



# Annual Report 2006



# Melexis Annual Report 2006

## Table Of Contents

<b>1. Letter to the Shareholders</b> .....	<b>3</b>
Worldwide Semiconductor Market Versus Melexis.....	3
<b>2. Risk Factors</b> .....	<b>6</b>
2.1 Risks Related to the Company .....	6
2.2 Risks Related to the Business .....	8
2.3 Risks Related to the Future Trading on Euronext .....	9
<b>3. Key Figures</b> .....	<b>10</b>
<b>4. Introduction</b> .....	<b>12</b>
Small Things Make a Big Difference .....	12
The difference according to Melexis .....	12
<b>5. Reflection on Our Strategy</b> .....	<b>14</b>
Achieving Mutual Success by Providing Innovative Solutions to our Customers.....	14
<b>6. Our Activities &amp; Product Portfolio</b> .....	<b>16</b>
Overview of Activities .....	16
<b>7. International Locations</b> .....	<b>22</b>
<b>8. Management's Discussion and Analysis</b> .....	<b>23</b>
8.1 Introduction.....	23
8.2 Exchange Rates.....	24
8.3 Management's Discussion and Analysis of Financial Condition and Results of Operations .....	24
<b>9. Selected Summary Financial Data</b> .....	<b>28</b>
9.1. Detailed Consolidated Financial Statements .....	28
9.2. Notes to the consolidated financial statements.....	34
<b>10. Corporate Governance</b> .....	<b>54</b>
Board of Directors .....	54
Composition of the Board of Directors .....	54
Functioning and role of the Board .....	55
Directors Remuneration .....	55
Committees of the Board of Directors.....	55
<b>11. Shareholder Information</b> .....	<b>57</b>
11.1 Shareholder Structure .....	57
11.2 Share Information.....	57
11.3 Shareholder Contact Info .....	57
11.4 Financial Calendar 2007.....	57
<b>12. Condensed statutory financial statements</b> .....	<b>58</b>



# 1. Letter to the Shareholders



Françoise Chombar

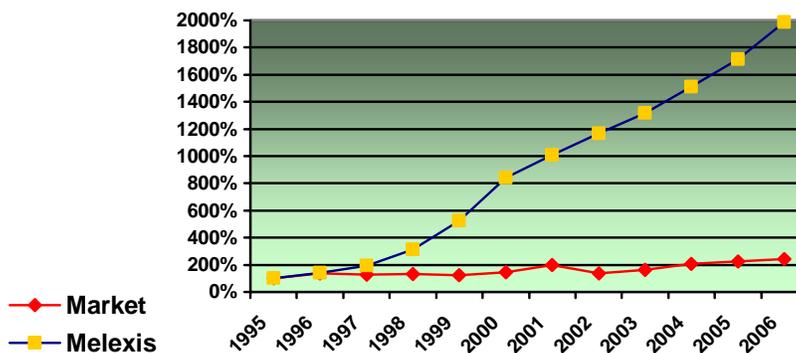
**The mission at Melexis is to provide innovative micro-electronics for our customers' challenges with a passion for achieving mutual success.**

Melexis continues to follow a clear and focused business strategy relying on the automotive markets increased demand for electronics. According to Dataquest this market has a projected annual growth rate in the next decade of 7%, despite low growth in vehicle sales. A key component of the Melexis product strategy continues to be Sensor ICs. The market for sensor ICs has high barriers to entry for traditional semiconductor manufacturers from both the IDM and fabless models. Melexis is a recognized industry leader in the Sensor IC market especially in the automotive grade sensors niche.



Rudi De Winter

In concert with the automotive and sensors focus, Melexis carefully leverages its strengths on selected opportunities in the consumer and industrial markets, as such capitalizing on the market potential of our technologies. It is in this context that, for example, Melexis introduced Optical Sensor IC solutions for the HD-DVD market during 2006. The high quality expertise in the field of optical sensors and packaging gained in the automotive market allowed us to leapfrog the competition. This being said, our strategy remains to grow automotive and non-automotive at the same  $\pm 70/30$  ratio as today.

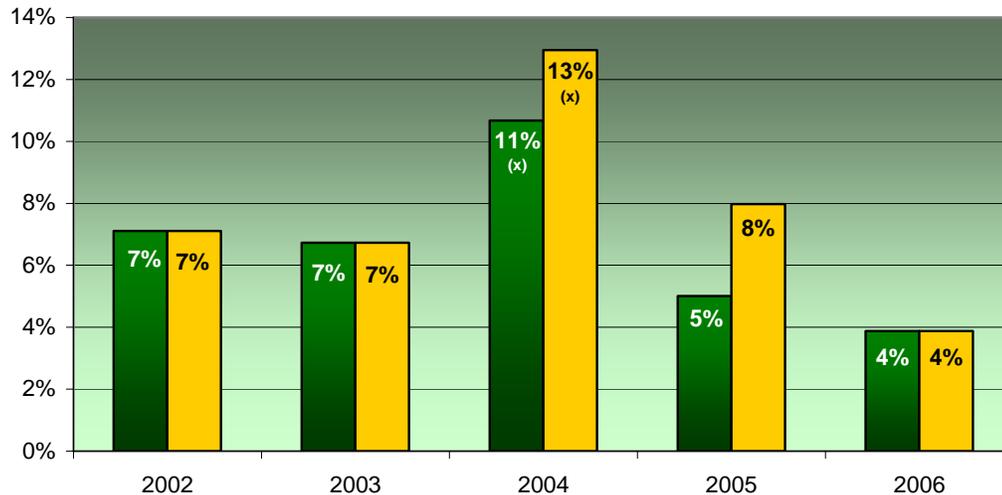


	Worldwide (\$ in Billions)		Melexis (Euro)	
1995	102	100%	10.133.373	100%
1996	144	141%	13.873.915	137%
1997	132	129%	19.751.187	195%
1998	137	134%	31.645.810	312%
1999	126	124%	53.076.307	524%
2000	149	146%	85.403.034	843%
2001	204	200%	102.400.224	1011%
2002	139	136%	118.191.252	1166%
2003	166	163%	133.549.184	1318%
2004	213	209%	153.334.939	1513%
2005	227	223%	173.674.000	1714%
2006	247	242%	201.501.718	1988%

## Worldwide Semiconductor Market Versus Melexis

Source: WSTS, World Semiconductor Trade Statistics

## Dividend yield (\*) versus Adjusted Dividend Yield (°)



(\*) : Dividend yield = Gross Dividend divided by yearly average closing share price

(°) : Adjusted Dividend yield = Dividend yield + % shrinkage of shares after cancellation of 1.034.805 and 1.323.335 in 2004 and 2005 respectively.

(x) : In 2004 a gross dividend of 0.28 EUR per share was paid out as well as a capital decrease of 0.72 EUR per share

In 2006, Melexis customers continued to expand existing business activities and launch new projects reliant on our portfolio of ASSPs and ASICs, Mixed Signal ICs and sensors in their OEM products. Automotive suppliers require Melexis to embrace specific quality systems in order to be awarded new business. Melexis has met the strictest requirements including continued certification to ISO/TS16949:2002.

Automotive design wins generally require a gestation period of 3 to 5 years to reach full production volumes but in return can run 5 to even 10 years before obsolescence, so Melexis enjoys good commercial visibility. Contrasted with the cyclical nature of other semiconductor market segments, this can allow for predictable factory loading and full utilization of capital investments.

Melexis offers its shareholders a **unique combination of stable growth and cash generation**. This is reflected in an uninterrupted positive growth and profit record of over 10 years duration with net margins between 16 and 20%, and a return on equity over 50%. Noting the several severe down cycles in the overall market for semiconductor ICs during the same period, this can be considered pretty exceptional indeed.

Considerable profit and cash generation has allowed Melexis to both pay out high dividends and to initiate share buy back programs over the last 4 years. The high visibility on future growth makes it likely that Melexis will continue to return cash to its shareholders, in order to maximize the return on equity.

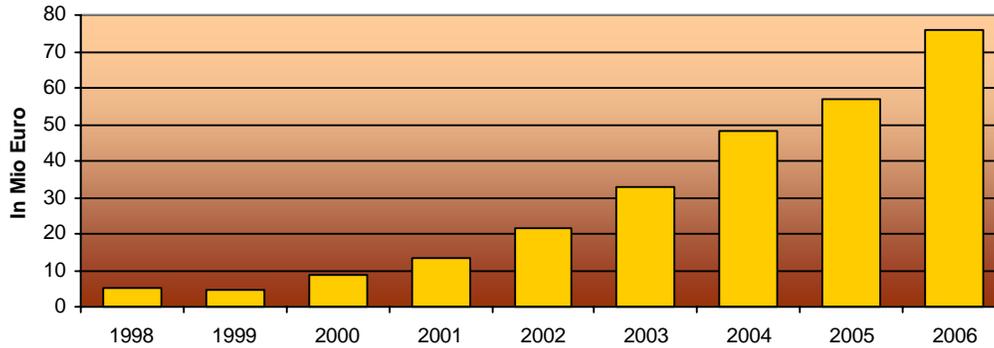
Consolidated results for the past fiscal year yielded 18% revenue growth compared to 2005. The operating margin in turn grew by 22 % to 42,3 million EUR. For 2007, we expect an increase in revenues of 10-15%, with a net profit margin in the same range as the previous year.

Though Europe remains the stronghold in sales with close to 43,7% of the total revenue, sales to the Far East have grown by more than 31% to 76,2 million EUR partly due to the shift in manufacturing from Europe and USA to Asia but equally as a result of continued design wins by Melexis with Asian based suppliers. It clearly shows Melexis has something to offer to Asia. To pursue and strengthen this evolution, Melexis is currently setting up its own sales & application offices in China (Melexis Hong Kong branch office) and Japan (KK Melexis Japan Technical research center in Tokyo).

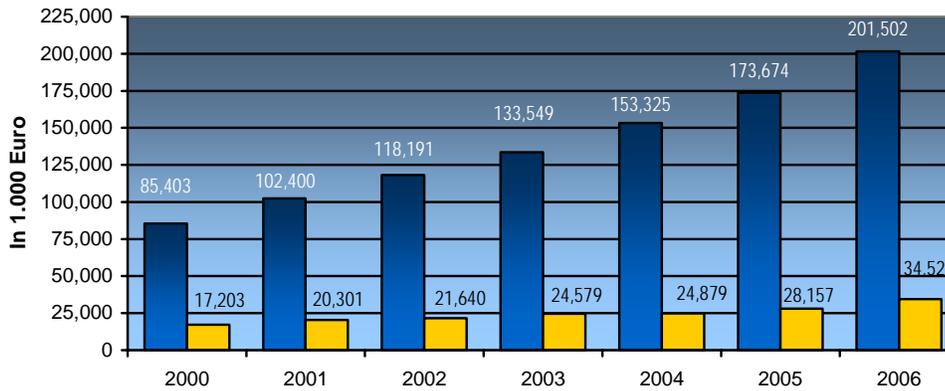
Melexis' new plant in Sofia, Bulgaria, became operational as planned in October 2006. This will ensure capacity for future growth, as it allows a doubling of the testing capacity for the Melexis group. This event triggered the Bulgarian Investment Agency to grant Melexis the honorary "Investor of the year 2006" award.

Melexis is convinced that investing in attraction, retention and development of talented team members for all aspects of the company's operations is a must for continued success.

## Sales Evolution Asia 1998 – 2006



## Sales & Profit Evolution



Also, focused investment into R&D and application support capabilities allows Melexis to offer its customers highly innovative products on a continuous basis and to provide them with the high level of application support required to design in these products. ASSP sales jumped from 36.8% in the previous year to 42.2% in 2006, proving that Melexis year-long strategy of working its own IP contributes significantly to the sustained growth of both top and bottom line. The key to success can be found in the highly integrated solutions for automotive use Melexis offers to its customers. Melexis is also unique in providing a wide range of technologies qualified for use in the automotive industry. The continuous design wins with existing and new customers ensure future growth and allow Melexis to further widen its customer base. The top 10 Melexis customers turnover indeed amounts in the past fiscal year to 60% of total revenues vs. 68 % in 2000.

With the sound fundamentals of our core market, the automotive, and our focused product, customer & organization strategy, we intend to let Melexis flourish further, to the mutual success of our customers, employees, partners and shareholders alike.

Yours sincerely,  
Ieper, 20<sup>th</sup> of March 2007

Françoise Chombar, CEO  
Rudi De Winter, CEO



Small things make a big difference.



## 2. Risk Factors

An investment in the Shares involves certain risks. Prior to making any investment decision, prospective purchasers of Shares should consider carefully all of the information set forth in this Annual Report and, in particular, the risks described below. If any of the following risks actually occur, the Company's business, results of operations and financial condition could be materially adversely affected. Except for the historical information in this Annual Report, the discussion contains certain forward-looking statements that involve risks and uncertainties such as statements regarding the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Annual Report should be read as being applicable to all forward-looking statements wherever they appear in this Annual Report.

### 2.1 Risks Related to the Company

#### Operating History; Inability to Forecast Revenues Accurately

The Company's business and prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies active in new and rapidly evolving markets, such as the semiconductor market. To address these risks and uncertainties, the Company must, among other things: (i) increase market share; (ii) enhance its brand; (iii) implement and execute its business and marketing strategy successfully; (iv) continue to develop and upgrade its technology; (v) respond to competitive developments; and (vi) attract, integrate, retain and motivate qualified personnel. There can be no assurance that the Company will be successful in accomplishing any or all of these things, and the failure to do so could have a material adverse effect on the Company's business, results of operations and financial condition.

As a result of the rapidly evolving markets in which it competes, the Company may be unable to forecast its revenues accurately. The Company's current and future expense levels are based largely on its investment plans and estimates of future revenues. Sales and operating results generally depend on the volume and timing of, and ability to fulfill, orders received, which are difficult to forecast. The Company may be unable to adjust its expenditures in a timely manner to compensate for any unexpected revenue shortfall. Accordingly, any significant shortfall in revenues in relation to the Company's planned expenditures would have an immediate adverse effect on the Company's business, results of operations and financial condition. Further, in response to changes in the competitive environment, the Company may from time to time make certain pricing, service or marketing decisions that could have a material adverse effect on the Company's business, results of operations and financial condition.

#### Currency fluctuations

The Company is subject to risks of currency fluctuations to the extent that its revenues are received in currencies other than the currencies of the Company's related costs. Fluctuations in the value of the Euro against an investor's currency of investment may affect the market value of the Shares expressed in an investor's currency. Such fluctuations may also affect the conversion into US dollars of cash dividends and other distributions paid in Euros on the Shares.

#### Dependence upon certain Related Companies

The Company relies on several related companies for certain aspects of the manufacturing of its products and for the supply of certain unique equipment for the testing of its products (see 'Production'). Even though the Company is likely to be able to secure from third parties alternative manufacturing services and testing equipment, should the relevant associated company terminate its current supply, any such termination is likely to have a material adverse effect on the Company's business in the short term. In addition, any such alternative products are likely to be less effective for the Company's business and more expensive than existing supplies and no assurance can be given that the terms upon which the Company might obtain those alternative services will be as favorable as the terms upon which those products/services are currently supplied to the Company by those related companies.

For a detailed description of related parties we refer to Financial statements 'Note – Related Parties'.

#### Managing Growth

The Company has been experiencing a period of rapid growth. To manage future growth effectively, the Company must enhance its financial and accounting systems and controls, further develop its management information systems, integrate new personnel and manage expanded operations. The Company's failure to manage its rapid growth effectively could have a material adverse effect on the quality of its products and services, its ability to retain key personnel and its business, operating results and financial condition.

## **Risk of Potential Future Acquisitions**

As a part of its growth strategy, the Company regularly evaluates potential acquisitions of businesses, technologies and product lines. Announcements concerning potential acquisitions and investments could be made at any time.

Future acquisitions by the Company may result in the use of significant amounts of cash, potentially dilutive issues of equity securities, incurrence of debt and amortization expenses related to goodwill and other intangible assets, each of which could materially and adversely affect the Company's business, results of operation and financial condition or negatively affect the price of the Shares. Should the Company's future acquisitions operate at lower margins than those that exist for the Company's present services and products, they may further limit the Company's growth and place a significant strain on its business and financial resources. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has no, or limited, direct prior experience and potential loss of key employees of the acquired company. While the Company has had discussions with other companies, there are currently no commitments or agreements with respect to any potential acquisition, in the event that such an acquisition does occur, there can be no assurance that the Company's business, results of operations and financial condition, and the market price of the Shares, will not be materially adversely affected.

## **Dependence on Key Personnel; Ability to Recruit and Retain Qualified Personnel**

The Company's performance is substantially dependent on the performance and continued presence of its senior management and other key personnel. The Company's performance also depends on the Company's ability to retain and motivate its other officers and employees. The loss of the services of any of the Company's senior management or other key employees could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's future success also depends on its ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be able to attract, integrate or retain sufficiently qualified personnel. The failure to retain and attract the necessary personnel could have a material adverse effect on the Company's business, results of operations and financial condition.

