Antwerp.

### 7.2.2. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the consolidated financial statements of Melexis NV are as follows:

#### Basis of preparation

The accompanying consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, as published by the International Accounting Standards Board, effective as of December 31, 2003.

They are prepared under the historical cost convention, except that investments available-for-sale are stated at their fair value as disclosed in the accounting policies hereafter.

The preparation of consolidated financial statements requires management to make estimates and assumptions, typically concerning assets lives and other judgmental areas that affect the amounts reported in the financial statements and accompanying notes. Such estimates may differ from actual results incurred.

#### Measurement currency

The measurement currency of Melexis NV has been determined to be the EURO. To consolidate the company and each of its subsidiaries financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet and at the average exchange rate for the year with respect to the income statements. All resulting translation differences are included in a translation reserve in equity.

#### Foreign currency

##### Foreign currency transactions

Each entity within the group translates its foreign currency transactions and balances into its measurement currency by applying to the foreign currency amount the exchange rate between the measurement currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or reported in previous financial statements are recognized in the income statement in the period in which they arise.

##### Foreign currency translation

Since the introduction of the EURO on January 1<sup>st</sup> 1999, and in accordance with Belgian law, Melexis NV keeps its books and prepares its consolidated financial statements in EURO. The measurement currency of Melexis NV and of its subsidiaries Melexis Tessenderlo NV, Melexis GmbH and Melexis BV is the EURO. The measurement currency for Melexis Inc. is the United States Dollar (USD), for Melexis Ukraine the Ukrainian Hryvnia (UAH) and for Melexis Bulgaria Ltd. the Bulgarian Leva (Bgn).

Assets and liabilities of Melexis Inc., Melexis Ukraine and Melexis Bulgaria Ltd. are translated at exchange rates in effect at the end of the reporting period, and revenues and expenses are translated at the average exchange rate during the period. Equity components have been translated at historical exchange rates. Gains or losses resulting from this translation are reflected in the component "cumulative translation adjustment" in the balance sheet.

## Principles of Consolidation

The consolidated financial statements of the Melexis group include Melexis NV and the companies that it controls. This control is normally evidenced when Melexis NV owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal.

Intercompany balances and transactions, including inter-company profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidation scope includes Melexis NV, its subsidiaries Melexis Tessenderlo NV, Melexis Ukraine, Melexis BV (incorporated respectively in 1999, 2000 and 2001), Melexis Inc. (formerly US MikroChips Inc), which was acquired in the last quarter of 1997, Melexis GmbH, previously known as Thesys Mikroelektronik Produkte GmbH, which was acquired in October 1999 and Melexis Bulgaria Ltd., which was acquired in October 2000.

The goodwill on Melexis Bulgaria Ltd. has been computed in compliance with IAS 22 on the financial position effective on the acquisition date, as the difference between the cost of acquisition and the fair value of the identifiable assets and liabilities of Melexis Bulgaria Ltd, and amounted to zero. The fair value is not materially different from the book value at acquisition date.

Melexis AG, which was incorporated in 1998, was sold to Elex NV, the parent company of Melexis NV, on December 31, 2000.

## Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

## Receivables

Receivables are stated at the fair value of the consideration given and are carried at amortized cost, after provision for doubtful accounts.

## Hedging

The company does not have any financial instruments that meet the criteria of hedging as defined under IAS 39.

## Derivative financial instruments

Derivative financial instruments that are not designated as hedging instruments are classified as held-for-trading and carried at fair value, with changes in fair value included in net profit or loss.

## Inventories

Inventories, including work-in-process are comprised of material, labor and manufacturing overheads and are valued at the lower of cost (determined on FIFO basis) or net realizable value after provision for obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. For processed inventories, cost includes the applicable allocation of fixed and variable overhead costs. Unrealizable inventory has been fully written off.

## Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed on a straight-line basis over the following estimated useful lives.

- Buildings:	20-33 years
- Machinery, equipment and installations	5 years
- Furniture and vehicles	5 years
- Computer equipment	5 years

Expenditures, incurred after the fixed assets have been placed in operation, such as repairs and maintenance and overhaul costs, are charged against income, in the period in which the costs are incurred.

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

## **Investments**

The company adopted IAS 39, Financial Instruments: Recognition and Measurement on January 1, 2001.

Available-for-sale investments are classified as current assets since management intends to realize them within 12 months of the balance sheet date.

All purchases and sales of investments are recognized on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available-for-sale investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.

Gains or losses on measurement to fair value of available for-sale investments are recognized directly in the net profit or loss for the period.

## **Intangible Assets**

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end. Amortization of intangible assets is shown as a separate line item in operating charges.

Amounts paid for licenses are capitalized and then amortized on a straight-line basis over the expected periods of benefit. The expected useful life of licenses is 5 years.

## **Goodwill**

The excess of the cost of an acquisition over the company's interest in the fair value of the net identifiable assets and liabilities acquired as at the date of the exchange transaction is recorded as goodwill and recognized as an asset in the balance sheet. The identifiable assets and liabilities recognized upon acquisition are measured at their fair values as at that date. Any minority interest is stated at the minority's proportion of the fair values. Any goodwill arising on the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign entity are treated as assets and liabilities of the company. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is amortized on a straight-line basis over its useful life, i.e. 5 years. Amortization of goodwill is included in operating profit.

## **Research and Development Costs**

Expenditure for research and development costs are recognized as an expense when incurred and not capitalized, since they do not meet all conditions of IAS 38.

## **Equity**

Treasury shares are presented in the balance sheet as a deduction from equity. The acquisition of treasury shares is presented as a change in equity. No gain or loss is recognized in the income statement on the sale, issuance, or cancellation of treasury shares. Consideration received is presented in the financial statements as a change in equity.

## **Provisions**

A provision is recognized when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

## **Reserves**

Capital reserves represent the legal reserve of the parent company and are in accordance with the Belgian law.

The Translation Reserve is used for translation differences arising on consolidation of financial statements of foreign entities.

## **Minority interests**

Minority interests include their proportion of the fair values of identifiable assets and liabilities recognized upon acquisition of a subsidiary.

## **Revenue recognition**

The company recognizes revenue from sales of products upon shipment or delivery, depending on when title and risk of loss are transferred under the specific contractual terms of each sale, which may vary from customer to customer.

Revenue from research projects is recognized upon meeting of all contractual conditions.

## **Borrowing costs**

Borrowing costs are expensed as incurred.

## **Government Grants**

Government grants are deferred and amortized into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying consolidated financial statements. Income relating to government grants is recognized as a deduction from the appropriate expense.

