Annual Report 2005

Melexis

Microelectronic Integrated Systems

Melexis Annual Report 2005

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1. Letter to the Shareholders

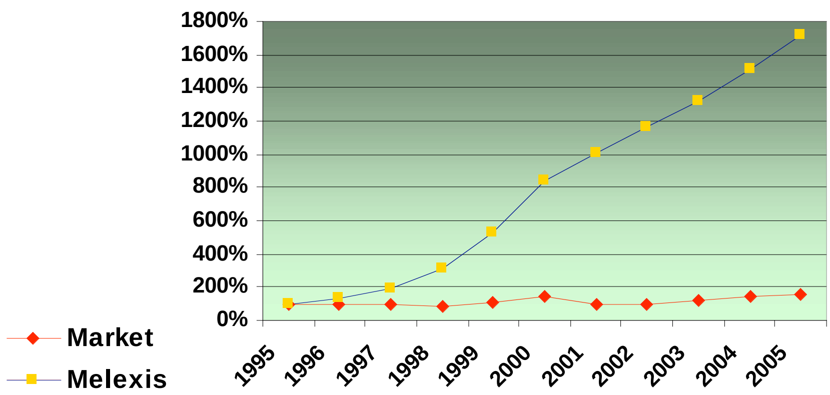
Françoise Chombar

Rudi De Winter

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. This market has a projected annual growth rate in the next decade of 7-9%. A key component of the Melexis product strategy continues to be Sensor ICs. The market for sensor ICs has significant 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. 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.

In 2005, 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 re-certification to ISO/TS16949. 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. Contrasted with the cyclical nature of other semiconductor market segments, this can allow for predictable factory loading and full utilization of capital investments.

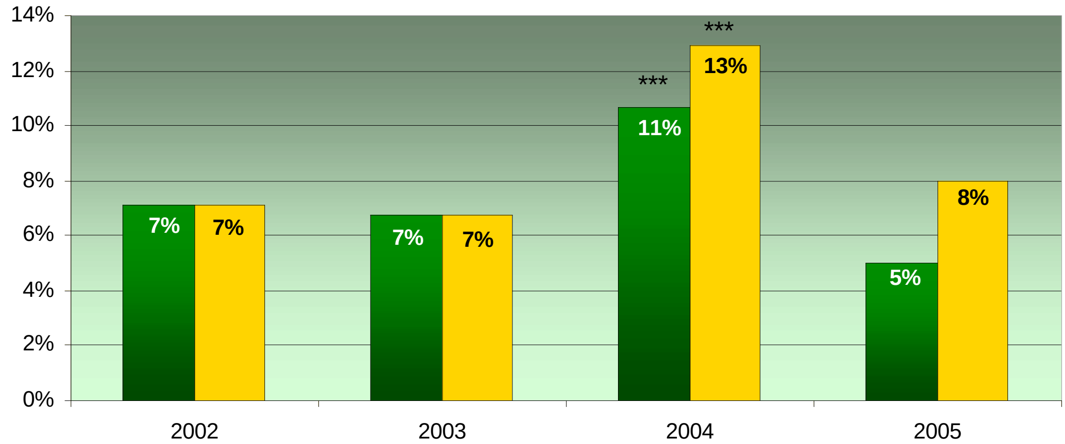


	Worldwide ($ in Billions)		Melexis (Euro)	
1995	144	100%	10.133.373	100%
1996	132	92%	13.873.915	137%
1997	137	95%	19.751.187	195%
1998	126	88%	31.645.810	312%
1999	149	103%	53.076.307	524%
2000	204	142%	85.403.034	843%
2001	139	96%	102.400.224	1011%
2002	141	98%	118.191.252	1166%
2003	166	116%	133.549.184	1318%
2004	213	148%	153.334.939	1513%
2005	227	158%	173.674.260	1714%

Worldwide Semiconductor Market Versus Melexis

Source: WSTS,
World Semiconductor Trade Statistics

Dividend yield (*) versus Adjusted Dividend Yield (%) (**)

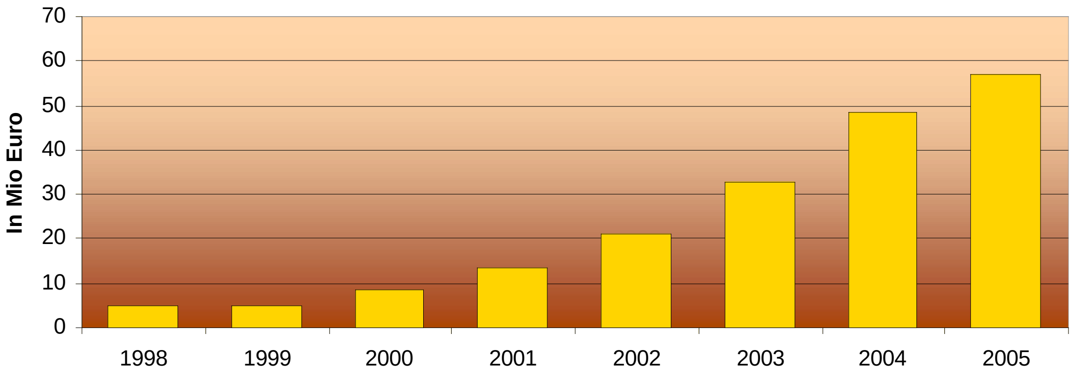


(*)Dividend yield = Gross Dividend divided by yearly average closing share price
(**) Adjusted Dividend yield = Dividend yield taking share buybacks into account
(***)In 2004 a gross dividend of 0.28 EUR per share was paid out as well as a capital decrease of 0.72 EUR per share

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 of between 16 and 20%, and a return on equity over 40%. Noting the several severe down cycles in the overall market for semiconductor ICs during the same period, this can be considered pretty exceptional indeed.

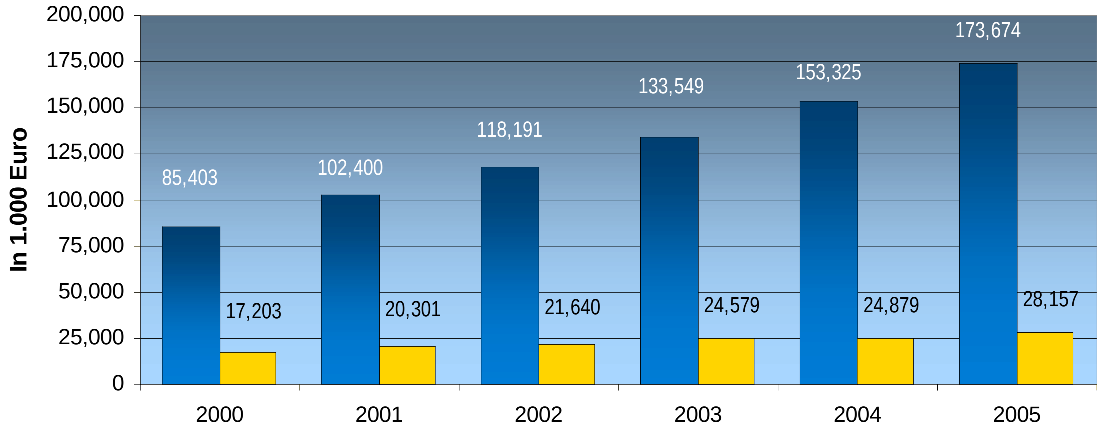
Considerable profit and cash generation has allowed Melexis to both pay out high dividends and to initiate share buy back programs over the last 4 years. The high visibility on future growth makes it likely that Melexis will continue to return cash to its shareholders, in order to maximize the return on equity.
Consolidated results for the past fiscal year yielded 13% revenue growth compared to 2004. The operating margin in turn grew by more than 20% to 34.8 million EUR. In this respect, we would like to emphasize that Melexis does not activate any of its development expenses, though IFRS 38 par 57 allow for it, in case some well defined criteria are met.
For 2006, we expect an increase in revenues of 10-15%, with a net profit margin in the same range as the previous year.

Sales Evolution Asia 1998 – 2005



Though Europe remains the stronghold in sales with close to 46% of the total revenue, sales to the Far East have grown by more than 19% to 57.8 million EUR partly due to the shift in manufacturing from Europe and USA to Asia but increasingly as a result of continued design wins by Melexis with traditional Asian based suppliers.

Sales & Profit Evolution



Melexis had significant internal activities in 2005, to include a continued investment in a Human Resource system relating to Performance Management. The objective of this activity is the continued attraction, retention and development of talented team members for all aspects of the companies operations.

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. 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. Melexis is now selling to 14 out of the top 15 global automotive suppliers. The top 10 Melexis customers only amount to 62% of total revenues compared to 68 % in 2000.

In order to ensure capacity for future growth, Melexis has started to build a new plant in Sofia, Bulgaria, that will double the existing group's testing capacity. The plant will be operational as of October this year.

A corporate branding exercise yielded the new look and feel of the brochure and annual report you are holding. The campaign "small things make a big difference" reflects Melexis' role as a component supplier whose innovations, while physically small, are the essential element in nearly each and every one of our customer's extraordinary systems. In a dualistic manner, it also reflects the conviction that the small things done each day by our Melexis colleagues worldwide make a big difference for our customers, for our shareholders and for our environment.

Yours sincerely,
Ieper, 20th of March 2006

Françoise Chombar, CEO
Rudi De Winter, CEO

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; (vi) respond to competitive developments; and (vii) 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 is 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 characterized 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 hereunder 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 16% and 12% of the Company's revenues for the year ended December 31, 2005. 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, 2005 only accounted for 62 % 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 close to 50% 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 form 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, Freescale, Honeywell Solid State Elec, NEC Semiconductors, SGS-Thomson Microelectronics, Elmos, ST Microelectronics, Micronas, and Infineon.

