



# Annual Report 2007



# Melexis Annual Report 2007

## Table Of Contents

<b>1. Letter to the Shareholders</b> .....	<b>3</b>
Worldwide Semiconductor Market Versus Melexis.....	3
Dividend Yield .....	4
Sales & Profit Evolution 2001 - 2007.....	5
<b>2. Key Figures</b> .....	<b>6</b>
<b>3. Introduction</b> .....	<b>8</b>
Small Things Make a Big Difference .....	8
The Difference According To Melexis .....	8
Melexis Values.....	8
The Melexis Way .....	9
No Ordinary Company .....	10
The Future As Our Benchmark .....	10
<b>4. Reflection on Our Strategy</b> .....	<b>11</b>
Achieving Mutual Success by Providing Innovative Solutions to our Customers.....	11
<b>5. Our Activities &amp; Product Portfolio</b> .....	<b>13</b>
Overview of Activities .....	13
<b>6. International Locations</b> .....	<b>19</b>
<b>7. Risk Factors</b> .....	<b>20</b>
Risks Related to the Company.....	20
Risks Related to the Business .....	22
Risks Related to the Future Trading on Euronext.....	23
<b>8. Management's Discussion and Analysis</b> .....	<b>24</b>
Introduction .....	24
Exchange Rates .....	25
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	25
<b>9. Selected Summary Financial Data</b> .....	<b>29</b>
Detailed Consolidated Financial Statements .....	29
Notes to the consolidated financial statements .....	35
<b>10. Corporate Governance</b> .....	<b>58</b>
Board of Directors .....	58
Composition of the Board of Directors .....	58
Functioning and role of the Board .....	59
Directors Remuneration .....	59
Committees of the Board of Directors.....	59
<b>11. Shareholder Information</b> .....	<b>61</b>
Shareholder Structure .....	61
Share Information.....	61
Shareholder Contact Info .....	61
Financial Calendar 2008.....	61
<b>12. Condensed statutory financial statements</b> .....	<b>62</b>



# 1. Letter to the Shareholders

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



Françoise Chombar

2007 was a year for Melexis with marginal sales growth of 1%. One important reason for this slowdown in growth is the effect of the weakening dollar, impacting 6%. As Melexis sells about half of its products in USD, the dollar evolution has a major impact on sales growth. One other reason is the overall weakness in the consumer market, with a strong downfall of sales in the computer and telecom market, partially compensated by initial sales of optical chips for the next generation DVD's.



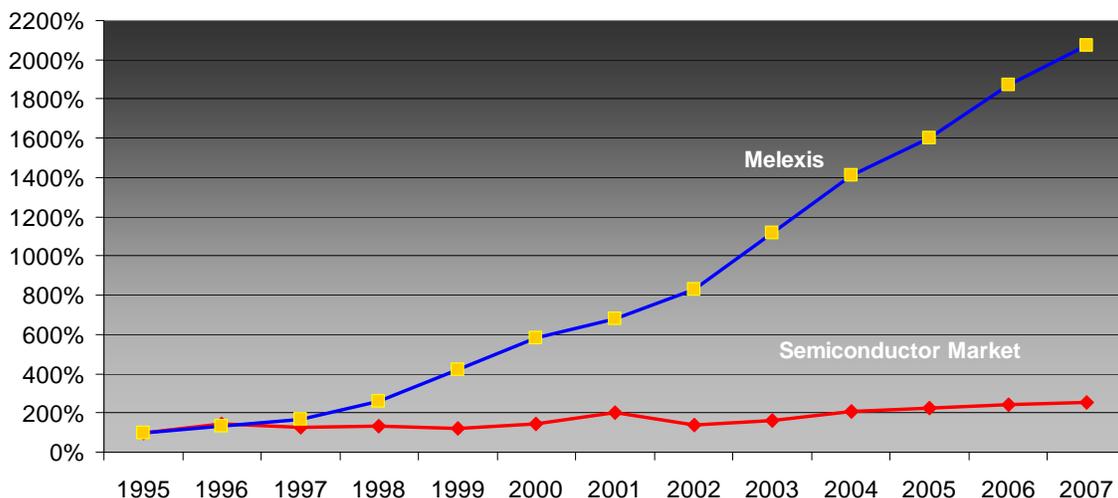
Rudi De Winter

Expressed in USD, Melexis again outperformed the global semiconductor market with growth of 11% compared to market growth of 3%. Melexis' automotive sales expressed in dollars even grew 18% during 2007, stronger than the market growth of 8%.

Highlights in the automotive market during 2007 included the sales growth of 24% in the automotive Hall sensors, capitalizing on the Sentron technology acquired in 2004 and the sales growth of 34% in the automotive network chips. This underlines that Melexis' innovative automotive products are in high demand from its customers.

## Worldwide Semiconductor Market Versus Melexis (in USD)

Source: WSTS, World Semiconductor Trade Statistics



According to Dataquest the automotive market has a projected average annual growth rate in the next decade of 7%. Melexis intends to further outperform the semiconductor (automotive) market over the coming years and further improve margins. In order to reach this goal, management will focus its' attentions on following areas in 2008:

**Focused Selling** on high growth markets and on a limited number of products to answer the high growth market's needs, both in automotive and consumer markets. The strengthening of the sales organization during 2007 with new sales offices in Detroit, Hong Kong and Japan and the streamlining of the marketing and sales processes will help in reaching this goal.

Bottom line growth **through yield improvements**. The focus will be on improving yield of running products and products in launch phase.

**Continuation of our management HR performance program:** attraction, retention and development of talented team members for all aspects of the company's operations is crucial for continued success.

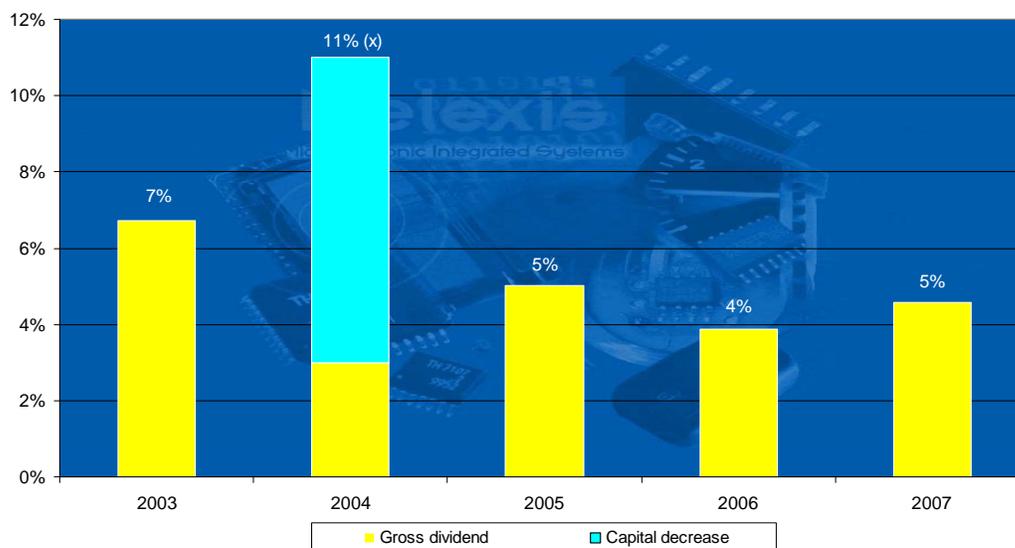
The **right choice of products & technologies**. Melexis will continue to invest in those products that we feel are strategic for the future.

Melexis offers its shareholders a unique combination of **stable growth and cash generation**. This is reflected in an uninterrupted positive growth and profit record of over 10 years duration with net margins between 16 and 20%, and a return on equity of more than 45%. Melexis was able to grow even during semiconductor industry downturns.

Considerable profit and cash generation has allowed Melexis to pay out a high dividend of EUR 0,60 to its shareholders. This represents a dividend yield of over 4%. Since the beginning of 2007 until date of publication, 250.000 shares were purchased at an average price of EUR 10,05. The visibility on future cash flows makes it likely that Melexis will continue to return cash to its shareholders, in order to maximize the return on equity.

## Dividend Yield

**Dividend yield 5 years above 4% (\*)**

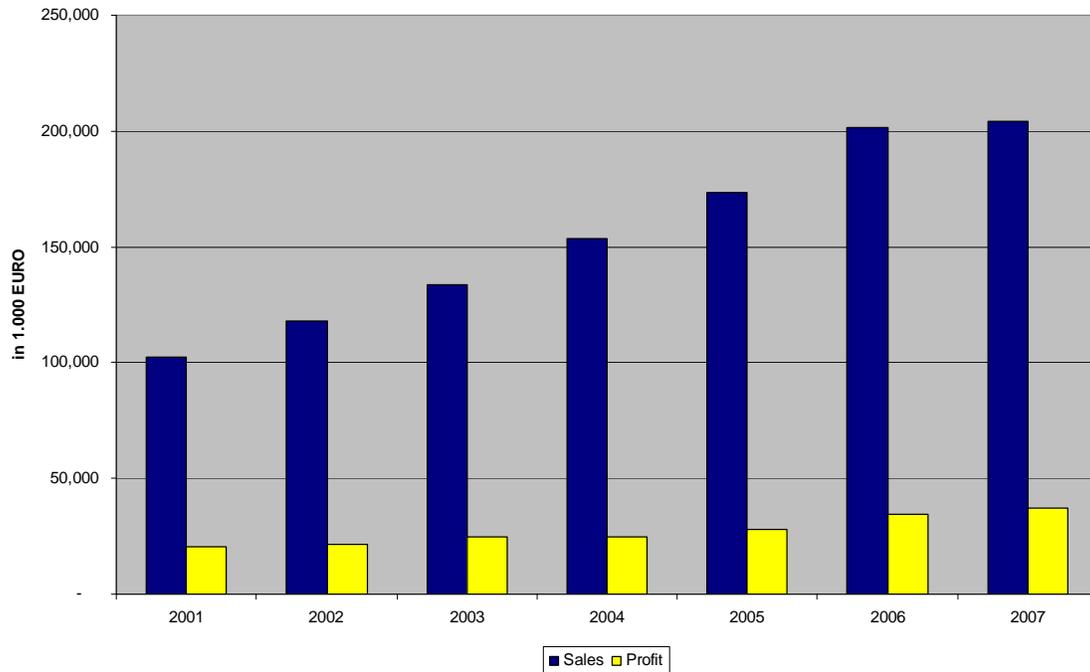


(\*) : Dividend yield = Gross Dividend divided by yearly average closing share price

(x) : In 2004 a gross dividend of EUR 0,28 per share was paid out as well as a capital decrease of EUR 0,72 per share

Consolidated results for the past fiscal year yielded 1% revenue growth compared to 2006. The operating margin remained stable at 20% representing EUR 40,9 million. Net profit amounted to EUR 37,1 million, an increase of 7% compared to 2006.

## Sales & Profit Evolution 2001 - 2007



Melexis sold in 2007 a building in Sofia (Bulgaria), constructed by Melexis in 1998, resulting in EUR 2,9 million profit. Melexis moved out of this building into a new, larger facility at the end of September 2006. Melexis typically acquires land/buildings rather than renting them. In line with this policy, Melexis decided to purchase a building in Erfurt in 2007 to accommodate its future operations. The company currently owns 8 buildings in 7 different countries, totaling 30.984 m<sup>2</sup> of land and 33.012 m<sup>2</sup> of floor space."

With the sound fundamentals of our core market, the automotive, and our focused product, customer & organization strategy, we intend to let Melexis flourish further, to the mutual success of our customers, employees, partners and shareholders alike. With the focused efforts mentioned before, Melexis is confident to reach again double digit growth

Yours sincerely,  
Ieper, 21st of March 2008

Françoise Chombar, CEO

Rudi De Winter, CEO



## 2. Key Figures

(in 1.000 Euro)

Operating results	2003	2004	2005	2006	2007
Turnover	133.549	153.335	173.674	201.502	204.055
EBIT	27.922	28.947	34.796	42.349	40.869
EBITDA	39.019	41.472	46.168	53.263	52.562

Balance structure	2003	2004	2005	2006	2007
Shareholders' equity	86.153	54.868	61.778	69.615	78.147
Net indebtedness (*)	8.582	33.094	26.249	29.920	35.360
Working capital	59.930	45.020	36.891	81.128	71.869

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

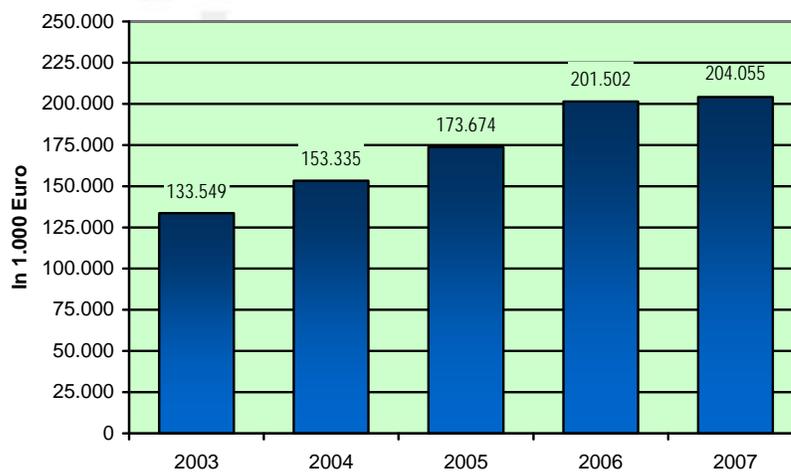
Cash flow and capital expenditure	2003	2004	2005	2006	2007
Cash flow (*)	35.676	37.401	39.529	45.440	48.777
Depreciation + amortization	11.097	12.525	11.373	10.914	11.693
Capital expenditure	11.304	10.781	9.334	15.490	15.141