The company recognizes government grants if they have reasonable assurance that the grants will be received. They are recognized as income on a systematic and rational basis over the periods necessary to match them with the related costs. The grant related revenue is recorded net of the related expense in the income statement and as deferred income on the balance sheet.

## **Income taxes**

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the balance sheet date.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to reverse. Deferred tax assets are not discounted and are classified as non current assets in the balance sheet.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized. A deferred tax liability is recognized for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes.

## **Impairment of assets**

Property, plant and equipment, intangible assets and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit. Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased.

## **Segments**

For management purposes Melexis is organized on a worldwide basis into two major operating businesses. The divisions are the basis upon which Melexis reports its primary segment information. Financial information on business and geographical segments is presented in Note aa.

## **Contingencies**

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements, but disclosed when an inflow of economic benefits is probable.

## **Subsequent events**

Post-year-end events that provide additional information about a company's position at the balance sheet date, (adjusting events), are reflected in the financial statements.

Post-year-end events that are not adjusting events are disclosed in the notes when material.

## **Earnings per share**

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

### 7.2.3. Changes in Group's Organization

The company Melexis NV, incorporated a French branch office in January 2003. The activities are mainly R&D and sales.

### 7.2.4. Notes

#### A Cash and cash equivalents

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Cash at bank and in hand	8.127.504	15.981.551	13.516.247
Cash equivalents	6.000.000	-	-
Total	14.127.504	15.981.551	13.516.247

#### B Current investments

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Acquisition cost	-	-	2.181.995
Fair value	-	-	3.370.209

The current investments in 2001 consisted of 66.980 shares of Dialog Semiconductor and 875.000 shares of Catalyst. The market value was calculated by reference to the value of the respective shares per December 31, 2001 on the stock exchange.

#### C Trade receivables

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Trade accounts receivable	21.833.395	18.531.959	18.030.912
Allowance for doubtful accounts	(1.637.686)	(1.940.388)	(1.282.055)
Total	<u>20.195.709</u>	<u>16.591.571</u>	<u>16.748.857</u>

#### D Inventories

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Raw materials and supplies, at cost	2.315.026	3.375.834	2.417.185
Work in progress, at cost	17.279.329	10.432.252	10.085.594
Finished goods, at cost	8.234.478	5.920.628	3.294.312
Reserve for obsolete stock	(74.368)	(74.368)	(74.368)
Net	27.754.465	19.654.346	15.722.723

#### E Derivatives

The following table presents the aggregate amounts of the Group's derivative financial instruments outstanding:

		2003	2002	2001
Outstanding forward contracts per 31st December, not exceeding 1 year	USD	20.490.000	20.000.000	27.961.000
			-	-

The fair value of derivatives is based upon market to market valuations. The carrying amount and estimated fair value of the Group's financial instruments are as follows:

	31st December					
	2003		2002		2001	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	EUR	EUR	EUR	EUR	EUR	EUR
Outstanding forward contracts per 31st December	16.262.061	16.249.988	19.148.080	19.141.504	31.808.862	32.548.692

## F Other Current Assets

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Derivatives-fair value	-	-	739.830
Other receivables	4.806.666	2.798.798	3.677.927
Prepaid expenses	184.075	215.600	151.197
Total other current assets	4.990.741	3.014.398	4.568.954

## G Goodwill

The goodwill relates to the acquisition of the wholly owned subsidiaries Melexis Inc. and Melexis GmbH, previously known as US MikroChips Inc. and Thesys Mikroelektronik Produkte GmbH, and is determined as the difference between the cost of acquisition and the fair value of the identifiable assets and liabilities as of the acquisition date for Melexis Inc. and for Melexis GmbH.

The book value of the goodwill at December 31, 2003 was as follows:

Gross amount at December 31, 2002	4.968.783
Additions of the year	-
Gross amount at December 31, 2003	<u>4.968.783</u>
Accumulated amortization at December 31, 2002	(3.672.175)
Amortization of goodwill of Thesys Mikroelektronik Produkte GmbH:	(740.919)
Accumulated amortization at December 31, 2003	<u>(4.413.094)</u>
Net book value at December 31, 2003:	<u>555.689</u>

The remaining net book value relates fully to goodwill of Melexis GmbH (previously known as Thesys Mikroelektronik Produkte GmbH), with remaining depreciation period of 0,75 years.

## H Intangible Assets

Year ended 31st December 2003	Licenses	Total
	EUR	EUR
<b>Acquisition value</b>		
Balance end of previous period	2.601.862	2.601.862
Additions of the period	431.197	431.197
Retirements(-)	(288.216)	(288.216)
Transfers	-	-
CTA	-	-
TOTAL	<u>2.744.843</u>	<u>2.744.843</u>
<b>Depreciation</b>		
Balance end of previous period	633.004	633.004
Additions of the period	595.743	595.743
Retirements(-)	(877)	(877)
Transfers	-	-
TOTAL	<u>1.227.870</u>	<u>1.227.870</u>
Net book value - 31st December, 2003	<u>1.516.973</u>	<u>1.516.973</u>

## I Property, plant and equipment

	31 <sup>st</sup> December				
	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed assets under Construction	Total
Year ended 31st December, 2003	EUR	EUR	EUR	EUR	EUR
Cost:					
Beginning of the period	11.623.125	54.807.703	2.644.965	253.475	69.329.268
Additions of the year	2.905.659	8.081.397	467.429	-	11.454.485
Retirements	-	(298.618)	(82.670)	(167.162)	(548.450)
Transfers	-	20.899	(20.899)	-	-
CTA	-	23.478	-	-	23.478
End of the period	14.528.784	62.634.859	3.008.825	86.313	80.258.781
Accumulated depreciation:					
Beginning of the period	1.326.571	31.170.833	1.679.678	-	34.177.082
Additions of the period	477.321	9.022.525	260.394	-	9.760.240
Retirements	-	(192.438)	(34.356)	-	(226.794)
Transfers	-	-	-	-	-
CTA	-	(4.716)	1.265	-	(3.451)
End of the period	1.803.892	39.996.204	1.906.981	-	43.707.077
Net book value - 31st December, 2003	12.724.892	22.638.655	1.101.844	86.313	36.551.704

The gross carrying amount of all items that are fully depreciated, but still in active use is not significant.