## **Products May Contain Defects.**

The Company's products may contain undetected defects, especially when first released that could adversely affect its business. Despite rigorous and extensive testing, some defects may be discovered only after a product has been installed and used by customers. Any defects discovered after commercial release could result in (i) adverse publicity; (ii) loss of revenues and market share; (iii) increased service, warranty or insurance costs; or (iv) claims against the Company. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.

## **Evolving Distribution Channels**

The majority of sales to the large automotive accounts are generated by direct sales people. However, over time, increasingly more sales of ASSPs is planned to be generated via the representative and distribution network of Melexis. As the majority of the Melexis ASSP products are unique, the end-customers are still dependent on Melexis and not on the representative or distributor that they are working with.

Every distributor or agent or distribution method may involve risks of unpaid bills, idle inventories and inadequate customer service. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.

## **Protection and Enforcement of Intellectual Property Rights**

Although the Company is currently not a party to any litigation involving intellectual property rights, the semiconductor industry is characterised by frequent claims alleging the infringement of patents and other intellectual property rights. Thus, in the future, the Company may receive communications or claims from third parties asserting patents or other intellectual property rights on certain technologies or processes used by the Company. In the event any third party claim were to be valid, the Company could be required to discontinue using certain processes or technologies or to cease the use and sale of infringing products, to pay damages and to acquire licenses to the allegedly infringed technology or develop non-infringing technologies. The Company's business, financial condition and results of operations could be materially and adversely affected by any such development.

The Company has already obtained patent protections and expects to file additional patent applications when appropriate to protect certain of its proprietary technologies. The Company also protects its proprietary information and know-how through the use of trade secrets, confidentiality agreements and other measures. The process of patent protection can be expensive and time-consuming. There can be no assurance that patents will be issued from applications or that, if patents are issued, they will not be challenged, invalidated or circumvented, or that rights granted thereunder will provide meaningful protection or other commercial advantage to the Company. Likewise, there can be no assurance that the Company in the future will be able to preserve any of its other intellectual property rights.

### **The Importance of Significant Customers**

The two biggest customers of Melexis accounted for sales of approximately 15% and 10% of the Company's revenues for the year ended December 31, 2006. During the same period, no other individual customer was responsible for generating more than 10 % of the Company's revenues. While at the moment of introduction of Melexis to the stock market in 1997, the top seven customers still accounted for 70 % of sales, the top ten customers for the year ended December 31, 2006 only accounted for 60 % of sales. This decrease is mainly the result of the increased design of Application Specific Standard Products as opposed to customized products.

### **Significant Shareholders**

The main Shareholder holds 50,05% of the Company's issued and outstanding Ordinary Shares. As a result, this shareholder, through the exercise of his voting rights, has the ability to significantly influence the Company's management and affairs and all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. In addition, some decisions concerning the Company's operations or financial structure may present conflicts of interest between the Company and this shareholder. For example, if the Company is required to raise additional capital from public or private sources to finance its anticipated growth and contemplated capital expenditures, its interests might conflict with those of these shareholders with respect to the particular type of financing sought. In addition, the Company may have an interest in pursuing acquisitions, divestitures, financings, or other transactions that, in management's judgment, could be beneficial to the Company, even though the transactions might conflict with the interests of this shareholder. Likewise, this shareholder has contractual and other business relationships with the Company from time to time. Although it is anticipated that any such transactions and agreements will be on terms no less favorable to the Company than it could obtain in contracts with unrelated third parties, conflicts of interest could arise between the Company and this shareholder in certain circumstances.

## **2.2 Risks Related to the Business**

### **The Semiconductor Market**

The semiconductor industry is characterized by rapid technology change, frequent product introductions with improved price and/or performance characteristics, and average unit price erosion. These factors could have a material adverse effect on the Company's business and prospects

### **Intense Competition**

The automotive semiconductor market is very different from other segments of the semiconductor market. In particular, technological requirements for automotive semiconductors differ significantly as automotive electronics must withstand extreme conditions, including very hot and cold temperatures, dry and humid weather conditions and an environment subject to dust, oil, salt and vibration. In addition and unlike the situation in other segments of the semiconductor market, the supply voltage to automotive semiconductors originating from a car's battery will vary strongly in practice (between 6.5 and 24 volts). As a result these factors make automotive semiconductor product design and, in particular, testing, difficult when compared with other semiconductor markets.

The Company currently competes with a number of other companies. These companies could differ for each type of product. The Company's competitors include, among others, Allegro Microsystems, Analog Devices, Elmos, Freescale, Honeywell Solid State Electronics, Infineon, Micronas, NEC Semiconductors, SGS-Thomson Microelectronics, and ST Microelectronics.

The Company believes that the principal competitive factors in its market are technological know-how, human resources, new product development, a close relationship with the leading automotive original equipment manufacturers and to a lesser extent with the car manufacturers.

Many of the Company's current and potential competitors have longer operating histories, greater brand recognition, access to larger customer bases and significantly greater financial, technical, marketing and other resources than the Company. As a result they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than the Company.

There can be no assurance that the Company will be able to compete successfully against current and future competition. Further, as a strategic response to changes in the competitive environment, the Company may, from time to time, make certain pricing, service and marketing decisions or acquisitions that could have a material adverse effect on its business, results of operations and financial condition.

New technologies and the expansion of existing technologies may increase the competitive pressures on the Company by enabling its competitors to offer a lower-cost service or a better technology. There can be no assurance that any current arrangements or contracts of the Company will be renewed on commercially reasonable terms.

Any and all of these events could have a material adverse effect on the Company's business results of operations and financial condition.

### **Rapid Technological Change**

The semiconductor market is characterized by rapidly changing technology, frequent new product announcements, introductions and enhancements to products, and average unit price erosion. In the Automotive Semiconductor market the active product life cycle is approximately 5 to 7 years.

Accordingly, the Company's future success will depend on its ability to adapt to rapidly changing technologies, to adapt its products and services to evolving industry standards and to improve the performance, features and reliability of its products and services in response to competitive product and service offerings and evolving demands of the marketplace. The failure of the Company to adapt to such changes would have a material adverse effect on the Company's business, results of operations and financial condition.

## **2.3 Risks Related to the Future Trading on Euronext**

### **Limited Trading History of the Shares**

The Company's Shares are trading on Euronext, Brussels. The Company cannot make any assurances that an active trading market in the Shares will be sustained in the future. The market price of the Shares could fluctuate substantially due to a variety of factors, including quarterly fluctuations in results of operations, adverse circumstances affecting the introduction and market acceptance of new products and services offered by the Company, announcements of new products and services by competitors, changes in the semiconductor, changes in earnings estimates by analysts, changes in accounting principles, sales of Shares by existing shareholders, loss of key personnel and other factors. The market price for the Company's Shares may also be affected by its ability to meet analysts' expectations. Failure to meet such expectations, even if not material, could have a negative effect on the market price of the Company's Shares.

### **Possible Volatility of Stock Price**

The trading price of the Company's Shares has been and may continue to be highly volatile and could be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Company's quarterly operating results, announcements of technological innovations, or new services by the Company or its competitors, changes in financial estimates by securities analysts, conditions or trends in semiconductor industries, changes in the market valuations of companies active in the same markets, announcements by the Company or its competitors of significant acquisitions, strategic relationships, joint ventures or capital commitments, additions or departures of key personnel, sales of Shares or other securities of the Company in the open market and other events or factors, many of which are beyond the Company's control. Further, the stock markets in general, and Euronext, the market for semiconductor-related and technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of such companies. These broad market and industry factors may materially and adversely affect the market price of the Company's Shares, irrespective of the Company's operating performance.

## 3. Key Figures

(in 1.000 Euro)

Operating results	2002	2003	2004	2005	2006
Turnover	118.191	133.549	153.335	173.674	201.502
EBIT	22.890	27.922	28.947	34.796	42.349
EBITDA	33.007	39.019	41.472	46.168	53.263

Balance structure	2002	2003	2004	2005	2006
Shareholders' equity	86.867	86.153	54.868	61.778	69.615
Net indebtedness (*)	(2.580)	8.582	33.094	26.249	29.920
Working capital	47.244	59.930	45.020	36.891	81.128

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

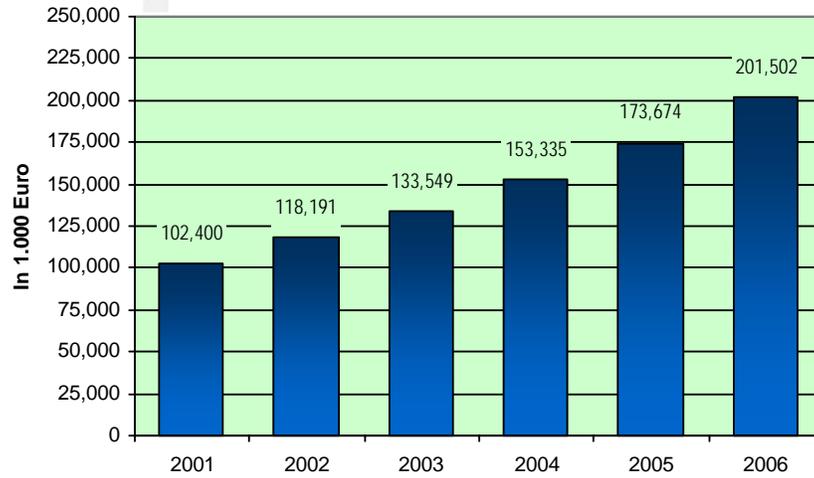
Cash flow and capital expenditure	2002	2003	2004	2005	2006
Cash flow (*)	31.757	35.676	37.401	39.529	45.440
Depreciation + amortization	10.117	11.097	12.525	11.373	10.914
Capital expenditure	14.585	11.304	10.781	9.334	15.490

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

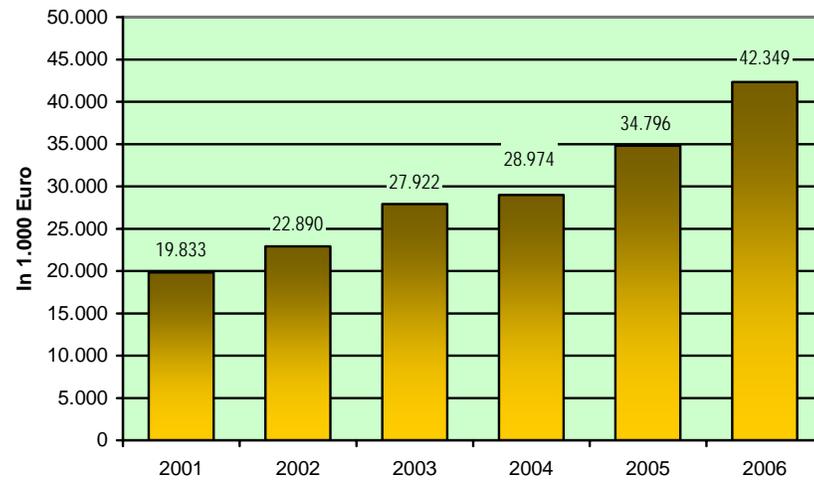
Ratios	2002	2003	2004	2005	2006
ROE	25%	29%	45%	46%	50%
Liquidity (*)	3.2	4.5	2.5	2.0	3.2
Solvency	77%	71%	45%	52%	41%

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

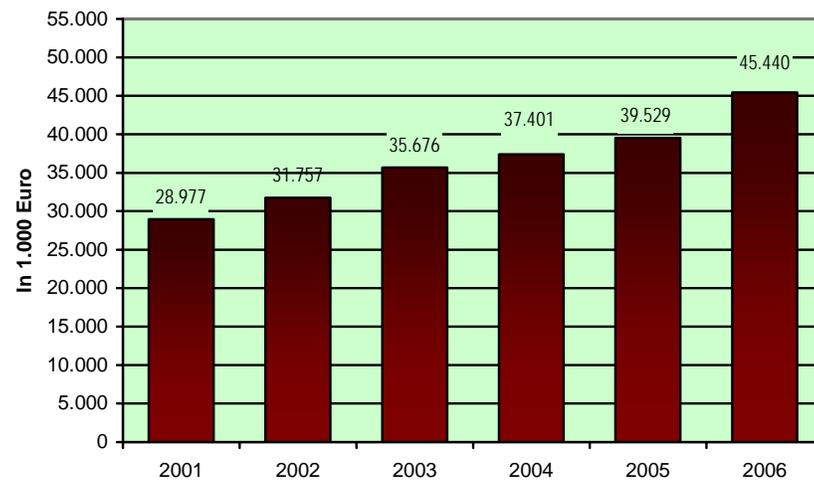
Turnover  
Evolution



EBIT  
Evolution



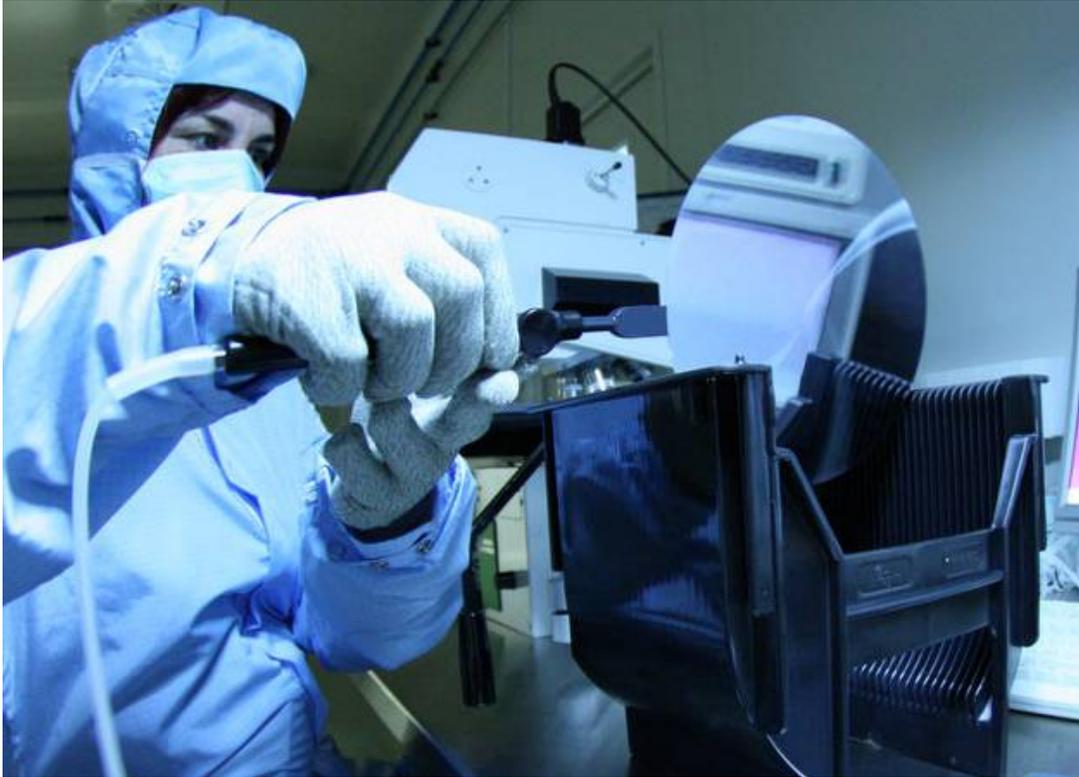
Cash Flow  
Evolution



## 4. Introduction

### Small Things Make a Big Difference

When small things are what it takes to make a big difference, then at Melexis we need to know all about the bigger picture, until the very last detail. But knowledge alone is not sufficient. Our success results from an environment where people deal freely with units, quantities and variables. Putting the human factor first in this process is our way of opting for 'the difference'. Melexis creates, innovates.



### The difference according to Melexis



#### Creating

From an innovative idea to a high-quality, technological solution with a broad field of application. This requires a thorough, multi-disciplinary knowledge of the technical framework and an understanding of customer's needs, at present but also for the future. A creativity which doesn't hesitate to move far beyond the boundaries of classic solutions. This sets its own boundaries, if necessary. Innovating is about more than just wanting to transcend what already exists. Innovation is to create a new momentum and to take risks. Calculated risks, of course. We are able to do this and we do it because of the trust that we have in our people. Their knowledge, their commitment and their involvement guarantee the measure in which our way of thinking and working has been successful. And continues to be successful.

## Freedom

Freedom is the foundation of our corporate culture, and it is inspirational. Unbridled freedom, so creativity can flow unhindered. The quiet to freely generate ideas. The space to immediately put a first idea - however rudimentary it might be - at the top of the agenda. In a loyal environment where people make time for a dialogue between colleagues, in order to arrive at a better result faster, at more intelligent and efficient solutions for each customer.