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

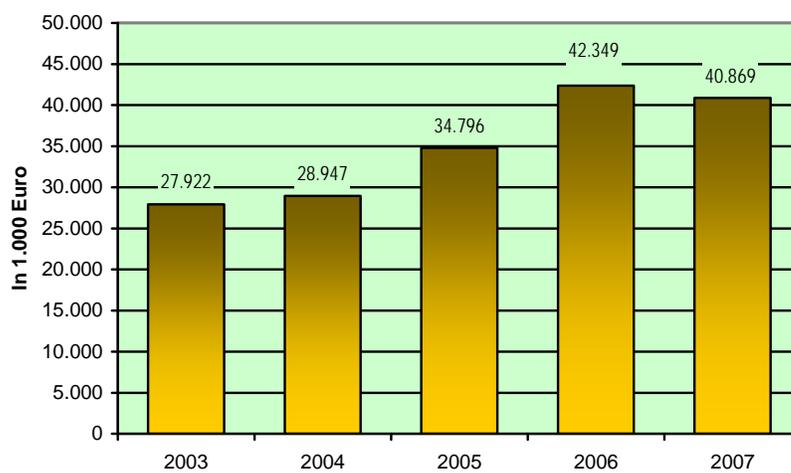
Ratios	2003	2004	2005	2006	2007
ROE	29%	45%	46%	50%	47%
Liquidity (*)	4,5	2,5	2,0	3,2	2,7
Solvency	71%	45%	52%	41%	47%

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

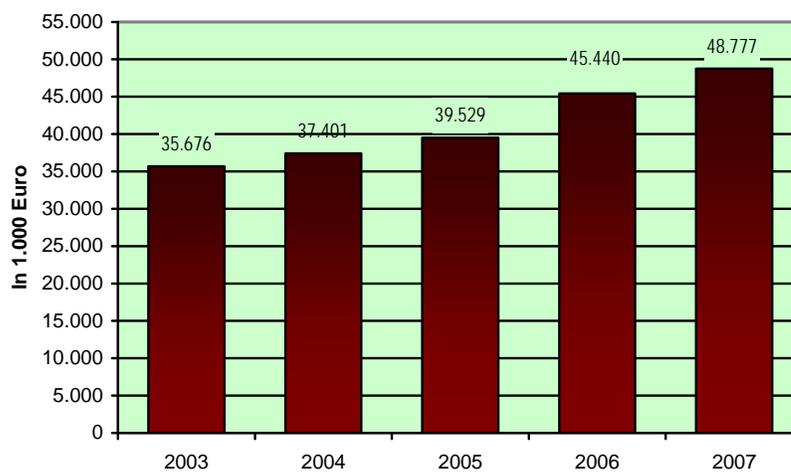
**Turnover  
Evolution**



**EBIT  
Evolution**



**Cash Flow  
Evolution**



## 3. Introduction

### Small Things Make a Big Difference

Melexis Microelectronic Integrated Systems N.V. designs, develops, tests and markets advanced integrated semiconductor devices. Our core experience is derived from more than fifteen years supplying ICs to the automotive electronics market. This experience sustains the expansion into Application Specific Standard Products for industrial and consumer product applications. Melexis enthusiastically pursues its chosen role as a component supplier whose innovations, while physically small, are the essential element in nearly each and every one of its customers' extraordinary systems. At Melexis we believe that "small things make a big difference".

### The Difference According To Melexis

For over fifteen years, our customers in the automotive electronics market have inspired us to create, manufacture and deliver advanced Mixed Signal semiconductors, sensor ICs, and programmable sensor IC systems. Through the stringent quality expectations, hostile operating conditions and aggressive economic targets demanded by our automotive customers, Melexis has developed the capability to produce world class, value driven, innovative products. Industry leading innovation in for example programmable sensors, sensor interface devices and systems-on-a-chip provide our customers with competitive advantage in system cost, capability and flexibility.



The difference at Melexis is summarized in our Company Values. These 5 core values are the embodiment of the Melexis Way. It is the vision of how all Melexis employees, from top management to the newest engineering intern are coached and encouraged to approach their daily responsibilities. In equal importance these 5 core values are:

### Melexis Values

- Customer Orientation**
- Enjoyment**
- Leadership**
- Profitability**
- Respect**



## Customer Orientation

Our challenge is finding innovative ways to excel in the quality of our products and services, our relationships and our results. In doing so, our customers will be successful with their respective customers.



## Enjoyment

We are committed to make working at Melexis enjoyable. Passion is part of our mission. Our goals are very ambitious and challenging for all of us. Both the private sphere and our work environment are essential parts of who we are. We therefore support our people in establishing a sustainable balance in their life.



## Leadership

We are leaders in our markets, through providing state-of-the-art products and technologies to our customers. We show leadership through team work and responsibility. Combined individual success creates team success. We will recognize the individual results as well as the team effort. To get there, we will ensure that our people are provided with opportunities to be heard and with the skills, information and empowerment to make a difference.



## Profitability

This is the clearest and most tangible way to gauge our true effectiveness at delivering products and services that fulfill our customers' expectations. Superior products and services are bound to generate superior profits. Superior profits will attract superior investors and shareholders thereby sustaining the investment cycles necessary to a financially healthy organization.



## Respect

We value diversity and strive for business sustainability. We build a work environment of mutual trust and respect, founded on honesty, openness and fairness where each has equality of opportunity regardless of gender, race, or ethnic background.



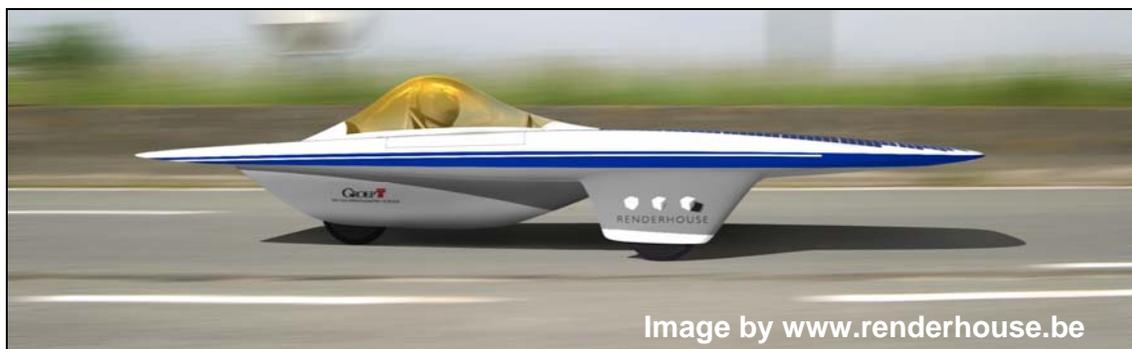
## No Ordinary Company

Creativity, freedom and respect are not only at the origin of 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 time and again. To us as a company, but mainly to our partners Melexis is No Ordinary Company. Many of our loyal customers know this and appreciate it. They know Melexis as a stable, solid, successful organization with a strong financial position. A company which takes pleasure in working towards integrated solutions, and in doing so makes an essential contribution to the success of its customers in their respective markets and submarkets, whether in the long-standing automotive market, or in consumer electronics, and industrial or medical applications. In the knowledge that at the end of the day it's the small things that can make a big difference.



## The Future As Our 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.



Our Triaxis hall IC MLX90316 is built in the gas pedal of the Belgian solar car "Umicar Infinity" which participated in the Panasonic World Solar Challenge in Australia in 2007.

## 4. Reflection on Our Strategy

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

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



### A world of growth opportunities

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



### Spotlight on ASSPs and ASICs

Melexis will continue to develop both ASICs (Application Specific ICs) and ASSPs (Application Specific Standard Products). The latter are Melexis solutions that are within every customer's reach.

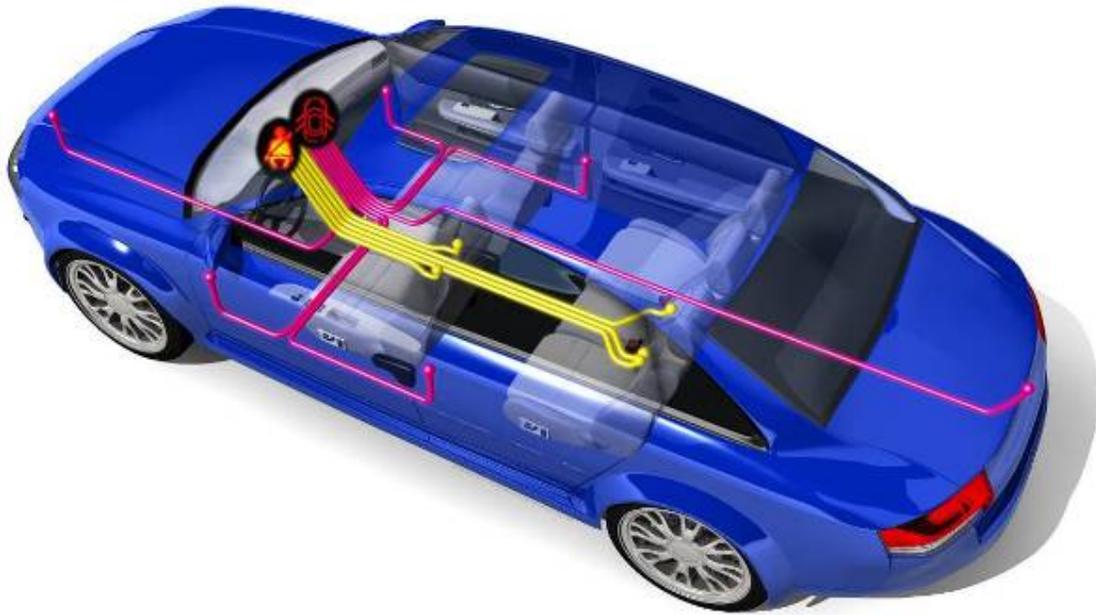
The targeted goal is to offer widely accepted building blocks for numerous fields of application.

By integrating various existing components in an intelligent manner Melexis moreover is capable of creating chipsets for completely new applications, for entirely new markets.

Our ASIC partners continue to recognize the value of engaging Melexis for their proprietary, sole source mixed signal solutions. Melexis routinely delivers more than just a finished tested IC based on the customers block schematic, we take pride in being a fully active team member in the definition, design and delivery of the ASIC. Innovative, progressive solutions at the schematic level and throughout the program life make the difference.

### From partner to 'partner of choice'

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



### Leadership in semiconductor solutions

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

### Strengthening sales & marketing

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

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

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



## 5. Our Activities & Product Portfolio

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



### Overview of Activities

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

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

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

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

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

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

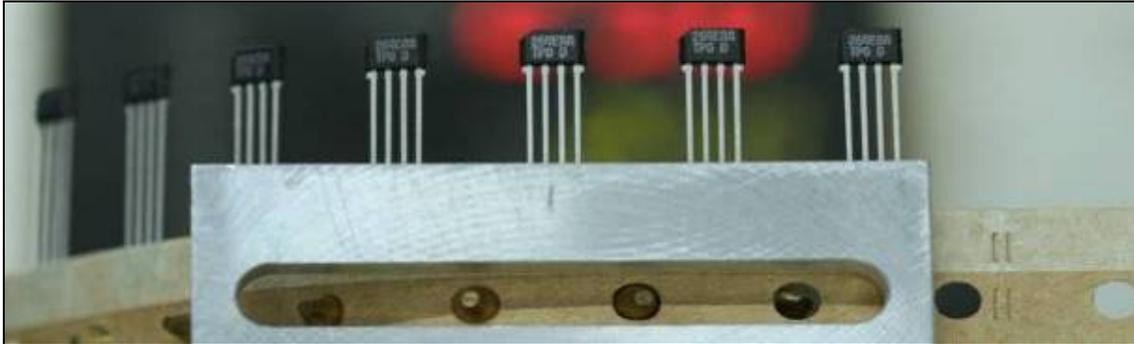
Melexis is a research driven company in which Research and Development has been, and will remain, of paramount importance in the Company's strategy. Investments in R&D consist of both product development and advanced development in new technologies for the automotive market and beyond. The R&D is on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

## Sensor Division

### Hall Effect

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

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



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

### Triaxis™

Melexis markets a novel patented Hall technology under the brand 'Triaxis™'. This technology enables the realization of cutting-edge contactless magnetic position sensors. Triaxis™ ICs are designed in rotary, linear and 3D-joystick position sensors. The final products are used to improve the fuel efficiency, reduce the engine emission, enhance the vehicle stability control and increase the steering or braking features. The Triaxis™ technology is also used for current sensors and solid-state electronic compasses.



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

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

Another example is an ultra-low-power switch for battery-operated devices such as cellular phones, laptops.

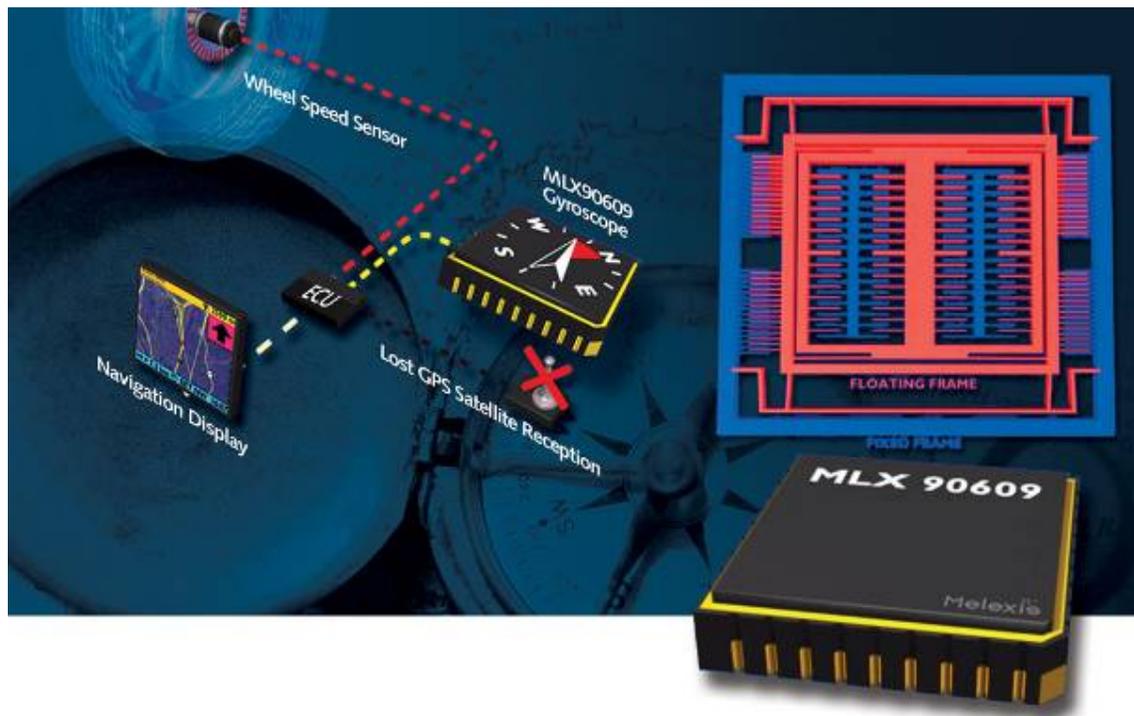
## MEMS (Micromachined Electro-Mechanical Systems)

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

Airbag systems, vehicle stability systems, particle filters, filter monitoring and brake systems are examples of automotive applications that rely extensively on sensors. Melexis develops pressure sensors, acceleration sensors and gyroscopes 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. Pressure is measured using standalone sensors, for which Melexis supplies industry leading signal conditioning interface ICs, or using completely integrated pressure sensors. Integrated pressure sensors incorporate both the sensing element, in the form of a silicon deformable membrane, and the conditioning electronics on the same chip. In 2007 Melexis has started the development of its next generation integrated pressure sensor.