## J Accrued expenses, payroll and related taxes

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Vacation pay accruals	979.103	702.602	514.681
Other social accruals	948.283	881.758	263.846
Advance payments	149.530	12.655	-
Commissions	125.000	73.668	88.398
Servicing costs	-	-	198.315
Direct and indirect taxes	1.154.388	2.360.018	2.858.102
Other	526.260	387.131	55.350
Total	<u>3.882.564</u>	<u>4.417.832</u>	<u>3.978.692</u>

## K Deferred Income

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Capital grants	1.569.512	1.564.062	2.020.029
Total	<u>1.569.512</u>	<u>1.564.062</u>	<u>2.020.029</u>

## L Bank loans and overdrafts

	31st December		
	2003 EUR	2002 EUR	2001 EUR
Secured(1)	3.333.333	-	-
Unsecured	-	3.816.741	3.937.737
Total	<u>3.333.333</u>	<u>3.816.741</u>	<u>3.937.737</u>

(1) The bank loan is secured by a proxy on the business concern of Melexis Tessenderlo NV and Melexis NV for an amount of EUR 1.250.000. Melexis has the irrevocable commitment not to mortgage its real estate.

As of December 31, 2003 Melexis NV has engaged itself to the following financial covenants:

minimum solvency-ratio of 40 % on a consolidated basis.  
 minimum net financial debt / Ebitda < 1.2  
 maximum bank debt/equity-ratio of 1.6 on a consolidated basis.

## M Long-term debts

Long-term debts consist of the following:

	31st December		
	2003 EUR	2002 EUR	2001 EUR
<b>Secured</b>			
Bank loan (in CHF) at floating interest rate; average rate for the period 2003 was 5.75 % (1); maturing in 2019	513.512	585.238	606.919
Bank loan (in CHF) at floating interest rate; average rate for the year was 3.65 %; maturing in 2004	144.425	309.832	455.189
Bank loan (in EUR) at floating interest rate till 2032; average rate for the year 2003 was 3.71 % (2) (average rate 2002: 4,22%)	3.146.666	2.439.718	614.471
Bank Loan ((in EUR) at fixed interest rate of 4.8 % (3); maturing in 2008	340.000		
Bank Loan (in USD) at fixed rate of 6 % (4); maturing 2018	231.727		
Bank Loan (in EUR) at floating interest of 2.9 % (5); maturing 2006	5.000.000		
Total	9.376.330	3.334.788	1.676.579
<b>Unsecured loan</b>			
Bank loan (in EUR) at floating interest rate; average rate for the year was 2.6 % (average rate 2002: 3.95 %); – repaid in 2003		6.250.000	11.250.000
Bank loan (in EUR) at floating interest rate; average rate for the year was 2.6 % - maturing in 2006.(6)	10.000.000		
Total	10.000.000	6.250.000	11.250.000
Total long-term debt	19.376.330	9.584.788	12.926.579
Less current maturities	<u>1.779.871</u>	<u>5.242.676</u>	<u>5.238.781</u>
Long-term portion of long-term loans	<u>17.596.459</u>	<u>4.342.112</u>	<u>7.687.798</u>

(1) As at December 31, 2003 and December 31, 2002, Melexis Branch Office in Switzerland has long-terms loans for a total amount of respectively CHF 1.025.000 and 1.300.000 with a Swiss commercial bank. These loans are secured by a mortgage on the building of Bevaix of CHF 3.300.000 and a guarantee of CHF 2.300.000 given by Melexis to the lending bank.

(2) Company concluded a secured loan with TRIODOSBANK for an amount of EUR 3.200.000 to finance the construction of an office building. A mortgage of EUR 3.200.000 is given on the building project.

(3) Company concluded a secured loan for an amount of EUR 400.000 to finance investments in equipment. This loan is secured by a guarantee machinery for USD 1.14 MIO, a guarantee of Melexis NV of EUR 3 MIO and a guarantee of Elex NV of EUR 3 MIO.

(4) Company concluded a secured loan for an amount of USD 300.000. This loan is secured by a mortgage on real estate from Melexis Inc.

(5) Company concluded a secured loan for an amount of EUR 5 MIO. This loan is secured by a proxy on the business concern of Melexis Tessenderlo NV and Melexis NV for an amount of EUR 1.250.000. Melexis NV has the irrevocable commitment not to mortgage its real estate.

(6) Company committed itself to grant the lender the same priority as their other present and/or future contractual obligations for the provision of credit facilities, irrespective of their title (pari passu).

Repayments of long-term debt are scheduled as follows:

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
2001	-	-	-
2002	-	-	5.238.781
2003	-	5.242.676	5.292.115
2004	1.779.871	1.546.010	1.542.115
2005	7.104.837	141.093	140.386
2006	6.949.271	141.093	140.386
2007	231.246	141.093	140.386
2008	172.016	-	-
Thereafter	3.139.089	2.372.823	432.409
<b>TOTAL</b>	<b><u>19.376.330</u></b>	<b><u>9.584.788</u></b>	<b><u>12.926.579</u></b>

## N Shareholders' equity and rights attached to the shares

As of 31<sup>st</sup> December 2003, the common stock consisted of 45.600.000 issued and outstanding ordinary shares without face value.

Each holder of shares is entitled to one vote per share, without prejudice to specific restrictions on the shareholders' voting rights in the Company's Articles of Association and Belgian Company Law, including restrictions for non-voting shares and the suspension or cancellation of voting rights for shares which have not been fully paid up at the request of the Board of Directors.

Under Belgian Company Law, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited statutory accounts of the Company. Dividends may be paid either in cash or in kind. However, shareholders may not declare a dividend if the Company has not first reserved at least 5 per cent of its profits for the financial year until such reserve has reached an amount equal to 10 percent of its share capital (the "Legal Reserve") or if, following any such dividend, the level of the net assets adjusted for the unamortized balance of the incorporation costs and capitalized research and development costs of the Company falls below the amount of the Company's paid-in-capital and of its non-distributable reserves. The Board of Directors may pay an interim dividend, provided certain conditions set forth in Belgian Company Law are met.

In the event of a liquidation of the Company, the proceeds from the sale of assets remaining after payment of all debts, liquidation expenses and taxes are to be distributed proportionally to the shareholders, subject to liquidation preference rights of shares having preferred dissolution rights. The Company currently has no plans to issue any shares having such preferred dissolution rights.