The Company believes that the principal competitive factors in its market are technological know-how, human resources, new product development, and 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 approximate 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	2001	2002	2003	2004	2005
Turnover	102.400	118.191	133.549	153.335	173.674
EBIT	19.833	22.890	27.922	28.947	34.796
EBITDA	28.509	33.007	39.019	41.472	46.168

Balance structure	2001	2002	2003	2004	2005
Shareholders' equity	91.432	86.867	86.153	54.868	61.778
Net indebtedness (*)	3.348	(2.580)	8.582	33.094	26.249
Working capital	60.899	47.244	59.930	45.020	36.891

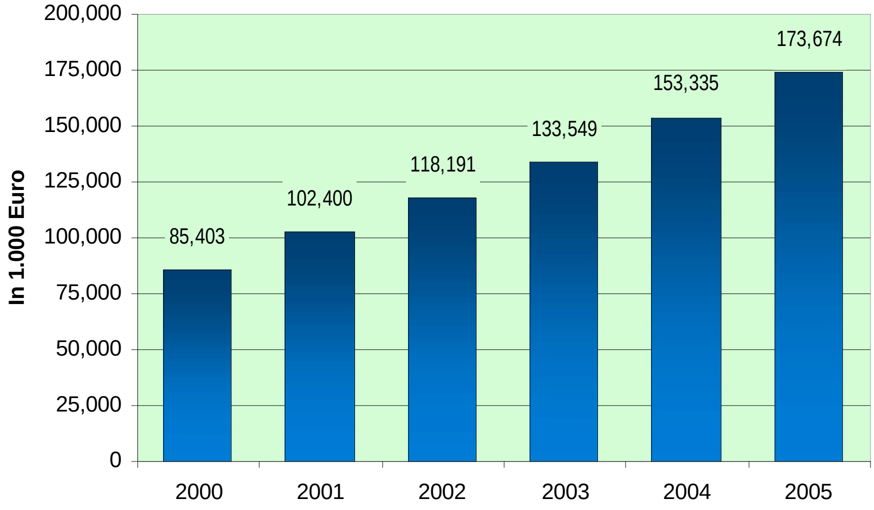
(*) : bank debts and overdrafts – cash and cash equivalents

Cash flow and capital expenditure	2001	2002	2003	2004	2005
Cash flow (*)	28.977	31.757	35.676	37.401	39.529
Depreciation + amortization	8.675	10.117	11.097	12.525	11.373
Capital expenditure	8.506	14.585	11.304	10.781	9.334

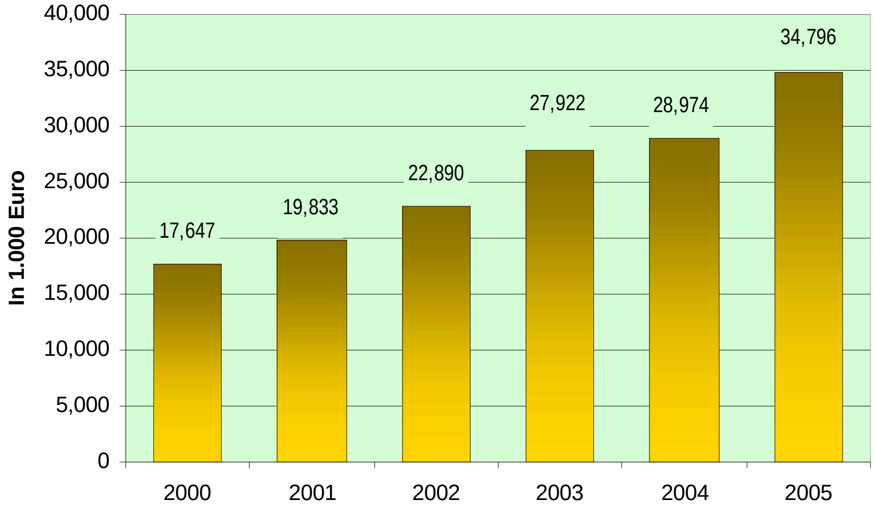
(*) : cash flow = net profit + depreciation and amortization

Ratios	2001	2002	2003	2004	2005
ROE	22%	25%	29%	45%	46%
Liquidity	2,7	3,2	4,5	2,5	2,0
Solvency	67%	77%	71%	45%	52%

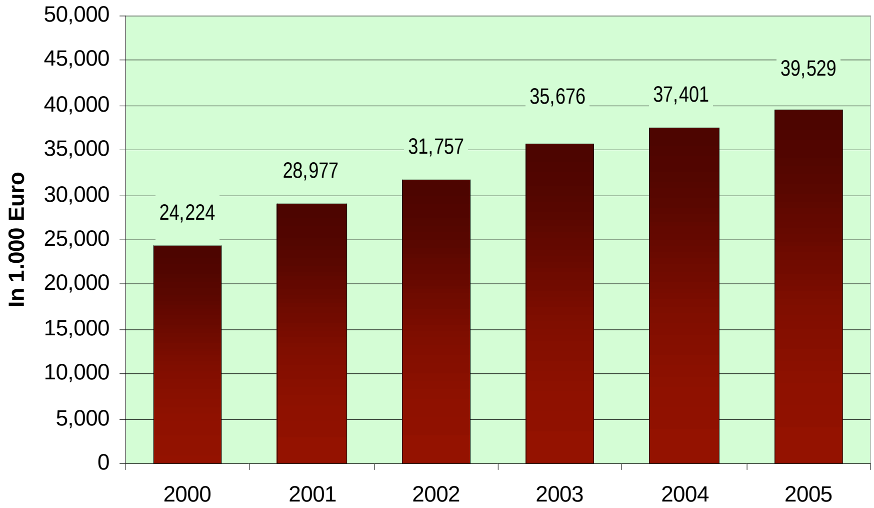
(*) : liquidity = current assets / current liabilities



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. Which 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 corpor-ate 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

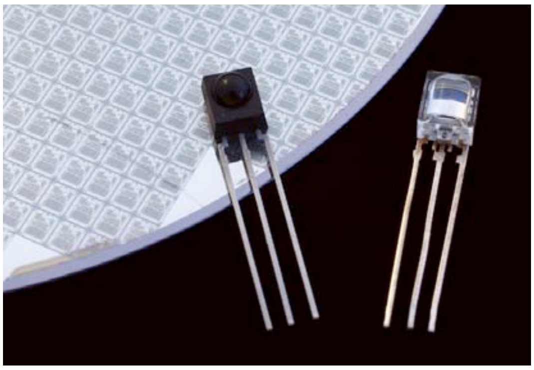
On the other hand freedom also commands respect, respect for everyone's way of thinking, respect for the fragility of an idea in the making. That is why we think that individual freedom and mutual respect are inextricably bound. We cherish them. We consider them the ultimate catalysts in a process that 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 organisation 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.

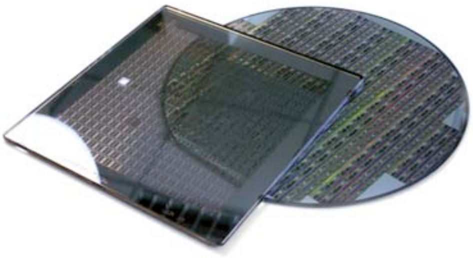


Difference

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 organisation 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 organisation 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 organisational tools and team spirit.

A world of growth opportunities

The data shows that the market for semiconductors in the automotive sector continues to provide solid growth opportunities. The share of electronics in cars is still growing and these electronics enable car manufacturers to differentiate themselves with their types and models 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.

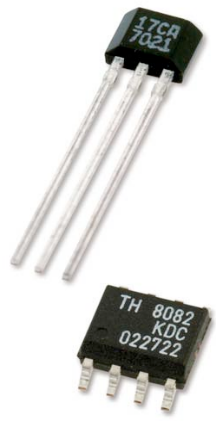
Spotlight on ASSPs and ASICs

Melexis continues to concentrate more and more 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 at present also in other sectors. In order to maintain this position and further improve upon it, Melexis is making substantial investments in research and development and in people.

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 Semiconductor Commodity. Moreover our company also has been recognized for our commitment to respecting the natural environment with 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 electronics continues to grow at an annual rate of 7-9%. This growth is due to the increasing electronic content in each vehicle. Government regulations and consumer demand for improved fuel economy and creature comforts. Reduced environmental impact, safety and fuel economy have also increased electronic sensors and control systems.

Melexis investment into systems and pro-cesses in line with 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.

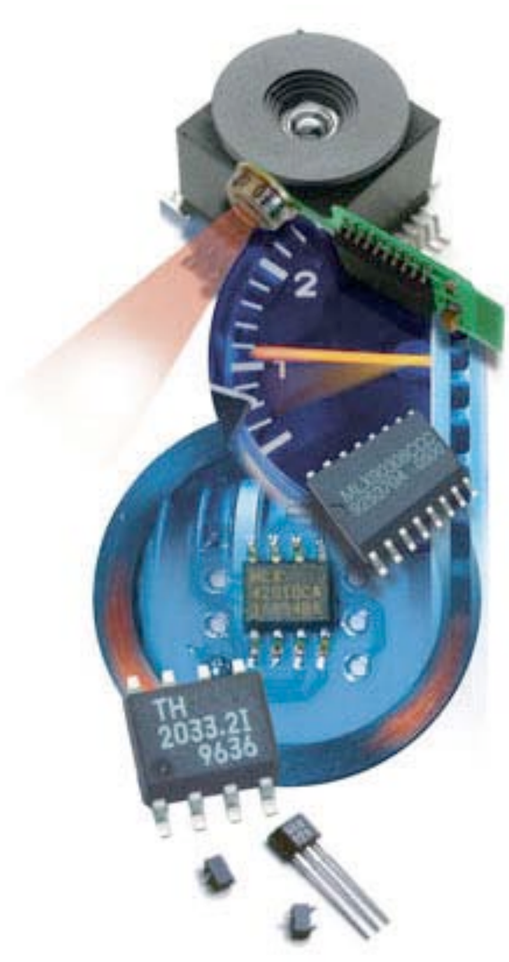
Melexis holds a broad patent portfolio. These patents serve our customers by providing effective and unique solutions in their highly competitive market segments.

Melexis is a research driven company in which Research and Development has been, and will remain, of paramount importance in the Company's strategy. Specific Research and Development activities are performed not for internal use but under contract for customers and therefore generate revenues.

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 increasingly driven by Melexis market research identifying long term needs.

3.1 Sensors

- Hall Effect



Hall Effect Devices detect fields. Typical uses are for movement and position 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 rotation of the cam- and crank-shafts in engines, monitoring movement in motors and actuators, sensing pedal, throttle and steering wheel position 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 equipment.

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 Hall technology under the brand 'Triaxis'. The first Triaxis product is targeted for contactless 360° rotary position sensor. This product has been recognized by EDN as part of the Hot 100 Products of 2005. This Triaxis technology 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.