Modern airbag systems use several acceleration sensors, manufactured in micromachining technology. These acceleration sensors measure the severity of an impact. This data is used by the airbag control unit to decide on airbag deployment. Melexis has been a key technology provider for many years due to its competencies in sensor technology, signal conditioning and IC packaging.



Gyroscopes, also called angular rate sensors, continue to be a strategic focus for Melexis. These sensors are used in vehicle stability systems, ACC (Adaptive Cruise Control) and rollover sensing. Next to their use in safety systems they also play a key role in navigation systems to implement the so-called dead reckoning function. Dead-reckoning allows for an accurate positioning of the vehicle even in the absence of the GPS signal.

### B. Signal conditioning interface ICs

For many years Melexis is 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 control systems in cars. Typical applications include pressure sensing in electronically controlled automatic transmissions, seat belt tension sensors in mandatory second generation airbag systems, fuel pressure sensors in fuel economy enhancing injection systems, refrigerant liquid pressure in automotive airco systems. The challenges imposed on the car industry to make cars more fuel efficient and environmentally friendly can only be met by an extensive use of all types of sensors. Any type of sensor requires conditioning of the sensor signal in order to be used in any type of system.

## Actuator Division

The Actuator division develops integrated circuits that are optimized for dedicated high volume power control applications both on customer request (ASICs) as well as on standard product ASSPs.

We offer peripheral ICs that are part of an ECU (Electronic Control Unit), like motor (pre)drivers, voltage regulators, LED drivers and LIN transceivers, as well as more integrated solutions combining the above with an embedded micro-controller to realize 'intelligent' power control solutions.

Motor (pre)drivers range from dashboard gauge drivers all the way up to FET predrivers for powerfull EPAS (Electrically Assisted Power Steering) motor control.

2007 has been a breakthrough year for Melexis LEDdrivers with major design wins in and outside the automotive industry. Consequently Melexis is stepping up its focus in 2008 on this exciting new market.

As a result of our commitment to the automotive industry Melexis has grown in 2007 to become the market leader in GM LAN transceivers, and one of the major suppliers of LIN transceivers and SBC's (System Basis IC's) integrating the voltage regulator and other functions like watchdog monitoring.

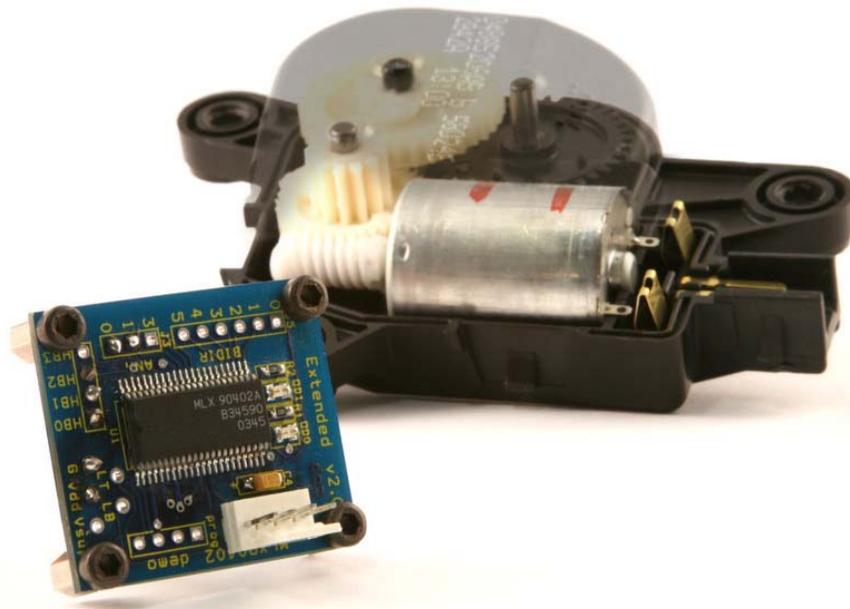
Melexis embedded microcontroller IC's are developed specifically for the automotive Market. The Program (ROM/OTP/Flash) and Data memories (EEPROM), and the packages are qualified to automotive standards, including High temperature Engine applications.

Software development, and more specific software testing and qualification is considered as one of the main challenges by the Automotive industry. Thanks to our combined approach of a dedicated LIN Dual Core microcontroller and Application specific peripherals, a major European VM was able to define its vehicle architecture such that only 1 software development was required, instead of 9 for all switch modules in a platform.

Since 2007 the car of the future has become greener than ever. Brushless DC (BLDC) motors offer significant fuel savings in combination with Stop-Go systems as part of water pumps, cooling fans and compressors. Additionally they are replacing DC motors in order to reduce weight, and increase reliability. On the other hand, the number of DC motors in a car is still growing as well.

Melexis has responded to this high growth potential by launching its MelexCM family of fully integrated motor controllers. In the MelexCM the embedded dual core microcontroller is extended with dedicated motor control peripherals to control a whole range of DC and BLDC applications.

Several ASIC developments have been registered thanks to this MelexCM approach, notably in the field of LIN based small motor applications, like HVAC flaps and headlamp position control.



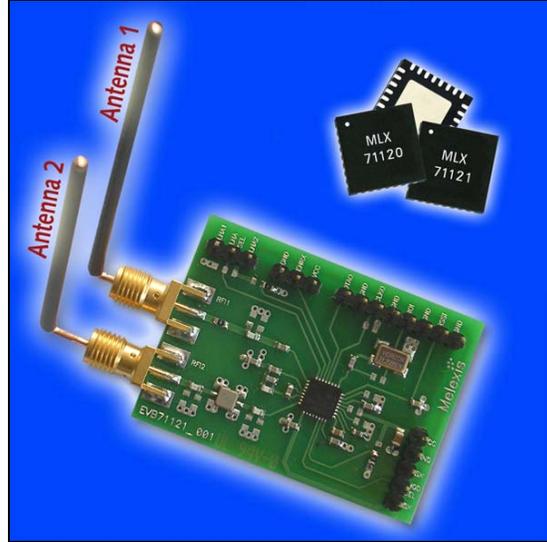
## Wireless Division

### RF ICs

Melexis designs and develops Radio-Frequency ICs (RF ICs) 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.

In 2007, three new highly-integrated RF receiver and two transmitter ICs were added to the product portfolio.

The key to serving this market lies in strong applications support as the RF engineering challenges are known to be quite specialized. Melexis has created strong internal RF application engineering centers in all major markets to ensure the best experience for our customers when they seek to upgrade their products to wireless operation.



### RFID ICs

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



## Opto Division

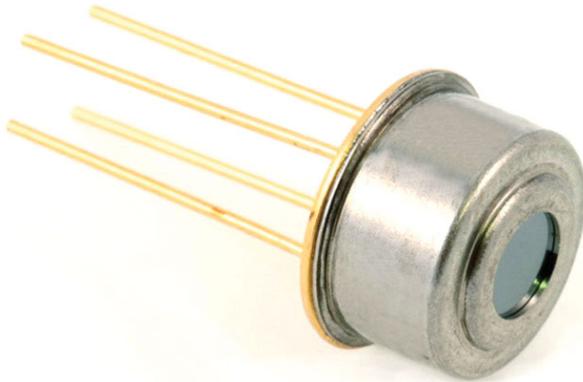
### IR Sensors

In 2007, Melexis introduced the first versions of the IR thermometers with integrated signal conditioning ASIC. Due to this high level of integration, Melexis was able to standardize and streamline the production of this component and to reduce cost.

These easy to use, miniature, factory calibrated temperature sensors proved to be very popular with a diverse range of customers in fields like automotive air conditioning, building heating, fever measurement, personal monitoring devices, home appliances, industrial process control and agriculture. The sensor can easily be installed by an OEM on his own PCB, eliminating the need for expensive passive components and connectors, giving a cost effective measurement solution not available previously.

Specifically for the medical market of body temperature measurement, Melexis released a special version of the integrated thermometer with high temperature accuracy. Melexis continues to develop the infrared thermometer product line with new versions of the integrated sensor for greater ease of use and new applications.

Thanks to its innovative design, this integrated thermometer was awarded the famous French Electron d'Or trophy in the category "Sensors with Signal conditioning". Furthermore, the sensor was also nominated by the readers of the EE Times periodical as finalist for the CMP Technology's Annual Creativity in Electronics (ACE) Awards in the "Analog IC" category.



### Optical Sensors

In 2007, Melexis has continued in expanding further its position in optical sensors. With a launch of a new generation linear optical array for steering applications, we have added a new opto-product and a new OEM to our existing portfolio.

As the market for optical sensors continues to grow, Melexis has used its large and growing opto-sensor IP to broaden its product portfolio significantly in 2007. Several new opto-products will be released for the mass market by mid 2008. As our position becomes increasingly stronger in the field of optical sensors, we are looking into several new major opportunities to further broaden our portfolio and position in the market, both for automotive as well as non-automotive applications.

The combination of our strong opto-sensor IP, packaging and application know-how and efficient integration of a full optical sensor with a good user interface into 1 single chip is highly appreciated by our growing customer base.

## 6. International Locations

### BELGIUM

#### Melexis NV

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

#### Melexis Tessenderlo NV

Transportstraat 1  
3980 TESSENDERLO  
Tel: +32 13 67 07 80  
Fax: +32 13 67 21 34

### BULGARIA

#### Melexis Bulgaria Ltd.

2, 'Samokovsko shaussee' blvd  
Gorubliane 1138 SOFIA  
Tel: +359 2 9174 740  
Fax: +359 2 9525 792

### FRANCE

#### Melexis NV/BO Paris

Tour Arago - 5 Rue Bellini  
92806 PUTEAUX LA DÉFENSE  
Tel: +33 1 47 78 11 34  
Fax: +33 1 47 78 06 35

### GERMANY

#### Melexis GmbH

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

### HONG KONG

#### Melexis

Unit 219, Core Building 2, No. 1  
Science Park East Avenue, Hong Kong  
Science & Technology Park, Shatin, Hong  
Kong  
Tel: (852) 2210 2020  
Fax: (852) 2210 2023

### JAPAN

#### Melexis

Yokohama Aioicho-building 10 F  
6-104 Aioicho, Naka-Ku  
Yokohama-Shi  
2310012 Kanagawa Japan

### SWITZERLAND

#### Melexis Technologies SA

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

### Sentron AG

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

### UKRAINE

#### Melexis Ukraine

4, Kotelnikova Street  
03115 KIEV  
Tel: +38 44 459 0700  
Fax: +38 44 459 0701

### USA

#### Melexis Inc.

41 Locke Road  
NH 03301 CONCORD  
Tel: +1 603 223 2362  
Fax: +1 603 223 9614

### Melexis Detroit

37899 West Twelve Mile Road, Suite 320  
MI 48331 FARMINGTON HILLS  
Tel: +1 248 306 5400  
Fax: +1 248 306 0330

[info@melexis.com](mailto:info@melexis.com)

[www.melexis.com](http://www.melexis.com)

## 7. 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.

### 7.1 Risks Related to the Company

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

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

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

#### Currency fluctuations

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

#### Dependence upon certain Related Companies

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

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

#### Managing Growth

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

#### Risk of Potential Future Acquisitions

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

Future acquisitions by the Company may result in the use of significant amounts of cash, potentially dilutive issues of equity securities, incurrence of debt and amortization expenses related to goodwill and other

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

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

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

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

### **Products May Contain Defects.**

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

### **Evolving Distribution Channels**

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

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

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

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

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

## The Importance of Significant Customers

The two biggest customers of Melexis represent approximately 14% and 10% of the Company's revenues for the year ended December 31<sup>st</sup>, 2007. 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<sup>st</sup>, 2007 only accounted for 60 % of sales. This decrease is mainly the result of the increased design of Application Specific Standard Products as opposed to customized products.

## Significant Shareholders

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

## 7.2 Risks Related to the Business

### The Semiconductor Market

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

### Intense Competition

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

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

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

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

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

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

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

## Rapid Technological Change

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

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

## 7.3 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.

# 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, 2007, 2006, 2005. The years 2007, 2006 and 2005 have been audited by BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA.

Françoise Chombar (Melexis CEO) and Rudi De Winter (Melexis CEO) hereby declare that the annual accounts that have been compiled in due compliance with IFRS standards as adopted by the European Union, stand as a true and accurate reflection of the assets, the financial status and the results of the issuer and the companies included as part of the consolidation. The annual report provides a true and accurate reflection of the development of the results of the company, of the issuer's position and of the companies included as part of the consolidation, as well as a description of the major risks and elements of uncertainty which they find themselves faced with.