## O Government grants

The revenue from government grants recognized in 2003, 2002 and 2001 comprises:

	31 <sup>st</sup> December		
	2003	2002	2001
	EUR	EUR	EUR
Investment grants in building, machinery and employment grants	871.384	1.516.332	955.126
Grants for research and development	1.554.490	975.289	-
	<u>2.425.874</u>	<u>2.491.621</u>	<u>955.126</u>

## P Cost of sales

Cost of sales comprises of the following expenses:

31<sup>st</sup> December

	2003	2002	2001
Cost of Sales	EUR	EUR	EUR
Purchases	53.179.064	47.015.735	37.862.434
Transportation costs	1.505.680	1.383.668	1.129.759
Salaries	6.142.602	6.841.860	6.654.947
Depreciation and amortization	7.322.020	6.732.055	5.670.667
Other direct production costs	8.215.847	5.845.973	6.592.679
Total	<u>76.365.213</u>	<u>67.819.291</u>	<u>57.910.486</u>

## Q Research and development expenses

Research and development expenses include of the following expenses:

31<sup>st</sup> December

	2003	2002	2001
Research and development costs	EUR	EUR	EUR
Salaries	11.164.709	8.044.261	6.951.751
Depreciation and amortization	2.481.535	2.133.662	1.691.918
Other	5.103.568	6.436.638	5.570.114
Total	<u>18.749.812</u>	<u>16.614.561</u>	<u>14.213.783</u>

## R General and administration expenses

General and administration expenses include of the following expenses:

31<sup>st</sup> December

	2003	2002	2001
General and administrative expenses	EUR	EUR	EUR
Salaries	1.345.972	1.002.641	835.832
Depreciation and amortization	497.411	231.869	232.673
Other	3.199.961	3.846.519	2.998.975
Total	<u>5.043.344</u>	<u>5.081.029</u>	<u>4.067.480</u>

## S Selling expenses

Selling expenses are analyzed as follows:

31<sup>st</sup> December

	2003	2002	2001
Selling expenses	EUR	EUR	EUR
Salaries	1.706.286	1.796.830	1.958.809
Depreciation and amortization	55.017	27.684	88.933
Commissions	417.792	920.838	585.450
Other	2.548.848	2.049.286	1.912.959
Total	<u>4.727.943</u>	<u>4.794.638</u>	<u>4.546.151</u>

## T Personnel expenses and average number of employees

31<sup>st</sup> December

	2003	2002	2001
	EUR	EUR	EUR
Wages and salaries	20.359.569	17.385.592	16.401.339
Total	<u>20.359.569</u>	<u>17.385.592</u>	<u>16.401.339</u>

The average number of employees is 550 in 2003, 445 in 2002 and 436 in 2001.

## U Depreciation and amortization expenses

	31 <sup>st</sup> December		
	2003	2002	2001
	EUR	EUR	EUR
Property, plant and equipment			
Cost of sales	7.322.020	6.732.055	5.670.667
Research and development	2.481.535	2.133.662	1.691.918
General and administration	497.411	231.869	232.673
Selling	55.017	27.683	88.933
Total	<u>10.355.983</u>	<u>9.125.270</u>	<u>7.684.191</u>

## V Financial Results – Net

	31 <sup>st</sup> December		
	2003	2002	2001
	EUR	EUR	EUR
Financial income:	6.344.004	9.504.543	10.726.020
- interest income	742.827	3.109.103	3.669.047
- exchange differences	5.599.488	5.616.810	4.686.944
- fair value valuation	-	-	1.188.214
- gain on shares	-	774.119	1.059.383
- dividend	-	-	-
- other	1689	4.511	122.432
Financial charges:	5.916.915	7.744.077	7.054.414
- interest charges	805.878	1.796.388	1.814.849
- bank charges	210.386	73.703	63.949
- exchange differences	4.877.297	5.851.011	4.681.495
- less value on shares	-	-	83.017
- other	23.353	22.976	411.104
Net financial results	<u>427.089</u>	<u>1.760.466</u>	<u>3.671.606</u>

## W Income taxes

The income tax expense can be detailed as follows:

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Current tax expenses	(3.501.007)	(4.533.213)	(4.476.863)
Deferred tax income	(269.379)	1.522.427	1.272.905
	3.770.386	(3.010.786)	(3.203.958)

Melexis NV was subject to a special income tax regime. Under this regime, a 0% tax rate was applicable. This special tax regime expired at the end of financial year 1999. From January 1, 2000 onwards, the company is subject to the applicable tax regime. Applicable tax regime changed from 40.17 % to 33.99 % from year 2003 onwards.

In 1999, Melexis NV sold part of its business to its wholly owned subsidiaries Melexis Tessenderlo NV and to Melexis GmbH (previously known as Thesys Mikroelektronik Produkte GmbH) at market value. This transaction resulted in a goodwill amount in the Melexis Tessenderlo NV statutory financial statements of approximately EUR 82 million and in the Melexis GmbH statutory financial statements of approximately EUR 6 million. In 2002, Melexis Swiss Branch, which is an Integral part of Melexis NV, sold part of its business also to Melexis Tessenderlo NV. This transaction resulted in a goodwill amount in the Melexis Tessenderlo statutory financial statements of approximately EUR 20 million. These goodwill amounts, which are eliminated in consolidation, result in tax deductible amortization charges at Melexis Tessenderlo NV and Melexis GmbH, which can be offset against future profits. The company recognized a deferred tax asset of EUR 5.027.000 to represent the budgeted usage of the temporary difference over the coming year, 2004. Company's unrecognized deferred tax asset relating to amortization of goodwill amounts to EUR 13,2 million.

Reconciliation of the effective tax rate to the statutory tax rate is as follows:

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Accounting profit	28.349.043	24.650.920	23.505.082
Expected taxes	9.976.507	9.902.275	9.831.187
Use of tax losses	(1.486.046)	(1.739.534)	(1.577.301)
Tax effect of non taxable income			
Goodwill Melexis Tessenderlo	(4.528.149)	(4.836.553)	(4.638.140)
Goodwill Melexis GmbH	(509.257)	(389.796)	(389.637)
Gain on shares	-	(310.964)	(477.306)
Tax effect of disallowed expenses	278.158	393.500	420.760
Tax credits from previous years	(630.225)	(8.142)	-
Deferred taxes not recognized	669.398	-	34.395
Effective taxes	3.770.386	3.010.786	3.203.958

Components of deferred tax assets are as follows:

	1 January 2003	Charged to income statement	Cumulative Translation Adjustment	31 Dec. 2003
	EUR	EUR	EUR	EUR
Tax amortization charges	5.027.000	-	-	5.027.000
Tax losses	522.427	(45.971)	(83.846)	392.610
Total	<u>5.549.427</u>	<u>(45.971)</u>	<u>(83.846)</u>	<u>5.419.610</u>

Components of deferred tax liabilities are as follows:

	1 January 2003	Charged to income statement	Cumulative Translation Adjustment	31 Dec. 2003
	EUR	EUR	EUR	EUR
Inventories deductible	-	(140.600)	-	(140.600)
Fixed assets	-	(82.808)	-	(82.808)
Total	=	<u>(223.408)</u>	=	<u>(223.408)</u>

Undistributed earnings of foreign subsidiaries were approximately EUR 11,4 million at December 31, 2003. Since it is the intention of the company to reinvest these earnings, no deferred tax liability has been provided.