## Respect

On the other hand freedom also commands respect, respect for everyone's way of thinking, respect for the fragility of an idea in the making. That is why we think that individual freedom and mutual respect are inextricably bound. We cherish them. We consider them the ultimate catalysts in a process that is exclusively aimed at developing new initiatives within the economic reality into concrete and relevant solutions. Regardless of where they will be applied.

## Teamwork

Creativity, freedom and respect are the driving forces behind our company. Combine these fundamentals under a philosophy of teamwork and you enable the development of advanced, extremely high-quality micro-electronics. They also filter through every level of our organization and manage to unite people, departments, units and branches with each other worldwide. They manage to unite them in a joint ambition towards a maximum effort to align supply and demand, technology and markets with each other. Pure pragmatism. No-nonsense. And the results are impressive: sophisticated total solutions, which prove themselves every time again. To us as a company, but mainly to our partners in results.

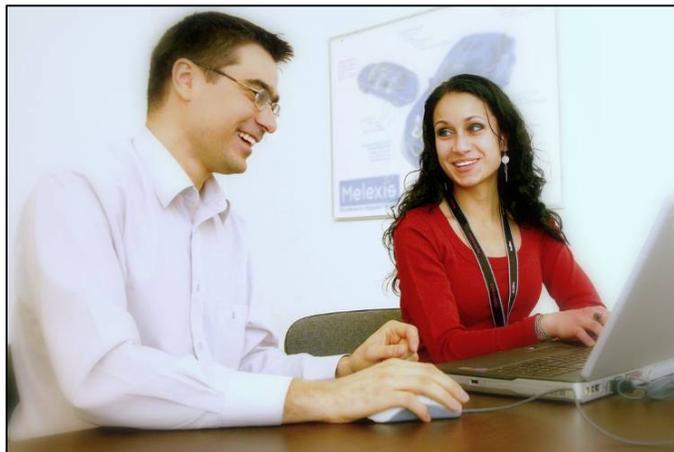


## Benchmark

It's like making a dream come true. Thinking with others about solutions. Cooperating on research and the development of innovations. Working together for a future which takes shape in state-of-the-art applications, in new products, which add value from a business, economic and social point of view to the quality of everyday life. The wish to always be ahead of the future, every day again is an aim in itself. This future is our benchmark. And our motive.

## Difference

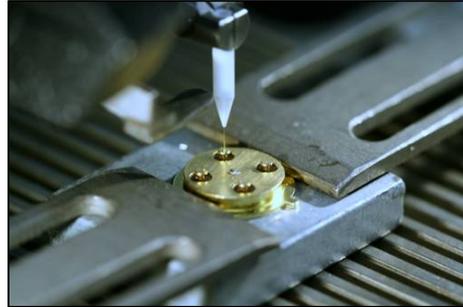
Many of our loyal customers know this and appreciate it. They know Melexis is not a run of the mill company. They know it as a stable, solid, successful organization with a strong financial position. A company which takes pleasure in working towards integrated solutions, and in doing so makes an essential contribution to the success of its customers in their respective markets and submarkets, whether in the long-standing automotive market, or in consumer electronics, and industrial or medical applications. In the knowledge that at the end of the day it's the small things that can make a big difference.



## 5. Reflection on Our Strategy

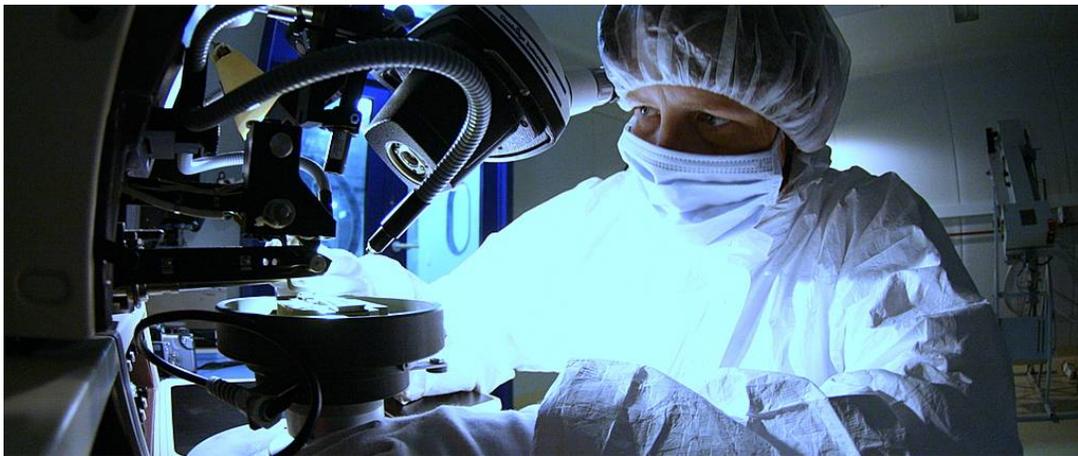
### Achieving Mutual Success by Providing Innovative Solutions to our Customers

Customer focus and a consistent strategic vision have been the foundation of Melexis growth. Innovative, dynamic teams from across Melexis' global organization are embracing the core values and no-nonsense culture to continue delivering solid financial results. This profitable and stable structure enables us to research and present inflection point technology advances for the benefit of our past and future customers. Melexis will continue its commitment in the automotive market and at the same time expand its presence in other fields of application, leveraging its organizational tools and team spirit.



### A world of growth opportunities

The market in car semiconductors shows sound fundamentals. Despite low growth in vehicle sales, per-vehicle electronic content is steadily increasing. Electronics enable car manufacturers to differentiate themselves with regard to safety, environmental impact, performance or comfort. Developing advanced, integrated applications and solutions for this sector will certainly continue to be the Melexis core business. In addition to that we have also experienced rewarding growth in new markets and sectors in the past year, in consumer electronics, wireless and industrial applications. Melexis, like no other, is able to reap the benefits in these sectors with the expertise gained in the automotive industry. This expertise is in part our knowledge and experience in the field of engineering and testing high-quality, integrated analog digital ICs for severe duty use in cars and trucks. Carefully analyzing and selecting opportunities from the much broader market can mean more probability for considerable growth and the expansion of our activities.

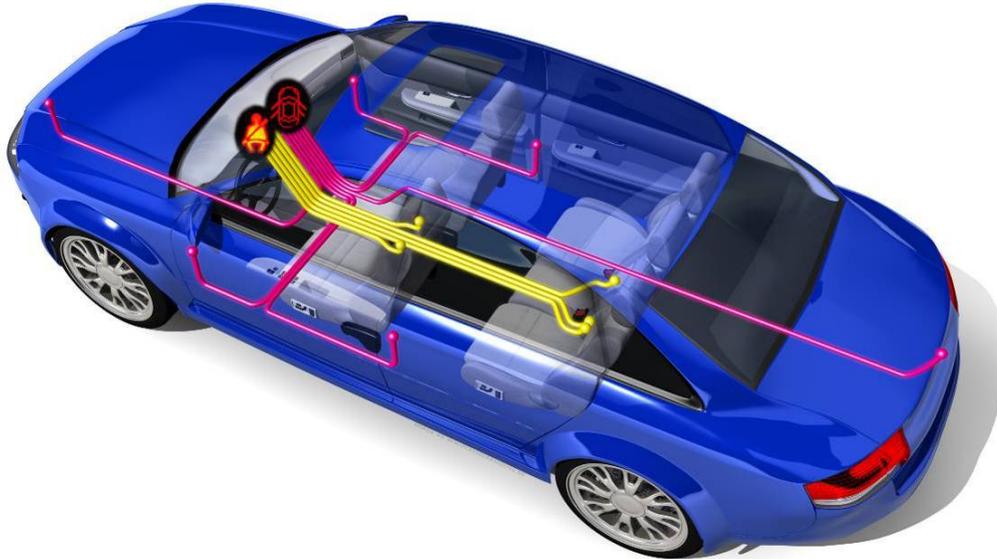


### Spotlight on ASSPs and ASICs

Melexis continues to concentrate on the development of Application Specific Standard Products (ASSPs). These ICs are Melexis solutions that are within every customer's reach. The targeted goal is to offer widely accepted building blocks for numerous fields of application. By integrating various existing components in an intelligent manner Melexis moreover is capable of creating chipsets for completely new applications, for entirely new markets. Our ASIC partners continue to recognize the value of engaging Melexis for their proprietary, sole source mixed signal solutions. Melexis routinely delivers more than just a finished tested IC based on the customers block schematic, we take pride in being a fully active team member in the definition, design and delivery of the ASIC. Innovative, progressive solutions at the schematic level and throughout the program life make the difference.

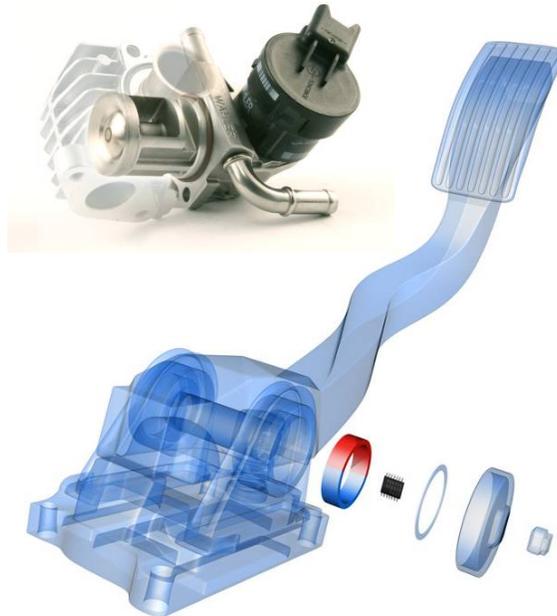
### From partner to 'partner of choice'

Our field of attention comprises a product's complete lifecycle. That is why we maintain close-knit working relations with our customers and our suppliers. We strive toward strong continuity in such cooperative activities, especially in the field of development, engineering and technical support as the result is more than just a good product. It provides us with the insight and the overview to develop new ICs, which allow us to anticipate new trends and spot emerging market niches. So that we can provide extremely high-quality and cost-efficient products to customers worldwide.



### Leadership in semiconductor solutions

Melexis has a good team of experienced engineers. Due to their expertise in product definition, design and the testing of integrated analog-digital semiconductor solutions and sensor ICs Melexis has achieved a leadership position. Not only in the automotive sector, but also in other sectors. In order to maintain this position and further improve it, Melexis is making substantial investments in research and development and in people.



### Stronger sales & marketing

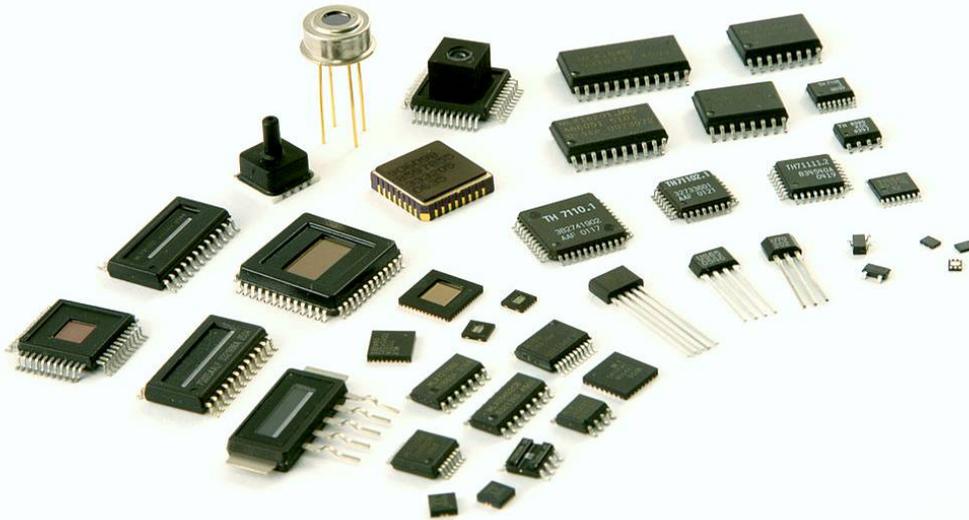
Melexis' aim is to expand its sales and marketing power in order to enter into more and stronger alliances with existing and new relations. In this context we will continue to carry the base line for our brand: 'small things make a big difference' to reflect Melexis' role as a semiconductor supplier whose innovations, while physically small, are the essential element in nearly each and every one of our customers' extraordinary systems.

### At the front of the pack regarding quality and environmental awareness

Melexis has an integrated management system that complies with the strict conditions of ISO / TS 16949:2002, including the Semiconductor Commodity. Moreover our company also has been recognized for our commitment to respecting the natural environment with an ISO 14001 certification.

## 6. Our Activities & Product Portfolio

Our customers inspire us to create, develop and market advanced integrated circuits primarily used in automotive electronics systems. This strength enables the innovation and introduction of sophisticated ICs for the broader consumer, medical and industrial markets worldwide.



### Overview of Activities

Intelligent Integration is increasingly important to provide efficient, effective solutions needed to simplify many complex systems. The compelling need for reducing installed costs of essential systems makes integrated sensing, intelligence and communications solutions essential. Melexis supplies unique sensor, communication and driver chips with analog and digital outputs and often with advanced on board micro-controllers or DSP capabilities.

The market for automotive semiconductors is expected to grow at an annual rate of 7% thanks to the increasing electronic content per vehicle. Government regulations and consumer demand for improved fuel economy, safety and comfort create the need for more electronic sensors and control systems in cars.

Melexis investment into systems and processes commensurate to automotive industry standards has resulted in customers trusting 100% of their IC requirements to Melexis. Product development cycles at such customers have provided evolutionary design wins for Melexis. This has given Melexis the responsible role of helping our customers steer their product strategy based on research and development progress at Melexis. Melexis ICs result in significant reworking and consolidation of traditional systems into a single modular solution. This progress enables the automotive industry to reduce overall costs, increase features and nearly as important, reduce vehicle weight and power consumption.

Melexis technology and know-how has led to market leading positions in non-automotive arenas including RF transmitters, receivers and transceivers, single chip cooling fan ICs, infrared remote control ICs and power supply control chips for cell phone chargers. A customer oriented approach and an innovative design methodology have allowed our customers to win significant and in certain cases dominant market positions.

Melexis main products continue to be Hall effect ICs (magnetic sensors), Pressure and Acceleration Sensors, Sensor Interface ICs, Automotive Systems-on-a-Chip, Embedded Microcontrollers, Wireless Communication ICs, Bus System Chips, Optical and Infrared sensors. In each case the products are primarily developed for automotive applications and designated lead customers with subsequent use in commercial and industrial applications.

Melexis holds a broad patent portfolio. These patents serve our customers by providing effective and unique solutions in their highly competitive market segments.

Melexis is a research driven company in which Research and Development has been, and will remain, of paramount importance in the Company's strategy. Investments in R&D consist of both product development and advanced development in new technologies for the automotive market and beyond. The R&D is on one end driven by customer requests, but equally driven by Melexis market research identifying long term needs.

## Sensor Division

### Hall Effect

Hall Effect Devices detect magnetic field. Typical uses are for movement, position and speed sensing but also current sensing. Hall devices are immune to dust, dirt, humidity and vibration.

Melexis produced the first Hall IC with programmability: this breakthrough allowed simplification of our customer's modules. Sensing pedal, throttle and steering wheel position, sensing rotation of the cam- and crank-shafts in engines, monitoring movement in motors and actuators, are staple functions for millions of Melexis Hall ICs in cars today. Other high volume applications for Hall ICs include mobile telephony, computing, personal portable devices and automation equipments.

Another 'world's first' from Melexis has been created in the dual redundant programmable linear Hall IC. This chip is targeted at drive by wire control systems. These unique solutions have achieved a significant nexus between total installed cost and fully redundant reliability.