### Consolidated Income statements

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Product sales	202.231.461	198.101.095	171.134.284
Revenues from Research and Development	1.823.707	3.400.623	2.539.976
Cost of sales	(119.253.367)	(116.900.172)	(101.392.977)
<b>Gross margin</b>	<b>84.801.801</b>	<b>84.601.546</b>	<b>72.281.283</b>
Impairment of goodwill	-	-	-
Research and development expenses	(29.792.249)	(27.603.546)	(24.987.990)
General and administrative expenses	(11.003.868)	(9.789.574)	(7.898.155)
Selling expenses	(6.023.534)	(4.859.789)	(4.599.160)
Other operating expenses (net)	2.886.460	-	-
<b>Income from operations (EBIT)</b>	<b>40.868.610</b>	<b>42.348.637</b>	<b>34.795.978</b>
Financial results (net)	(1.583.164)	(2.475.068)	(721.148)
<b>Profit before taxes</b>	<b>39.285.446</b>	<b>39.873.099</b>	<b>34.074.830</b>
Income taxes	(2.201.412)	(5.346.498)	(5.917.981)
Minority interest	-	-	-
<b>Net profit of the group</b>	<b>37.084.034</b>	<b>34.526.601</b>	<b>28.156.849</b>

### Condensed Consolidated Balance Sheets

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Current Assets	113.101.603	118.134.085	73.219.604
Non current assets	55.886.619	51.531.534	45.725.927
Current liabilities	42.661.596	37.006.225	36.328.187
Non current liabilities	48.179.898	63.044.693	20.838.876
Shareholders' equity	78.146.728	69.614.701	61.778.468

## 8.2 Exchange Rates

Since the introduction of the EURO on January 1st 1999, and in accordance with Belgian law, Melexis NV keeps its books and prepares its consolidated financial statements in EURO. The functional currency of Melexis NV and of its subsidiaries Melexis Tessenderlo NV, Melefin NV, Melexis GmbH and Melexis BV is the EURO. The functional currency for Melexis Inc. is the United States Dollar (USD), for Melexis Ukraine the Ukrainian Hryvnia (UAH) for Melexis Bulgaria Ltd., the Bulgarian Leva (BGN), for Sentron AG and Melexis Technologies SA the Swiss franc (CHF), for the Philippine branch of Melexis NV the Philippine Peso (PHP), for the Chinese branch of Melexis NV the Hong Kong Dollar and for Melexis Japan the Japanese Yen is the measurement currency. Assets and liabilities of Melexis Inc., Melexis Technologies SA, Sentron AG, Melexis Ukraine, Melexis Bulgaria Ltd., Melexis Philippines, Melexis Hong Kong and Melexis Japan are translated at exchange rates in effect at the end of the reporting period, and revenues and expenses are translated at the average exchange rate during the period. Equity components have been translated at historical exchange rates. Gains or losses resulting from this translation are reflected in the component "cumulative translation adjustment" (CTA) in the balance sheet.

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

The following Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's financial statements of prior years.

### 8.3.1. Historic overview

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

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

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

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

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

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

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 entity was 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), Hall sensors 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 was mainly active in the field of development of ICs.

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

Since January 2003 Melexis NV is delisted from NASDAQ EUROPE.

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

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

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

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

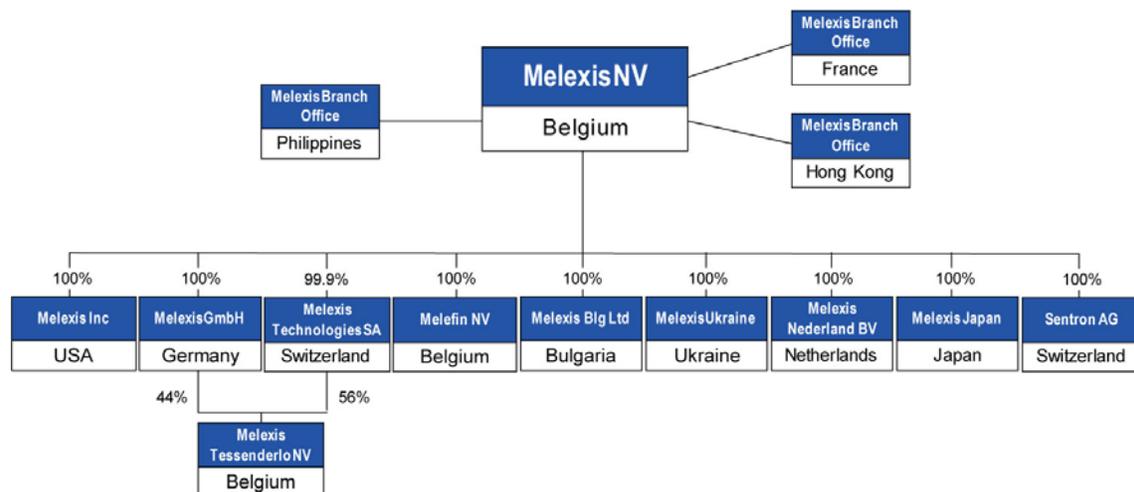
Since January 1, 2006, Xtrion NV is the main shareholder of Melexis NV, through a partial split of Elex NV into Elex NV and Xtrion NV.

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

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

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

On 13<sup>th</sup> of March 2007, Melexis created an entity in Tokio and on 10<sup>th</sup> of July 2007 in Hong Kong. Their principal activities are selling activities.



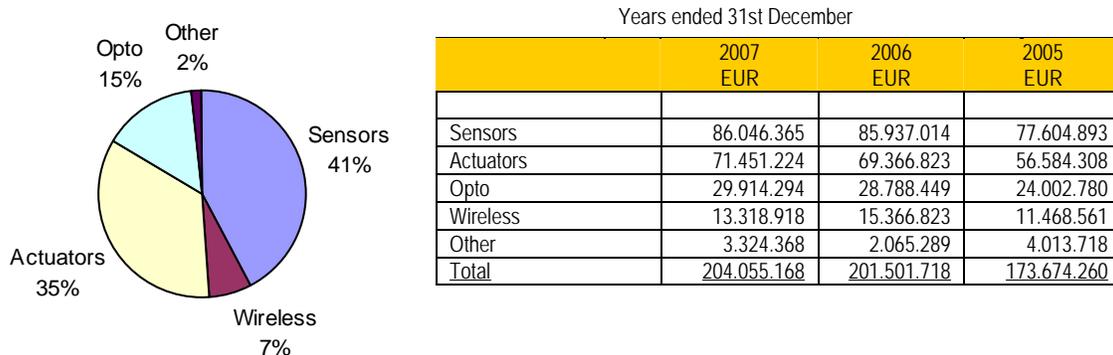
## 8.3.2. Results of operations

### Revenues

For 2007 total revenues increased by 1% compared to 2006. The largest division is Sensors (41%), which includes Hall, Pressure, Acceleration and Gyroscope activities, followed by the Actuators division (35%). The Opto product line is the third major division, realizing 15% 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 division. These specific R&D activities are performed under contract for customers. For the year 2007, the company invoiced EUR 1.823.707 research and development costs to its customers, compared to EUR 3.400.623 in 2006 and EUR 2.539.976 in 2005.

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



### Cost of Sales

Costs of sales consist of materials (raw material and semi finished parts), subcontracting, labor, depreciation and other direct production expenses. They increased from, EUR 101.392.977 in 2005 up to EUR 116.900.172 in 2006 and EUR 119.253.367 in 2007.

Expressed as a percentage of total revenues, the cost of sales was stable at 58 % in 2007 compared to 2006.

### Gross margin

The gross margin, expressed as a percentage of total revenues, remained stable at 42 % in 2007, compared to 2006 and 2005.

### Research and Development expenses

Research and development expenses amounted to EUR 29.792.249 in 2007, representing 15 % of total costs. Research and development expenses increased with 8% mainly as a result of increased personnel expenses. The research and development activities concentrate further on the development of Hall Sensors, Integrated Pressure and Acceleration Sensors and Gyroscopes, 16 bit microcontrollers, Infrared and Opto Sensors, Bus ICs and RF components.

### General, administrative and selling expenses

General, administrative and selling expenses consist mainly of salaries and salary related expenses, office equipment and related expenses, commissions, travel and advertising expenses. Growth in general, administration and selling expenses was higher than growth in sales during the year 2007, mainly as a result of increased personnel expenses. The company concluded in 2007 inflation swaps to hedge part of its salary inflation risk in Belgium

### Other operating income and expenses (net)

The other operating income and expenses are presented as a net amount. The balance of EUR 2.886.460 mainly relates to the sale of a building in Sofia, Bulgaria.

### Financial results

The net financial results increased from EUR 2.475.068 loss to EUR 1.583.164 loss in 2007. The (net) interest result increased from a loss of EUR 1.431.242 in 2006 to a loss of EUR 1.257.002 in 2007. The net exchange gains (both realized and unrealized) in 2007 amounted to a loss of EUR 896.228, compared to a loss of EUR 1.220.346 during 2006.

### **Net income**

The company recorded a net income for 2007 of EUR 37.084.033. This represents a 7% increase compared to 2006, which is higher than the growth in sales, mainly as a result of the lower income taxes in 2007 compared to 2006 and the sale of the building in Sofia, Bulgaria.

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

Cash and cash deposits amounted to EUR 15.265.123 as of December 31, 2007, in comparison to EUR 15.897.705 as of December 31, 2006 and EUR 11.375.829 as of December 31, 2005.

In 2007, operating cash flow before working capital changes amounted to 49.165.441. Working capital change was negative, mainly as a result of increased accounts receivables and inventory, resulting in a net operating positive cash flow of EUR 33.238.043.

The cash flow from investing activities was negative for EUR 858.916, mainly the net result of investments in fixed assets amounting to EUR 15.140.880 and proceeds in current investments amounting to EUR 12.099.272.

The cash flow from financing activities was negative for an amount of EUR 32.961.927. This is mainly the net result of the payment of an interim dividend amounting to EUR 25.670.089 and the repayment of long term debts amounting to EUR 14.941.839 and proceeds from bank loans and overdrafts amounting to EUR 7.650.000.

# 9. Selected Summary Financial Data

## 9.1. Detailed Consolidated Financial Statements

### 9.1.1. Independent Auditor's report

#### **STATUTORY AUDITOR'S REPORT TO THE GENERAL MEETING OF SHAREHOLDERS OF MELEXIS NV ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2007**

In accordance with the legal requirements, we report to you on the performance of the mandate of statutory auditor, which has been entrusted to us. This report contains our opinion on the true and fair view of the consolidated financial statements as well as the required additional statements.

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

We have audited the consolidated financial statements for the year ended 31<sup>st</sup> December 2007, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which show a balance sheet total of EUR 168.988.222 and a consolidated profit for the year of EUR 37.084.033. These consolidated financial statements include subsidiaries, which have been audited by other auditors. Within the framework of our assignment on the consolidated financial statements, we obtained their clearance on the accounts of the related subsidiaries.

Management is responsible for the preparation and the fair presentation of these consolidated financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting principles and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the legal requirements and the Auditing Standards applicable in Belgium, as issued by the Institute of Registered Auditors (*Institut des Reviseurs d'Entreprises / Instituut der Bedrijfsrevisoren*). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement, as to whether due to fraud or error.

In accordance with the above-mentioned auditing standards, we considered the group's accounting system, as well as its internal control procedures. We have obtained from management and the company's officials, the explanations and information necessary for executing our audit procedures. We have examined, on a test basis, the evidence supporting the amounts included in the consolidated financial statements. We have assessed the appropriateness of the accounting principles and consolidation principles, the reasonableness of the significant accounting estimates made by the company, as well as the overall presentation of the consolidated financial statements. We believe that these procedures provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements for the year ended 31<sup>st</sup> December 2007 give a true and fair view of the group's assets and liabilities, its financial position, the results of its operation and cash flow in accordance with International Financial Reporting Standards as adopted by the European Union



## **Additional statements**

The preparation of the consolidated Directors' report and its content are the responsibility of management.

Our responsibility is to supplement our report with the following additional statement which do not modify our audit opinion on the consolidated financial statements:

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

Zaventem, April 4<sup>th</sup> 2008

BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA  
Statutory Auditor  
Represented by

Hans Wilmots

Gert Claes

## 9.1.2. Detailed Consolidated Financial Statements

### Melexis NV Consolidated balance sheets

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
<b>ASSETS</b>			
Current assets			
Cash, and cash equivalents (Note 9.2.4.a)	15.265.123	15.897.705	11.375.829
Current investments (Note 9.2.4.b)	18.837.646	32.365.879	-
Accounts receivable –trade (Note 9.2.4.c)	34.423.242	29.460.370	25.438.873
Accounts receivable –Related companies (Note 9.2.4.ab)	3.426.874	4.425.046	2.525.752
Inventories (Note 9.2.4.d)	34.890.286	29.679.962	28.244.648
Other current assets (Note 9.2.4.f)	6.258.432	6.305.122	5.634.502
<b>Total current assets</b>	<b>113.101.603</b>	<b>118.134.084</b>	<b>73.219.604</b>
Non current assets			
Intangible assets (Note 9.2.4.h)	1.101.125	2.516.353	3.587.403
Property, plant and equipment (Note 9.2.4.i)	46.412.230	41.549.207	35.901.444
Other non-current assets	66.959	81.455	83.394
Deferred taxes (Note 9.2.4.w)	8.306.305	7.384.520	6.153.686
Goodwill (Note 9.2.4.g)	-	-	-
<b>Total non current assets</b>	<b>55.886.619</b>	<b>51.531.535</b>	<b>45.725.927</b>
<b>TOTAL ASSETS</b>	<b>168.988.222</b>	<b>169.665.619</b>	<b>118.945.531</b>
<b>LIABILITIES</b>			
Current liabilities :			
Bank loans and overdrafts (Note 9.2.4.l)	7.650.000	-	-
Current portion of long-term debt (Note 9.2.4.m)	15.072.360	15.149.403	16.795.726
Accounts payable – trade	8.449.538	7.377.902	7.127.890
Accounts payable –related companies (Note 9.2.4.ab)	4.971.771	6.084.925	5.784.299
Accrued expenses, payroll and related taxes (Note 9.2.4.j)	4.462.679	7.334.834	5.440.754
Other current liabilities	1.352.275	253.475	145.141
Deferred income (Note 9.2.4.k)	702.973	805.686	1.034.377
<b>Total current liabilities</b>	<b>42.661.596</b>	<b>37.006.225</b>	<b>36.328.187</b>
Non current liabilities			
Long-term debt less current portion (Note 9.2.4.m)	48.169.427	63.034.222	20.828.864
Minority interests	10.471	10.471	10.012
<b>Total non current liabilities</b>	<b>48.179.898</b>	<b>63.044.693</b>	<b>20.838.876</b>
Shareholders' capital	564.814	564.814	564.814
Share premium	-	-	-
Reserve treasury shares	(5.585.985)	(5.585.985)	(513.792)
Valuation reserve	(1.428.962)	-	-
Legal reserve	56.520	56.520	56.520
Retained earnings	49.719.724	40.863.212	34.088.091
Current year's profit	37.084.033	34.526.601	28.156.849
Cumulative translation adjustment	(2.263.416)	(810.461)	(574.014)
<b>Total shareholders' equity (Note 9.2.4.n)</b>	<b>78.146.728</b>	<b>69.614.701</b>	<b>61.778.468</b>
<b>TOTAL LIABILITIES</b>	<b>168.988.222</b>	<b>169.665.619</b>	<b>118.945.531</b>