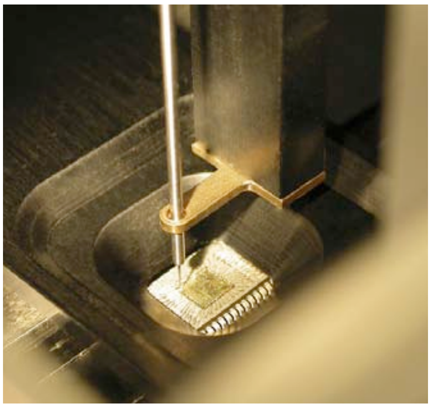
One example is the wide range of specialized Hall sensors used in cooling fans for electronic equipment. Recent innovations include ICs that significantly reduce the noise of cooling fans; an important feature in consumer electronic devices.

- MEMS (Micromachined Electro-Mechanical Systems)

a. Pressure Sensors, Acceleration Sensors, Gyroscopes

Pressure sensors, acceleration sensors, and gyroscopes are used in various automotive applications such as airbag systems, vehicle stability systems, particle filters and brake systems. The pressure sensor and acceleration sensor chips, 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 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.

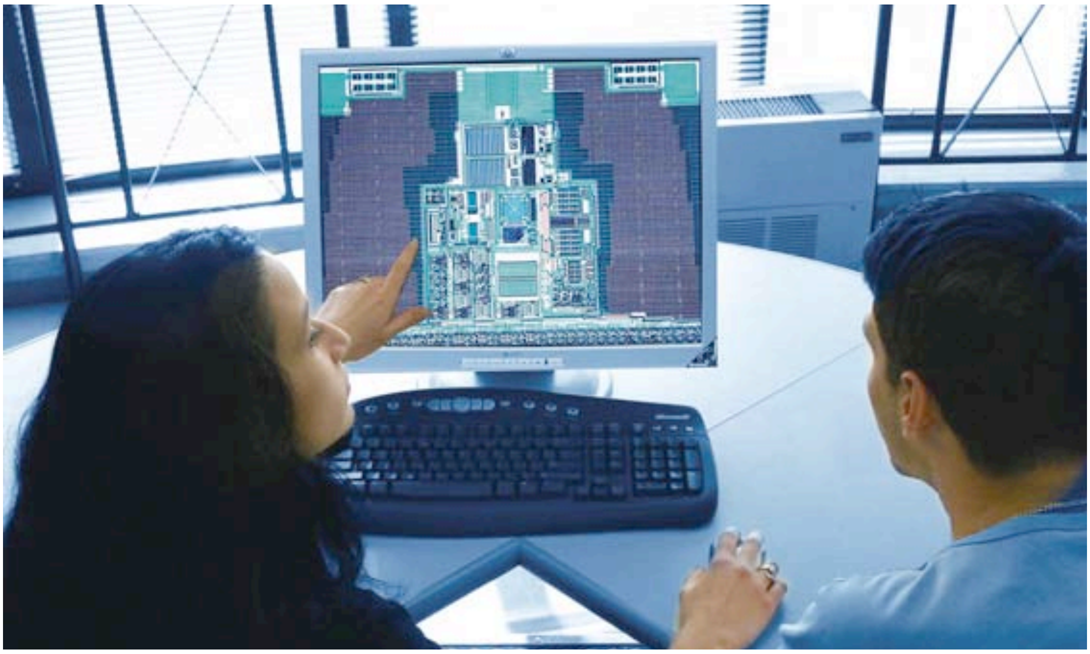


Vehicle airbag systems use one or more acceleration sensors. These acceleration sensors detect an impact and decide to deploy the airbag or not. Modern cars include side impact curtains. Such advanced airbags require crash sensors at the spots in the car where the crash can be sensed in the most accurate 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.

b. 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 electronic controlled automatic transmissions, seat belt tension sensors in mandatory second generation airbag systems, fuel pressure sensors in fuel economy enhancing injection systems. The further proliferation of sensor-rich automotive systems will continue to fuel the growth of this product line.



3.2 Actuators

Actuator IC products focus on the integration of high volume electronic systems: peripheral ICs, embedded micro-controller ICs and Bus systems.

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 take advantage of synergies from across the company to embed sensing when needed and to share design expertise in embedded intelligence solutions.

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 and leverage the IP of the Bus group to further enhance simplified solutions for Melexis customers. LIN networks have become a mature technology that is being adopted by all current car manufacturers in Europe, US and Asia as an integral part of their vehicle architecture. Melexis, as one of the leaders in LIN transceivers, is stepping up its portfolio of integrated Application Specific Standard Products (ASSP). These ICs allow network designers to make the lowest cost LIN slave nodes while retaining maximum flexibility.

3.3 Wireless

- 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

RFID is a means of automatic identification. Like bar coding it is an information acquisition technology. RFID consists of a sensing device which transmits via radio waves to a specially designed RFID tag, which replies with a radio message. Data within a tag identifies an item in manufacture, goods in transit, a specific vehicle, an animal or individual. Melexis brings significant strength to the RFID reader IC market and is currently recognized for its best in class devices.

Melexis has been an early innovator in so-called wireless sensing through its RFID products. The company's competitive advantage in wireless sensing derives from low power consumption, high reading distance and a highly integrated design. Moreover Melexis can offer both tag and reader chips as a complete solution, simplifying system integration. Wireless temperature tracking of perishable goods is an example of the benefits possible from Melexis sensing capabilities and leading edge RFID expertise. Melexis expertise in RF and RFID will be considered for the newly emerging challenges in Near Field Communication (NFC).

3.4 Opto

- 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

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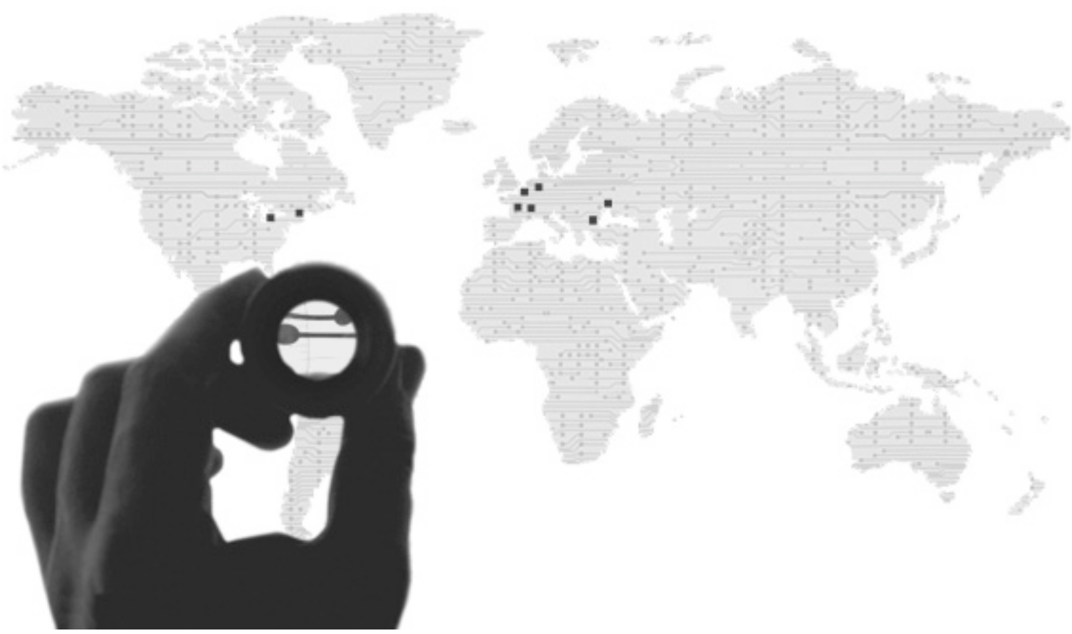


8. Management's Discussion and Analysis

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, 2005, 2004, 2003. The years 2005 and 2004 have been audited by BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA, the year 2003 by Deloitte & Partners Bedrijfsrevisoren.

Consolidated Income statements

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Product sales	171.134.284	148.751.685	128.271.746
Revenues from Research and Development	2.539.976	4.583.254	5.277.438
Cost of sales	(101.392.977)	(90.479.760)	(76.365.213)
Gross margin	72.281.283	62.855.179	57.183.971
Goodwill Amortization	-	(555.689)	(740.919)
Research and development expenses	(24.987.990)	(22.457.478)	(18.749.812)
General and administrative expenses	(7.898.155)	(6.143.793)	(5.043.344)
Selling expenses	(4.599.160)	(4.751.358)	(4.727.943)
Other operating expenses (net)		-	-
Income from operations (EBIT)	34.795.978	28.946.861	27.921.954
Financial results (net)	(721.148)	25.003	427.089
Other (net)		-	-
Profit before taxes	34.074.830	28.971.864	28.349.043
Income taxes	(5.917.981)	(4.096.086)	(3.770.386)
Minority interest		-	-
Net profit	28.156.849	24.875.778	24.578.657

Condensed Consolidated Balance Sheets

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Current Assets	73.219.604	74.907.848	77.033.697
Non current assets	45.725.927	47.829.013	44.043.975
Current liabilities	36.328.187	29.887.495	17.103.333
Non current liabilities	20.838.876	37.982.164	17.820.928
Shareholders' equity	61.778.468	54.867.202	86.153.411

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) and for Melexis Bulgaria Ltd., the Bulgarian Leva (BGN) , for Sentron Ag the Swiss franc (CHF) and for Melexis Philippines the Philippines Pesos (PHP). Assets and liabilities of Melexis Inc., Melexis Branch Office, Sentron Ag, Melexis Ukraine and Melexis Bulgaria Ltd. are translated at exchange rates in effect at the end of the reporting period, and revenues and expenses are translated at the average exchange rate during the period. Equity components have been translated at historical exchange rates. Gains or losses resulting from this translation are reflected in the component “cumulative translation adjustment” (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 for the years ended 31 December, 2005, 2004 and 2003.

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 current majority shareholder of Melexis NV, in the spring of 1996.

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

In the last quarter of 1997, the company acquired US MikroChips Inc.(now Melexis Inc.), based in Webster, Massachusetts. US MikroChips Inc. was founded in January 1993 to take advantage of a rapidly growing market in Asia for Hall Sensors in cooling fans. Since April 1994, the cooperation between US MikroChips and Melexis NV 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.