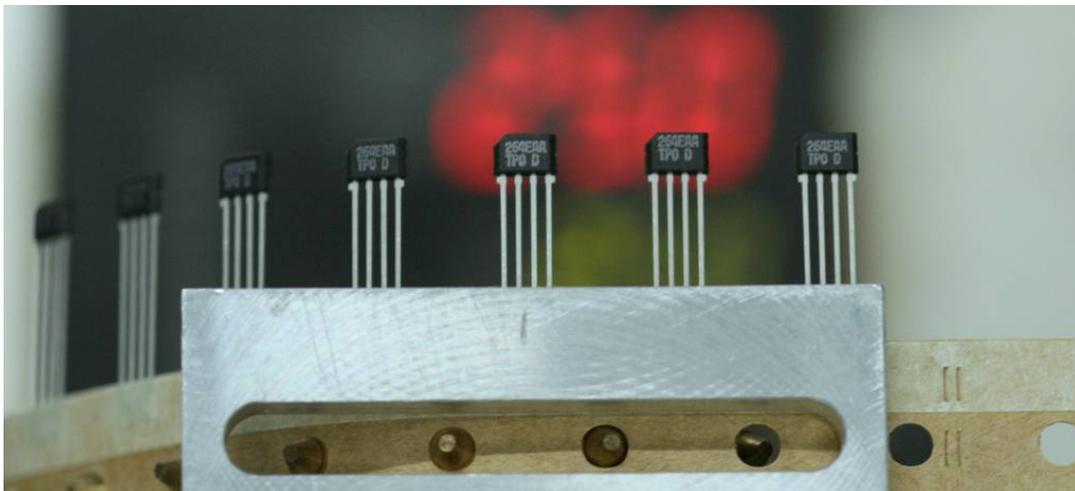
Melexis markets a novel patented Hall technology under the brand 'Triaxis™'. The first Triaxis™ product is targeted for contactless 360° rotary position sensor. This product has received several technical and business awards since its introduction in 2005 and it has already been designed in many position sensor applications. The Triaxis™ technology allows the realization of 3D-joystick position sensors and it will open new market segments such as current sensors and solid-state electronic compasses.

Melexis' portfolio of Hall sensors offers solutions for robust switching, smart brushless DC motor controllers with integrated magnetic sensing. Melexis is the recognized innovator in these markets.

One example is the wide range of specialized Hall sensors used in cooling fans for electronic equipments or in vibro-motor for cell phones. Recent innovations include ICs that significantly reduce the acoustic switching noise of cooling fans; an important feature in consumer or office electronic devices.



**Triaxis™**

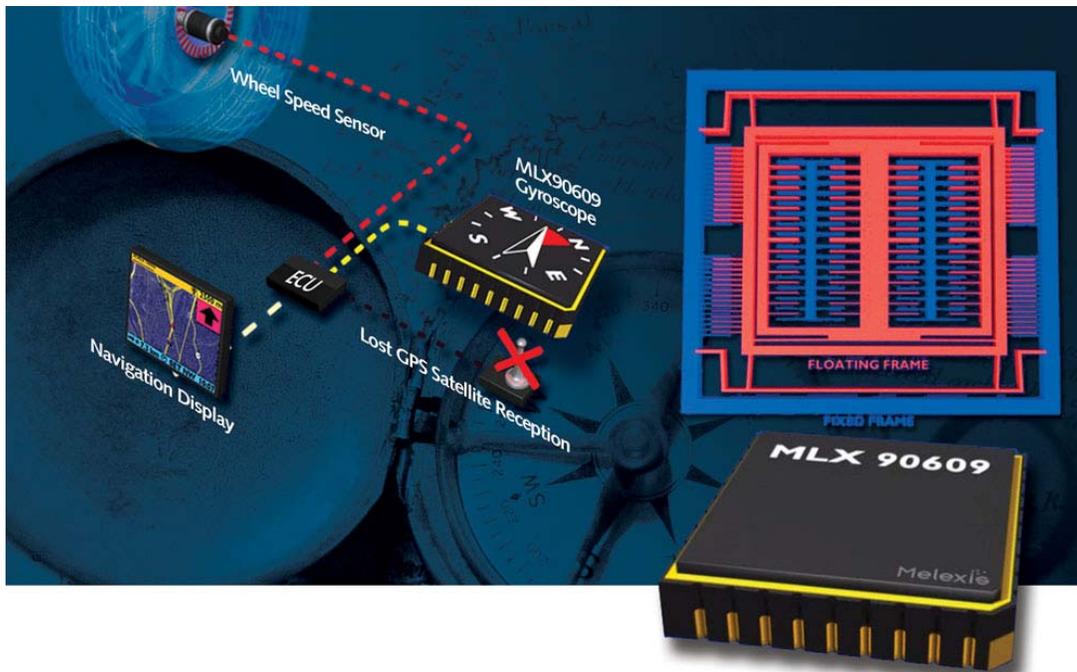


## MEMS (Micromachined Electro-Mechanical Systems)

### A. Pressure Sensors, Acceleration Sensors, Gyroscopes

Pressure, acceleration, and angular rate sensors are used in various automotive applications such as airbag systems, vehicle stability systems, particle filters, filter monitoring and brake systems. The above mentioned sensors, developed by Melexis, are based on silicon micro-machining technology, where the physical parameter being sensed causes a temporary and reversible deformation to a mechanical structure etched into IC.

Pressure is one of the most measured physical parameters in an automobile. Measurements can be taken using standalone sensors, for which Melexis supplies industry leading signal conditioning interface ICs, or using completely integrated pressure sensors. Integrated pressure sensors incorporate both the sensing element, in the form of a silicon deformable membrane, and the conditioning electronics on the same chip. Vehicle airbag systems use one or more acceleration sensors. These acceleration sensors measure the severity of an impact. This information is used by the airbag control unit to decide on airbag deployment. Advanced airbag systems require remote crash sensors located at the spots in the car where the crash can be sensed in the most accurate and quickest way. Melexis is a key technology provider for many years due to its competencies in sensor technology, signal conditioning and IC packaging.



The most recent automotive safety applications introduced on the market, such as vehicle stability systems, ACC (Adaptive Cruise Control) and Rollover sensing call for the use of angular rate sensors, also called gyroscopes.

To address this market Melexis has developed an innovative gyroscope solution. The Melexis gyroscope, launched on the market in 2006, is also particularly suited for use in navigation systems to implement the so-called dead reckoning function. Dead-reckoning allows for an accurate positioning of the vehicle even in the absence of the GPS signal.

### B. Signal conditioning interface ICs

Melexis has profiled itself as one of the world leaders in the automotive segment of this market. Interface ICs allow bridge type piezo and capacitive sensors to communicate intelligently with decision making systems in cars. Typical applications include pressure sensing in electronically controlled automatic transmissions, seat belt tension sensors in mandatory second generation airbag systems, fuel pressure sensors in fuel economy enhancing injection systems, refrigerant liquid pressure in automotive airco systems, .... The further proliferation of sensorrich automotive systems will continue to fuel the growth of this product line.

## Actuator Division

The Actuator division focuses on high volume automotive electronic systems: The actuator products are customer specific (ASIC) or standard available (ASSP) application specific solutions for peripheral ICs, voltage regulators and Bus communication ICs, or the combination of the above with an embedded microcontroller to realize intelligent actuator solutions.



Peripheral ICs can be part of an ECU (Electronic Control Unit). Target applications are EPAS (Electrically Assisted Power Steering) and HVAC (Heating, Ventilating and Air-Conditioning). Peripheral ICs that are not part of an ECU typically interface to electrical motor systems. Examples are dashboard indicators, windscreen wipers, remote control door opening and audible warning systems.



Melexis microcontrollers are available with Flash as well as with ROM firmware memories, and ideally suited for Comfort as well as Chassis applications and High Temperature engine application. An optional motor control coprocessor allows for state of the art Sensored and sensorless Brushless DC motor control applications from position control actuators over water- and fuel pumps to blowers and engine cooling fans.

Melexis has established a dominant market position in systems situated at the car door. Applications are window lifters, door switch modules, door locks, mirror actuators, and puddle lights. 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.

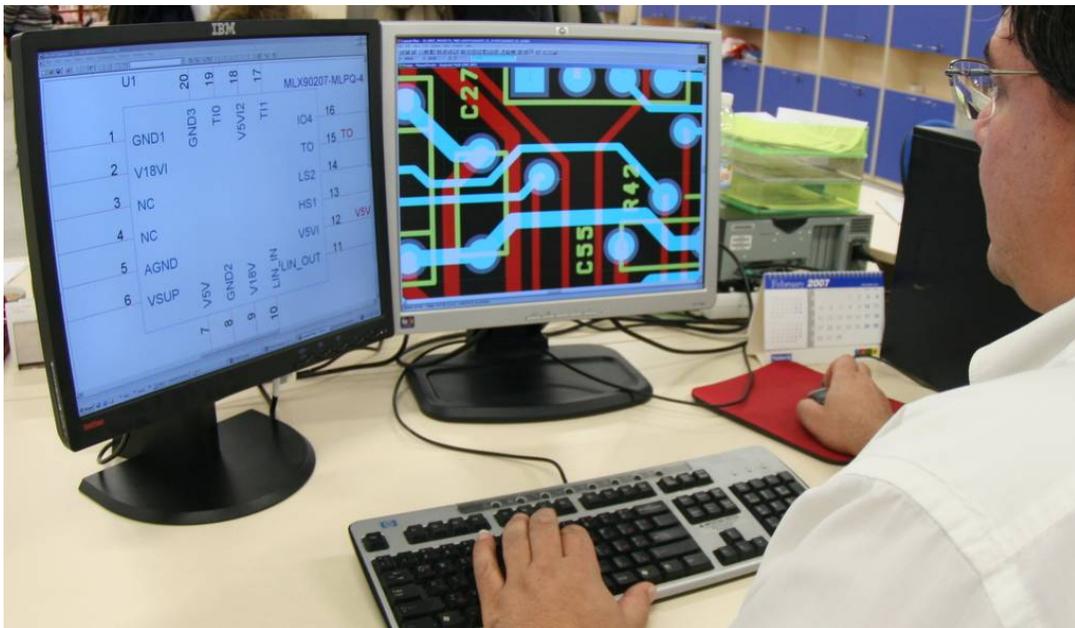
Communication protocols like LIN have been ported to Melexis microcontrollers for high volume HVAC flaps and headlamp swiveling motordriver ASICs. Car manufacturers in Europe, US and Asia are extending the adoption of LIN networks over their entire vehicle architecture. As one of the leaders in LIN transceivers, Melexis is ideally positioned to define a portfolio of low cost Application Specific Standard Products (ASSP) to allow Tier one and Tier two suppliers to be successful in the LIN market.

## Wireless Division



### RF ICs

Melexis designs and develops Radio Frequency ICs (RFICs) that span the application frequency range of about 27 to 950 MHz. Our key products are standard transmitters, receivers, transceivers and custom specific ICs for the non-licensed industrial-scientific-medical (ISM) band applications from 315 to 434 MHz and 868 to 930 MHz. Typical applications include remote keyless entry (RKE), tire pressure monitoring systems (TPMS), garage door openers, home automation, alarm systems, personal identification and general short range communication. The key to serving this market lies in strong applications support as the RF engineering challenges are known to be quite specialized. Melexis has created strong internal RF application engineering centers in all major markets to ensure the best experience for our customers when they seek to upgrade their products to wireless operation.



### RFID ICs

Melexis has been an early innovator in the RFID technology, thanks to its expertise in low power and analog IC design. Our key products are specialty sensor transponders, standard transceivers and custom specific ICs for the 125 kHz and 13.56 MHz frequencies. Typical applications for sensor transponder ICs include tire pressure monitoring systems (TPMS), cold chain monitoring, hazardous substance logistics and medical items identification. RFID transceivers target asset tracking, door lock, transportation, contactless payment, e-passport and e-document reading applications. Melexis' RFID ICs enable customers to achieve high reading range, low power consumption at the right cost. Melexis expertise in RFID will be considered for the newly emerging challenges in Near Field Communication (NFC).

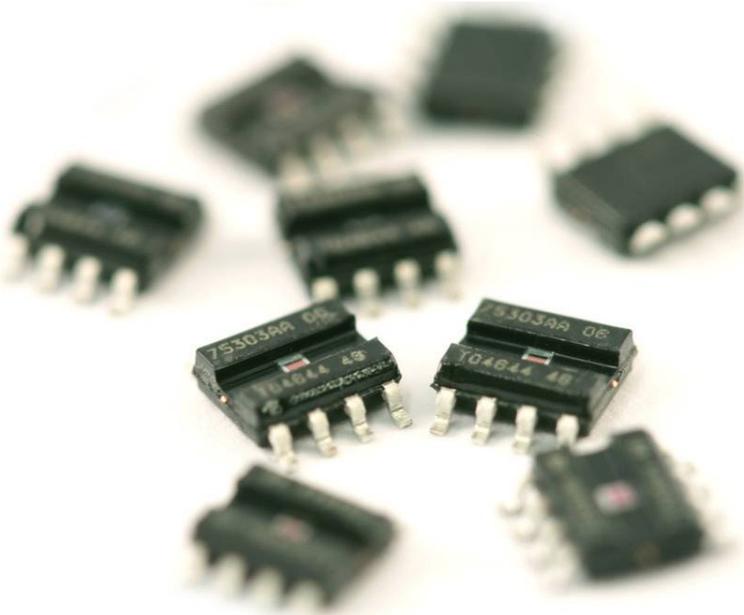


## Opto Division

### IR Sensors

There is a strong increase in the demand for IR thermometer modules for the Mobile Air Conditioning (MAC) business. This increase is due to the introduction of the module in new vehicle platforms at existing and new customers. Melexis sees increased interest for their newest dual zone IR sensors for application in multi zone MAC systems. These multi zone systems require the dual zone IR sensor to replace multiple temperature and sun load sensors, reducing system complexity and cost. Another emerging Melexis market for IR sensors is the building HVAC sector. Here the technology provides the residents of homes and workplaces with a better level of 'thermal comfort'. By measuring the comfort temperature of the residents directly, an HVAC system can more reliably compensate for outside weather conditions and heat generation in the room by equipment and/or people.

In an effort for further integration, simplicity and reduced costs, Melexis is developing a new signal conditioning ASIC that can be integrated with the temperature sensor in one small package. This miniature, factory calibrated temperature sensor can easily be installed by the customer on his own PCB, eliminating the need for expensive passive components and connectors. This approach allows Melexis to further standardize production and reduce cost.



### Optical Sensors

Melexis holds varied expertise in both automotive and consumer optical ICs. The Melexis linear array IC is the key sensing element for a high resolution and robust steering wheel position sensor, used as sensor-input for EPAS (Electric Power Assist Steering) and ESP (Electronic Stability Program) systems.

EPAS systems offer an efficient means to reduce steering effort, ESP systems aid the driver in avoiding skids.

As the market and applications are broadening, Melexis will continue to design, market and develop new generation optical sensors to satisfy the need and demands of the next generation sensing modules, both for automotive as well as consumer and industrial applications.

The Melexis CMOS automotive camera sensors were developed and have been tested by different VMs for different possible series applications. Melexis Image sensor ICs are ready for advanced optical safety being deployed in upcoming vehicle models.

## 7. International Locations

### BELGIUM

**Melexis NV**  
Rozendaalstraat 12  
8900 IEPER  
Tel: +32 57 22 61 31  
Fax: +32 57 21 80 89

**Melexis Tessenderlo NV**  
Transportstraat 1  
3980 TESSENDERLO  
Tel: +32 13 67 07 80  
Fax: +32 13 67 21 34

### BULGARIA

**Melexis Bulgaria Ltd.**  
2, 'Samokovsko shaussee' blvd  
Gorubliane 1138 SOFIA  
Tel: +359 2 9174 740  
Fax: +359 2 9525 792

### FRANCE

**Melexis NV/BO Paris**  
Tour Arago - 5 Rue Bellini  
92806 PUTEAUX LA DÉFENSE  
Tel: +33 1 47 78 11 34  
Fax: +33 1 47 78 06 35

### GERMANY

**Melexis GmbH**  
Haarbergstrasse 67  
99097 ERFURT  
Tel: +49 361 427 7700  
Fax: +49 361 427 7614

### SWITZERLAND

**Melexis Technologies SA**  
Chemin de Buchaux 38  
2022 BEVAIX  
Tel: +41 32 847 06 60  
Fax: +41 32 847 06 99

**Sentron AG**  
Baarerstrasse 73  
3600 ZUG  
Tel: +41 41 711 21 70  
Fax: +41 41 711 21 88

### UKRAINE

**Melexis Ukraine**  
4, Kotelnikova Street  
03115 KIEV  
Tel: +38 044 459 6853  
Fax: +38 044 459 6853

### USA

**Melexis Inc.**  
41 Locke Road  
NH 03301 CONCORD  
Tel: +1 603 223 2362  
Fax: +1 603 223 9614

**Melexis Detroit**  
37899, West Twelve Mile Road, Suite 320  
MI 48331 Farmington Hills  
Tel: +1 248 306 5400  
Fax: +1 248 306 0330

[info@melexis.com](mailto:info@melexis.com)  
[www.melexis.com](http://www.melexis.com)



## 8. Management's Discussion and Analysis

### 8.1 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, 2006, 2005, 2004. The years 2006, 2005 and 2004 have been audited by BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA.