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

## Melexis NV Consolidated Income Statements

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Product sales	202.231.461	198.101.095	171.134.284
Revenues from Research and Development (Note 9.2.4.y)	1.823.707	3.400.623	2.539.976
Cost of sales (Note 9.2.4.p)	(119.253.367)	(116.900.172)	(101.392.977)
<u>Gross margin</u>	<u>84.801.801</u>	<u>84.601.546</u>	<u>72.281.283</u>
Impairment of Goodwill	-	-	-
Research and development expenses (Note 9.2.4.q)	(29.792.249)	(27.603.546)	(24.987.990)
General and administrative expenses (Note 9.2.4.r)	(11.003.868)	(9.789.574)	(7.898.155)
Selling expenses (Note 9.2.4.s)	(6.023.534)	(4.859.789)	(4.599.160)
Other operating expenses (net) (Note 9.2.4.z)	2.886.460	-	-
<u>Income from operations (EBIT)</u>	<u>40.868.609</u>	<u>42.348.637</u>	<u>34.795.978</u>
Financial income (Note 9.2.4.v)	6.863.495	4.035.078	2.289.676
Financial charges (Note 9.2.4.v)	(8.446.659)	(6.510.146)	(3.010.824)
Other expenses (net)	-	-	-
<u>Income before taxes</u>	<u>39.285.446</u>	<u>39.873.099</u>	<u>34.074.830</u>
Income taxes (Note 9.2.4.w)	(2.201.412)	(5.346.498)	(5.917.981)
Minority interest	-	-	-
<u>Net income of the period</u>	<u>37.084.033</u>	<u>34.526.601</u>	<u>28.156.849</u>
Earnings per share (Note 9.2.4.x)	0,86	0,80	0,65

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

## Melexis NV Consolidated Statements of Changes in Equity

	Number of Shares	Share capital	Share Premium	Legal reserve	Retained Earnings	Reserve treasury shares	Fair value adjustment Reserve	CTA	Total Equity
		EUR	EUR	EUR	EUR	EUR		EUR	EUR
Net income					21.640.134				21.640.134
CTA movement								(316.580)	(316.580)
Interim dividend					(22.800.000)				(22.800.000)
Reserve treasury shares						(3.087.697)			(3.087.697)
<u>December 31, 2002</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>59.554.805</u>	<u>(3.087.697)</u>		<u>(356.813)</u>	<u>86.867.431</u>
Net income					24.578.657				25.578.657
CTA movement								(643.221)	(643.221)
Interim dividend					(22.320.788)				(22.320.788)
Reserve treasury shares						(2.328.668)			(2.328.668)
<u>December 31, 2003</u>	<u>45.600.000</u>	<u>565.197</u>	<u>30.135.419</u>	<u>56.520</u>	<u>61.812.674</u>	<u>(5.416.365)</u>		<u>(1.000.034)</u>	<u>86.153.411</u>
Net income					24.875.778				24.875.778
CTA movement								(463.115)	(463.115)
Dividend					(11.943.402)				(11.943.402)
Reserve treasury shares						(5.409.282)			(5.409.282)
Destruction own shares					(8.210.386)				(8.210.386)
Capital increase		32.255.905	(30.135.419)						2.120.486
Capital decrease		(32.256.288)							(32.256.288)
<u>December 31, 2004</u>	<u>44.565.195</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>66.534.664</u>	<u>(10.825.647)</u>		<u>(1.463.149)</u>	<u>54.867.202</u>
Net income					28.156.849				28.156.849
CTA movement								889.135	889.135
Dividend					(21.620.925)				(21.620.925)
Reserve treasury shares						10.311.855			10.311.855
Destruction own shares					(10.825.648)				(10.825.648)
<u>December 31, 2005</u>	<u>43.241.860</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>62.244.940</u>	<u>(513.792)</u>		<u>(574.014)</u>	<u>61.778.468</u>
Net income					34.526.601				34.526.601
CTA movement								(236.447)	(236.447)
Dividend					(21.391.741)				(21.391.741)
Reserve treasury shares						(5.072.193)			(5.072.193)
Other					10.013				10.013
<u>December 31, 2006</u>	<u>43.241.860</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>75.389.813</u>	<u>(5.585.985)</u>		<u>(810.461)</u>	<u>69.614.701</u>
Net income					37.084.033				37.084.033
CTA movement								(1.452.955)	(1.452.955)
Dividend					(25.670.089)				(25.670.089)
Valuation Gains-Losses taken to Equity							(1.428.962)		(1.428.962)
<u>December 31, 2007</u>	<u>43.241.860</u>	<u>564.814</u>	<u>-</u>	<u>56.520</u>	<u>86.803.757</u>	<u>(5.585.985)</u>	<u>(1.428.962)</u>	<u>(2.263.416)</u>	<u>78.146.728</u>

Since November 2002, Melexis NV has given order to a bank to start a share buy back program. In 2002 Melexis NV repurchased 530.000 shares and 428.482 in 2003 at an average price of EUR 5,73 in 2002 and EUR 5.43 in 2003. In 2004 Melexis NV repurchased 430.000 shares over-the-counter (OTC) at an average price of EUR 8,90, from which 310.000 shares were purchased from Elex NV. Melexis NV also repurchased 969.658 shares at an average price of EUR 8,89 on the regulatory stock market. The total own shares in 2004 amounted to 1.399.658 shares representing 3,14 % of the total outstanding shares. In accordance with IFRS, the treasury shares are presented as a deduction from equity. During the Extraordinary Shareholders meeting of April 20<sup>th</sup>, 2004 it was decided to cancel 1.034.805 treasury shares, bringing the total outstanding shares to 44.565.195 at the end of 2004. Melexis NV Extraordinary Shareholders Meeting of October 4<sup>th</sup>, 2004 decided to increase the capital, bringing it from EUR 565.197 to EUR 32.821.102, by means of incorporation in the capital of the issue premiums for an amount of EUR 32.255.905. It was then decided to decrease the capital by an

amount of EUR 32.256.288, by repayment to each existing share of an amount of EUR 0,72. It was also decided to pay an additional gross dividend to the shareholders of EUR 0,28 per share. During the extraordinary Shareholders Meeting of July 14<sup>th</sup>, 2005, it was decided to cancel 1.323.335 Treasury shares, bringing the total outstanding shares to 43.241.860 at the end of 2005. During the year 2006 Melexis NV repurchased 406.378 shares at an average price of EUR 12,48. No purchases of own shares were done during 2007. Total own shares at the end of 2007 amount to 458.378 representing 1,06% of the total outstanding shares. During the year 2006 and 2007 no own shares have been cancelled. As such, at the end of the year 2007 the total outstanding shares is still 43.241.860.

## Melexis NV Consolidated Statements of Cash Flows

(indirect method)	31st December		
	2007 EUR	2006 EUR	2005 EUR
<b>Cash flows from operating activities</b>			
Net profit	37.084.033	34.526.601	28.156.849
Adjustments for operating activities:			
Deferred taxes	(921.785)	(1.230.834)	39.872
Unrealized exchange results	(328.696)	312.370	(948.261)
Reserve for uncollectible receivables	7.725	-	(48.760)
Government grants	255.146	1.096.877	-
Depreciations	11.693.085	10.913.614	11.372.706
Impairments	-	-	-
Financial results	1.375.933	1.338.366	1.832.124
<b>Operating profit before working capital changes</b>	<b>49.165.441</b>	<b>46.956.994</b>	<b>40.404.530</b>
Accounts receivable, net	(5.847.369)	(4.145.443)	(6.264.833)
Other current assets	(311.168)	(1.877.841)	156.818
Other non-current assets	14.495	1.942	24.498
Due to (from) related companies	(114.982)	(1.611.177)	1.865.092
Accounts payable	1.230.407	268.198	2.105.389
Accrued expenses	966.197	6.330.546	2.575.832
Other current liabilities	1.098.800	-	-
Inventories	(5.917.077)	(1.521.246)	(2.381.969)
Interest paid	(3.229.929)	(2.757.001)	(1.279.867)
Income tax	(3.816.772)	(4.420.874)	(3.449.650)
<b>Net cash from operating activities</b>	<b>33.238.043</b>	<b>37.224.098</b>	<b>33.755.840</b>
Cash flows from investing activities :			
Treasury shares	-	(5.072.193)	(513.792)
Purchase of property plant and equipment and intangible assets	(15.140.880)	(15.490.328)	(9.333.819)
Interest received	2.182.692	1.106.264	396.004
Proceeds from current investments	12.099.272	(32.365.879)	-
Acquisition of subsidiary	-	-	-
<b>Net cash used in investing activities</b>	<b>(858.916)</b>	<b>(51.822.136)</b>	<b>(9.451.607)</b>
Cash flows from financing activities :			
Repayment from long-term debts	(14.941.839)	(1.646.317)	(11.766.560)
Proceeds of long-term debts	-	42.205.358	-
Repayment of bank loans and overdrafts	7.650.000	-	-
Proceeds from (repayment of) related party financing	-	-	3.886.138
Dividend payment	(25.670.089)	(21.391.741)	(21.620.925)
Capital decrease	-	-	-
Minorities	1	458	9.000
<b>Net cash used in financing activities</b>	<b>(32.961.927)</b>	<b>19.167.758</b>	<b>(29.492.347)</b>
Effect of exchange rate changes on cash	(49.782)	(47.844)	266.979
(Decrease) increase in cash	(632.582)	4.521.876	(4.921.135)
Cash at beginning of the period	15.897.705	11.375.829	16.296.964
Cash at end of the period	15.265.123	15.897.705	11.375.829
Cash at end of the period minus cash at beginning of the period	(632.582)	4.521.876	(4.921.135)

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, 763 people in 2007, 696 people in 2006, 678 people in 2005.

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 12<sup>th</sup> of February 2008 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 judgemental areas that affect the amounts reported in the financial statements and accompanying Notes. Such estimates may differ from actual results incurred.

#### Measurement currency

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



## **Foreign currency**

### **Foreign currency transactions**

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

### **Foreign currency translation**

Since the introduction of the EURO on January 1<sup>st</sup> 1999, and in accordance with Belgian law, Melexis NV keeps its books and prepares its consolidated financial statements in EURO. The measurement currency of Melexis NV and of its subsidiaries Melexis Tessenderlo NV, Melexis GmbH and Melexis BV is the EURO. The measurement currency for Melexis Inc. is the United States Dollar (USD), for Melexis Ukraine the Ukrainian Hryvnia (UAH) and for Melexis Bulgaria Ltd. the Bulgarian Leva (Bgn). The measurement currency for Sentron AG and for Melexis Technologies SA is the Swiss Franc (CHF). For the Philippine branch of Melexis NV the measurement currency is the Phillipinian Peso (PHP), for the Japanese branch the Japanese Yen (JPY) and for the Hong Kong branch the Hong Kong Dollar (HKD).

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



## Principles of Consolidation

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

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

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

The consolidation scope includes Melexis NV, its subsidiaries Melexis Ukraine, Melexis BV (incorporated respectively in 1999, 2000 and 2001), Melexis Inc. (formerly US MikroChips Inc), which was acquired in the last quarter of 1997, Melexis GmbH, previously known as Thesys Mikroelektronik Produkte GmbH, which was acquired in October 1999, Melexis Bulgaria Ltd., which was acquired in October 2000, and Sentron AG which was acquired in February 2004.

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

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

During 2007 a branch has been set up in In Hong Kong and a separate legal entity has been incorporated in Japan.

## 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 apply hedge accounting for its financial instruments 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.

The group classifies its investments in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

### **(a) Financial assets at fair value through profit or loss**

This category comprises financial assets held for trading which have been acquired principally for the purpose of selling in the short-term. Derivatives also fall within this category unless they are designated as hedges and the hedge is effective for accounting purposes. Assets in this category are classified as current.

### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

### **(c) Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. They are included in non-current assets unless the investment is due to mature within 12 months of the balance sheet date or unless the investment is considered as very liquid.

### **(d) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

## **Intangible Assets**

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

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

## **Goodwill**

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

## Research and Development Costs

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

## Equity

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

## Provisions

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

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

## Reserves

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

## Minority interests

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

## Revenue recognition

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

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

## Borrowing costs

Borrowing costs are expensed as incurred.

## Government Grants

Government grants are deferred and amortized into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying consolidated financial statements.

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

## Income taxes

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

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

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

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognizes a

previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

A deferred tax liability is recognized for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortization is not deductible for tax purposes.

### **Impairment of assets**

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

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

### **Segments**

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

### **Contingencies**

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

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

### **Subsequent events**

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

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

### **Earnings per share**

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

### **9.2.3. Changes in Group's Organization**

During the year 2005 a new subsidiary Melefin NV was constituted by means of a contribution in kind of the shares of Melexis Tessenderlo NV. As such Melexis Tessenderlo became a grand daughter of Melexis NV. In 2005 a branch office of Melexis NV was set up in the Philippines. On 31 January 2006, Melexis GmbH acquired Melexis Tessenderlo NV from Melefin NV. Also during 2006 the Swiss branch Office Bevaix of Melexis NV was transformed into a separate legal entity: Melexis Technologies SA. In 2007 the Hong Kong branch and the new legal entity in Japan opened.