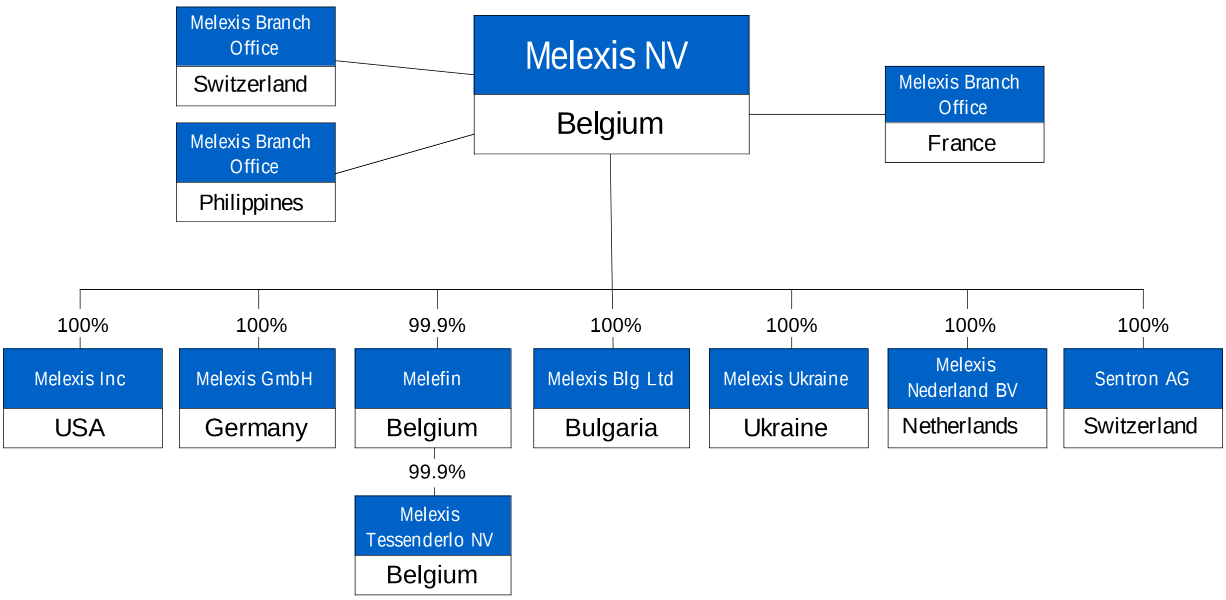
In January 2003 Melexis NV incorporated a branch office in Paris, France. This branch is mainly active in development of IP.

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

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

On the 23rd 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.

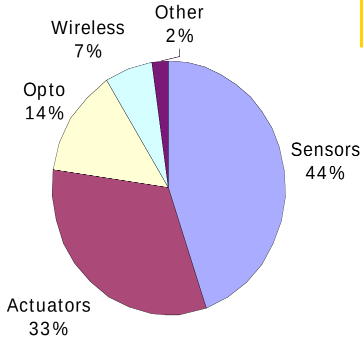


8.3.2. Results of operations

Revenues

For 2005 total revenues increased by 13 % as compared to 2004. The major relative increase can be found in the Actuator Division.
The largest division is Sensors (44 %), which includes Hall, Pressure, Acceleration and Gyroscope activities, followed by the Actuators division (33%). The Opto product line is the third major division, realizing 14 % of the total revenues of the company. The Wireless division amounts to 7% of total revenues.
Specific research and development activities are included in the revenues per business unit. These specific R&D activities are performed under contract for customers. For the year 2005, the company invoiced EUR 2.539.976 research and development costs to its customers, compared to EUR 4.583.254 in 2004 and EUR 5.277.438 in 2003.

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



	Years ended 31st December		
	2005 EUR	2004 EUR	2003 EUR
Sensors	77.604.893	70.332.334	65.136.416
Actuators	56.584.308	44.378.951	39.304.168
Opto	24.002.780	24.468.037	14.435.439
Wireless	11.468.561	10.047.629	6.675.422
Other	4.013.718	4.107.989	7.997.739
Total	173.674.260	153.334.939	133.549.184

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 76.365.213 in 2003 up to EUR 90.479.760 in 2004 and EUR 101.392.977 in 2005.
Expressed as a percentage of total revenues, the cost of sales was 58 % in 2005 compared to 59 % in 2004. The main reason for the decrease in cost of sales as a percentage of sales is the change in product mix and the improvement on yields.

Gross margin

The gross margin, as a percentage of total revenues, was at 42 % in 2005 compared to 41 % in 2004 and 43% in 2003. This was due to a shift in the product mix to higher margin products, and the improvement on wafer yield.

Research and Development expenses

Research and development expenses amounted to EUR 24.987.990 in 2005, representing 14 % of total sales. The 11% growth is in line with the growth in sales. The research and development activities concentrate further on the research and 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 2005.

Financial results

The net financial results decreased from EUR 25.003 profit to 721.148 EUR losses in 2005. The (net) interest result decreased from a loss of EUR 63.051 in 2004 to a loss of EUR 883.863 in 2005. The net exchange gains (both realized and unrealized) in 2005 amounted to a profit of 410.449 EUR, compared to EUR 117.158 loss during 2004.

Net income

The company recorded a net income for 2005 of EUR 28.156.849. This represents a 13 % increase compared to 2004, which is in line with the growth in sales from 2004 to 2005.

8.3.3. Liquidity, Working Capital and Capital Resources

Cash and cash deposits amounted to EUR 11.375.829 as of 31 December 2005 , in comparison to EUR 16.296.964 as of December 31, 2004 and EUR 14.127.504 as of December 31, 2003.

In 2005, operating cash flow before working capital changes amounted to EUR 40.404.530. Working capital was negative, mainly as a result of increased inventory levels and trade accounts receivables, resulting in a net operating cash flow of EUR 33.755.840.

The cash flow from investing activities was negative for EUR 9.451.607, mainly as the result of investments in fixed assets,

The cash flow from financing activities was negative for EUR 29.492.347. This is mainly the result of on the one hand the payment of a dividend of EUR 21.620.925, and on the other hand the decrease of borrowings for EUR 11.766.560.

9. Selected Summary Financial Data

9.1. Detailed Consolidated Financial Statements

9.1.1. Independent Auditor's report

To the Shareholders of Melexis NV,

In accordance with legal and statutory requirements, we are pleased to report to you on the performance of the audit mandate which has been entrusted to us.

We have audited the consolidated balance sheet of MELEXIS NV and subsidiaries as of December 31, 2005, and the related consolidated statements of income, the consolidated statement of cash flows, the consolidated statement of changes in equity, the notes and the consolidated directors' report for the year then ended. The preparation of the consolidated financial statements and the assessment of the information to be included in the consolidated directors' report, are the responsibility of the board of directors. The balance sheet total as of December 31st, 2005 amounts to EUR 118.946(000) and the profit for the year then ended amounts to EUR 28.157(000).

The consolidated financial statements as of December 31st, 2005 were audited by BDO Atrio Bedrijfsrevisoren Burg. CVBA. These statements include various significant subsidiaries, some of which are incorporated in a foreign country, which have been audited by other auditors, within the framework of our assignment. We obtained their clearance on the amounts reflected in the consolidated financial statements in relation to these subsidiaries.

Our audit of the consolidated financial statements was carried out in accordance with the auditing standards applicable in Belgium, as issued by the Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren.

UNQUALIFIED AUDIT OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

The above mentioned auditing standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In accordance with those standards, we considered the group's administrative and accounting organisation, as well as its internal control procedures. Company officials have responded clearly to our requests for explanations and information. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the accounting policies, the consolidation principles, the significant accounting estimates made by the company and the overall consolidated financial statement presentation. We received from management of the company the information and explanations we requested.
We believe that our audit as well as our colleagues' who have audited the subsidiaries' accounts, provide a reasonable basis for our opinion.

In our opinion, based on our audits and our colleagues' reports, and taking into account the accounting standards issued by the International Financial Reporting Standards Board and as adopted by the EU, the annual accounts referred to above present fairly, in all material respects, the assets, liabilities, consolidated financial position and results of operation of MELEXIS NV and its subsidiaries as of December 31st, 2005.

ADDITIONAL CERTIFICATIONS AND INFORMATION

We supplement our report with the following certifications and information which do not modify our audit opinion on the consolidated financial statements:

The consolidated directors' report contains the information required by law and is consistent with the consolidated financial statements. We are, however, unable to comment on the description of the principal risks and uncertainties which the group is facing, and of 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 contradictions with the information of which we became aware during our audit.

April 5, 2006

BDO Atrio Bedrijfsrevisoren Burg. CVBA
Statutory Auditor
Represented by Koen De Brabander

9.1.2. Detailed Consolidated Financial Statements

Melexis NV Consolidated balance sheets

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Assets			
Current assets			
Cash, and cash equivalents (notes 9.2.4.a)	11.375.829	16.296.964	14.127.504
Current investments (notes 9.2.4.b)	-	-	-
Accounts receivable –trade (notes 9.2.4.c)	25.438.873	18.862.825	20.195.709
Accounts receivable –Related companies (notes 9.2.4.ab)	2.525.752	7.730.775	9.965.278
Inventories (notes 9.2.4.d)	28.244.648	25.379.362	27.754.465
Other current assets (notes 9.2.4.f)	5.634.502	6.637.922	4.990.741
Total current assets	73.219.604	74.907.848	77.033.697
Non current assets			
Intangible assets (notes 9.2.4.h)	3.587.403	4.883.050	1.516.973
Property, plant and equipment (notes 9.2.4.i)	35.901.444	36.644.511	36.551.703
Other non-current assets	83.394	107.894	-
Deferred taxes (notes 9.2.4.w)	6.153.686	6.193.558	5.419.610
Goodwill (notes 9.2.4.g)	-	-	555.689
Total non current assets	45.725.927	47.829.013	44.043.975
TOTAL ASSETS	118.945.531	122.736.861	121.077.672
Liabilities and shareholders' equity			
Current liabilities :			
Bank loans and overdrafts (notes 9.2.4.l)	-	-	3.333.333
Current portion of long-term debt (notes 9.2.4.m)	16.795.726	11.409.998	1.779.871
Accounts payable – trade	7.127.890	4.979.089	3.853.249
Accounts payable –related companies (notes 9.2.4.ab)	5.784.299	5.244.577	2.596.338
Accrued expenses, payroll and related taxes (notes 9.2.4.j)	5.440.754	6.227.711	3.882.564
Other current liabilities	145.141	704.573	88.466
Deferred income (notes 9.2.4.k)	1.034.377	1.321.547	1.569.512
Total current liabilities	36.328.187	29.887.495	17.103.333
Non current liabilities			
Long-term debt less current portion (notes 9.2.4.m)	20.828.864	37.981.152	17.596.459
Deferred tax liabilities	-	-	223.408
Minority interests	10.012	1.012	1.061
Total non current liabilities	20.838.876	37.982.164	17.820.928
Shareholders' capital	564.814	564.814	565.197
Share premium	-	-	30.135.419
Reserve treasury shares	(513.792)	(10.825.647)	(5.416.365)
Legal reserve	56.520	56.520	56.520
Retained earnings	34.088.091	41.658.886	37.234.017
Current year's profit	28.156.849	24.875.778	24.578.657
Cumulative translation adjustment	(574.014)	(1.463.149)	(1.000.034)
Total shareholders' equity (notes 9.2.4.n)	61.778.468	54.867.202	86.153.411
TOTAL LIABILITIES, SHAREHOLDERS' EQUITY AND MINORITY INTERESTS	118.945.531	122.736.861	121.077.672