### X Earnings per shares

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of EUR 24.578.657 in 2003 (2002: EUR 21.640.134 and 2001: EUR 20.301.124) by the weighted average number of ordinary shares outstanding during the period (45.600.000 in 2003, 2002 and 2001).

There were no material share transactions or potential share transactions, which occur after the balance sheet date.

### Y Research and development revenues

These revenues include contracted Research and development revenues for specific product developments and revenues from in-depth knowledge of future automotive applications (such as knowledge sharing, market studies and acquisition advice) which result from general specific research done by Melexis.

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Research and development revenues-product developments	5.277.438	5.740.295	8.640.266
Research and development revenues – other	-	-	1.900.560
Total research and development revenues	<u>5.277.438</u>	<u>5.740.295</u>	<u>10.540.826</u>

The other research and development revenues for 2001 for an amount of EUR 1.900.560 are mainly comprised of services such as patents, market study and other business advice specifically related to the automotive business. These services were rendered to related parties. (see also note ab)

### Z Other operating expenses

	31st December		
	2003	2002	2001
	EUR	EUR	EUR
Other operating expenses	-	-	529.950
Total	-	-	529.950

The other operating expenses for 2001 relate to the exceptional loss realized on the disposal of fixed assets of Melexis Inc.

## AA Segment information

Segment information is prepared on the following basis:

### A. Business Segments

The Melexis group conducts the majority of its business activities in the following two areas:

- a) Automotive
- b) Non-automotive (other)

### B. Geographical Segments

The Melexis group's activities are conducted predominantly in Western Europe, Eastern Europe and the United States.

#### Business segment data

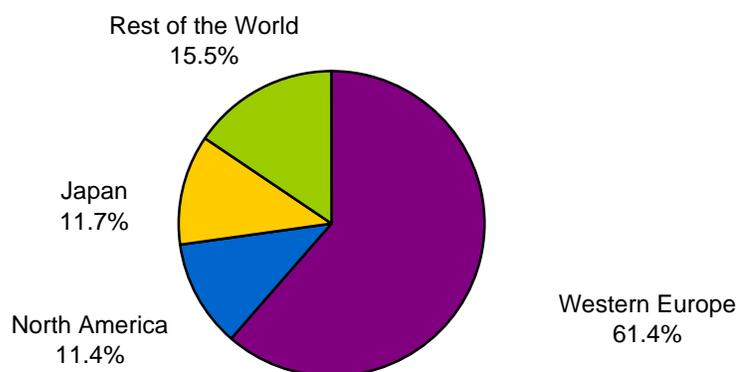
All amounts in 1.000 EUR	Automotive	Other	Unallocated	Total
Sales	105.204	23.068	-	128.272
Other	4.431	847	-	5.277
COS	53.478	22.887	-	76.365
Goodwill amortization			741	741
R&D expenses	15.392	3.357	-	18.750
G&A expenses	4.140	903	-	5.043
Selling expenses	3.881	847	-	4.728
Other operating expenses				
<u>Income from operations</u>	-	-	-	<u>27.922</u>
Financial results	-	-	-	427
Taxes	-	-	-	(3.770)
<u>Net profit</u>	-	-	-	<u>24.579</u>
Segment assets	65.292	19.209	36.576	121.078
Capital expenditures	9.280	2.024	-	11.304
Depreciation	8.502	1.854	-	10.356

## Geographical segment data

All amounts are in 1.000 EUR	Western Europe	Eastern Europe	US	Total
Revenue by origin	125.988	2.175	5.386	133.549
Segment assets	104.606	12.457	4.015	121.078

The following table summarizes sales by destination:

	2003 EUR	2002 EUR	2001 EUR
Western Europe	82.006.921	78.685.830	73.262.944
Germany	41.471.213	40.458.890	36.872.401
France	17.033.862	16.978.387	14.985.880
United Kingdom	18.072.266	15.349.359	7.966.673
Belgium	360.780	944.102	4.139.050
Austria	1.677.940	1.630.054	3.923.190
Netherlands	1.712.089	2.133.946	2.909.953
Other	1.678.769	1.191.092	2.465.797
United States of America	15.207.569	15.453.924	13.852.559
Asia	32.618.184	21.311.537	13.408.322
Japan	15.688.523	12.144.355	6.328.143
China	125.414	192.962	693.526
Other	16.804.246	8.974.220	6.386.653
Rest of the World	3.716.511	2.739.961	1.876.399
Total	<u>133.549.184</u>	<u>118.191.252</u>	<u>102.400.224</u>



## Revenues by customer

The following table summarizes sales by customer for the 10 most important customers.

	Years ended 31st December		
	2003	2002	2001
	%	%	%
Customer A	16	18	13
Customer B	14	13	9
Customer C	7	8	9
Customer D	7	9	6
Customer E	6	7	7
Customer F	5	2	1
Customer G	3	3	3
Customer H	3	3	6
Customer I	2	0	0
Customer J	2	0	0
TOTAL	65	63	54

## AB Related parties

### 1. Shareholders' structure and identification of major related parties

Melexis NV is the parent company of the Melexis group that includes following entities which have been consolidated:

Melexis Tessenderlo NV	Belgian entity
Melexis Inc	US entity
Melexis Gmbh	German entity
Melexis Bulgaria Ltd.	Bulgarian entity
Melexis Netherlands BV	Dutch entity
Melexis Kiev	Ukraine entity
Melexis Swiss branch	Swiss branch
Melexis French branch	French branch

The shareholders of Melexis NV are as follows:

As of January 31, 2004 Elex NV owns 50,49 % of the outstanding shares (38 % of these shares are not listed on Euronext Brussels). The remaining balance of the outstanding shares, 49,51 % are spread in the public.

The shares of Elex are held directly and/or indirectly by Mr. Roland Duchâtelet and Mr. Rudi De Winter who are both directors at Melexis.

Elex NV also owns 64 % of the outstanding shares of EPIQ NV. EPIQ NV is listed on Euronext and has become an important business relation for Melexis. Melexis supplies products to EPIQ.

Elex NV owns 86 % of the outstanding shares of X-FAB AG., producer of wafers that are the main raw materials for the Melexis products. As in prior years, the X-FAB group is a major supplier for Melexis. X-Fab sells the majority of its products also to third parties.

Melexis, as in prior years, purchases part of its test equipment from the XPEQT group. XPEQT AG develops, produces and sells test systems for the semiconductor industry. Xpeqt NV owns 100 % of Xpeqt AG. Xpeqt NV is owned by Mr. Roland Duchâtelet (60 %) and Mrs. Françoise Chombar (40 %), COO of Melexis NV.