## 9.2.4. Notes

### A Cash and cash equivalents

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Cash at bank and in hand	14.962.954	15.897.705	11.375.829
Cash equivalents	302.169	32.365.879	-
<u>Total</u>	<u>15.265.123</u>	<u>48.263.584</u>	<u>11.375.829</u>

### B Current investments

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Current Investments	18.837.646	32.365.879	-

	Cost	Fair Value
Assets held to maturity	-	-
Assets available for sale	19.695.849	18.266.887
Derivatives	-	570.759
<u>Total</u>	<u>19.695.849</u>	<u>18.837.646</u>

In principle, Melexis' current investments are classified as assets available for sale. According to IAS 39, the difference between the purchase price and the fair value for this class of current investments is recognized directly into equity. As of 31<sup>st</sup> of December this fair value adjustment resulted in a loss (decrease of equity) amounting to 1.428.962 EUR.

Melexis' financial derivatives (section E) are classified as assets held for trading. The fair value changes of these assets are immediately recognized in financial profit and loss. As of 31<sup>st</sup> of December 2007, the fair value of these financial derivatives resulted in a profit amounting to 570.759 EUR.

As of 31<sup>st</sup> of December 2007, Melexis had no assets in portfolio classified as investments held to maturity.

### C Trade receivables

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Trade accounts receivable	36.257.317	31.292.460	27.313.871
Allowance for doubtful accounts	(1.834.075)	(1.832.090)	(1.874.998)
<u>Total</u>	<u>34.423.242</u>	<u>29.460.370</u>	<u>25.438.873</u>

### D Inventories

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Raw materials and supplies, at cost	4.169.077	12.409.863	8.773.455
Work in progress, at cost	25.934.575	16.587.499	13.554.906
Finished goods, at cost	4.839.925	1.534.607	7.117.196
Reserve for obsolete stock	(53.291)	(852.007)	(1.200.909)
<u>Net</u>	<u>34.890.286</u>	<u>29.679.962</u>	<u>28.244.648</u>

## E Derivatives

### Notional amounts

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

		2007	2006	2005
Outstanding FX swap contracts per 31 <sup>st</sup> December, not exceeding 1 year	USD	12.750.000	13.000.000	12.938.519
Outstanding Inflation swap contracts per 31 <sup>st</sup> December, exceeding 1 year	EUR	8.400.000	-	-

### Fair value

The fair value of derivatives is based upon market to market valuations. The changes in estimated fair value of derivatives are recognized in profit & loss.

31 <sup>st</sup> December	2007 Fair value adjustment EUR (+ profit, - loss)
Outstanding FX swap contracts per 31 <sup>st</sup> December	123.917
Outstanding Inflation swap contracts per 31 <sup>st</sup> December	446.842
	<u>570.759</u>

## F Other Current Assets

	31st December		
	2007 EUR	2006 EUR	2005 EUR
Other receivables	5.985.134	6.130.569	5.388.529
Prepaid expenses	273.298	174.553	245.973
<u>Total</u>	<u>6.258.432</u>	<u>6.305.122</u>	<u>5.634.502</u>

## G Goodwill

Not applicable.

## H Intangible Assets

31st December 2007	Licenses EUR	Total EUR
<b>Acquisition value</b>		
Balance end of previous period	7.679.269	7.679.269
Additions of the period	-	-
Retirements(-)	(142.831)	(142.831)
Transfers	-	-
CTA	-	-
<u>TOTAL</u>	<u>7.536.438</u>	<u>7.536.438</u>
<b>Depreciation</b>		
Balance end of previous period	5.162.915	5.162.915
Additions of the period	1.321.535	1.321.535
Retirements(-)	(49.137)	(49.137)
Transfers	-	-
<u>TOTAL</u>	<u>6.435.313</u>	<u>6.435.313</u>
<u>NET BOOK VALUE</u>	<u>1.101.125</u>	<u>1.101.125</u>

## I Property, plant and equipment

	Land and buildings	Machinery and equipment	Furniture and vehicles	Fixed assets under Construction	Total
31st December 2007	EUR	EUR	EUR	EUR	EUR
Cost:					
Beginning of the period	14.562.975	82.370.269	4.126.107	6.998.722	108.058.073
Additions of the year	3.729.354	10.589.389	822.137	-	15.140.880
Retirements	-1.126.350	-1.797.152	-262.999	-	-3.186.501
Transfers	-	208.529	-	-208.529	-
CTA	-78.600	1.137.929	-1.220	-	1.058.109
End of the period	17.087.379	92.508.964	4.684.025	6.790.193	121.070.561
Accumulated depreciation:					
Beginning of the period	3.494.690	60.392.369	2.621.807	-	66.508.866
Additions of the period	668.481	8.898.990	749.112	54.968	10.371.551
Retirements	277.457	-1.226.600	-306.525	-	1.810.582
Transfers	-	-	-	-	-
CTA	-129.444	-207.888	-74.172	-	-411.504
End of the period	3.756.270	67.856.871	2.990.222	54.968	74.658.331
<u>NET BOOK VALUE</u>	<u>13.331.109</u>	<u>24.652.093</u>	<u>1.693.803</u>	<u>6.735.225</u>	<u>46.412.230</u>

## J Accrued expenses, payroll and related taxes

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Vacation pay bonuses and 13 <sup>th</sup> month	1.890.940	2.016.134	1.757.052
Other social accruals	231.991	292.167	55.067
Remuneration	237.545	10.832	98.777
Social security	141.889	42.559	288.691
Servicing costs	-	-	-
Direct and indirect taxes	1.459.324	4.234.520	2.993.636
Other(1)	500.990	738.623	247.531
<u>Total</u>	<u>4.462.679</u>	<u>7.334.835</u>	<u>5.440.754</u>

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

## K Deferred Income

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Capital grants	702.973	805.686	1.034.377
<u>Total</u>	<u>702.973</u>	<u>805.686</u>	<u>1.034.377</u>

## L Bank loans and overdrafts

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Secured	7.650.000	-	-
Unsecured	-	-	-
<u>Total</u>	<u>7.650.000</u>	<u>=</u>	<u>=</u>

## M Long and short term debts

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
<b>Secured</b>			
Bank loan ( in CHF) at floating interest rate ; average rate for the period 2007 was 3,45 % (1) ;maturing in 2019	362.497	404.389	450.132
Bank loan (in EUR) at floating interest rate till 2033; average rate for the year 2007 was 5,01 % (2)	2.719.994	2.588.875	2.933.330
Bank Loan (in EUR) at fixed interest rate of 4,8 %; repaid in 2006	-	-	180.000
Bank Loan (in USD) at fixed rate of 6 % (3); maturing in 2018	159.296	190.360	224.936
Bank Loan (in EUR) at floating interest of 3,02 %; matured n 2006	-	-	2.000.000
Bank loan (in EUR) at floating interest rate; repaid in 2006	-	-	2.500.000
Bank loan (in EUR) at floating interest rate; repaid in 2006	-	-	18.750.000
Bank loan in (EUR) at floating interest rate; repaid in 2006	-	-	6.836.192
Bank loan in (EUR) at floating interest rate; repaid in 2006	-	-	3.750.000
Bank loan in (EUR) at floating interest rate; average rat for the year 2007 was 4,67 %; maturing in 2011 (4)	60.000.000	75.000.000	-
<u>Total secured loans</u>	<u>63.241.787</u>	<u>78.183.625</u>	<u>37.624.590</u>
<b>Unsecured loan</b>			
Total unsecured loans	-	-	-
<u>Total debts</u>	<u>63.241.787</u>	<u>78.183.625</u>	<u>37.624.590</u>
Current maturities	15.072.360	15.149.403	16.795.726
Long-term portion of debts	48.169.427	63.034.222	20.828.864

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

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

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

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

As of December 31, 2007 there are engagements for the following financial covenants:

For Melexis NV:

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

For Melexis GmbH:

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

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

- net debt/EBITDA  $\leq$  3

Repayment of debts as of 31<sup>st</sup> of December 2007 are scheduled as follows:

	31st December	
	2007	2006
	EUR	EUR
2008	15.072.360	
2009	15.224.644	
2010	15.149.713	
2011	15.150.504	
2012	151.344	
Thereafter	2.493.222	
<u>TOTAL</u>	<u>63.241.787</u>	

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

As of 31<sup>st</sup> December 2007, the common stock consisted of 43.241.860 issued and outstanding ordinary shares without face value.

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

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

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

## O Government grants

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

31st December

	2007	2006	2005
	EUR	EUR	EUR
Investment grants in building, machinery and employment grants	571.279	550.855	1.256.679
Grants for research and development	460.026	545.021	1.011.043
<u>Total</u>	<u>1.031.305</u>	<u>1.095.877</u>	<u>2.267.722</u>

## P Cost of sales

Cost of sales include of the following expenses:

31st December

	2007	2006	2005
	EUR	EUR	EUR
Purchases	92.901.016	92.330.200	77.434.582
Transportation costs	3.096.843	2.430.284	1.895.973
Salaries	9.285.571	8.237.142	7.598.490
Depreciation and amortization	7.423.232	6.593.293	7.106.620
Other direct production costs	6.834.664	7.309.253	7.357.312
<u>Total</u>	<u>119.253.367</u>	<u>116.900.172</u>	<u>101.392.977</u>

## Q Research and development expenses

Research and development expenses include the following expenses:

31st December

	2007	2006	2005
	EUR	EUR	EUR
Salaries	15.971.718	13.813.122	12.752.410
Depreciation and amortization	3.140.197	3.141.272	3.423.425
External Services	5.051.381	5.331.888	4.098.708
Prototype Wafers	2.000.099	2.011.607	1.900.555
Fees	1.273.931	970.537	1.003.169
Other	2.354.923	2.335.120	1.809.723
<u>Total</u>	<u>29.792.249</u>	<u>27.603.546</u>	<u>24.987.990</u>

## R General and administrative expenses

General and administration expenses include the following expenses:

31st December

	2007	2006	2005
	EUR	EUR	EUR
Salaries	2.894.255	2.284.347	1.911.085
Depreciation and amortization	1.079.082	860.628	813.698
External Services	2.184.844	2.402.589	1.597.624
Fees	952.536	663.267	650.702
Other	3.893.151	3.578.741	2.925.046
<u>Total</u>	<u>11.003.868</u>	<u>9.789.574</u>	<u>7.898.155</u>

## S Selling expenses

Selling expenses include the following expenses:

	31st December		
	2007	2006	2005
Selling expenses	EUR	EUR	EUR
Salaries	2.875.355	2.143.627	2.246.942
Depreciation and amortization	50.575	25.767	28.963
Commissions	833.227	915.027	690.285
Other	2.264.377	1.775.368	1.632.970
<u>Total</u>	<u>6.023.534</u>	<u>4.859.789</u>	<u>4.599.160</u>

## T Personnel expenses and average number of employees

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Wages and salaries	31.026.899	26.478.238	24.508.927
<u>Total</u>	<u>31.026.899</u>	<u>26.478.238</u>	<u>24.508.927</u>

The average number of employees is 763 in 2007, 696 in 2006 and 678 in 2005.

## U Depreciation and amortization expenses

Depreciation and amortization include the following expenses:

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Cost of sales	7.423.232	6.885.947	7.106.620
Research and development	3.140.197	3.141.272	3.423.425
General and administration	1.079.082	860.628	813.698
Selling	50.575	25.767	28.963
<u>Total</u>	<u>11.693.086</u>	<u>10.913.614</u>	<u>11.372.706</u>

## V Net Financial Result

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
<u>Financial income:</u>	<u>(6.863.495)</u>	<u>(4.035.078)</u>	<u>(2.289.676)</u>
- interest income	(2.107.270)	(1.272.334)	(396.004)
- exchange differences	(4.019.873)	(2.015.755)	(1.809.178)
- fair value valuations	(570.784)	-	-
- gain on shares	-	-	-
- dividend	-	-	-
- other	(165.568)	(746.989)	(84.494)
<u>Financial charges:</u>	<u>8.446.659</u>	<u>6.510.146</u>	<u>3.010.824</u>
- interest charges	3.364.272	2.703.576	1.279.867
- bank charges	117.228	540.273	308.034
- exchange differences	4.916.101	3.236.101	1.398.729
- loss on shares	-	-	-
- other	49.058	30.196	24.194
<u>Net financial results</u>	<u>1.583.164</u>	<u>2.475.068</u>	<u>721.148</u>

## W Income taxes

The income tax expenses can be detailed as follows:

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Current tax expenses	(3.123.197)	(6.577.332)	(5.957.853)
Deferred tax income	921.785	1.230.834	39.872
<u>Total</u>	<u>(2.201.412)</u>	<u>5.346.498</u>	<u>(5.917.981)</u>

In 1999, Melexis NV sold part of its business to its wholly owned subsidiaries Melexis Tessenderlo NV and to Melexis GmbH (previously known as Thesys Mikroelektronik Produkte GmbH) at market value. This transaction resulted in a goodwill amount in the Melexis Tessenderlo NV statutory financial statements of approximately EUR 82 mio and in the Melexis GmbH statutory financial statements of approximately EUR 6 mio. In 2002, Melexis Swiss Branch, which was at that time an Integral part of Melexis NV, sold part of its business also to Melexis Tessenderlo NV. This transaction resulted in a goodwill amount in the Melexis Tessenderlo statutory financial statements of approximately EUR 20 mio. These goodwill amounts, which were eliminated in consolidation, resulted in tax deductible amortization charges at Melexis Tessenderlo NV and Melexis GmbH, which could be offset against future profits. The remaining possible future tax saving with respect to these transactions amounts to approximately EUR 3,3 mio at year end 2007.

In November 2006, Melexis Technologies SA transferred a part of its Hall projects (intellectual property, patents and brand name) to Melexis Tessenderlo NV at market value by means of a contribution in kind. This transaction resulted in intangible assets in the Melexis Tessenderlo NV statutory financial statements of EUR 106,5 mio. This amount, which is eliminated in consolidation, results in tax deductible amortization charges at Melexis Tessenderlo NV, which can be offset against future profits. Taken into account the domestic tax rate of 33,99%, the remaining possible future tax savings resulting from this transaction amount to approximately EUR 32,6 mio at year end 2007.