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

Melexis NV Consolidated Income Statements

	31st December 2005 EUR	2004 EUR	2003 EUR
Product sales	171.134.284	148.751.685	128.271.746
Revenues from Research and Development (notes 9.2.4.y)	2.539.976	4.583.254	5.277.438
Cost of sales (notes 9.2.4.p)	(101.392.977)	(90.479.760)	(76.365.213)
Gross margin	72.281.283	62.855.179	57.183.971
Goodwill Amortization	-	(555.689)	(740.919)
Research and development expenses (notes 9.2.4.q)	(24.987.990)	(22.457.478)	(18.749.812)
General and administrative expenses (notes 9.2.4.r)	(7.898.155)	(6.143.793)	(5.043.344)
Selling expenses (notes 9.2.4.s)	(4.599.160)	(4.751.358)	(4.727.943)
Other operating expenses (net) (notes 9.2.4.z)		-	-
Income from operations	34.795.978	28.946.861	27.921.954
Financial income (notes 9.2.4.v)	2.289.676	5.049.748	6.344.004
Financial charges (notes 9.2.4.v)	(3.010.824)	(5.024.745)	(5.916.915)
Other expenses (net)		-	-
Income before taxes	34.074.830	28.971.864	28.349.043
Income taxes (notes 9.2.4.w)	(5.917.981)	(4.096.086)	(3.770.386)
Minority interest		-	-
Net income of the period	28.156.849	24.875.778	24.578.657
Earnings per share (Note 9.2.4.x)	0.65	0.56	0.54

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 EUR	Share Premium EUR	Legal reserve EUR	Retained Earnings EUR	Reserve treasury shares EUR	CTA EUR	Total equity EUR
December 31,1999	45.600.000	565.197	30.135.419	56.520	23.210.657		(84.131)	53.883.662
Net income					17.202.890			17.202.890
CTA movement							(181.063)	(181.063)
December 31,2000	45.600.000	565.197	30.135.419	56.520	40.413.547		(265.194)	70.905.489
Net income					20.301.124			20.301.124
CTA movement							224.961	224.961
December 31,2001	45.600.000	565.197	30.135.419	56.520	60.714.671		(40.233)	91.431.574
Net income					21.640.134			21.640.134
CTA movement							(316.580)	(316.580)
Interim dividend					(22.800.000)			(22.800.000)
Reserve treasury shares						(3.087.697)		(3.087.697)
December 31,2002	45.600.000	565.197	30.135.419	56.520	59.554.805	(3.087.697)	(356.813)	86.867.431
Net income					24.578.657			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)
December 31,2003	45.600.000	565.197	30.135.419	56.520	61.812.674	(5.416.365)	(1.000.034)	86.153.411
Net income					24.875.778			24.875.778
CTA movement							(463.115)	(463.115)
Dividend					(11.943.402)			(11.943.402)
Reserve treasury						(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)
December 31,2004	44.565.195	564.814	-	56.520	66.534.664	(10.825.647)	(1.463.149)	54.867.202
Net income					28.156.849			28.156.849
CTA movement							889.135	889.135
Dividend					(21.620.925)			(21.620.925)
Reserve treasury						10.311.855		10.311.855
Destruction own Shares					(10.825.648)			(10.825.648)
Capital increase								
Capital decrease								
December 31, 2005	43.241.860	564.814	-	56.520	62.244.940	(513.792)	(574.014)	61.778.468

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 on April 20, 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 at October 4, 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 at July 14, 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.

Melexis NV Consolidated Statements of Cash Flows

(indirect method)	2005 EUR	31st December 2004 EUR	2003 EUR
Cash flows from operating activities :			
Net profit	28.156.849	24.875.778	24.578.657
Adjustments for:			
Operating activities:			
Deferred taxes	39.872	(997.356)	353.225
Unrealized exchange gains	(948.261)	(298.764)	1.973.138
Reserve for uncollectible receivables	(48.760)	(527.262)	713.105
Government grants	-	(247.965)	(850.471)
Depreciation	11.372.706	11.969.185	10.355.983
Amortization Goodwill	-	555.689	740.919
Income tax	-	-	3.417.161
Income taxes paid	-	-	(4.669.830)
Financial results	1.832.124	185.070	63.051
Operating profit before working capital changes:	40.404.530	35.514.375	36.674.938
Accounts receivable, net	(6.264.833)	1.733.321	(5.581.056)
Accounts receivables, affiliates	-	-	1.626.115
Other current assets	156.818	(1.647.191)	132.248
Other non-current assets	24.498	(107.893)	-
Due to (from) related companies	1.865.092	2.895.834	-
Accounts payable	2.105.389	1.128.282	109.631
Accrued expenses	2.575.832	2.343.165	(535.268)
Other current liabilities	-	616.107	(412.856)
Inventories	(2.381.969)	2.186.564	(8.347.569)
Interest paid	(1.279.867)	(782.616)	(805.878)
Income tax	(3.449.650)	5.441	-
Net cash from operating activities	33.755.840	43.885.389	22.860.305
Cash flows from investing activities :			
Treasury shares	(513.792)	(12.457.002)	(2.328.668)
Purchase of property plant and equipment and intangible assets	(9.333.819)	(10.781.219)	(11.303.615)
Interest received	396.004	896.310	742.827
Proceeds from current investments	-	-	-
Acquisition of subsidiary	-	(4.646.851)	-
Net cash used in investing activities	(9.451.607)	(26.988.762)	(12.889.456)
Cash flows from financing activities :			
Proceeds from long-term debt	(11.766.560)	30.014.821	-
Proceeds from bank loans and overdrafts	-		9.308.134
Repayment of bank loans and overdrafts	-	(3.333.333)	-
Proceeds from (repayment of) related party financing	3.886.138	1.992.932	1.292.854
Dividend payment	(21.620.925)	(11.943.401)	(22.320.788)
Other		-	
Capital decrease	-	(31.298.074)	-
Minority	9.000		
Net cash used in financing activities	(29.492.347)	(14.567.055)	(11.719.800)
Effect of exchange rate changes on cash and cash equivalents	266.979	(160.112)	(105.096)
(Decrease) increase in cash and cash equivalents	(4.921.135)	2.169.460	(1.854.047)
Cash and cash equivalents at beginning of period	16.296.964	14.127.504	15.981.551
Cash, cash equivalents at end of period	11.375.829	16.296.964	14.127.504

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, 678 people in 2005, 643 people in 2004 and 550 people in 2003.

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 13 February 2006 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 1st 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, Melefin 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), for Melexis Bulgaria Ltd. the Bulgarian Leva (Bgn) and for Melexis Philippines the Philippines Pesos (PHP). The measurement currency for Sentron AG is the Swiss Franc (CHF).

Assets and liabilities of Melexis Inc., Melexis Ukraine, Melexis Bulgaria Ltd and Sentron AG, 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 intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for 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.

Cash and cash equivalents

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

Receivables

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

Hedging

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

Derivative financial instruments

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

Inventories

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

Property, plant and equipment

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

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

Expenditures, incurred after the fixed assets have been placed in operation, such as repairs and maintenance and overhaul costs, are charged against income, in the period in which the costs are incurred.
The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Investments

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

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

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

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.
Available-for-sale investments are subsequently carried at fair value without any deduction for transaction costs by reference to their quoted market price at the balance sheet date.
Gains or losses on measurement to fair value of available for-sale investments are recognized directly in the net profit or loss for the period.

Intangible Assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end. Amortization of intangible assets is shown as a separate line item in operating charges.
Amounts paid for licenses are capitalized and then amortized on a straight-line basis over the expected periods of benefit. The expected useful life of licenses is 5 years.

Goodwill

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

Research and Development Costs

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

Equity

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

Provisions

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

Reserves

Capital reserves represent the legal reserve of the parent company and are in accordance with the Belgian law.
The translation reserve is used for translation differences arising on consolidation of financial statements of foreign entities.

Minority interests

Minority interests include 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 notes when material.

Earnings per share

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

9.2.3. Changes in Group's Organization

Begin 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. Besides this, a new branch was set up during 2005 in the Philippines.

9.2.4. Notes

A Cash and cash equivalents

		31st December	
	2005 EUR	2004 EUR	2003 EUR
Cash at bank and in hand	11.375.829	16.296.964	8.127.504
Cash equivalents			6.000.000
Total	11.375.829	16.296.964	14.127.504

B Current investments

		31st December	
	2005 EUR	2004 EUR	2003 EUR
Acquisition cost	-	-	-
Fair value	-	-	-

C Trade receivables

		31st December	
	2005 EUR	2004 EUR	2003 EUR
Trade accounts receivable	27.313.871	20.813.038	21.833.395
Allowance for doubtful accounts	(1.874.998)	(1.950.213)	(1.637.686)
Total	25.438.873	18.862.825	20.195.709

D Inventories

	31st December 2005 EUR	2004 EUR	2003 EUR
Raw materials and supplies, at cost	8.773.455	3.814.415	2.315.026
Work in progress, at cost	13.554.906	14.183.544	17.279.329
Finished goods, at cost	7.117.196	7.455.771	8.234.478
Reserve for obsolete stock	(1.200.909)	(74.368)	(74.368)
Net	28.244.648	25.379.362	27.754.465

E Derivatives

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

		2005	2004	2003
Outstanding forward contracts(sales) per 31st December, not exceeding 1 year	USD	12.938.519	10.000.000	20.490.000 -

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 2005 Cost EUR	2005 Fair value EUR	2004 Cost EUR	2004 Fair value EUR	2003 Cost EUR	2003 Fair value EUR
Outstanding forward contracts per 31st December	10.889.124	10.889.124	7.332.587	7.333.529	16.262.061	16.249.988

F Other Current Assets

	31st December 2005 EUR	2004 EUR	2003 EUR
Other receivables	5.388.529	6.572.192	4.806.666
Prepaid expenses	245.973	65.730	184.075
Total other current assets	5.634.502	6.637.922	4.990.741

G Goodwill

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

The book value of the goodwill at December 31, 2005 was as follows:

Gross amount at December 31, 2004	4.968.783
Additions of the year	0
Gross amount at December 31, 2005	4.968.783
Accumulated amortization at December 31, 2004	4.968.783
Amortization of goodwill of the year	0
Accumulated amortization at December 31, 2005	4.968,783
Net book value at December 31, 2005:	0

H Intangible Assets

Year ended 31st December 2005	Licenses EUR	Total EUR
Acquisition value		
Balance end of previous period	7.481.974	7.481.974
Additions of the period	131.595	131.595
Retirements(-)	-	-
Transfers	(167.009)	(167.009)
CTA	-	-
TOTAL	7.446.560	7.446.560
Depreciation		
Balance end of previous period	2.598.924	2.598.924
Additions of the period	1.356.101	1.356.101
Retirements(-)		
Transfers	(95.868)	(95.868)
TOTAL	3.859.157	3.859.157
Net book value - 31st December, 2005	3.587.403	3.587.403

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, 2005 amounts to EUR 2.788.111.