#### Consolidated Income statements

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Product sales	198.101.095	171.134.284	148.751.685
Revenues from Research and Development	3.400.623	2.539.976	4.583.254
Cost of sales	(116.900.172)	(101.392.977)	(90.479.760)
<u>Gross margin</u>	<u>84.601.546</u>	<u>72.281.283</u>	<u>62.855.179</u>
Impairment of goodwill	-	-	(555.689)
Research and development expenses	(27.603.546)	(24.987.990)	(22.457.478)
General and administrative expenses	(9.789.574)	(7.898.155)	(6.143.793)
Selling expenses	(4.859.789)	(4.599.160)	(4.751.358)
<u>Income from operations (EBIT)</u>	<u>42.348.637</u>	<u>34.795.978</u>	<u>28.946.861</u>
Financial results (net)	(2.475.068)	(721.148)	25.003
<u>Profit before taxes</u>	<u>39.873.099</u>	<u>34.074.830</u>	<u>28.971.864</u>
Income taxes	(5.346.498)	(5.917.981)	(4.096.086)
Minority interest	-	-	-
<u>Net profit of the group</u>	<u>34.526.601</u>	<u>28.156.849</u>	<u>24.875.778</u>

#### Condensed Consolidated Balance Sheets

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Current Assets	118.134.085	73.219.604	74.907.848
Non current assets	51.531.534	45.725.927	47.829.013
Current liabilities	37.006.225	36.328.187	29.887.495
Non current liabilities	63.044.693	20.838.876	37.982.164
Shareholders' equity	69.614.701	61.778.468	54.867.202

## 8.2 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, Melefin 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) for Melexis Bulgaria Ltd., the Bulgarian Leva (BGN), for Sentron AG and Melexis Technologies SA the Swiss franc (CHF) and for the Philippine branch of Melexis NV the measurement currency is the Philippine Peso (PHP). Assets and liabilities of Melexis Inc., Melexis Technologies SA, Sentron AG, Melexis Ukraine, Melexis Bulgaria Ltd. and Melexis Philippines 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" (CTA) in the balance sheet.

## 8.3 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 of prior years.

### 8.3.1. 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 majority shareholder of Melexis NV at the time, 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 had 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 mainly 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 38 % 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 ICs.

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.

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

In 13 October 2005, Melexis created a branch office in Manilla, Philippines. The branch is mainly focused on the development of specific packages.

On the 23th of December, 2005, Melexis NV incorporated Melefin NV, by a contribution in kind of Melexis Tessenderlo NV shares. Melefin NV will have mainly a treasury function within the Melexis group.

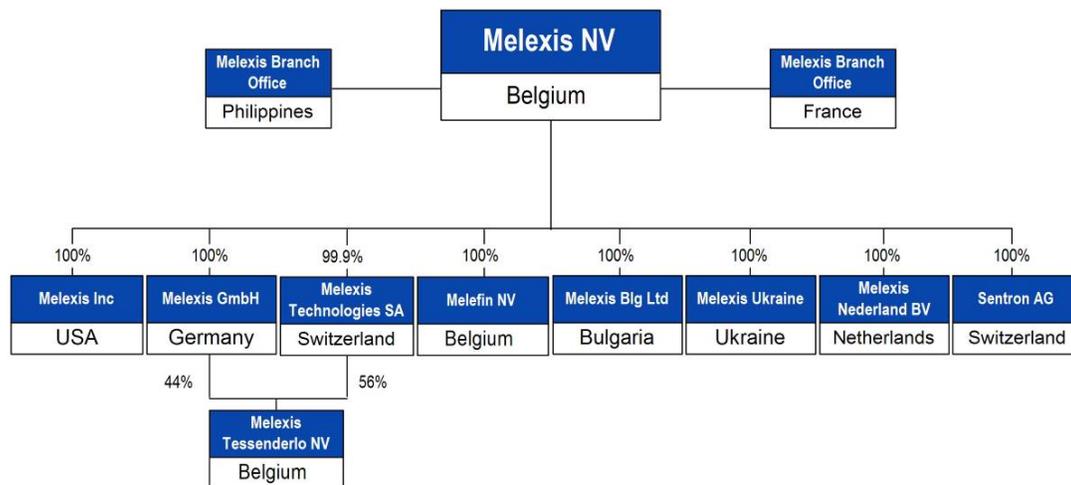
Since January 1, 2006, Xtrion NV is the main shareholder of Melexis NV, through a partial split of Elex NV into Elex NV and Xtrion NV.

On 31 January 2006, Melexis GmbH acquired Melexis Tessenderlo NV from Melefin NV.

On 26 October 2006, Melexis branch office in Bevaix was transformed into a legal entity Melexis Technologies SA, 99,99 % owned by Melexis NV.

On 28 November 2006, Melexis Technologies transferred part of its activities to Melexis Tessenderlo NV through incorporation in kind in the capital of Melexis Tessenderlo. As a result of this transaction, Melexis Technologies acquired 56% of the capital of Melexis Tessenderlo, reducing the share of Melexis GmbH from 100% to 44%.

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



## 8.3.2. Results of operations

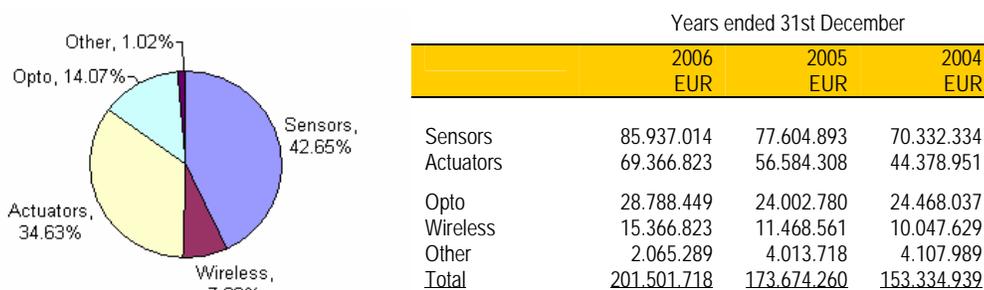
### Revenues

For 2006 total revenues increased by 16% compared to 2005. The major relative increase can be found in the Wireless division and the Actuator division.

The largest division is Sensors (43 %), which includes Hall, Pressure, Acceleration and Gyroscope activities, followed by the Actuators division (35%). The Opto product line is the third major division, realizing 14 % of the total revenues of the company. The Wireless division amounts to 8% of total revenues.

Specific research and development activities are included in the revenues per division. These specific R&D activities are performed under contract for customers. For the year 2006, the company invoiced EUR 3.400.623 research and development costs to its customers, compared to EUR 2.539.976 in 2005 and EUR 4.583.254 in 2004.

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



### 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 90.479.760 in 2004 up to EUR 101.392.977 in 2005 and 116.900.172 EUR in 2006.

Expressed as a percentage of total revenues, the cost of sales was stable at 58 % in 2006 compared to 2005.

### Gross margin

The gross margin, expressed as a percentage of total revenues, remained stable at 42 % in 2006, compared to 2005 and increased from 41% in 2004.

### Research and Development expenses

Research and development expenses amounted to EUR 27.603.546 in 2006, representing 14 % of total costs. Research and development expenses increased with 10%. This growth is slightly lower than 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. Growth in general, administration and selling expenses was in line with growth in sales during the year 2006.

### Financial results

The net financial results increased from 721.148 EUR loss to 2.475.068 EUR loss in 2006. The (net) interest result increased from a loss of EUR 883.863 in 2005 to a loss of EUR 1.431.242 in 2006. The net exchange gains (both realized and unrealized) in 2006 amounted to a loss of 1.220.346 EUR, compared to EUR 410.449 profit during 2005.

### Net income

The company recorded a net income for 2006 of EUR 34.526.601. This represents a 23 % increase compared to 2005, which is higher than the growth in sales, mainly as a result of the operating margin.

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

Cash and cash deposits amounted to EUR 15.897.705 as of 31 December 2006, in comparison to EUR 11.375.829 as of December 31, 2005 and EUR 16.296.964 as of December 31, 2004.

In 2006, operating cash flow before working capital changes amounted to 46.956.994 EUR. Working capital was negative, mainly as a result of increased accounts receivables, resulting in a net operating positive cash flow of 37.224.098 EUR .

The cash flow from investing activities was negative for 51.822.136 EUR, mainly as the result of investments in fixed assets amounting to 15.490.328 EUR and increase of proceeds in current investments amounting to 32.365.879 EUR

The cash flow from financing activities was positive for an amount of 19.167.758 EUR. This is mainly the net result of the payment of an interim dividend amounting to 21.391.741 EUR and on the other hand the proceeds of long term debts amounting to 42.205.358 EUR.



## 9. Selected Summary Financial Data

### 9.1. Detailed Consolidated Financial Statements

#### 9.1.1. Independent Auditor's report

**STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS MEETING OF THE COMPANY  
MELEXIS NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED  
DECEMBER 31, 2006**

In accordance with the applicable legal requirements, we are pleased to report on the performance of the audit mandate which you have entrusted to us. Our report includes our opinion on the fair view of the consolidated financial statements and the required additional disclosures.

#### **Unqualified audit opinion on the consolidated financial statements**

We have audited the consolidated financial statements for the accounting year ended December 31, 2006, prepared in accordance with *International Financial Reporting Standards* as accepted in the European Union, which show a balance sheet total of EUR 169.665.619 and a profit of EUR 34.526.601.

The consolidated financial statements for the accounting year ended December 31, 2006 include some foreign subsidiaries which have been audited by other auditors.

The preparation of the consolidated financial statements is the responsibility of the board of directors. This includes, among other things, the implementation and maintenance of internal control procedures related to the preparation and the fair presentation of the financial statements free from material misstatement resulting from fraud or error; the selection and application of adequate accounting principles and reasonable accounting estimates.

It is our responsibility to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Belgian legal requirements and auditing standards, as issued by the Institut des Réviseurs d'Entreprises/Instituut der Bedrijfsrevisoren. These standards require that we plan and perform our work so as to obtain sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatements as a result of fraud or error.

In accordance with those standards, we considered the company's administrative and accounting organisation as well as its internal control procedures. Company officials have clearly responded to our requests for explanations and information. An audit includes examining, on a test basis, evidence supporting the amounts included in the consolidated financial statements. We have assessed the accounting principles used and significant accounting estimates made by management, as well as evaluated the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the company's consolidated financial situation, consolidated financial results and the consolidated cash flow statement, in accordance with *International Financial Reporting Standards* as accepted in the European Union.



### Additional disclosure

The preparation and the contents of the consolidated annual report are the responsibility of the board of directors.

It is our responsibility to include in our report the following additional disclosure which does not modify our audit opinion on the consolidated financial statements:

- The consolidated directors' report includes the information required by law and is consistent with the financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the company is facing, and on its situation, its foreseeable evolution or the significant influence of certain facts on its future development. We can nevertheless confirm that the matters disclosed do not present any obvious inconsistencies with the information obtained during our audit.

Zaventem, February 12th, 2007

BDO Atrio Réviseurs d'Entreprises Soc. Civ. SCRL  
Statutory Auditor  
Represented by

Koen De Brabander

## 9.1.2. Detailed Consolidated Financial Statements

### Melexis NV Consolidated balance sheets

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
<b>ASSETS</b>			
Current assets			
Cash, and cash equivalents (Note 7.2.4.a)	15.897.705	11.375.829	16.296.964
Current investments (Note 7.2.4.b)	32.365.879	-	-
Accounts receivable –trade (Note 7.2.4.c)	29.460.370	25.438.873	18.862.825
Accounts receivable –Related companies (Note 7.2.4.ab)	4.425.046	2.525.752	7.730.775
Inventories (Note 7.2.4.d)	29.679.962	28.244.648	25.379.362
Other current assets (Note 7.2.4.f)	6.305.122	5.634.502	6.637.922
<u>Total current assets</u>	<u>118.134.084</u>	<u>73.219.604</u>	<u>74.907.848</u>
Non current assets			
Intangible assets (Note 7.2.4.h)	2.516.353	3.587.403	4.883.050
Property, plant and equipment (Note 7.2.4.i)	41.549.207	35.901.444	36.644.511
Other non-current assets	81.455	83.394	107.894
Deferred taxes (Note 7.2.4.w)	7.384.520	6.153.686	6.193.558
Goodwill (Note 7.2.4.g)	-	-	-
<u>Total non current assets</u>	<u>51.531.535</u>	<u>45.725.927</u>	<u>47.829.013</u>
<u>TOTAL ASSETS</u>	<u>169.665.619</u>	<u>118.945.531</u>	<u>122.736.861</u>
<b>LIABILITIES</b>			
Current liabilities :			
Bank loans and overdrafts (Note 7.2.4.l)	-	-	-
Current portion of long-term debt (Note 7.2.4.m)	15.149.403	16.795.726	11.409.998
Accounts payable – trade	7.377.902	7.127.890	4.979.089
Accounts payable –related companies (Note 7.2.4.ab)	6.084.925	5.784.299	5.244.577
Accrued expenses, payroll and related taxes (Note 7.2.4.j)	7.334.834	5.440.754	6.227.711
Other current liabilities	253.475	145.141	704.573
Deferred income (Note 7.2.4.k)	805.686	1.034.377	1.321.547
<u>Total current liabilities</u>	<u>37.006.225</u>	<u>36.328.187</u>	<u>29.887.495</u>
Non current liabilities			
Long-term debt less current portion (Note 7.2.4.m)	63.034.222	20.828.864	37.981.152
Minority interests	10.471	10.012	1.012
<u>Total non current liabilities</u>	<u>63.044.693</u>	<u>20.838.876</u>	<u>37.982.164</u>
Shareholders' capital	564.814	564.814	564.814
Share premium	-	-	-
Reserve treasury shares	(5.585.985)	(513.792)	(10.825.647)
Legal reserve	56.520	56.520	56.520
Retained earnings	40.863.212	34.088.091	41.658.886
Current year's profit	34.526.601	28.156.849	24.875.778
Cumulative translation adjustment	(810.461)	(574.014)	(1.463.149)
<u>Total shareholders' equity (Note 7.2.4.n)</u>	<u>69.614.701</u>	<u>61.778.468</u>	<u>54.867.202</u>
<u>TOTAL LIABILITIES</u>	<u>169.665.619</u>	<u>118.945.531</u>	<u>122.736.861</u>

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

## Melexis NV Consolidated Income Statements

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Product sales	198.101.095	171.134.284	148.751.685
Revenues from Research and Development (Note 7.2.4.y)	3.400.623	2.539.976	4.583.254
Cost of sales (Note 7.2.4.p)	(116.900.172)	(101.392.977)	(90.479.760)
<u>Gross margin</u>	<u>84.601.546</u>	<u>72.281.283</u>	<u>62.855.179</u>
Impairment of Goodwill	-	-	(555.689)
Research and development expenses (Note 7.2.4.q)	(27.603.546)	(24.987.990)	(22.457.478)
General and administrative expenses (Note 7.2.4.r)	(9.789.574)	(7.898.155)	(6.143.793)
Selling expenses (Note 7.2.4.s)	(4.859.789)	(4.599.160)	(4.751.358)
Other operating expenses (net) (Note 7.2.4.z)	-	-	-
<u>Income from operations (EBIT)</u>	<u>42.348.637</u>	<u>34.795.978</u>	<u>28.946.861</u>
Financial income (Note 7.2.4.v)	4.035.078	2.289.676	5.049.748
Financial charges (Note 7.2.4.v)	(6.510.146)	(3.010.824)	(5.024.745)
Other expenses (net)	-	-	-
<u>Income before taxes</u>	<u>39.873.099</u>	<u>34.074.830</u>	<u>28.971.864</u>
Income taxes (Note 7.2.4.w)	(5.346.498)	(5.917.981)	(4.096.086)
Minority interest	-	-	-
<u>Net income of the period</u>	<u>34.526.601</u>	<u>28.156.849</u>	<u>24.875.778</u>
Earnings per share (Note 7.2.4.x)	0.80	0.65	0.56

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
<u>December 31,2000</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>40.413.547</u>		<u>(265.194)</u>	<u>70.905.489</u>
Net income					20.301.124			20.301.124
CTA movement							224.961	224.961
<u>December 31,2001</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>60.714.671</u>		<u>(40.233)</u>	<u>91.431.574</u>
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)
<u>December 31,2002</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>59.554.805</u>	<u>(3.087.697)</u>	<u>(356.813)</u>	<u>86.867.431</u>
Net income					24.578.657			25.578.657
CTA movement							(643.221)	(643.221)
Interim dividend					(22.320.788)			(22.320.788)
Reserve treasury shares						(2.328.668)		(2.328.668)
<u>December 31,2003</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>61.812.674</u>	<u>(5.416.365)</u>	<u>(1.000.034)</u>	<u>86.153.411</u>
Net income					24.875.778			24.875.778
CTA movement							(463.115)	(463.115)
Dividend					(11.943.402)			(11.943.402)
Reserve treasury shares						(5.409.282)		(5.409.282)
Destruction own shares					(8.210.386)			(8.210.386)
Capital increase		32.255.905	(30.135.419)					2.120.486
Capital decrease		(32.256.288)						(32.256.288)
<u>December 31, 2004</u>	<u>44.565.195</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>66.534.664</u>	<u>(10.825.647)</u>	<u>(1.463.149)</u>	<u>54.867.202</u>
Net income					28.156.849			28.156.849
CTA movement							889.135	889.135
Dividend					(21.620.925)			(21.620.925)
Reserve treasury shares						10.311.855		10.311.855
Destruction own shares					(10.825.648)			(10.825.648)
<u>December 31, 2005</u>	<u>43.241.860</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>62.244.940</u>	<u>(513.792)</u>	<u>(574.014)</u>	<u>61.778.468</u>
Net income					34.526.601			34.526.601
CTA movement							(236.447)	(236.447)
Dividend					(21.391.741)			(21.391.741)
Reserve treasury shares						(5.072.193)		(5.072.193)
Other					10.013			10.013
<u>December 31, 2006</u>	<u>43.241.860</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>75.3989.813</u>	<u>(5.585.985)</u>	<u>(810.461)</u>	<u>69.614.701</u>

Since November 2002, Melexis NV has given order to a bank to start a share buy back program. In 2002 Melexis NV repurchased 530.000 shares and 428.482 in 2003 at an average price of 5,73 EUR in 2002 and 5.43 EUR in 2003. In 2004 Melexis NV repurchased 430.000 shares over-the-counter (OTC) at an average price of 8,90 EUR, from which 310.000 shares were purchased from Elex NV. Melexis NV also repurchased 969.658 shares at an average price of 8,89 EUR on the regulatory stock market. The total own shares in 2004 amounted to 1.399.658 shares representing 3,14 % of the total outstanding shares. In accordance with IFRS, the treasury shares are presented as a deduction from equity. During the Extraordinary Shareholders meeting of April 20<sup>th</sup>, 2004 it was decided to cancel 1.034.805 treasury shares, bringing the total outstanding shares to 44.565.195 at the end of 2004.