As required by Belgian law (article 523 and 524 of the Company law) the Board of Directors investigates all transactions which can create a potential conflict. For all transactions which have not taken place in the "normal course of business", an independent expert is appointed to review these transactions as to their fair nature and report to independent directors.

In 2003, the Board of Directors has not identified new transactions in this matter. The existing financing agreements with X-FAB group were already analyzed in 2002, concluding that the proceeds resulting from these agreements are at the benefit of the company.

## 2. Outstanding balances at year-end

As of December 31, 2003 and 2002, the following balances were outstanding:

### Receivables:

On	31st December	
	2003	2002
Elex	-	1.742.006
Epiq group	3.390.507	4.204.235
Xfab group	6.408.532	7.436.404
Xpeqt group	-	450.052
Other	166.239	-
<b>TOTAL</b>	<b>9.965.278</b>	<b>13.832.697</b>

### Payables:

On	31st December	
	2003	2002
Elex NV	480.561	-
Epiq group	17.727	12.437
Xfab group (a subsidiary of Elex NV)	1.345.321	1.859.180
Xpeqt group	752.729	373.171
<b>TOTAL</b>	<b>2.596.338</b>	<b>2.244.788</b>

## 3. Transactions during the year

### A. Sales/ purchases of goods and equipment

In the course of the year, following transactions have taken place:

Sales to	2003	2002
Epiq group (mainly IC's)	11.689.910	10.872.951
Xpeqt group	69.954	136.176
Xfab group (mainly test & assembly services)	3.431.751	4.067.550

Purchases from	2003	2002
Xfab group (mainly wafers)	54.765.678	43.458.666
Epiq group (mainly assembly)	411.436	940.478
Xpeqt group (mainly equipment)	3.745.468	3.798.169
Elex (mainly IT infrastructure)	95.295	403.642

### B. Sales/purchases of services

Sales to	2003	2002
Elex (mainly R&D services and rent)	211.113	168.250
Xpeqt group (infrastructure office building)	35.000	513.450
X-Fab group (mainly R&D services)	304.290	305.910
EPIQ group (infrastructure office building)	3.000	-

Purchases from	2003	2002
Elex N.V. (mainly IT and related support)	1.090.535	1.137.015

The Board of Directors and the Audit Committee have reviewed and analyzed the major transactions and concluded these transactions are within the normal course of business and that there are sufficient elements to conclude that the remuneration is based on arm's length principles.

Elex is an investment company with a book value of its assets amounting to approximately EUR 215 million (unaudited). These and other assets are financed by bank debts of EUR 80 million and equity of EUR 87 million (unaudited).

X-FAB Inc. incurred a loss of USD 36 Million in 2003 as a result of a weak semiconductor market throughout 2003 and overcapacity resulting thereof. X-FAB AG realized a profit of EUR 10 million in 2003.

The EPIQ group incurred an estimated consolidated loss of EUR 8.8 million (unaudited), in 2003 mainly as a result of restructuring charges. Equity is estimated at EUR 14.7 million (unaudited).

#### **4. Remuneration of Board of Directors**

In accordance with the company's bylaws, directors are not remunerated for their mandate. The directors or entity that they represent, have received respectively EUR 40.727 and EUR 35.400 in 2003 and 2002 for services performed.

### **AC Financial instruments**

#### **Financial risk management**

Melexis operates internationally, which could give an exposure to market risks from changes in interest and foreign exchange rates. Melexis uses derivative financial instruments to manage the foreign exchange risks.

Risk management policies have been defined on group level, and are carried out by the local companies of the group.

##### **(1) Credit Risks**

The group has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. The group has a policy on business unit level to ensure that sales are only made to new and existing customers with an appropriate credit history.

##### **(2) Interest rate risk**

The group does not use derivatives to manage interest rate risks. The schedule of long-term-debt repayments is disclosed in note m.

The group has no significant interest-bearing held-to-maturity financial assets.

##### **(3) Liquidity risk**

Liquidity risk arises from the possibility those customers may not be able to settle obligations to the Company within the normal terms of trade. To manage the risk the Company periodically assesses the financial viability of customers. Any excess cash is invested in short-term deposits.

##### **(4) Foreign exchange risk**

The currency risk of the group occurs due to the fact that the group operates and has sales in USD. The group uses derivative contracts to manage foreign exchange risks. The table with outstanding derivatives at year-end is taken up in note e.

#### **Fair value of Financial Instruments**

The fair value of foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. For all of these instruments, the fair values are confirmed to the group by the financial institutions through which the group has entered into these contracts.

The group's principal financial instruments not carried at fair value are cash and cash equivalents, trade receivables, other current assets, other non current assets, trade and other payables, bank overdrafts and long term borrowings.

The carrying amounts of cash and cash equivalents and of bank overdrafts approximates their fair value due to the short-term maturity of these financial instruments. The fair value of current investments is calculated by reference to the market value on the stock exchange on which the shares are listed. The fair value of the long-term loans is based on the current rates available for debt with the same maturity profile and approximates their carrying amounts.

Management believes that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2003 was minimum since their deviation from their respective fair values was not significant.

## AD Commitments

As of 31st December 2003, the company had purchase commitments for tangible fixed assets amounting to EUR 279.122. As of 31st December 2002, the company had purchase commitments for tangible fixed assets amounting to EUR 796.477.

## AE Auditor's services

The company has incurred following non- audit fees in 2003 :

EUR 19.174 : limited review opinion on the June 30, 2003 financial statements for the distribution of an interim dividend.

EUR 101.805 : fiscal advice.

## AF Reserves Post-retirement Benefits

The company has not arranged for post-retirement benefits for its employees. Accordingly, the company has no such liabilities/commitments.

## AG Subsequent events

Melexis NV has acquired on February 3 2004, Sentron AG in Zug, Switzerland. Sentron AG is involved in the development of Hall sensors ( IMC – HALL) and Hall-systems for precise and reliable magnetic field measurements.