I Property, plant and equipment

Year ended 31st December 2005	Land and buildings EUR	Machinery and equipment EUR	Furniture and vehicles EUR	Fixed assets under Construction EUR	Total EUR
Cost:					
Beginning of the period	14.457.349	70.185.726	3.942.771	454.199	89.040.046
Additions of the year	268.050	9.088.359	289.471	100.234	9.746.114
Retirements	-	-2.201.018	-353.978	-3.145	-2.558.141
Transfers		381.478	-	-381.478	-
CTA	-	-	-	-	-
End of the period	14.725.399	77.454.545	3.878.264	169.810	96.228.018
Accumulated depreciation:					
Beginning of the period	2.359.088	47.953.138	2.083.310	-	52.395.536
Additions of the period	650.407	8.683.725	651.994	-	9.986.126
Retirements	-	-1.556.073	-323.163	-	-1.879.236
Transfers	-	-	-	-	-
CTA	-85.423	-	-90.429	-	-175.846
End of the period	2.924.072	55.080.790	2.321.712	-	60.326.574
Net book value - 31st December, 2005	11.801.327	22.373.760	1.556.552	169.810	35.901.444

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		
	2005 EUR	2004 EUR	2003 EUR
Vacation pay accruals	1.757.052	1.848.847	979.103
Other social accruals	441.869	402.954	948.283
Advance payments	-	-	149.530
Commissions	-	100.000	125.000
Servicing costs	-	-	-
Direct and indirect taxes	2.993.636	3.875.709	1.154.388
Other	248.197	-	526.260
Total	5.440.754	6.227.510	3.882.564

K Deferred Income

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Capital grants	1.034.377	1.321.547	1.569.512
Total	1.034.677	1.321.547	1.569.512

L Bank loans and overdrafts

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Secured(1)	-	-	3.333.333
Unsecured		-	-
Total	-	-	3.333.333

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

M Long-term debts

Long-term debts consist of the following:

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Secured			
Bank loan (in CHF) at floating interest rate ; average rate for the period 2004 was 3,75 % (1) ;maturing in 2019	450.132	486.098	513.512
Bank loan (in CHF) at floating interest rate; average rate for the year was 6,11 % ; repaid in 2004	0	0	144.425
Bank loan (in EUR) at floating interest rate till 2032; average rate for the year 2005 was 3,21 % (2) (average rate 2004: 3,98%)	2.933.330	3.039.998	3.146.666
Bank Loan ((in EUR) at fixed interest rate of 4,8 % (3);maturing in 2008	180.000	260.000	340.000
Bank Loan (in USD) at fixed rate of 6 % (4);maturing 2018	224.936	205.194	231.727
Bank Loan (in EUR) at floating interest of 3,02 %);maturing 2006	2.000.000	5.625.000	5.000.000
Bank loan (in EUR) at floating interest rate; average rate for the year was 3,03 .%; maturing in 2009	2.500.000	10.000.000	-
Bank loan (in EUR) at floating interest rate; average rate for the year was 3,15 %; maturing in 2009 (6)	18.750.000	20.000.000	-
Bank loan in (EUR) at floating interest rate; average rate for the year was 3,18 %;maturing in 2009 (5)	6.836.192	9.775.000	-
Bank loan in (EUR) at floating interest rate; average rate for the year was 3,38 %, maturing in 2010	3.750.000		
Total secured loans	37.624.590	49.391.290	9.376.330
Unsecured loan			
Bank loan (in EUR) at floating interest rate; average rate for the year was 2.6 % – repaid in 2004		-	10.000.000
Total unsecured loans	-	-	10.000.000
Total long-term debt	37.624.590	49.391.290	19.376.330
Less current maturities	16.795.726	11.409.998	1.779.871
Long-term portion of debts	20.828.864	37.981.152	17.596.459

(1) As at December 31, 2004 Melexis Branch Office in Switzerland has long-term loan for a total amount of respectively CHF 750.000 with a Swiss commercial bank. 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 EUR 400.000 to finance investments in equipment. This loan is secured by a guarantee machinery for USD 1,14 MIO and a guarantee of Melexis NV of EUR 2,25 MIO.

(4) 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.

(5) A secured loan was concluded for an amount of EUR 10 MIO. This loan is secured by a proxy on the business concern of Melexis Tessenderlo NV and Melexis NV for an amount of EUR 1.250.000 and will be secured by a mandate to grant lien of the current/floating assets of Melexis Nv/Melexis Tessenderlo, for an amount of EUR 10 MIO in capital.
Melexis NV has the irrevocable commitment not to mortgage its real estate.

(6) A secured loan was concluded for an amount of EUR 20 MIO. This loan is secured by a mandate to grant a lien on the current/floating assets of Melexis Nv and Melexis Tessenderlo for an amount of EUR 20 MIO in capital. Melexis NV undertakes not to mortgage, assign nor lease its real estate.

As of December 31, 2005 Melexis NV has engaged itself to the following financial covenants:

- minimum solvency-ratio of 35 % on a consolidated basis.
- minimum net financial debt / Ebitda < 1,7

Repayments of long-term debt are scheduled as follows:	31st December		
	2005 EUR	2004 EUR	2003 EUR
2002	-	-	-
2003	-	-	-
2004	-	-	1.779.871
2005	-	11.409.999	7.104.837
2006	16.795.726	12.572.499	6.949.271
2007	9.604.988	7.728.749	231.246
2008	7.669.990	7.668.749	172.016
2009	545.446	5.773.749	
2010	149.990		
Thereafter	2.838.450	4.237.405	3.139.089
TOTAL	37.624.590	49.391.291	19.376.330

N Shareholders' equity and rights attached to the shares

As of 31st December 2005, the common stock consisted of 43.241.860 issued and outstanding ordinary shares without face value.
Each holder of shares is entitled to one vote per share, without prejudice to specific restrictions on the shareholders' voting rights in the Company's Articles of Association and Belgian Company Law, including restrictions for non-voting shares and the suspension or cancellation of voting rights for shares which have not been fully paid up at the request of the Board of Directors.
Under Belgian Company Law, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited statutory accounts of the Company. Dividends may be paid either in cash or in kind. However, shareholders may not declare a dividend if the Company has not first reserved at least 5 per cent of its profits for the financial year until such reserve has reached an amount equal to 10 percent of its share capital (the "Legal Reserve") or if, following any such dividend, the level of the net assets adjusted for the unamortized balance of the incorporation costs and capitalized research and development costs of the Company falls below the amount of the Company's paid-in-capital and of its non-distributable reserves. The Board of Directors may pay an interim dividend, provided certain conditions set forth in Belgian Company Law are met.

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

O Government grants

The government grants consist of capital grants and operational grants. The capital grants are taken in other income in relation to the depreciation period of the underlying assets. The operational grants are recorded in other income when acquired as follows:

31 December	2005 EUR	2004 EUR	2003 EUR
Investment grants in building, machinery and employment grants	1.256.679	1.069.112	871.384
Grants for research and development	1.011.043	873.488	1.554.490
Total	2.267.722	1.942.600	2.425.874

P Cost of sales

Cost of sales comprises of the following expenses:

Cost of Sales	31st December 2005 EUR	2004 EUR	2003 EUR
Purchases	77.434.582	68.689.221	53.179.064
Transportation costs	1.895.973	1.747.451	1.505.680
Salaries	7.598.490	7.740.523	6.142.602
Depreciation and amortization	7.106.620	7.173.438	7.322.020
Other direct production costs	7.357.312	5.129.127	8.215.847
Total	101.392.977	90.479.760	76.365.213

Q Research and development expenses

Research and development expenses include the following expenses:

Research and development costs	31st December 2005 EUR	2004 EUR	2003 EUR
Salaries	12.752.410	11.938.298	11.164.709
Depreciation and amortization	3.423.425	3.870.668	2.481.535
Other	8.812.155	6.648.513	5.103.568
Total	24.987.990	22.457.479	18.749.812

R General and administration expenses

General and administration expenses include of the following expenses:

General and administrative expenses	31st December 2005 EUR	2004 EUR	2003 EUR
Salaries	1.911.085	1.965.718	1.345.972
Depreciation and amortization	813.698	800.049	497.411
Other	5.173.372	3.378.027	3.199.961
Total	7.898.155	6.143.794	5.043.344

S Selling expenses

Selling expenses can be detailed as follows:

Selling expenses	31st December 2005 EUR	2004 EUR	2003 EUR
Salaries	2.246.942	2.046.251	1.706.286
Depreciation and amortization	28.963	120.129	55.017
Commissions	690.285	783.162	417.792
Other	1.632.970	1.801.816	2.548.848
Total	4.599.160	4.751.358	4.727.943

T Personnel expenses and average number of employees

	31st December 2005 EUR	2004 EUR	2003 EUR
Wages and salaries	24.508.927	23.690.790	20.359.569
Total	24.508.927	23.690.790	20.359.569

The average number of employees is 678 in 2005, 643 in 2004 and 550 in 2003.