Melexis NV Extraordinary Shareholders Meeting of October 4<sup>th</sup>, 2004 decided to increase the capital, bringing it from EUR 565.197 to EUR 32.821.102, by means of incorporation in the capital of the issue premiums for an amount of EUR 32.255.905. It was then decided to decrease the capital by an amount of EUR 32.256.288, by repayment to each existing share of an amount of EUR 0,72.

It was also decided to pay an additional gross dividend to the shareholders of EUR 0,28 per share.

During the extraordinary Shareholders Meeting of July 14<sup>th</sup>, 2005, it was decided to cancel 1.323.335 Treasury shares, bringing the total outstanding shares to 43.241.860 at the end of 2005. During the year 2006 Melexis NV repurchased 406.378 shares at an average price of 12,48 EUR. Total own shares at the end of 2006 amount to 458.378 representing 1,06% of the total outstanding shares. During the year 2006 no own shares have been cancelled. As such, at the end of the year 2006 the total outstanding shares is still 43.241.860.

## Melexis NV Consolidated Statements of Cash Flows

	31st December			
	(indirect method)	2006	2005	2004
	EUR	EUR	EUR	EUR
<b>Cash flows from operating activities</b>				
Net profit	34.526.601	28.156.849	24.875.778	
Adjustments for:				
Operating activities:				
Deferred taxes	(1.230.834)	39.872	(997.356)	
Unrealized exchange results	312.370	(948.261)	(298.764)	
Reserve for uncollectible receivables		(48.760)	(527.262)	
Government grants	1.096.877	-	(247.965)	
Depreciation	10.913.614	11.372.706	11.969.185	
Amortization/impairment of goodwill	-	-	555.689	
Financial results	1.338.366	1.832.124	185.070	
<b>Operating profit before working capital changes</b>	<b>46.956.994</b>	<b>40.404.530</b>	<b>35.514.375</b>	
Accounts receivable, net	(4.145.443)	(6.264.833)	1.733.321	
Other current assets	(1.877.841)	156.818	(1.647.191)	
Other non-current assets	1.942	24.498	(107.893)	
Due to (from) related companies	(1.611.177)	1.865.092	2.895.834	
Accounts payable	268.198	2.105.389	1.128.282	
Accrued expenses	6.330.546	2.575.832	2.343.165	
Other current liabilities	-	-	616.107	
Inventories	(1.521.246)	(2.381.969)	2.186.564	
Interest paid	(2.757.001)	(1.279.867)	(782.616)	
Income tax	(4.420.874)	(3.449.650)	5.441	
<b>Net cash from operating activities</b>	<b>37.224.098</b>	<b>33.755.840</b>	<b>43.885.389</b>	
Cash flows from investing activities :				
Treasury shares	(5.072.193)	(513.792)	(12.457.002)	
Purchase of property plant and equipment and intangible assets	(15.490.328)	(9.333.819)	(10.781.219)	
Interest received	1.106.264	396.004	896.310	
Proceeds from current investments	(32.365.879)	-	-	
Acquisition of subsidiary	-	-	(4.646.851)	
<b>Net cash used in investing activities</b>	<b>(51.822.136)</b>	<b>(9.451.607)</b>	<b>(26.988.762)</b>	
Cash flows from financing activities :				
Repayment from long-term debts	(1.646.317)	(11.766.560)	30.014.821	
Proceeds of long-term debts	42.205.358	-	-	
Repayment of bank loans and overdrafts	-	-	(3.333.333)	
Proceeds from (repayment of) related party financing	-	3.886.138	1.992.932	
Dividend payment	(21.391.741)	(21.620.925)	(11.943.401)	
Capital decrease	-	-	(31.298.074)	
Minorities	458	9.000	-	
<b>Net cash used in financing activities</b>	<b>19.167.758</b>	<b>(29.492.347)</b>	<b>(14.567.055)</b>	
Effect of exchange rate changes on cash	(47.844)	266.979	(160.112)	
(Decrease) increase in cash	4.521.876	(4.921.135)	2.169.460	
Cash at beginning of the period	11.375.829	16.296.964	14.127.504	
Cash at end of the period	15.897.705	11.375.829	16.296.964	

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

## 9.2. Notes to the consolidated financial statements

### 9.2.1. 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 in the Automotive Industry in Europe, Asia and North America.

The Melexis group of companies employed, on average, 696 people in 2006, 678 people in 2005, 643 people in 2004.

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 7 February 2007 in Antwerp.

### 9.2.2. 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 adopted by the EU.

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, with a non EUR currency, 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). The measurement currency for Sentron AG and for Melexis Technologies SA is the Swiss Franc (CHF). For the Philippine branch of Melexis NV the measurement currency is the Phillipinian Peso.

Assets and liabilities of Melexis Inc., Melexis Ukraine, Melexis Bulgaria Ltd, Sentron AG and Melexis Technologies SA, 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 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, Melexis Bulgaria Ltd., which was acquired in October 2000, and Sentron AG which was acquired in February 2004.

During the year 2005 a new subsidiary Melefin NV was constituted by means of a contribution in kind of the shares of Melexis Tessenderlo NV. As such Melexis Tessenderlo became a grand daughter of Melexis NV. On 31 January 2006, Melexis GmbH acquired Melexis Tessenderlo NV from Melefin NV.

Also during 2006 the Swiss branch Office Bevaix of Melexis NV was transformed in a separate legal entity: Melexis Technologies SA.

## 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 impairment losses. Impairment of goodwill is included in operating profit.

### **Research and Development Costs**

According to IAS 38 Par. 54 all research costs must be charged to expense. Expenditure for development costs is also recognized as an expense when incurred and not capitalized, since not all criteria set forth by IAS 38 Par. 57 are met. Indeed as of today, the company has no analytical tools in place to distinguish on a reliable basis the research phase from the development phase.

### **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 the third party interests in the fair values of identifiable assets and liabilities recognized upon acquisition of a subsidiary as well as the minority share of the result of the year and retained earnings.

## 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.

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 note 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 number of shares outstanding at the end of the period.

### 9.2.3. Changes in Group's Organization

Beginning of February 2004 Melexis NV acquired Sentron AG, a Swiss company. This company is mainly active in the development of Magnetic Sensor product development. During the year 2005 a new subsidiary Melefin NV was constituted by means of a contribution in kind of the shares of Melexis Tessenderlo NV. As such Melexis Tessenderlo became a grand daughter of Melexis NV. In 2005 a branch office of Melexis NV was set up in the Philippines. On 31 January 2006, Melexis GmbH acquired Melexis Tessenderlo NV from Melefin NV. Also during 2006 the Swiss branch Office Bevaix of Melexis NV was transformed into a separate legal entity: Melexis Technologies SA.

### 9.2.4. Notes

#### A Cash and cash equivalents

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Cash at bank and in hand	15.897.705	11.375.829	16.296.964
Cash equivalents	32.365.879		
<u>Total</u>	<u>48.263.584</u>	<u>11.375.829</u>	<u>16.296.964</u>

#### B Current investments

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Acquisition cost	-	-	-
Fair value	-	-	-

#### C Trade receivables

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Trade accounts receivable	31.292.460	27.313.871	20.813.038
Allowance for doubtful accounts	(1.832.090)	(1.874.998)	(1.950.213)
<u>Total</u>	<u>29.460.370</u>	<u>25.438.873</u>	<u>18.862.825</u>

## D Inventories

	31st December		
	2006 EUR	2005 EUR	2004 EUR
Raw materials and supplies, at cost	12.409.863	8.773.455	3.814.415
Work in progress, at cost	16.587.499	13.554.906	14.183.544
Finished goods, at cost	1.534.607	7.117.196	7.455.771
Reserve for obsolete stock	(852.007)	(1.200.909)	(74.368)
<u>Net</u>	<u>29.679.962</u>	<u>28.244.648</u>	<u>25.379.362</u>

## E Derivatives

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

		2006	2005	2004
Outstanding forward contracts(sales) per 31st December, not exceeding 1 year	USD	13.000.000	12.938.519	10.000.000

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					
	2006		2005		2004	
	Cost EUR	Fair value EUR	Cost EUR	Fair value EUR	Cost EUR	Fair value EUR
Outstanding forward contracts per 31st December	9.845.341	9.870.919	10.889.124	10.889.124	7.332.587	7.333.529

## F Other Current Assets

	31st December		
	2006 EUR	2005 EUR	2004 EUR
Other receivables	6.130.569	5.388.529	6.572.192
Prepaid expenses	174.553	245.973	65.730
<u>Total</u>	<u>6.305.122</u>	<u>5.634.502</u>	<u>6.637.922</u>

## G Goodwill

Not applicable.

## H Intangible Assets

31st December 2006	Licenses EUR	Total EUR
<b>Acquisition value</b>		
Balance end of previous period	7.446.560	7.446.560
Additions of the period	232.708	232.708
Retirements(-)	-	-
Transfers	-	-
CTA	-	-
<b>TOTAL</b>	<b><u>7.679.269</u></b>	<b><u>7.679.269</u></b>
<b>Depreciation</b>		
Balance end of previous period	3.859.157	3.859.157
Additions of the period	1.303.758	1.303.758
Retirements(-)	-	-
Transfers	-	-
<b>TOTAL</b>	<b><u>5.162.915</u></b>	<b><u>5.162.915</u></b>
<b>NET BOOK VALUE</b>	<b><u>2.516.353</u></b>	<b><u>2.516.353</u></b>

During the year 2004, Sentron AG was acquired. The surplus paid for the acquisition was allocated to the intangible assets (licenses) and depreciated over 5 years. The net value as of December 31, 2006 amounts to EUR 1.858.740.

## I Property, plant and equipment

31st December 2006	Land and buildings EUR	Machinery and equipment EUR	Furniture and vehicles EUR	Fixed assets under Construction EUR	Total EUR
<b>Cost:</b>					
Beginning of the period	14.725.399	77.454.545	3.878.264	169.810	96.228.019
Additions of the year	83.979	5.833.155	627.656	13.334.660	19.879.470
Retirements	-	-4.292.411	-329.440	-	-4.621.851
Transfers	-	6.292.196	213.552	-6.505.748	-
CTA	-246.403	-2.917.236	-263.926	-	-3.427.565
End of the period	14.562.975	82.370.269	4.126.107	6.998.722	108.058.073
<b>Accumulated depreciation:</b>					
Beginning of the period	2.924.072	55.080.790	2.321.712	-	60.326.581
Additions of the period	677.990	8.431.504	500.362	-	9.609.856
Retirements	-	-2.979.041	-198.477	-	-3.177.518
Transfers	-	-138.896	138.896	-	-
CTA	-107.379	-1.988	-140.686	-	-250.053
End of the period	3.494.690	60.392.369	2.621.807	-	66.508.866
<b>NET BOOK VALUE</b>	<b><u>11.068.285</u></b>	<b><u>21.977.900</u></b>	<b><u>1.504.300</u></b>	<b><u>6.998.722</u></b>	<b><u>41.549.207</u></b>

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		
	2006	2005	2004
	EUR	EUR	EUR
Vacation pay accruals	2.016.134	1.757.052	1.848.847
Other social accruals	345.559	441.869	402.954
Advance payments	-	-	-
Commissions	-	-	100.000
Servicing costs	-	-	-
Direct and indirect taxes	4.234.520	2.993.636	3.875.709
Other(1)	738.622	248.197	-
<u>Total</u>	<u>7.334.835</u>	<u>5.440.754</u>	<u>6.227.510</u>

(1) An amount of 500.000 Euro concerns accrued interest expenses on the loan of 75 MIO in Melexis GmbH.

## K Deferred Income

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Capital grants	805.686	1.034.377	1.321.547
<u>Total</u>	<u>805.686</u>	<u>1.034.677</u>	<u>1.321.547</u>

## L Bank loans and overdrafts

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Secured	-	-	-
Unsecured	-	-	-
<u>Total</u>	<u>€</u>	<u>€</u>	<u>€</u>

## M Long and short term debts

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
<b>Secured</b>			
Bank loan (in CHF) at floating interest rate ; average rate for the period 2006 was 3,45 % (1) ; maturing in 2019	404.389	450.132	486.098
Bank loan (in EUR) at floating interest rate till 2033; average rate for the year 2006 was 3,79 % (2)	2.588.875	2.933.330	3.039.998
Bank Loan (in EUR) at fixed interest rate of 4,8 %; repaid in 2006	-	180.000	260.000
Bank Loan (in USD) at fixed rate of 6 % (3); maturing 2018	190.360	224.936	205.194
Bank Loan (in EUR) at floating interest of 3,02 % ; maturing 2006	-	2.000.000	5.625.000
Bank loan (in EUR) at floating interest rate; average rate for the year was 3,03 %; repaid in 2006	-	2.500.000	10.000.000
Bank loan (in EUR) at floating interest rate; average rate for the year was 3,15 %; repaid in 2006	-	18.750.000	20.000.000
Bank loan in (EUR) at floating interest rate; average rate for the year was 3,18 %; repaid in 2006	-	6.836.192	9.775.000
Bank loan in (EUR) at floating interest rate; average rate for the year was 3,38 %, repaid in 2006	-	3.750.000	-
Bank loan in (EUR) at floating interest rate; average rat for the year was 3,79 %; maturing in 2011 (4)	75.000.000	-	-
<u>Total secured loans</u>	<u>78.183.625</u>	<u>37.624.590</u>	<u>49.391.290</u>

## Unsecured loan

Total unsecured loans

<u>Total debts</u>	<u>78.183.625</u>	<u>37.624.590</u>	<u>49.391.290</u>
Current maturities	15.149.403	16.795.726	11.409.998
Long-term portion of debts	63.034.222	20.828.864	37.981.152

(1) The loan is secured by a mortgage on the building of Bevaix, Switzerland.

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

(4) a secured loan was concluded for an amount of EUR 75.000.000. This loan is secured by the assets of Melexis GmbH.

As of December 31, 2006 there are engagements for the following financial covenants:

For Melexis NV:

- net debt/EBITDA ratio  $\leq$  2.5
- tangible net worth/total assets  $\geq$  35%

For Melexis GmbH:

- available cash flow/debt service ratio  $\geq$  110%

For Melexis Tessenderlo NV and Melexis GmbH on a combined basis:

- net debt/EBITDA  $\leq$  3

Repayment of debts are scheduled as follows:

	31st December		
	2006 EUR	2005 EUR	2004 EUR
2005	-	-	11.409.998
2006	-	16.795.726	12.572.499
2007	15.149.403	9.604.988	7.728.749
2008	15.150.505	7.669.990	7.668.749
2009	15.151.290	545.446	5.773.749
2010	15.152.123	149.990	
2011	15.153.007		
Thereafter	2.427.297	2.838.450	4.237.546
<u>TOTAL</u>	<u>78.183.625</u>	<u>37.624.590</u>	<u>49.391.290</u>

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

As of 31<sup>st</sup> December 2006, the common stock consisted of 43.241.860 issued and outstanding ordinary shares without face value.

Each shareholder 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 government grants mentioned below consist of capital grants and operational grants recorded as other income. Capital grants are recognized as other income in relation to the depreciation period of the underlying assets. The operational grants are recognized as other income when acquired.