In accordance with the valuation rules on deferred taxes, and consistent with prior years, the company assessed to which extent it is probable that these tax savings will be realizable in the future. Taken into account the uncertainties related to the rapid technological evolutions in the sector, the highly competitive market, and the fact that the company only has short term contracts with its customers, The Board of Directors decided to recognize a cumulative deferred tax asset of EUR 7.980.000, which reflects the budgeted usage of the temporary difference over the coming year 2008. Accordingly the unrecognized deferred tax asset resulting from these transactions amounts to approximately EUR 27,9 mio at year end 2007.

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

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Income before taxes	39.285.446	39.873.099	34.074.830
Expected taxes at domestic rate	13.353.123	13.552.866	11.582.035
Differential foreign tax rates	(1.256.876)		
Use of tax losses	-	-	(1.199.607)
Tax effect of non taxable income			
Goodwill Melexis Tessenderlo	(671.548)	(4.596.129)	(4.596.129)
Goodwill Melexis GmbH	-	(606.064)	(302.278)
Intangible Assets Melexis Tessenderlo	(3.620.857)	-	-
Tax effect of disallowed expenses	140.647	873.050	793.817
Tax credits from previous years	-	-	(355.687)
Notional interest deduction	(3.754.146)	(2.188.583)	-
Investment deduction	(1.188.931)	(535.642)	(4.170)
Recognition of additional deferred tax asset	(800.000)	(1.153.000)	
<u>Effective taxes</u>	<u>2.201.412</u>	<u>5.346.498</u>	<u>5.917.981</u>

Components of deferred tax assets are as follows:

	1 January 2007	Charged to income statement	Cumulative Translation Adjustments	31 Dec. 2007
	EUR	EUR	EUR	EUR
Tax amortization charges	7.180.000	800.000	-	7.980.000
Tax losses	204.520	121.785	-	326.305
<u>Total</u>	<u>7.384.520</u>	<u>921.785</u>	=	<u>8.306.305</u>

## X Earnings per shares

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of EUR 37.084.033 in 2007, EUR 34.526.601 in 2006 and EUR 28.156.849 in 2005 by the weighted average number of ordinary shares outstanding during the period (43.241.860 in 2007, 43.241.860 in 2006 and 43.241.860 in 2005).

There were no material share transactions or potential share transactions, which occurred 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		
	2007	2006	2005
	EUR	EUR	EUR
Research and development revenues-product developments	1.823.707	3.400.623	2.539.976
Research and development revenues – other	-	-	-
<u>Total</u>	<u>1.823.707</u>	<u>3.400.623</u>	<u>2.539.976</u>

## Z Other operating expenses

	31st December		
	2007	2006	2005
	EUR	EUR	EUR
Other operating expenses	-	-	-
<u>Total</u>	-	-	-

## AA Segment information

Segment information is prepared on the following basis:

### A. Business Segments

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

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

### B. Geographical Segments

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

### Business segment data

31st December 2007

All amounts in 1.000 EUR	Automotive	Other	Unallocated	Total
Product sales	146.348	55.883		202.232
Other revenues	862	962		1.824
COS	84.204	35.049		119.253
R&D expenses	23.478	6.314		29.792
G&A expenses	7.770	3.234		11.004
Selling expenses	4.253	1.770		6.024
Other operating expenses				2.886
<u>Income from operations</u>				<u>40.869</u>
Financial results				-1.583
Taxes				-2.201
<u>Net profit</u>				<u>37.084</u>
Segment assets	83.795	31.997	54.625	170.417
Capital expenditures	8.578	3.276	3.287	15.141
Depreciation	8.462	3.231		11.693

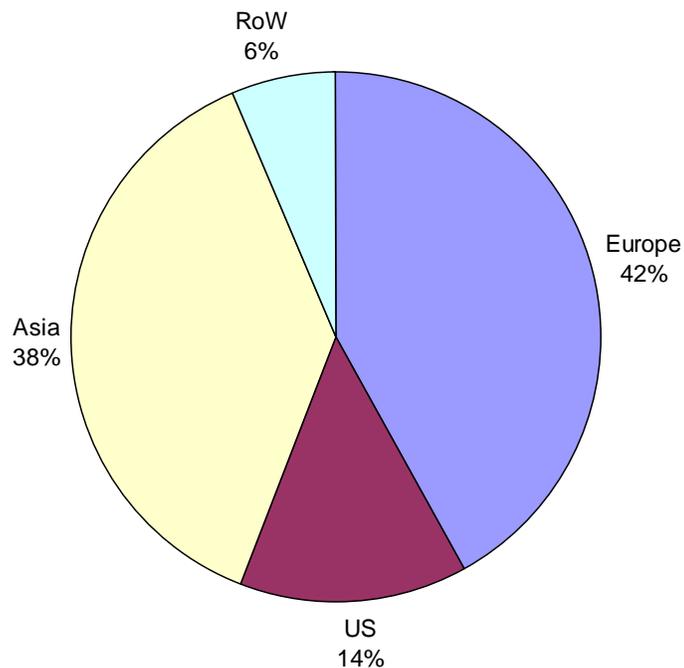
## Geographical segment data

31st December 2007

All amounts are in 1.000 EUR	Western Europe	Eastern Europe	US	Total
Revenue by origin	193.810	6.588	3.657	204.055
Segment assets	143.897	24.185	2.335	170.417

The following table summarizes sales by destination:

	2007 EUR	2006 EUR	2005 EUR
<u>Western Europe</u>	<u>85.712.633</u>	<u>88.080.618</u>	<u>85.131.608</u>
Germany	41.910.441	41.695.004	39.573.285
France	12.697.884	16.184.798	18.931.433
United Kingdom	11.949.001	12.242.213	14.363.545
Belgium	330.737	483.956	599.924
Austria	515.986	100.095	147.432
Netherlands	2.168.195	2.732.858	1.620.565
Other	16.140.389	14.641.694	9.895.424
<u>United States of America</u>	<u>28.488.197</u>	<u>28.656.933</u>	<u>25.240.937</u>
<u>Asia</u>	<u>76.708.560</u>	<u>76.214.507</u>	<u>57.784.506</u>
Japan	16.103.246	16.488.970	15.246.456
China	5.106.432	4.872.706	1.353.224
Other	55.498.882	54.852.831	41.184.826
<u>Rest of the World</u>	<u>13.145.778</u>	<u>8.549.660</u>	<u>5.517.209</u>
<u>Total</u>	<u>204.055.168</u>	<u>201.501.718</u>	<u>173.674.260</u>



## Revenues by customer

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

	31st December		
	2007	2006	2005
	%	%	%
Customer A	14	15	16
Customer B	10	10	12
Customer C	9	8	5
Customer D	6	6	7
Customer E	5	6	6
Customer F	4	4	4
Customer G	4	4	5
Customer H	3	2	2
Customer I	2	2	1
Customer J	2	3	2
<u>TOTAL</u>	<u>60</u>	<u>60</u>	<u>61</u>

## AB Related parties

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

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

Melexis Inc	US entity
Melexis Gmbh	German entity
Melexis Bulgaria Ltd.	Bulgarian entity
Melexis BV	Dutch entity
Melexis Ukraine	Ukraine entity
Melexis Technologies SA	Swiss entity
Melexis French branch	French branch
Sentron AG	Swiss entity
Melefin NV	Belgian entity
Melexis Tessenderlo NV	Belgian entity
Melexis Philippine branch	Philippine branch
Melexis Japan	Japanese Entity
Melexis Hong Kong	Chinese branch

The shareholders of Melexis NV are as follows:

Since January 1<sup>st</sup>, 2006, Xtrion NV is the main shareholder of Melexis NV, as a result of the partial split of Elex NV into Elex NV and Xtrion NV. Xtrion NV owns 50,05 % of the outstanding Melexis shares . The shares of Xtrion are held directly and/or indirectly by Mr. Roland Duchâtelet and Mr. Rudi De Winter who are both directors at Melexis NV. Elex NV is 100 % owned by Roland Duchatelet.

Xtrion NV owns 59 % of the outstanding shares of X-FAB Silicon Foundries NV , producer of wafers and are the main raw materials for the Melexis products. X-FAB Silicon Foundries NV sells the majority of its products also to third parties.

Per December 31<sup>st</sup>, 2007, ELEX NV owns 79% of the outstanding shares of EPIQ nv. Melexis sells products to EPIQ. For most of these products, EPIQ is used as subcontractor by some OEM customers of Melexis. Therefore, the business relation for these products is with the OEM customer and not with EPIQ.

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

During the year 2007 no transactions took place which can create a potential conflict.

## 2. Outstanding balances at year-end

As of December 31<sup>st</sup>, 2007, 2006 and 2005, the following balances were outstanding:

### Receivables:

On	31st December		
	2007	2006	2005
Elex	22.532	2.968	25.032
XTRION	102.232	1.146.250	
Epiq group	1.490.826	1.923.890	924.117
Xfab group	1.198.653	418.820	529.461
Xpeqt group	607.866	816.286	931.190
Other	4.765	116.832	115.952
<b>Total</b>	<b>3.426.874</b>	<b>4.425.046</b>	<b>2.525.752</b>

### Payables:

On	31st December		
	2007	2006	2005
Elex	33.814	63.700	247.424
XTRION	213.030	442.179	
Epiq group	-16.114	21.618	41.492
Xfab group	4.089.092	5.525.957	5.213.811
Xpeqt group	332.747	66.035	281.572
Other	319.202	-34.565	
<b>Total</b>	<b>4.971.771</b>	<b>6.084.925</b>	<b>5.784.299</b>

## 3. Transactions during the year

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

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

Sales to	31st December		
	2007	2006	2005
Epiq group (mainly ICs)	9.835.233	9.285.163	9.735.731
Xpeqt group	8.731	2.400	2.000
Xfab group (mainly test & assembly services)	687.987	907.444	2.155.328
Elex	800	907.444	2.155.328
Purchases from	2007	2006	2005
Xfab group (mainly wafers)	74.489.145	75.986.254	66.250.578
Epiq NV (mainly assembly)	653.592	394.856	537.187
Xpeqt group (mainly equipment and goods)	2.296.780	1.417.064	2.385.623
Xtrion (mainly IT infrastructure)	458.671	194.889	-
Elex (mainly IT infrastructure)	-	14.925	425.794

## B. Sales/purchases of services

31st December

Sales to	2007	2006	2005
Elex (mainly R&D services and rent)	24.480	24.583	24.480
Xpeq group (infrastructure office building)	402.609	231.387	210.026
X-Fab group (mainly R&D services)	-	841.201	410.454
EPIQ group (infrastructure office building)	196.499	231.387	87.740

Purchases from	2007	2006	2005
Xtrion N.V. (mainly IT and related support)	1.114.573	1.046.884	-
Elex N.V. (mainly IT and related support)	84.573	254.987	741.043
Epiq group	-14.686	84.814	150.844
Xpeq group	1.269.549	842.443	902.036
Xfab group	3.487.932	-	-

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

The (un-audited) consolidated profit for the year 2007 for X-FAB Silicon Foundries NV group is estimated to be USD 33 MIO, whereas equity is estimated at USD 444 MIO (un-audited).

The consolidated result for the EPIQ group is EUR 4,6 MIO (audited), in 2007. Equity amounts to EUR 27,1 MIO (audited).

## 4. Remuneration of Board of Directors

In accordance with the company's bylaws, directors are remunerated for their mandate. The independent directors or entity that they represent, have received in total EUR 27.924 during 2007. The Chairman has not been remunerated as director.

## 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 amount of cash and cash equivalents and of bank overdrafts approximates their fair value due to the short-term maturity of these financial instruments. The fair value of current investments is calculated by reference to the market value on the stock exchange on which the shares are listed.

The fair value of the long-term loans is based on the current rates available for debt with the same maturity profile and approximates their carrying amounts.

Management believes that the exposure to interest rate risk of financial assets and liabilities as of December 31, 2007 was minimal since their deviation from their respective fair values was not significant.

### **AD Commitments**

As of 31<sup>st</sup> December 2007, the company had purchase commitments for tangible fixed assets amounting to EUR 2.007.386. Melexis has a rental commitment in Germany for EUR 555.000. As of 31<sup>st</sup> December 2006, the company had purchase commitments for tangible fixed assets amounting to EUR 1.835.795.

### **AE Litigation**

The company is currently not subject to any legal proceeding.

### **AF Auditor's Services**

During the year 2007, the group incurred EUR 138.033 audit fees for the year end audit and the June 30 limited review. Non audit fees amounted to EUR 46.118.

### **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**

After balance sheet date the market value of investments held for sale significantly decreased due to the current stock market environment. On the date of editing this report the potential loss amounted to EUR 0,9 MIO.

## AI List of subsidiaries consolidated

Place of incorporation	Principal activities	Ownership interest	
Melexis Inc.	USA	Marketing & selling	100%
Melexis GmbH	Germany	R&D + Test operations	100%
Melexis Ukraine	Ukraine	R&D	100%
Melexis Bulgaria Ltd.	Bulgaria	R&D + Test operations	100%
Melexis BV	The Netherlands	R&D	100%
Sentron AG	Switzerland	R&D	100%
Melefin NV	Belgium	Treasury	99,9 %
Melexis Tessenderlo NV	Belgium	R&D	99,9%
Melexis Technologies SA	Switzerland	R&D	99.9%
Melexis Japan	Japan	Marketing & Selling	100%

# 10. Corporate Governance

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

## Board of Directors

### Composition of the Board of Directors

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

The chairman of the board is Roland Duchâtelet.

The directors of the company are:

Name	Age	Position
Roland Duchâtelet	61	Chairman of the Board and Director
Rudi De Winter	47	Vice Chairman of the Board and Managing Director, Chief Executive Officer (CEO)
Francoise Chombar	45	Managing Director, Chief Executive Officer (CEO)
Steve Hix	71	Director (non-executive)
Lina Sarro	50	Director (non-executive)
Triakon Nv, represented by Lucien De Schampheleere	76	Director (non-executive)

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

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

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

**Ms. Françoise Chombar** has served as acting Chief Operating Officer since 1994. Prior to that date, she served as planning manager at Elmos GmbH (Germany) from 1986 to 1989. From 1989 she served as operations manager and director at several companies within the Elex-Xtrion group. Ms. Chombar became director in 1996.