U Depreciation and amortization expenses

	31st December 2005 EUR	2004 EUR	2003 EUR
Cost of sales	7.106.620	7.173.438	7.322.020
Research and development	3.423.425	3.870.668	2.481.535
General and administration	813.698	800.049	497.411
Selling	28.963	120.129	55.017
Total	11.372.706	11.964.284	10.355.983

V Financial Results – Net

	31st December 2005 EUR	2004 EUR	2003 EUR
Financial income:	(2.289.676)	5.049.748	6.344.004
- interest income	(396.004)	1.080.520	742.827
- exchange differences	(1.809.178)	3.817.878	5.599.488
- fair value valuation	-	-	-
- gain on shares	-	-	-
- dividend	-	-	-
- other	(84.494)	151.350	1.689
Financial charges:	3.010.824	5.024.745	5.916.915
- interest charges	1.279.867	834.051	805.878
- bank charges	308.034	225.895	210.386
- exchange differences	1.398.729	3.940.165	4.877.297
- less value on shares	-	-	-
- other	24.194	24.634	23.353
Net financial results	721.148	25.003	427.089

W Income taxes

The income tax expense can be detailed as follows:

	31st December 2005 EUR	2004 EUR	2003 EUR
Current tax expenses	(5.957.853)	(5.122.007)	(3.501.007)
Deferred tax income	39.872	1.025.922	(269.379)
	(5.917.981)	(4.096.085)	(3.770.386)

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

In 1999, Melexis NV sold part of its business to its wholly owned subsidiaries Melexis Tessenderlo NV and to Melexis GmbH (previously known as Thesys Mikroelektronik Produkte GmbH) at market value. This transaction resulted in a goodwill amount in the Melexis Tessenderlo NV statutory financial statements of approximately EUR 82 million and in the Melexis GmbH statutory financial statements of approximately EUR 6 million. In 2002, Melexis Swiss Branch, which is an Integral part of Melexis NV, sold part of its business also to Melexis Tessenderlo NV. This transaction resulted in a goodwill amount in the Melexis Tessenderlo statutory financial statements of approximately EUR 20 million. These goodwill amounts, which are eliminated in consolidation, result in tax deductible amortization charges at Melexis Tessenderlo NV and Melexis GmbH, which can be offset against future profits. The company recognized a deferred tax asset of EUR 6.027.000 to represent the budgeted usage of the temporary difference over the coming year, 2006. The Company's unrecognized deferred tax asset relating to amortization of goodwill amounts to EUR 2 million.

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

	31st December 2005 EUR	2004 EUR	2003 EUR
Accounting profit	34.074.830	28.971.864	28.349.043
Expected taxes	12.266.928	10.319.719	9.976.507
Use of tax losses	(4.007.807)	(1.550.210)	(1.486.046)
Tax effect of non taxable income			
Goodwill Melexis Tessenderlo	(4.596.129)	(4.596.129)	(4.528.149)
Goodwill Melexis Gmbh	-	(380.109)	(509.257)
Gain on shares	-	-	-
Tax effect of disallowed expenses	1.236.046	302.821	278.158
Tax credits from previous years	355.687	-	(630.225)
Deferred taxes not recognized	-	-	669.398
Effective taxes	5.971.981	4.096.086	3.770.386

Components of deferred tax assets are as follows:

	1 January 2005 EUR	Charged to income statement EUR	Cumulative Translation Adjustment EUR	31 Dec. 2005 EUR
Tax amortization charges	6.027.000	-	-	6.027.000
Tax losses	166.558	(39.872)	-	126.686
Total	6.193.558	(39.872)	-	6.153.686

X Earnings per shares

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of EUR 28.156.849 in 2005, EUR 24.875.778 in 2004 and in 2003 EUR 24.578.657 by the number of ordinary shares outstanding at the end of the period (43.241.860 in 2005, 44.565.195 in 2004 and 45.600.000 in 2003).

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 2005 EUR	2004 EUR	2003 EUR
Research and development revenues-product developments	2.539.976	4.583.254	5.277.438
Research and development revenues – other	-	-	-
Total research and development revenues	2.539.976	4.583.254	5.277.438

Z Other operating expenses

	31st December		
	2005 EUR	2004 EUR	2003 EUR
Other operating expenses	-	-	-
Total	-	-	-

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

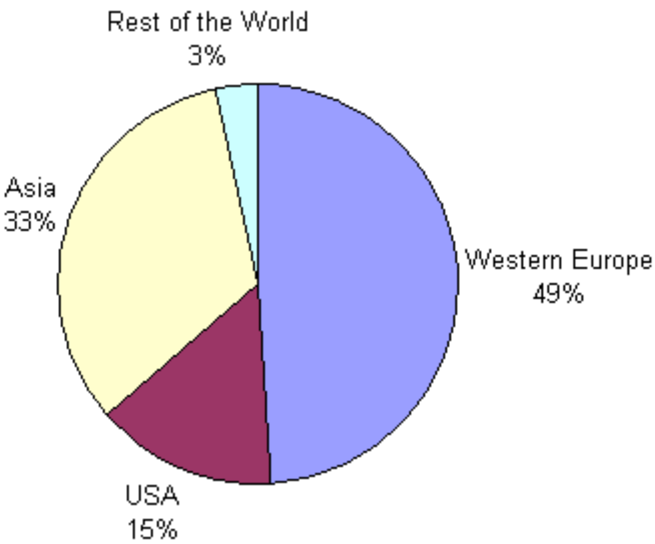
All amounts in 1.000 EUR	Automotive	Other	Unallocated	Total
Product sales	123.942	47.192		171.134
Other revenues	1.641	899		2.540
COS	72.365	29.028		101.393
Goodwill amortization				0
R&D expenses	17.834	7.154	0	24.988
G&A expenses	5.637	2.261		7.898
Selling expenses	3.282	1.317		4.599
Other operating expenses				
Income from operations				34.796
Financial results				-721
Taxes				-5.918
Net profit				28.157
Segment assets	64.830	24.838	29.278	118.946
Capital expenditures	6.751	2.586		9.337
Depreciation	8.223	3.150		11.373

Geographical segment data

All amounts are in 1.000 EUR	Western Europe	Eastern Europe	US	Total
Revenue by origin	167.260	1.611	4.803	173.674
Segment assets	101.199	14.248	3.499	118.946

The following table summarizes sales by destination:

	2005 EUR	2004 EUR	2003 EUR
Western Europe	85.131.608	79.496.062	82.006.921
Germany	39.573.285	34.066.920	41.471.213
France	18.931.433	19.644.599	17.033.862
United Kingdom	14.363.545	17.397.859	18.072.266
Belgium	599.924	407.300	360.780
Austria	147.432	1.042.500	1.677.940
Netherlands	1.620.565	1.439.145	1.712.089
Other	9.895.424	5.498.034	1.678.769
United States of America	25.240.937	21.222.135	15.207.569
Asia	57.784.506	48.306.720	32.618.184
Japan	15.246.456	13.093.784	15.688.523
China	1.353.224	700.331	125.414
Other	41.184.826	34.512.605	16.804.246
Rest of the World	5.517.209	4.310.022	3.716.511
Total	173.674.260	153.334.939	133.549.184



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 the subcontractors.

	Years ended 31st December		
	2005	2004	2003
	%	%	%
Customer A	16	16	16
Customer B	12	14	14
Customer C	7	7	7
Customer D	6	9	7
Customer E	5	6	6
Customer F	5	4	5
Customer G	4	2	3
Customer H	2	2	3
Customer I	2	2	1
Customer J	2	2	1
TOTAL	62	63	63

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 Netherlands BV	Dutch entity
Melexis Kiev	Ukraine entity
Melexis Swiss branch	Swiss branch
Melexis French branch	French branch
Sentron AG	Swiss entity
Melefin NV	Belgian entity
Melexis Tessenderlo NV	Belgian entity
Melexis Philippines	Philippine branch

The shareholders of Melexis NV are as follows:

Since January 1st, 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 83,96 % of the outstanding shares of X-FAB group , producer of wafers that are the main raw materials for the Melexis products. As in prior years, the X-FAB group is a major supplier for Melexis. X-Fab sells the majority of its products also to third parties.

Elex NV owns 78,30 % 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. Francoise Chombar (40 %), CEO of Melexis NV.

As required by Belgian law (article 523 and 524 of the Company law) the Board of Directors investigates all transactions which can create a potential conflict. For all transactions which have not taken place in the "normal course of business", an independent expert is appointed to review these transactions as to their fair nature and report to independent directors.
In 2005, the Board of Directors has not identified new transactions in this matter.

2. Outstanding balances at year-end

As of December 31, 2005, 2004 and 2003, the following balances were outstanding:

Receivables:

On	31st December 2005	2004	2003
Elex-XTRION NV	25.032	500	-
Epiq group	924.117	2.401.078	3.390.507
Xfab group	529.461	4.415.599	6.408.532
Xpeqt group	931.190	688.385	-
Other	115.952	225.213	166.239
TOTAL	2.525.752	7.730.775	9.965.278

Payables:

On	31st December 2005	2004	2003
Elex-XTRION NV	247.424	91.522	480.561
Epiq group	41.492	162.600	17.727
Xfab group	5.213.811	4.660.526	1.345.321
Xpeqt group	281.572	335.953	752.729
TOTAL	5.784.299	5.250.601	2.596.338

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	2005	2004	2003
Epiq group (mainly IC's)	9.735.731	10.377.964	11.689.910
Xpeqt group	2.000	28.818	69.954
Xfab group (mainly test & assembly services)	2.155.328	2.217.718	3.431.751

Purchases from	2005	2004	2003
Xfab group (mainly wafers)	66.250.578	56.362.751	54.765.678
Epiq group (mainly assembly)	537.187	365.168	411.436
Xpeqt group (mainly equipment and goods)	2.385.623	1.700.524	3.745.468
Elex (mainly IT infrastructure)	425.794	386.262	95.295

B. Sales/purchases of services

Sales to	2005	2004	2003
Elex (mainly R&D services and rent)	24.480	80.909	211.113
Xpeqt group (infrastructure office building)	210.026	85.488	35.000
X-Fab group (mainly R&D services)	410.454	824.917	304.290
EPIQ group (infrastructure office building)	87.740	31.809	3.000

Purchases from	2005	2004	2003
Elex N.V. (mainly IT and related support)	741.043	1.031.740	1.090.535
Epiq group	150.844	29.396	-
Xpeqt group	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 (unaudited) consolidated result for the X-FAB group is estimated to be EUR 12,3 mio.
Equity is estimated at EUR 143,2 mio (unaudited).

The consolidated result for the EPIQ group is EUR 1,7 mio (audited), in 2005. Equity is at EUR 20,3 mio.(audited).