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Investment grants in building, machinery and employment grants	550.855	1.256.679	1.069.112
Grants for research and development	545.021	1.011.043	873.488
<u>Total</u>	<u>1.095.877</u>	<u>2.267.722</u>	<u>1.942.600</u>

## P Cost of sales

Cost of sales include of the following expenses:

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Purchases	92.330.200	77.434.582	68.689.221
Transportation costs	2.430.284	1.895.973	1.747.451
Salaries	8.237.142	7.598.490	7.740.523
Depreciation and amortization	6.593.293	7.106.620	7.173.438
Other direct production costs	7.309.253	7.357.312	5.129.127
<u>Total</u>	<u>116.900.172</u>	<u>101.392.977</u>	<u>90.479.760</u>

## Q Research and development expenses

Research and development expenses include the following expenses:

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Salaries	13.813.122	12.752.410	11.938.298
Depreciation and amortization	3.141.272	3.423.425	3.870.668
Other	10.649.152	8.812.155	6.648.513
<u>Total</u>	<u>27.603.546</u>	<u>24.987.990</u>	<u>22.457.479</u>

## R General and administrative expenses

General and administration expenses include the following expenses:

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Salaries	2.284.347	1.911.085	1.965.718
Depreciation and amortization	860.628	813.698	800.049
Other	6.644.598	5.173.372	3.378.027
<u>Total</u>	<u>9.789.574</u>	<u>7.898.155</u>	<u>6.143.794</u>

## S Selling expenses

Selling expenses include the following expenses:

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Salaries	2.143.627	2.246.942	2.046.251
Depreciation and amortization	25.767	28.963	120.129
Commissions	915.027	690.285	783.162
Other	1.775.368	1.632.970	1.801.816
<u>Total</u>	<u>4.859.789</u>	<u>4.599.160</u>	<u>4.751.358</u>

## T Personnel expenses and average number of employees

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Wages and salaries	26.478.238	24.508.927	23.690.790
<u>Total</u>	<u>26.478.238</u>	<u>24.508.927</u>	<u>23.690.790</u>

The average number of employees is 696 in 2006, 678 in 2005 and 643 in 2004.

## U Depreciation and amortization expenses

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Cost of sales	6.885.947	7.106.620	7.173.438
Research and development	3.141.272	3.423.425	3.870.668
General and administration	860.628	813.698	800.049
Selling	25.767	28.963	120.129
<u>Total</u>	<u>10.913.614</u>	<u>11.372.706</u>	<u>11.964.284</u>

## V Net Financial Result

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
<u>Financial income:</u>	<u>(4.035.078)</u>	<u>(2.289.676)</u>	<u>5.049.748</u>
- interest income	(1.272.334)	(396.004)	1.080.520
- exchange differences	(2.015.755)	(1.809.178)	3.817.878
- fair value valuation	-	-	-
- gain on shares	-	-	-
- dividend	-	-	-
- other	(746.989)	(84.494)	151.350
<u>Financial charges:</u>	<u>6.510.146</u>	<u>3.010.824</u>	<u>5.024.745</u>
- interest charges	2.703.576	1.279.867	834.051
- bank charges	540.273	308.034	225.895
- exchange differences	3.236.101	1.398.729	3.940.165
- less value on shares	-	-	-
- other	30.196	24.194	24.634
<u>Net financial results</u>	<u>2.475.068</u>	<u>721.148</u>	<u>25.003</u>

## W Income taxes

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Current tax expenses	(6.577.332)	(5.957.853)	(5.122.007)
Deferred tax income	1.230.834	39.872	1.025.922
<u>Total</u>	<u>5.346.498</u>	<u>(5.917.981)</u>	<u>(4.096.085)</u>

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 mio and in the Melexis GmbH statutory financial statements of approximately EUR 6 mio. In 2002, Melexis Swiss Branch, which was at that time 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 mio. These goodwill amounts, which were eliminated in consolidation, resulted in tax deductible amortization charges at Melexis Tessenderlo NV and Melexis GmbH, which could be offset against future profits. The remaining possible future tax saving with respect to these transactions amounts to approximately EUR 4 mio at year end 2006.

In November 2006, Melexis Technologies SA transferred a part of its Hall projects (intellectual property, patents and brand name) to Melexis Tessenderlo NV at market value by means of a contribution in kind. This transaction resulted in intangible assets in the Melexis Tessenderlo NV statutory financial statements of EUR 106,5 mio. This amount, which is eliminated in consolidation, results in tax deductible amortization charges at Melexis Tessenderlo NV, which can be offset against future profits. Taken into account the domestic tax rate of 33,99%, the total possible future tax savings resulting from this transaction amount to approximately EUR 36,2 mio.

In accordance with the valuation rules on deferred taxes, and consistent with prior years, the company assessed to which extent it is probable that these tax savings will be realizable in the future. Taken into account the uncertainties related to the rapid technological evolutions in the sector, the highly competitive market, and the fact that the company only has short term contracts with its customers, The Board of Directors decided to recognize a deferred tax asset of EUR 7.180.000, which reflects the budgeted usage of the temporary difference over the coming year 2007. Accordingly the unrecognized deferred tax asset resulting from these transactions amounts to approximately EUR 33 mio at year end 2006.

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

	31st December		
	2006 EUR	2005 EUR	2004 EUR
Income before taxes	39.873.099	34.074.830	28.971.864
Expected taxes at domestic rate	13.552.866	11.582.035	10.319.719
Use of tax losses	-	(1.199.607)	(1.550.210)
Tax effect of non taxable income			
Goodwill Melexis Tessenderlo	(4.596.129)	(4.596.129)	(4.596.129)
Goodwill Melexis GmbH	-	(302.278)	(380.109)
Intangible Assets Melexis Tessenderlo	(606.064)	-	-
Tax effect of disallowed expenses	873.050	793.817	302.821
Tax credits from previous years	-	(355.687)	-
Notional interest deduction	(2.188.583)	-	-
Investment deduction	(535.642)	(4.170)	-
Recognition of additional deferred tax asset	(1.153.000)		
<u>Effective taxes</u>	<u>5.346.498</u>	<u>5.917.981</u>	<u>4.096.086</u>

Components of deferred tax assets are as follows:

	1 January 2006 EUR	Charged to income statement EUR	Cumulative Translation Adjustments EUR	31 Dec. 2006 EUR
Tax amortization charges	6.027.000	1.153.000	-	7.180.000
Tax losses	126.686	77.834	-	204.520
<u>Total</u>	<u>6.153.686</u>	<u>1.230.834</u>	=	<u>7.384.520</u>

## X Earnings per shares

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of EUR 34.526.601 in 2006, EUR 28.156.849 in 2005 and in 2004 EUR 24.875.778 by the number of ordinary shares outstanding at the end of the period (43.241.860 in 2006, 43.241.860 in 2005 and 44.565.195 in 2004).

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 NV.

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Research and development revenues-product developments	3.400.623	2.539.976	4.583.254
Research and development revenues – other	-	-	-
<u>Total</u>	<u>3.400.623</u>	<u>2.539.976</u>	<u>4.583.254</u>

## Z Other operating expenses

	31st December		
	2006	2005	2004
	EUR	EUR	EUR
Other operating expenses	-	-	-
<u>Total</u>	-	-	-

## 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, Asia and the United States.

## Business segment data

31st December 2006

All amounts in 1.000 EUR	Automotive	Other	Unallocated	Total
Product sales	136.336	61.765		198.101
Other revenues	1.877	1.523		3.401
COS	77.358	39.542		116.900
Goodwill amortization			0	0
R&D expenses	18.267	9.337		27.604
G&A expenses	6.478	3.311		9.790
Selling expenses	3.216	1.644		4.860
Other operating expenses				
<u>Income from operations</u>				<u>42.349</u>
Financial results				-2.476
Taxes				-5.347
<u>Net profit</u>				<u>34.527</u>
Segment assets	73.943	31.419	64.303	169.665
Capital expenditures	6.882	3.118	5.490	15.490
Depreciation	7.514	3.400		10.914

## Geographical segment data

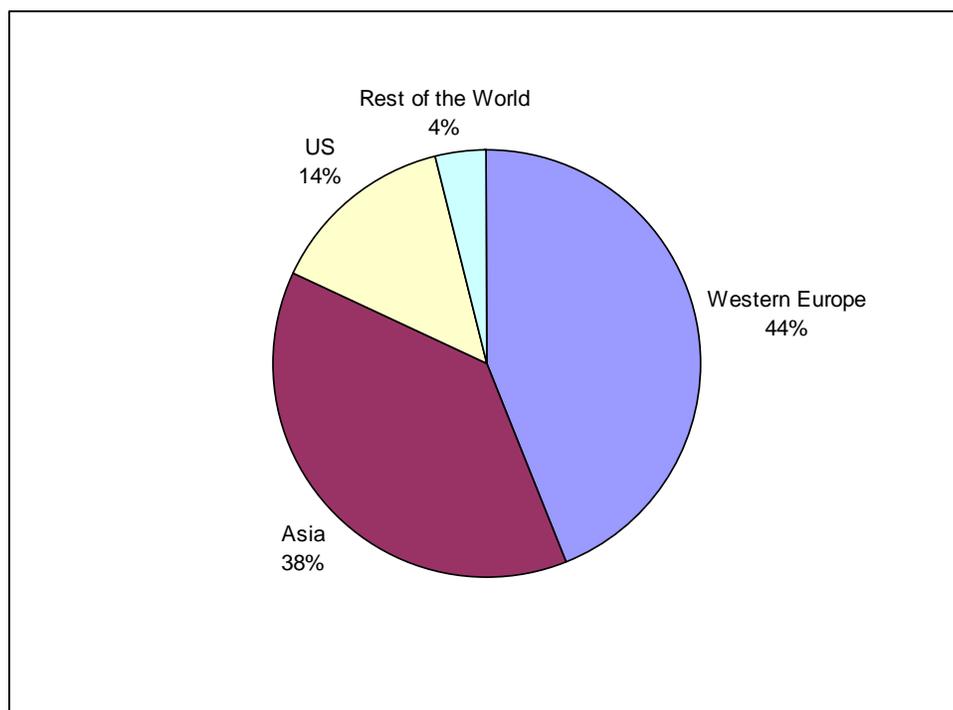
31st December 2006

All amounts are in 1.000 EUR	Western Europe	Eastern Europe	US	Total
Revenue by origin	193.750	4.269	3.483	201.502
Segment assets	144.528	22.342	2.795	169.665

The following table summarizes sales by destination:

31st December 2006

	2006 EUR	2005 EUR	2004 EUR
<u>Western Europe</u>	<u>88.080.618</u>	<u>85.131.608</u>	<u>79.496.062</u>
Germany	41.695.004	39.573.285	34.066.920
France	16.184.798	18.931.433	19.644.599
United Kingdom	12.242.213	14.363.545	17.397.859
Belgium	483.956	599.924	407.300
Austria	100.095	147.432	1.042.500
Netherlands	2.732.858	1.620.565	1.439.145
Other	14.641.694	9.895.424	5.498.034
<u>United States of America</u>	<u>28.656.933</u>	<u>25.240.937</u>	<u>21.222.135</u>
<u>Asia</u>	<u>76.214.507</u>	<u>57.784.506</u>	<u>48.306.720</u>
Japan	16.488.970	15.246.456	13.093.784
China	4.872.706	1.353.224	700.331
Other	54.852.831	41.184.826	34.512.605
<u>Rest of the World</u>	<u>8.549.660</u>	<u>5.517.209</u>	<u>4.310.022</u>
<u>Total</u>	<u>201.501.718</u>	<u>173.674.260</u>	<u>153.334.939</u>



## Revenues by customer

The following table summarizes sales by customer for the 10 most important customers. It consists of the sales to the end customer and not to the subcontractors.

	31st December		
	2006	2005	2004
	%	%	%
Customer A	15	16	16
Customer B	10	12	14
Customer C	8	5	4
Customer D	6	7	6
Customer E	6	6	9
Customer F	4	5	7
Customer G	4	4	2
Customer H	3	2	1
Customer I	2	2	1
Customer J	2	1	1
<u>TOTAL</u>	<u>60</u>	<u>61</u>	<u>61</u>

## 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 Inc	US entity
Melexis Gmbh	German entity
Melexis Bulgaria Ltd.	Bulgarian entity
Melexis BV	Dutch entity
Melexis Ukraine	Ukraine entity
Melexis Technologies SA	Swiss entity
Melexis French branch	French branch
Sentron AG	Swiss entity
Melefin NV	Belgian entity
Melexis Tessenderlo NV	Belgian entity
Melexis Philippines branch	Philippine branch

The shareholders of Melexis NV are as follows:

Since January 1<sup>st</sup>, 2006, Xtrion is the main shareholder of Melexis, as a result of the partial split of Elex NV into Elex NV and Xtrion NV. Xtrion NV owns 50,05 % of the outstanding shares. The shares of Xtrion and Elex are held directly and/or indirectly by Mr. Roland Duchâtelet and Mr. Rudi De Winter who are both directors at Melexis NV.

Xtrion NV also owns 57,95 % of the outstanding shares of the X-FAB group, producer of wafers that are the main raw materials for the Melexis products. Xtrion's shareholding reduced from 82% to 57,95 % as a result of the merger of Xfab with the Malaysian foundry First Silicon. 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.

Elex NV owns 78 % of the outstanding shares of EPIQ NV. EPIQ NV is listed on Euronext. Melexis supplies products to EPIQ. For most of these products, EPIQ is used as subcontractor by some OEM customers of Melexis. Therefore, the business relation for these products is with the OEM customer and not with EPIQ.

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 %), CEO of Melexis NV.

During the year 2006 a transaction took place which can create a potential conflict. In this respect we have to draw your attention to the fact that 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.

During 2006, the Board of Directors has identified following new transactions in this matter:

- the purchase by Melexis Bulgaria of a building from Xpeqtis, a related party
- the option for Melexis Bulgaria to purchase land from Xpeqtis, a related party.

## 2. Outstanding balances at year-end

As of December 31, 2006, 2005 and 2004, the following balances were outstanding:

### Receivables:

On	31st December		
	2006	2005	2004
Elex	2.968	25.032	500
XTRION	1.146.250		
Epiq group	1.923.890	924.117	2.401.078
Xfab group	418.820	529.461	4.415.599
Xpeq group	816.286	931.190	688.385
Other	116.832	115.952	225.213
<u>Total</u>	<u>4.425.046</u>	<u>2.525.752</u>	<u>7.730.775</u>

### Payables:

On	31st December		
	2006	2005	2004
Elex	63.700	247.424	91.522
XTRION	442.179		
Epiq group	21.618	41.492	162.600
Xfab group (a subsidiary of Elex NV)	5.525.957	5.213.811	4.660.526
Xpeq group	66.035	281.572	335.953
Other	-34.565		
<u>Total</u>	<u>6.084.925</u>	<u>5.784.299</u>	<u>5.250.601</u>

## 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	31st December		
	2006	2005	2004
Epiq group (mainly ICs)	9.285.163	9.735.731	10.377.964
Xpeq group	2.400	2.000	28.818
Xfab group (mainly test & assembly services)	907.444	2.155.328	2.217.718
Purchases from	2006	2005	2004
Xfab group (mainly wafers)	75.986.254	66.250.578	56.362.751
Epiq NV (mainly assembly)	394.856	537.187	365.168
Xpeq group (mainly equipment and goods)	1.417.064	2.385.623	1.700.524
Xtrion (mainly IT infrastructure)	194.889		
Elex (mainly IT infrastructure)	14.925	425.794	386.262

## B. Sales/purchases of services

Sales to	31st December		
	2006	2005	2004
Elex (mainly R&D services and rent)	24.583	24.480	80.909
Xpeqt group (infrastructure office building)	231.387	210.026	85.488
X-Fab group (mainly R&D services)	841.201	410.454	824.917
EPIQ group (infrastructure office building)	231.387	87.740	31.809

Purchases from	2006	2005	2004
Xtrion N.V. (mainly IT and related support)	1.046.884		
Elex N.V. (mainly IT and related support)	254.987	741.043	1.031.740
Epiq group	84.814	150.844	29.396
Xpeqt group	842.443	902.036	591.141

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.

The (un-audited) consolidated profit for the year 2006 for the the X-FAB group is estimated to be 35 MIO USD, whereas equity is estimated at 434 MIO USD (un-audited).

The consolidated result for the EPIQ group is 2 MIO EUR (audited), in 2006. Equity amounts to 22,5 MIO EUR (audited).

## 4. Remuneration of Board of Directors

In accordance with the company's bylaws, directors are remunerated for their mandate. The independent directors or entity that they represent, have received in total EUR 30.000 during 2006. The Chairman has not been remunerated as director. The executive directors' remuneration amount to EUR 17.500 during the year 2006.