She holds a master's degree as Interpreter in Dutch, English and Spanish from the University of Gent. In 2004 Ms. Chombar was appointed Chief Executive Officer for operations, sales and human resources.

**Mr. Lucien De Schampheleere** 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 Schampheleere 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 Schampheleere holds a degree in Electronic Engineering.

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

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

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

## Functioning and role of the Board

The internal regulation of the Board is part of the Corporate Governance Chapter.  
The Board met 4 times in 2007, whereby all Board members attended all meetings.

## Directors Remuneration

In accordance with the company's bylaws, directors are remunerated for their mandate. The independent directors or entity that they represent, have received in total EUR 27.924 during 2007. The Chairman and executive directors have not been remunerated as director.

## Committees of the Board of Directors

### Audit Committee

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

The Audit Committee met twice during 2007. All members attended the meetings.

### Remuneration and Nomination Committee

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

The Remuneration and Nomination Committee did not meet during 2007.

## Management

Composition of the Management (in their own names or via management companies).

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

### Management's remuneration

The overall gross compensation paid to management during 2007 amounted to EUR 426.000.

## 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 : EUR 0,30 interim dividend  
2002 : EUR 0,50 interim dividend  
2003 : EUR 0,50 interim dividend  
2004 : EUR 0,2762 dividend and EUR 0,7238 capital decrease  
2005 : EUR 0,50 interim dividend  
2006 : EUR 0,50 interim dividend  
2007 : EUR 0,60 interim dividend

## Purchase of own shares

The company shall be allowed to acquire or alienate its own shares in compliance with the relevant provisions of the Company Code. This shall not require a resolution from the general shareholders' meeting in the event the acquisition or alienation of said shares is required to prevent the company from suffering an imminent and serious disadvantage as specified in the Company Code, for a period of three years counting from the publication of the amendment of the articles of association on the date of the twentieth of April two thousand and six in the Annexe to the Belgian Law Gazette.

The extraordinary general meeting of shareholders of the twentieth of April, two thousand and seven has moreover authorised the Board of Directors, pursuant to article 620 § 1, section five of the Company Code, to acquire a maximum of four million three hundred and twenty-four thousand one hundred and eighty-six (4.324.186) own shares by purchase or in exchange, in either one or several transactions, either directly or to be transacted by a person acting in his own name but for the account of the company or by a direct subsidiary in the sense as intended by article 5, § 2, 1 °, 2 ° and 4 ° of the Company Code, at a price per share equal to at least the last closing price against which said shares were quoted on the primary market of the Brussels Stock Exchange at the time of the acquisition and no more than seventeen euros (€ 17.00) per share. The present power of attorney shall be valid for a period of eighteen (18) months counting from the date of the resolution as passed by the general shareholders meeting and may be renewed pursuant to article 620 of the Company Code.

The Board of Directors shall be duly authorised to alienate own shares as provided for by article 622 § 2, 1 ° and 2 ° of the Company Code. In addition, the Board of Directors shall be duly authorised to alienate all own shares the company may have acquired in execution of the authorisation as intended in the previous paragraph."

At date of publication, Melexis had a total of 708.378 treasury shares.

## Auditor

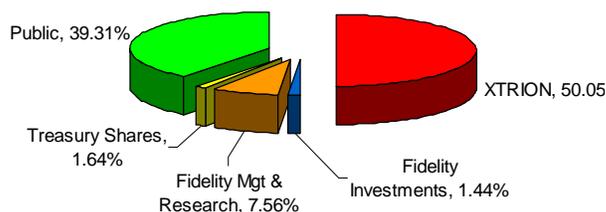
During the extraordinary Shareholder's meeting held on 14<sup>th</sup> of June ,2007 BDO Atrio Bedrijfsrevisoren Burg. Ven. CVBA, represented by Hans Wilmots and Gert Claes has been re-appointed as statutory and group auditor for a period of 3 years.

# 11. Shareholder Information

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

## 11.1 Shareholder Structure

Situation on date of publication.



Company	Number of Shares	Participation Rate
Xtrion	21.644.399	50,05%
FMR Corp.	3.270.000	7,56%
Fidelity International Limited	622.533	1,44%
Treasury Shares	708.378	1,64%
Public	16.996.550	39,31%
<b>Total</b>	<b>43.241.860</b>	<b>100,00%</b>

## 11.2 Share Information

First day of listing  
 Number of shares outstanding on Dec 31, 2007  
 Market capitalization on Dec 31, 2007

10 October 1997  
 43.241.860  
 EUR 482.146.739

(Euro)	2007	2006	2005	2004	2003	2002
Earnings per share	0,86	0,80	0,65	0,56	0,54	0,47
Cash flow per share (**)	1,13	1,05	0,91	0,84	0,78	0,70
Gross Dividend (*)	0,60	0,50	0,50	0,28	0,50	0,50
Year end price	11,15	13,80	10,76	9,01	9,40	5,89
Year's high	15	14,38	11,20	10,76	9,90	9,10
Year's low	10,15	10,99	9,00	8,40	5,10	5,00
Average volume of shares traded/day	56.569	47.027	38.129	39.690	41.593	36.374

(\*) in 2004 also a capital decrease of EUR 0,72 per share was paid out

(\*\*) Cash flow = Net income + Depreciation + Impairment/amortization of goodwill

## 11.3 Shareholder Contact Info

Ilse Schoofs  
 Investor Relations  
 Rozendaalstraat 12, B-8900 Ieper, Belgium  
[www.melexis.com/investor.asp](http://www.melexis.com/investor.asp)

Phone: +32 13 67 07 79  
 Fax: +32 13 67 21 34

## 11.4 Financial Calendar 2008

Annual Shareholder's Meeting  
 Announcement of Q1 results  
 Announcement of Half Year Results  
 Announcement of Q3 results

April 21<sup>st</sup>, 2008  
 April 23<sup>rd</sup>, 2008  
 July 31<sup>st</sup>, 2008  
 October 23<sup>rd</sup>, 2008



## 12. Condensed statutory financial statements

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

Statutory Balance Sheet in 1.000 EUR	December 31st		
	2007	2006	2005
<b>ASSETS</b>			
<b>FIXED ASSETS</b>	<u>169.075</u>	<u>158.605</u>	<u>135.007</u>
<u>I. Formation expenses</u>	-	-	-
<u>II. Intangible assets</u>	<u>67</u>	<u>448</u>	<u>780</u>
<u>III. Tangible assets</u>	<u>8.115</u>	<u>9.469</u>	<u>14.864</u>
A. Land and buildings	1.516	1.336	2.705
B. Plant machinery and equipment	5.873	7.724	11.740
C. Furniture and vehicles	411	374	419
E. Other tangible assets	-	-	-
F. Assets in progress and advanced payments	315	35	-
<u>IV. Financial assets</u>	<u>160.893</u>	<u>148.688</u>	<u>119.363</u>
A. Affiliated companies	160.606	148.433	119.194
1. Participations in third parties	160.606	148.433	119.194
C. Other financial assets	287	255	169
2. Receivables and caution money	287	255	169
<b>CURRENT ASSETS</b>	<u>39.564</u>	<u>29.084</u>	<u>31.010</u>
<u>VI. Stocks and contracts in progress</u>	<u>4.172</u>	<u>3.464</u>	<u>9.558</u>
<u>A. Stocks</u>	<u>4.172</u>	<u>3.464</u>	<u>9.558</u>
1. Raw materials and consumables	64	894	2.792
2. Contracts in progress	3.474	2.446	2.842
3. Finished goods	634	123	3.924
<u>VII. Amounts receivable within one year</u>	<u>21.820</u>	<u>8.465</u>	<u>15.234</u>
A. Trade receivables	6.482	8.037	13.148
B. Other receivables	15.338	428	2.086
<u>VIII. Cash investments</u>	<u>5.586</u>	<u>12.987</u>	<u>514</u>
A. Own shares	5.586	5.586	514
B. Other investments and deposits	-	7.401	-
<u>IX. Cash deposits</u>	<u>7.174</u>	<u>3.916</u>	<u>5.378</u>
<u>X. Deferred assets and accrued income</u>	<u>812</u>	<u>252</u>	<u>326</u>
<b>TOTAL ASSETS</b>	<u><b>208.640</b></u>	<u><b>187.689</b></u>	<u><b>166.017</b></u>

<b>LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>	<b>37.441</b>	<b>61.897</b>	<b>78.781</b>
<b>I. Capital</b>	<b>565</b>	<b>565</b>	<b>565</b>
A. Outstanding Capital	565	565	565
<b>II. Share premium account</b>	-	-	-
<b>IV. Reserves</b>	<b>6.147</b>	<b>5.872</b>	<b>571</b>
A. Legal reserve	57	57	57
B. Reserves not available for distribution	6.090	5.815	514
1. In respect of own shares held	5.586	5.586	514
2. Other	504	229	
<b>V. Accumulated profits</b>	<b>30.729</b>	<b>55.460</b>	<b>77.645</b>
<b>VI. Investment grants</b>	-	-	-
<b>PROVISIONS AND DEFERRED TAXES</b>	<b>53</b>	<b>145</b>	<b>273</b>
<b>VII. A Provisions for liabilities and charges</b>	<b>53</b>	<b>145</b>	<b>273</b>
4. Other liabilities and charges	53	145	273
<b>VII. B Deferred taxes</b>	-	-	-
<b>DEBTS</b>	<b>171.146</b>	<b>125.647</b>	<b>86.963</b>
<b>VIII. Amounts payable after more than one year</b>	-	-	<b>17.689</b>
A. Financial debts	-	-	17.689
4. Credit institutions	-	-	17.689
<b>IX. Amounts payable within one year</b>	<b>167.407</b>	<b>123.994</b>	<b>69.141</b>
A. Current portion of amounts payable after more than one year	-	-	-
B. Financial debts	-	-	16.598
1. Credit institutions	-	-	16.598
C. Trade debts	2.506	3.650	6.992
1. Trade payables	2.506	3.650	6.992
D. Advances received on contracts in progress	-	-	-
E. Taxes, remuneration and social security	770	1.434	1.090
1. Taxes	193	886	625
2. Remuneration and social security	577	548	465
F. Other amounts payable	164.131	118.910	44.461
<b>X. Accrued charges and deferred income</b>	<b>3.739</b>	<b>1.652</b>	<b>133</b>
<b>TOTAL LIABILITIES</b>	<b>208.640</b>	<b>187.689</b>	<b>166.017</b>

## Statutory Income Statement

December 31st

in 1.000 EUR	2007	2006	2005
<u>I. Operating income</u>	<u>68.218</u>	<u>81.740</u>	<u>90.014</u>
A. Turnover	65.939	85.594	88.901
B. Changes in stocks of finished goods, work and contracts in progress	1.538	(4.196)	825
C. Other operating income	740	342	288
<u>II. Operating charges</u>	<u>(57.964)</u>	<u>(70.283)</u>	<u>(80.431)</u>
A. Raw materials, consumables and goods for resale	38.279	45.792	52.834
1. Purchases	37.448	43.895	55.048
2. Changes in stocks	831	1.897	(2.214)
B. Services and other goods	9.778	14.254	15.843
C. Remuneration, social security charges and pensions	5.920	5.435	5.942
D. Depreciations	4.020	4.658	5.292
E. Amounts written off stocks, contracts in progress and trade receivables	(17)	43	(74)
F. Provisions for other costs	(93)	(198)	17
G. Other operating charges	76	299	577
<u>III. Operating profit</u>	<u>10.254</u>	<u>11.457</u>	<u>9.583</u>
<u>IV. Financial income</u>	<u>1.810</u>	<u>1.158</u>	<u>7.208</u>
A. Income from financial fixed assets	73	83	-
B. Income from current assets	-	107	311
C. Other financial income	1.737	968	6.897
<u>V. Financial charges</u>	<u>10.229</u>	<u>(5.449)</u>	<u>(3.632)</u>
A. Debt charges	6.410	4.800	2.780
B. Amounts written off on current assets other than those mentioned under II. E.	3.010	-	-
C. Other financial charges	809	649	852
<u>VI. Profit on ordinary activities before taxes</u>	<u>1.835</u>	<u>7.166</u>	<u>13.159</u>
<u>VIII. Extraordinary charges</u>	-	-	-
D. Loss on disposal of fixed assets	-	-	-
E. Other Extraordinary charges	-	-	-
<u>IX. Profit of the year before taxes</u>	<u>1.835</u>	<u>7.166</u>	<u>13.159</u>
<u>IX. bis. A. Transfer from deferred taxes</u>	-	-	-
<u>X. Income taxes</u>	<u>(621)</u>	<u>(2.659)</u>	<u>(2.608)</u>
A. Taxes	(2.572)	(2.851)	(2.964)
B. Regularization	1.951	192	356
<u>XI. Profit of the year</u>	<u>1.214</u>	<u>4.507</u>	<u>10.551</u>
<u>XIII. Profit of the year available for appropriation</u>	<u>1.214</u>	<u>4.507</u>	<u>10.551</u>

## Appropriation of the Profit

December 31st

in 1.000 EUR	2007	2006	2005
<u>A. Profit to be appropriated</u>	<u>56.674</u>	<u>82.153</u>	<u>98.457</u>
1. Profit of the period available for appropriation	1.214	4.507	10.551
2. Profit carried forward	55.460	77.646	87.907
<u>B. Transfers from capital and reserves</u>	-	-	<u>1.323</u>
1. From capital and share premium account	-	-	-
2. From reserves	-	-	1.323
<u>C. Transfers to capital and reserves</u>	<u>(275)</u>	<u>(5.301)</u>	<u>(514)</u>
1. To capital and share premium account	-	-	-
1. To other reserves	(275)	(5.301)	(514)
<u>D. Result to be carried forward</u>	<u>(30.729)</u>	<u>(55.460)</u>	<u>(77.646)</u>
1. Profit to be carried forward	(30.729)	(55.460)	(77.646)
<u>F. Distribution of profit</u>	<u>(25.670)</u>	<u>(21.392)</u>	<u>(21.620)</u>
1. Dividends	(25.670)	(21.392)	(21.620)