4. Remuneration of Board of Directors

In accordance with the company's bylaws, directors are remunerated for their mandate. The directors or entity that represents them, have received respectively EUR 30.000 in 2005 and EUR 30.000 in 2004.

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.

1. Management believes that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2005 was minimum since their deviation from their respective fair values was not significant.

AD Commitments

As of 31st December 2005, the company had purchase commitments for tangible fixed assets amounting to EUR 956.567. As of 31st December 2004, the company had purchase commitments for tangible fixed assets amounting to EUR 286.192.

AE Litigation

The company is currently not subject to any legal proceeding.

AF Auditor's Services

The company has incurred EUR 22.062 non-audit fees in 2005

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

At the end of January, 2006, Melefin NV sold Melexis Tessenderlo NV to Melexis GmbH. This purchase by Melexis GmbH is financed by a long term loan for an amount of EUR 75.000.000.

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 Bulgaria Ltd.	Bulgaria	R&D + Test operations	100%
Melexis Netherlands BV	The Netherlands	R&D	100%
Melexis Kiev	Ukraine	R&D	100%
Sentron AG	Switzerland	R&D	100%
Melefin NV	Belgium	Treasury	99,9 %
Melexis Tessenderlo NV	Belgium	R&D	99,9%

10. Corporate Governance

The Company's Corporate Governance Chapter is available at the website of the company: 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 board is chaired by Roland Duchâtelet.

The directors of the company are :

Name	Age	Position
Roland Duchâtelet	59	Chairman of the Board and Director
Rudi De Winter	45	Vice Chairman of the Board and Managing Director, Chief Executive Officer (CEO)
Françoise Chombar	43	Managing Director, Chief Executive Officer (CEO)
Steve Hix	69	Director (non-executive)
Lina Sarro	48	Director (non-executive)
Triakon Nv, represented by Lucien De Schamphelaere	74	Director (non-executive)

Mr. Steve Hix, Mrs. Lina Sarro and Triakon Nv, 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. 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 an IEEE Senior member since 1997 and receiver of the Eurosensors Fellow award in 2004 for 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 Y

Directors Remuneration

The overall amount paid to the directors amounts to 30k EUR.

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 meets twice a year.

Remuneration Committee

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

Management

Composition of the Management

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

Management's remuneration

The overall gross payment paid to management during 2005 amounted to 160 k EUR.

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

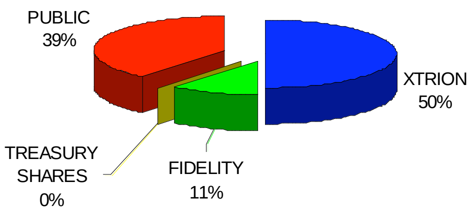
Auditor

During the General Shareholder's meeting on April 20th, 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%
Fidelity	4,643,473	10.74%
Treasury Shares	52,000	0.12%
Public	16,901,988	39.09%
Total	43,241,860	100.00%

11.2 Share Information

First day of listing — 10 October 1997
Number of shares outstanding on Dec 31, 2005 — 43.241.860
Market capitalization on Dec 31, 2005 — 465.282.413 EUR

(Euro)	2005	2004	2003	2002	2001	2000
Earnings per share	0.65	0.56	0.54	0.47	0.45	0.38
Cash flow per share (**)	0.91	0.84	0.78	0.70	0.64	0.53
Gross Dividend (*)	0.50	0.28	0.50	0.50	-	-
Year end price	10.76	9.01	9.40	5.89	8.43	14.95
Year's high	11.20	10.76	9.90	9.10	15.00	19.00
Year's low	9.00	8.40	5.10	5.00	5.13	11.62
Average volume of shares traded/day	38.129	39.690	41.593	36.374	35.533	98.304

(*) in 2004 also a capital decrease of 0.72 EUR per share was paid out
(**) Cash flow = Net income + Depreciation + Amortization Goodwill

11.3 Shareholder Contact Info

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www.melexis.com/investor.asp

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Fax: +32 13 67 21 34

11.4 Financial Calendar 2006

Announcement of Preliminary Annual Results	February 13, 2006
Annual Shareholder's Meeting	April 20, 2006
Announcement of Q1 results	May 3, 2006
Announcement of Half Year Results	August 9, 2006
Announcement of Q3 results	November 8, 2006

12. Condensed statutory financial statements

The following data sets forth a short version of the statutory financial data of Melexis NV which has been audited and approved by the auditors BDO BCV.
The full statutory financial statements can be obtained at the registered office of the company at Rozendaalstraat 12, 8900 Ieper.

Statutory Balance Sheet	For the years ended December 31st		
in 1.000 EUR	2005	2004	2003
ASSETS			
FIXED ASSETS	135.007	129.160	125.806
I. Formation expenses	-	-	-
II. Intangible assets	780	988	1.314
III. Tangible assets	14.864	14.178	15.879
A. Land and buildings	2.705	2.869	2.973
B. Plant machinery and equipment	11.740	10.833	12.582
C. Furniture and vehicles	419	476	324
E. Other tangible assets	-	-	-
F. Assets in progress and advanced payments	-	-	-
IV. Financial assets	119.363	113.994	108.613
A. Affiliated companies	119.194	113.836	108.492
1. Participations in third parties	119.194	113.836	108.492
C. Other financial assets	169	158	121
2. Receivables and caution money	169	158	121
CURRENT ASSETS	31.010	46.071	51.327
VI. Stocks and contracts in progress	9.558	6.519	6.869
A. Stocks	9.558	6.519	6.869
1. Raw materials and consumables	2.792	578	617
2. Contracts in progress	2.842	4.759	4.539
3. Finished goods	3.924	1,181	1.713
VII. Amounts receivable within one year	15.234	16.729	34.628
A. Trade receivables	13.148	11.100	8.912
B. Other receivables	2.086	5.629	25.716
VIII. Cash investments	514	10.826	5.000
A. Own shares	514	10.826	-
B. Other investments and deposits	-	-	5.000
IX. Cash deposits	5.378	11.877	4.630
X. Deferred assets and accrued income	326	120	200
TOTAL ASSETS	166.017	175.231	177.133

EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	78.781	100.677	148.300
I. Capital	565	565	565
A. Outstanding Capital	565	565	565
II. Share premium account	-	-	32.256
IV. Reserves	571	12.205	57
A. Legal reserve	57	57	57
B. Reserves not available for distribution	514	12.148	-
1. In respect of own shares held	514	12.148	-
V. Accumulated profits	77.645	87.907	115.422
VI. Investment grants	-	-	-
PROVISIONS AND DEFERRED TAXES	273	256	198
VII. A Provisions for liabilities and charges	273	256	198
4. Other liabilities and charges	273	256	198
VII. B Deferred taxes	-	-	-
DEBTS	86.963	74.298	28.635
VIII. Amounts payable after more than one year	17.689	34.672	14.075
A. Financial debts	17.689	34.672	14.075
4. Credit institutions	17.689	34.672	14.705
IX. Amounts payable within one year	69.141	11.540	14.456
A. Current portion of amounts payable after more than one year		359	1.583
B. Financial debts	16.598	11.181	3.333
1. Credit institutions	16.598	-	3.333
C. Trade debts	6.992	4.857	8.918
1. Trade payables	6.992	4.857	8.918
D. Advances received on contracts in progress	-	-	-
E. Taxes, remuneration and social security	1.090	2.202	555
1. Taxes	625	1.721	14
2. Remuneration and social security	465	481	541
F. Other amounts payable	44.461	21.022	67
X. Accrued charges and deferred income	133	4	104
TOTAL LIABILITIES	166.017	175.231	177.133

Statutory Income Statement	For the years ended December 31st		
in 1.000 EUR	2005	2004	2003
I. Operating income	90.014	63.707	52.443
A. Turnover	88.901	63.773	49.690
B. Changes in stocks of finished goods, work and contracts in progress	825	(311)	2.674
D. Other operating income	288	245	79
II. Operating charges	(80431)	(53.079)	(46.191)
A. Raw materials, consumables and goods for resale	52.834	31.403	26.202
1. Purchases	55.048	31.364	25.506
2. Changes in stocks	(2.214)	39	696
B. Services and other goods	15.843	10.521	8.896
C. Remuneration, social security charges and pensions	5.942	5.822	5.135
D. Depreciations	5.292	5.297	5.840
E. Amounts written off stocks, contracts in progress and trade receivables	(74)	(9)	1
F. Provisions for other costs	17	18	-
G. Other operating charges	577	28	117
III. Operating profit	9.583	10.627	6.252
IV. Financial income	7.208	2.273	8.277
A. Income from financial fixed assets	-	-	-
B. Income from current assets	311	908	4.211
C. Other financial income	6.897	1.365	4.066
V. Financial charges	(3.632)	(2.800)	(5.318)
A. Debt charges	2.780	935	859
B. Amounts written off on current assets other than those mentioned under II. E.	-	-	-
C. Other financial charges	852	1.866	4.459
VI. Profit on ordinary activities before taxes	13.159	10.100	9.211
VIII.Extraordinary charges	-	(8)	(2)
D. Loss on disposal of fixed assets	-	-	(2)
E. Other Extraordinary charges	-	(8)	-
IX. Profit of the year before taxes	13.159	10.092	9.209
IX. bis. A. Transfer from deferred taxes	-	-	32
X. Income taxes	(2.608)	(3.832)	(2.293)
A. Taxes	(2.964)	(3.864)	(2.423)
B. Regularization	356	32	130
XI. Profit of the year	10.551	6.260	6.948
XIII. Profit of the year available for appropriation	10.551	6.260	6.948

Appropriation Of The Profit

in 1.000 EUR	For the years ended December 31st 2005	2004	2003
A. Profit to be appropriated	98.457	121.682	134.655
1. Profit of the period available for appropriation	10.551	6.260	6.948
2. Profit carried forward	87.907	115.422	127.707
B.Transfers from capital and reserves	1.323	-	3.088
1.From capital and share premium account	-	-	-
2. From reserves	1.323	-	3.088
C. Transfers to capital and reserves	(514)	(21.466)	-
1. To capital and share premium account	-	-	-
1. To other reserves	(514)	(21.466)	-
D. Result to be carried forward	(77.646)	(87.907)	(115.422)
1. Profit to be carried forward	(77.646)	(87.907)	(115.422)
F. Distribution of profit	(21.620)	(12.309)	(22.321)
1. Dividends	(21.620)	(12.309)	(22.321)