## AH List of subsidiaries consolidated

Place of incorporation	Principal activities	Ownership interest	
Melexis Tessenderlo NV	Belgium	R&D	99,9%
Melexis Inc.	USA	Marketing & selling	100%
Melexis GmbH	Germany	R&D + Test operations	100%
Melexis Ukraine	Ukraine	R&D	100%
Melexis Bulgaria Ltd.	Bulgaria	R&D + Test operations	100%
Melexis BV	The Netherlands	R&D	100%

# 8. Board of Directors

## 8.1 Officers and Members of the Board of Directors and Key Employees

In accordance with the Belgian law, its Board of Directors manages the company's affairs. Pursuant to the Bylaws, executive authority for daily management and implementation of the decisions of the Board of Directors may be delegated to one or more directors referred to as Managing Directors ("afgevaardigd bestuurder"). The officers, directors and managing directors of the company are as follows:

Name	Age	Position
Roland Duchâtelet	57	Chairman of the Board and Managing Director
Rudi De Winter	43	Vice Chairman of the Board and Managing Director, Chief Executive Officer
Françoise Chombar	41	Director, Chief Operating Officer
Steve Hix	67	Director (non-executive)
Simon Middelhoek	73	Director (non-executive)
Karen van Griensven	34	Chief Financial Officer
Klaus Hermann	49	Quality & Environmental Management Representative

**Mr. Roland Duchâtelet** was private shareholder of the company since April 1994 and has served as a Managing Director since that date. Prior to that date, Mr. Duchâtelet has served in various positions in production, finance, product development and marketing functions for several large and small companies. He contributed in the start-up of two other semiconductor manufacturers: Mietec Alcatel (Belgium) from 1983 to 1985 as business development / sales manager and Elmos GmbH (Germany) from 1985 to 1989 as marketing manager. Mr. Duchâtelet was the co-founder of the parent company of Melexis N.V. He holds a degree as Electronics Engineer, Applied Economics and an MBA from the University of Leuven.

**Mr. Rudi De Winter** was private shareholder of the company since April 1994. He has served as acting Chief Executive Officer since 1996 and as Managing Director since 1996. Prior to that date, Mr. De Winter has served as development engineer at Mietec Alcatel (Belgium) from 1984 to 1986 and as development manager at Elmos GmbH (Germany) from 1986 to 1989. In 1990, Mr. De Winter became director together with Mr. Duchâtelet of Elex N.V., the parent company of Melexis N.V. Mr. De Winter holds a degree as Electronics Engineer from the University of Gent. Mr. De Winter, Chief Executive Officer and Ms. Chombar, Chief Operating Officer, are married.

**Ms. Françoise Chombar** has served as acting Chief Operating Officer since 1994. Prior to that date, she served as planning manager at Elmos GmbH (Germany) from 1986 to 1989. From 1989 she served as operations manager and director at several companies within the Elex group. Ms. Chombar became director in 1996. She holds a master's degree as Interpreter in Dutch, English and Spanish from the University of Gent.

**Mr. Lucien De Schamphelaere** is the founder and Chairman of the Board of Directors of

Triakon N.V., a printing office that explores new applications for digital printing. He is also director of several companies active in high technology such as Option International, ISEP, Materialize and IMEC.

In 1988 Mr. De Schamphelaere founded Xeikon, a company which he led for more than 10 years. Xeikon develops, produces and sells digital color printing presses and is a world leader in this field. Before founding Xeikon he held several positions at Agfa-Gevaert. From 1986 to 1993 he was Director of Agfa-Gevaert's Venture Capital Fund, AGIF.

Mr. De Schamphelaere holds a degree in Electronic Engineering.

**Mr. Simon Middelhoek** received a M.Sc. degree in Applied Physics from Delft University of Technology in 1956. In 1961 he received his Ph.D. (cum laude) in Mathematics and Physics from Amsterdam University. From 1956 to 1962, he worked at the IBM Zurich Research Laboratory, Switzerland, from 1962 to 1963, at the IBM Thomas J. Watson Research Center in Yorktown Heights, N.Y. and again in Switzerland from 1963 to 1969. In 1969 he joined the Faculty of the Electronic Engineering Department at Delft University of Technology as a professor for Electronic Instrumentation. In 1974 he initiated a scientific program on silicon sensors and microsystems and later was one of the founders of the internationally well-known Microelectronics Institute DIMES. In 1996 he retired from his official duties, but is still associated with several sensor related activities. Mr. Middelhoek is an IEEE Fellow, a Member of the Royal Netherlands Academy of Arts and Sciences and Foreign Associate of the National Academy of Engineering (USA).

He was from 1981 – 2002 Editor-in-chief of the scientific journal Sensors and Actuators. At the Transducers '97 conference in Chicago he received one of the first Carrier Achievement Awards for his efforts in the field of silicon sensors and microsystems.

**Ms. Karen van Griensven** joined the company in 1997 prior to which she served in a similar position at Elex N.V. Ms. van Griensven holds a degree as bio-engineer from the University of Gent and Montpellier and an MBA degree from the Solvay Institute in Brussels.

**Mr. Klaus Hermann** joined the company in 1999 following the acquisition of 'Thesys Gesellschaft für Mikroelektronik', prior to which he held positions as development engineer (Funkwerk Erfurt), Manager Reliability Laboratory (MTG) and Vice President Quality (Thesys Gesellschaft für Mikroelektronik). Mr. Herman holds a degree in Theoretical Physics.

**Mr. Steve Hix** is a high-technology entrepreneur, who is no stranger to building successful multi-million dollar companies from a modest start-up. He served the United States Navy during twenty-one years, including ten years as project design engineer for the Joint Chiefs Staff. His experiences are based on more than 30 years of managing and founding various successful (high-technology) companies like AdVan Media and Sarif.

Mr. Hix is also founder and former CEO of InFocus Corporation, Co-Founder of Planar Systems Inc and has important management positions at Sigma Research Inc., Tektronix Inc. and Watkins Johnson. He is member of the National Academy of Sciences and Engineering, of the International Standards and Conformity Assessment, of the National Research Council and of the US Trade Policy Project Committee. In 1994, Mr. Hix was Technology Executive of the Year and in 1991 Northwest Entrepreneur of the Year

## 8.2 Compensation of Directors

As indicated in the Articles of Association, the office is non-remunerative. In 2003 the aggregate cash compensation paid or accrued by the Company for its directors and officers was as follows:

Remuneration of Directors (in 1.000 Euro)

	Basic Salary	Monetary value of benefits	Bonuses	Long-term Compensation
a) As directors	-	-	-	-
b) As executive	40	-	-	-
Remuneration of other senior executives	163	-	-	-