## AC Financial instruments

### Financial risk management

Melexis NV operates internationally, which could give an exposure to market risks from changes in interest and foreign exchange rates. Melexis NV 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, 2006 was minimum since their deviation from their respective fair values was not significant.

#### AD Commitments

As of 31<sup>st</sup> December 2006, the company had purchase commitments for tangible fixed assets amounting to EUR 1.835.795. As of 31<sup>st</sup> December 2005, the company had purchase commitments for tangible fixed assets amounting to EUR 956.567.

#### AE Litigation

The company is currently not subject to any legal proceeding.

#### AF Auditor's Services

During the year 2006, the group incurred EUR 120.361 audit fees for the year end audit and the June 30 limited review. Non audit fees amounted to EUR 115.746.

#### AG Reserves Post-retirement Benefits

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

#### AH Subsequent events

Melexis is currently in progress to set up two new branch offices: one in Hong Kong and one in Japan. The principal activities of these two branches are selling activities.

#### AI List of subsidiaries consolidated

	Place of incorporation	Principal activities	Ownership interest
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%
Sentron AG	Switzerland	R&D	100%
Melefin NV	Belgium	Treasury	99,9 %
Melexis Tessenderlo NV	Belgium	R&D	99,9%
Melexis Technologies SA	Switzerland	R&D	99.9%

## 10. Corporate Governance

The Company's Corporate Governance Charter is available at the website of the company: [www.melexis.com](http://www.melexis.com). Next to the General Shareholder's meeting, the main policy-making bodies of the Group are the Board of Directors and the Board of management.

### Board of Directors

#### Composition of the Board of Directors

In accordance with article 13 of Melexis' Articles of Association, the Board of Directors comprises at least 5 Directors. They are appointed by the General Meeting of Shareholders for a period of three years. At any time the General Shareholders Meeting can dismiss a director. There is no age limit for directors and outgoing directors can be reappointed.

The chairman of the board is Roland Duchâtelet.

The directors of the company are:

Name	Age	Position
Roland Duchâtelet	60	Chairman of the Board and Director
Rudi De Winter	46	Vice Chairman of the Board and Managing Director, Chief Executive Officer (CEO)
Françoise Chombar	44	Managing Director, Chief Executive Officer (CEO)
Steve Hix	70	Director (non-executive)
Lina Sarro	49	Director (non-executive)
Triakon Nv, represented by Lucien De Schamphelaere	75	Director (non-executive)

Mr. Steve Hix, Mrs. Lina Sarro and Triakon N.V., represented by Mr. Lucien De Schamphelaere are independent directors.

**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, 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 NV. 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 Xtrion 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 Executive 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-Xtrion 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. In 2004 Ms. Chombar was appointed Chief Executive Officer for operations, sales and human resources.

**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, Materialize and XEMEX. 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.

**Ms. Lina Sarro** is Professor in Microsystems Technology at the Delft University of Technology and the Delft Institute of Microelectronics and Submicron Technology (DIMES). She is also scientific director of DiSens, (Delft Institute for Intelligent Sensor Microsystems). Ms. Sarro has more than 20 years experience in integrated silicon sensors and microsystems technology. She has authored and co-authored over 300 journal and conference papers. She acts as reviewer for a number of technical journals and is a steering committee member and technical program committee member for several international conferences. She is a member of the Royal Dutch Academy of Science, IEEE Fellow and receiver of the Eurosensors Fellow award in 2004 for her contribution in the field of sensor technology Ms. Sarro holds a Laurea degree (cum laude) in solid state physics from the University of Naples, Italy and a PhD degree in electrical engineering from the Delft University of Technology.

**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.

## Functioning and role of the Board

The internal regulation of the Board is part of the Corporate Governance Chapter.  
The Board met 6 times in 2006, whereby all Board members attended all meetings.

## Directors Remuneration

In accordance with the company's bylaws, directors are remunerated for their mandate. The independent directors or entity that they represent, have received in total EUR 30.000 during 2006. The Chairman has not been remunerated as director. The executive directors' remuneration amount to EUR 17.500 during the year 2006.

## Committees of the Board of Directors

### Audit Committee

The audit committee consists of three non-executive members, Roland Duchâtelet, Chairman, Steve Hix, independent director and Lucien Deschampelaere, independent director. The external auditor is regularly invited to the meetings of the Audit Committee.

The Audit Committee met twice during 2006. All members attended the meetings.

### Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of three non-executive members, Roland Duchâtelet, Chairman, Steve Hix, independent director and Lucien Deschampelaere, independent director.

The Remuneration and Nomination Committee met once during 2006. All members attended the meeting.

## Management

### Composition of the Management\*

(\*) in their own names or via management companies.

The Board of management consists of Rudi De Winter, Chief Executive Officer, Françoise Chombar, Chief Executive Officer and Karen van Griensven, Chief Financial Officer.

### Management's remuneration

The overall gross compensation paid to management during 2006 amounted to 210 kEUR.



## Dividend Policy

Taking into account the current and future cash flow situation and if no rewarding investment opportunities can be found, Melexis NV intends to pay out regular (interim-) dividends, in order to maximize the return on equity for its shareholders.

Gross (interim-) dividend paid out per share in

1999 : 0,30 EUR interim dividend

2002 : 0,50 EUR interim dividend

2003 : 0,50 EUR interim dividend

2004 : 0,2762 EUR dividend and 0.7238 EUR capital decrease

2005 : 0,50 EUR interim dividend

2006 : 0,50 EUR interim dividend

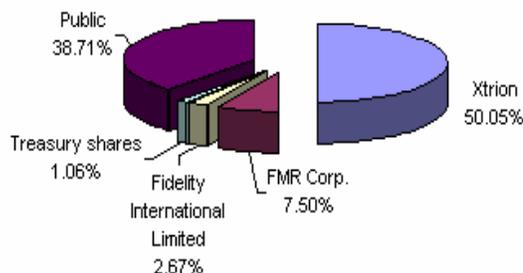
## Auditor

During the General Shareholder's meeting on April 20<sup>th</sup>, 2004 BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA, represented by Koen De Brabander, was appointed for a period of 3 years.

# 11. Shareholder Information

Listing **Euronext**  
 Reuters ticker **MLXS.BR**  
 Bloomberg ticker **MELE BB**

## 11.1 Shareholder Structure



Company	Number of Shares	Participation Rate
Xtrion	21.644.399	50.05%
FMR Corp.	3.245.000	7.50%
Fidelity International Limited	1.155.606	2.67%
Treasury Shares	458.378	1.06%
Public	16.738.477	38.71%
Total	43.241.860	100.00%

## 11.2 Share Information

First day of listing 10 October 1997  
 Number of shares outstanding on Dec 31, 2006 43.241.860  
 Market capitalization on Dec 31, 2006 465.282.413 EUR

(Euro)	2006	2005	2004	2003	2002	2001
Earnings per share	0,80	0,65	0,56	0,54	0,47	0,45
Cash flow per share (**)	1,05	0,91	0,84	0,78	0,70	0,64
Gross Dividend (*)	0,50	0,50	0,28	0,50	0,50	-
Year end price	13,80	10,76	9,01	9,40	5,89	8,43
Year's high	14,38	11,20	10,76	9,90	9,10	15,00
Year's low	10,99	9,00	8,40	5,10	5,00	5,13
Average volume of shares traded/day	47.027	38.129	39.690	41.593	36.374	35.533

(\*) in 2004 also a capital decrease of 0,72 EUR per share was paid out  
 (\*\*) Cash flow = Net income + Depreciation + Impairment/amortization of goodwill

## 11.3 Shareholder Contact Info

Karen van Griensven Phone: +32 13 67 07 80  
 Chief Financial Officer Fax: +32 13 67 21 34  
 Rozendaalstraat 12, B-8900 Ieper, Belgium  
 www.melexis.com/investor.asp

## 11.4 Financial Calendar 2007

Announcement of Preliminary Annual Results February 7, 2007  
 Annual Shareholder's Meeting April 20, 2007  
 Announcement of Q1 results April 25, 2007  
 Announcement of Half Year Results July 31, 2007  
 Announcement of Q3 results October 24, 2007

## 12. Condensed statutory financial statements

The following data concerns a short version of the statutory financial data of Melexis NV which has been audited by the auditors BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA This statutory financial data concerns the entity Melexis NV and its French and Philippine branche. The Swiss branch at Bevaix was transformed in a separate legal entity as of July 1<sup>st</sup>, 2006. For this reason only the result for the period January 1<sup>st</sup> until June 30<sup>th</sup> is integrated in the below mentioned financial data.

The full statutory financial statements can be obtained at the registered office of the company at Rozendaalstraat 12, 8900 Ieper.

Statutory Balance Sheet in 1.000 EUR	December 31st		
	2006	2005	2004
<b>ASSETS</b>			
<b>FIXED ASSETS</b>	<u>158.605</u>	<u>135.007</u>	<u>129.160</u>
I. Formation expenses	-	-	-
II. Intangible assets	448	780	988
III. Tangible assets	<u>9.469</u>	<u>14.864</u>	<u>14.178</u>
A. Land and buildings	1.336	2.705	2.869
B. Plant machinery and equipment	7.724	11.740	10.833
C. Furniture and vehicles	374	419	476
E. Other tangible assets	-	-	-
F. Assets in progress and advanced payments	35	-	-
IV. Financial assets	<u>148.688</u>	<u>119.363</u>	<u>113.994</u>
A. Affiliated companies	148.433	119.194	113.836
1. Participations in third parties	148.433	119.194	113.836
C. Other financial assets	255	169	158
2. Receivables and caution money	255	169	158
<b>CURRENT ASSETS</b>	<u>29.084</u>	<u>31.010</u>	<u>46.071</u>
VI. Stocks and contracts in progress	<u>3.464</u>	<u>9.558</u>	<u>6.519</u>
A. Stocks	<u>3.464</u>	<u>9.558</u>	<u>6.519</u>
1. Raw materials and consumables	894	2.792	578
2. Contracts in progress	2.446	2.842	4.759
3. Finished goods	123	3.924	1,181
VII. Amounts receivable within one year	<u>8.465</u>	<u>15.234</u>	<u>16.729</u>
A. Trade receivables	8.037	13.148	11.100
B. Other receivables	428	2.086	5.629
VIII. Cash investments	<u>12.987</u>	<u>514</u>	<u>10.826</u>
A. Own shares	5.586	514	10.826
B. Other investments and deposits	7.401	-	-
IX. Cash deposits	<u>3.916</u>	<u>5.378</u>	<u>11.877</u>
X. Deferred assets and accrued income	<u>252</u>	<u>326</u>	<u>120</u>
<b>TOTAL ASSETS</b>	<u><b>187.689</b></u>	<u><b>166.017</b></u>	<u><b>175.231</b></u>

<u>LIABILITIES</u>			
<u>SHAREHOLDERS' EQUITY</u>	<u>66.228</u>	<u>78.781</u>	<u>100.677</u>
<u>I. Capital</u>	<u>565</u>	<u>565</u>	<u>565</u>
A. Outstanding Capital	565	565	565
<u>II. Share premium account</u>		-	-
<u>IV. Reserves</u>	<u>5.872</u>	<u>571</u>	<u>12.205</u>
A. Legal reserve	57	57	57
B. Reserves not available for distribution	5.815	514	12.148
1. In respect of own shares held	5.586	514	12.148
2. Other	229		
<u>V. Accumulated profits</u>	<u>59.791</u>	<u>77.645</u>	<u>87.907</u>
<u>VI. Investment grants</u>	-	-	-
 <u>PROVISIONS AND DEFERRED TAXES</u>	 <u>145</u>	 <u>273</u>	 <u>256</u>
<u>VII. A Provisions for liabilities and charges</u>	<u>145</u>	<u>273</u>	<u>256</u>
4. Other liabilities and charges	145	273	256
<u>VII. B Deferred taxes</u>		-	-
 <u>DEBTS</u>	 <u>121.315</u>	 <u>86.963</u>	 <u>74.298</u>
<u>VIII. Amounts payable after more than one year</u>	-	<u>17.689</u>	<u>34.672</u>
A. Financial debts	-	17.689	34.672
4. Credit institutions	-	17.689	34.672
<u>IX. Amounts payable within one year</u>	<u>119.663</u>	<u>69.141</u>	<u>11.540</u>
A. Current portion of amounts payable after more than one year	-	-	359
B. Financial debts	-	16.598	11.181
1. Credit institutions	-	16.598	-
C. Trade debts	3.650	6.992	4.857
1. Trade payables	3.650	6.992	4.857
D. Advances received on contracts in progress	-	-	-
E. Taxes, remuneration and social security	1.434	1.090	2.202
1. Taxes	886	625	1.721
2. Remuneration and social security	548	465	481
F. Other amounts payable	114.578	44.461	21.022
<u>X. Accrued charges and deferred income</u>	<u>1.652</u>	<u>133</u>	<u>4</u>
 <u>TOTAL LIABILITIES</u>	 <u>187.689</u>	 <u>166.017</u>	 <u>175.231</u>

Statutory Income Statement		December 31st		
in 1.000 EUR		2005	2005	2004
<u>I. Operating income</u>		<u>81.740</u>	<u>90.014</u>	<u>63.707</u>
A. Turnover		85.594	88.901	63.773
B. Changes in stocks of finished goods, work and contracts in progress		(4.196)	825	(311)
C. Other operating income		342	288	245
<u>II. Operating charges</u>		<u>(70.283)</u>	<u>(80.431)</u>	<u>(53.079)</u>
A. Raw materials, consumables and goods for resale		45.792	52.834	31.403
1. Purchases		43.895	55.048	31.364
2. Changes in stocks		1.897	(2.214)	39
B. Services and other goods		14.254	15.843	10.521
C. Remuneration, social security charges and pensions		5.435	5.942	5.822
D. Depreciations		4.658	5.292	5.297
E. Amounts written off stocks, contracts in progress and trade receivables		43	(74)	(9)
F. Provisions for other costs		(198)	17	18
G. Other operating charges		299	577	28
<u>III. Operating profit</u>		<u>11.457</u>	<u>9.583</u>	<u>10.627</u>
<u>IV. Financial income</u>		<u>1.158</u>	<u>7.208</u>	<u>2.273</u>
A. Income from financial fixed assets		83	-	-
B. Income from current assets		107	311	908
C. Other financial income		968	6.897	1.365
<u>V. Financial charges</u>		<u>(5.449)</u>	<u>(3.632)</u>	<u>(2.800)</u>
A. Debt charges		4.800	2.780	935
B. Amounts written off on current assets other than those mentioned under II. E.		-	-	-
C. Other financial charges		649	852	1.866
<u>VI. Profit on ordinary activities before taxes</u>		<u>7.166</u>	<u>13.159</u>	<u>10.100</u>
<u>VIII. Extraordinary charges</u>		<u>-</u>	<u>-</u>	<u>(8)</u>
D. Loss on disposal of fixed assets		-	-	-
E. Other Extraordinary charges		-	-	(8)
<u>IX. Profit of the year before taxes</u>		<u>7.166</u>	<u>13.159</u>	<u>10.092</u>
<u>IX. bis. A. Transfer from deferred taxes</u>		<u>-</u>	<u>-</u>	<u>-</u>
<u>X. Income taxes</u>		<u>(2.659)</u>	<u>(2.608)</u>	<u>(3.832)</u>
A. Taxes		(2.851)	(2.964)	(3.864)
B. Regularization		192	356	32
<u>XI. Profit of the year</u>		<u>4.507</u>	<u>10.551</u>	<u>6.260</u>
<u>XIII. Profit of the year available for appropriation</u>		<u>4.507</u>	<u>10.551</u>	<u>6.260</u>

Appropriation of the Profit		December 31st		
in 1.000 EUR		2006	2005	2004
<u>A. Profit to be appropriated</u>		<u>82.153</u>	<u>98.457</u>	<u>121.682</u>
1. Profit of the period available for appropriation		4.507	10.551	6.260
2. Profit carried forward		77.646	87.907	115.422
<u>B. Transfers from capital and reserves</u>		<u>-</u>	<u>1.323</u>	<u>-</u>
1. From capital and share premium account		-	-	-
2. From reserves		4.331	1.323	-
<u>C. Transfers to capital and reserves</u>		<u>(5.301)</u>	<u>(514)</u>	<u>(21.466)</u>
1. To capital and share premium account		-	-	-
1. To other reserves		(5.301)	(514)	(21.466)
<u>D. Result to be carried forward</u>		<u>(59.791)</u>	<u>(77.646)</u>	<u>(87.907)</u>
1. Profit to be carried forward		(59.791)	(77.646)	(87.907)
<u>F. Distribution of profit</u>		<u>(21.392)</u>	<u>(21.620)</u>	<u>(12.309)</u>
1. Dividends		(21.392)	(21.620)	(12.309)