# Appendix 1: Condensed Statutory Financial Statements (short version)

statutory balance sheet

For the years  
ended December 31st

in 1.000 EUR	2003	2002	2001
<b>ASSETS</b>			
<b>FIXED ASSETS</b>	<b>125.806</b>	<b>125.896</b>	<b>89.291</b>
I. Formation expenses	-	-	289
II. Intangible assets	1.314	1.214	7
III. Tangible assets	15.879	17.928	15.318
A. Land and buildings	2.973	3.221	3.402
B. Plant machinery and equipment	12.582	14.406	11.753
C. Furniture and vehicles	324	301	163
E. Other tangible assets	-	-	-
F. Assets in progress and advanced payments	-	-	-
IV. Financial assets	108.613	106.754	73.677
A. Affiliated companies	108.492	106.633	73.554
1. Participations in third parties	108.492	106.633	73.554
C. Other financial assets	121	121	123
2. Receivables and caution money	121	121	123
<b>CURRENT ASSETS</b>	<b>51.327</b>	<b>50.228</b>	<b>78.324</b>
VI. Stocks and contracts in progress	6.869	4.891	3.255
A. Stocks	6.869	4.891	3.255
1. Raw materials and consumables	617	1.313	577
2. Contracts in progress	4.539	1.932	1.965
3. Finished goods	1.713	1.646	713
VII. Amounts receivable within one year	34.628	31.552	60.684
A. Trade receivables	8.912	6.879	5.823
B. Other receivables	25.716	24.673	54.861
VIII. Cash investments	5.000	3.088	2.129
A. Own shares	-	3.088	-
B. Other investments and deposits	5.000	-	2.129
IX. Cash deposits	4.630	10.664	11.867
X. Deferred assets and accrued income	200	33	389
<b>TOTAL ASSETS</b>	<b>177.133</b>	<b>176.124</b>	<b>167.615</b>

<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>	<b>148.300</b>	<b>163.735</b>	<b>158.538</b>
I. Capital	565	565	565
A. Outstanding Capital	565	565	565
II. Share premium account	32.256	32.256	32.256
IV. Reserves	57	3.145	57
A. Legal reserve	57	57	57
B. Reserves not available for distribution	-	3.088	
1. In respect of own shares held	-	3.088	
V. Accumulated profits	115.422	127.707	125.548
VI. Investment grants	-	62	112
<b>PROVISIONS AND DEFERRED TAXES</b>	<b>198</b>	<b>230</b>	<b>273</b>
VII. A Provisions for liabilities and charges	198	198	198
4. Other liabilities and charges	198	198	198
VII. B Deferred taxes	-	32	75
<b>DEBTS</b>	<b>28.635</b>	<b>12.159</b>	<b>8.804</b>
VIII. Amounts payable after more than one year	14.075	706	877
A. Financial debts	14.075	706	877
4. Credit institutions	14.705	706	877
IX. Amounts payable within one year	14.456	11.434	7.884
A. Current portion of amounts payable after more than one year	1.583	189	185
B. Financial debts	3.333	3.554	1.678
1. Credit institutions	3.333	3.554	1.678
C. Trade debts	8.918	3.671	1.165
1. Trade payables	8.918	3.671	1.165
D. Advances received on contracts in progress	-	-	-
E. Taxes, remuneration and social security	555	1.702	2.296
1. Taxes	14	1.415	2.031
2. Remuneration and social security	541	287	265
F. Other amounts payable	67	2.318	2.560
X. Accrued charges and deferred income	104	19	43
<b>TOTAL LIABILITIES</b>	<b>177.133</b>	<b>176.124</b>	<b>167.615</b>

in 1.000 EUR	2003	2002	2001
<b>I. Operating income</b>	<b>52.443</b>	<b>64.825</b>	<b>37.602</b>
A. Turnover	49.690	43.630	36.298
B. Changes in stocks of finished goods, work and contracts in progress	2.674	900	774
D. Other operating income	79	20.295	530
<b>II. Operating charges</b>	<b>(46.191)</b>	<b>(36.285)</b>	<b>(28.862)</b>
A. Raw materials, consumables and goods for resale	26.202	19.043	13.116
1. Purchases	25.506	19.779	12.826
2. Changes in stocks	696	(736)	290
B. Services and other goods	8.896	7.457	7.285
C. Remuneration, social security charges and pensions	5.135	4.181	3.814
D. Depreciations	5.840	5.396	4.529
E. Amounts written off stocks, contracts in progress and trade receivables	1	48	61
G. Other operating charges	117	160	57
<b>III. Operating profit</b>	<b>6.252</b>	<b>28.540</b>	<b>8.740</b>
<b>IV. Financial income</b>	<b>8.277</b>	<b>8.595</b>	<b>8.907</b>
A. Income from financial fixed assets	-	-	14
B. Income from current assets	4.211	4.634	4.968
C. Other financial income	4.066	3.961	3.925
<b>V. Financial charges</b>	<b>(5.318)</b>	<b>(5.028)</b>	<b>(4.071)</b>
A. Debt charges	859	566	252
B. Amounts written off on current assets other than those mentioned under II. E.	-	-	83
C. Other financial charges	4.459	4.462	3.736
<b>VI. Profit on ordinary activities before taxes</b>	<b>9.211</b>	<b>32.107</b>	<b>13.576</b>
<b>VIII. Extraordinary charges</b>	<b>(2)</b>	<b>-</b>	<b>-</b>
D. Loss on disposal of fixed assets	(2)	-	-
<b>IX. Profit of the year before taxes</b>	<b>9.209</b>	<b>32.107</b>	<b>13.576</b>
IX. bis. A. Transfer from deferred taxes	32	189	75
<b>X. Income taxes</b>	<b>(2.293)</b>	<b>(4.249)</b>	<b>(4.441)</b>
A. Taxes	(2.423)	(4.249)	(4.441)
B. Regularization	130	-	-
<b>XI. Profit of the year</b>	<b>6.948</b>	<b>28.047</b>	<b>9.210</b>
<b>XIII. Profit of the year available for appropriation</b>	<b>6.948</b>	<b>28.047</b>	<b>9.210</b>

## Appropriation of the profit

For the years  
ended December 31st

in 1.000 EUR	2003	2002	2001
<b>A. Profit to be appropriated</b>	<b>134.655</b>	<b>153.595</b>	<b>125.548</b>
1. Profit of the period available for appropriation	6.948	28.047	9.210
2. Profit carried forward	127.707	125.548	116.338
<b>B. Transfers from capital and reserves</b>	<b>3.088</b>	-	-
2. From reserves	3.088		
<b>C. Transfers to capital and reserves</b>	-	<b>(3.088)</b>	-
1. To other reserves	-	(3.088)	-
<b>D. Result to be carried forward</b>	<b>(115.422)</b>	<b>(127.707)</b>	<b>(125.548)</b>
1. Profit to be carried forward	(115.422)	(127.707)	(125.548)
<b>F. Distribution of profit</b>	<b>(22.321)</b>	<b>(22.800)</b>	-
1. Dividends	(22.321)	(22.800)	-