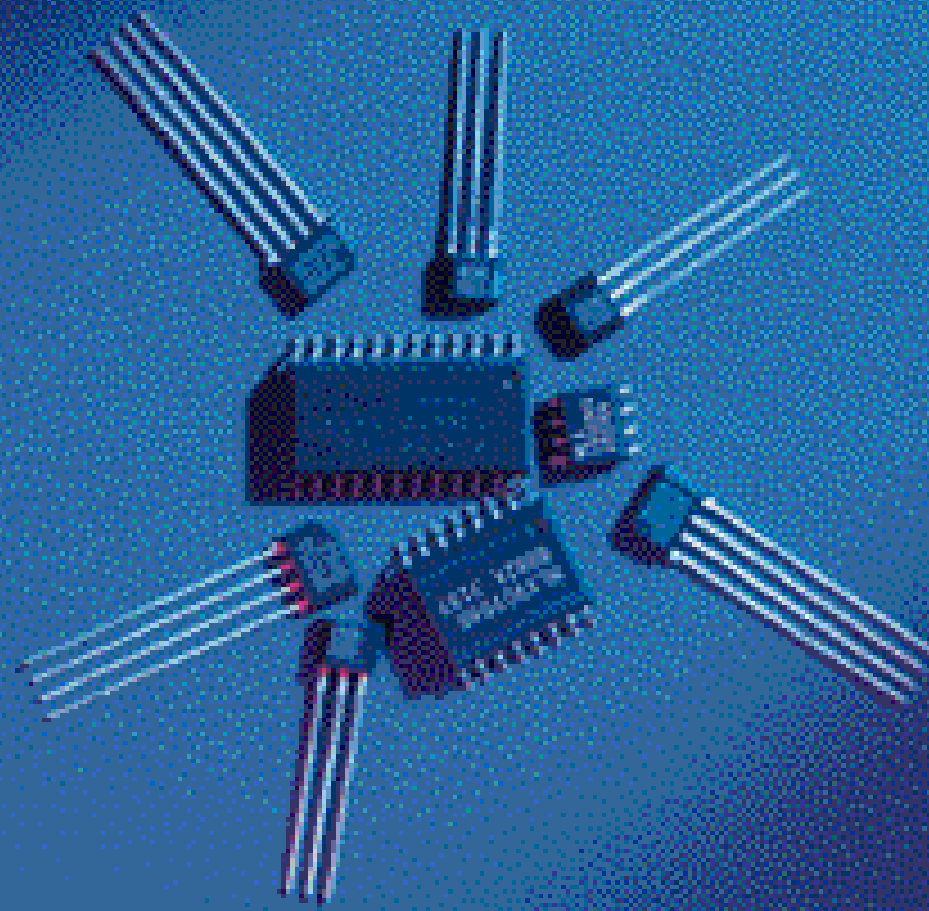
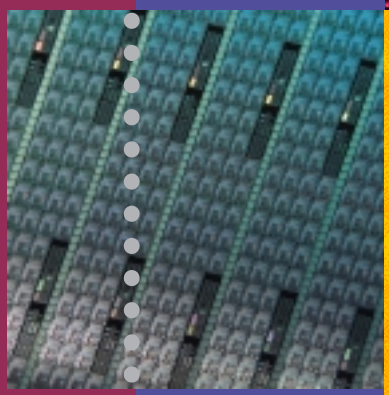
Annual Report

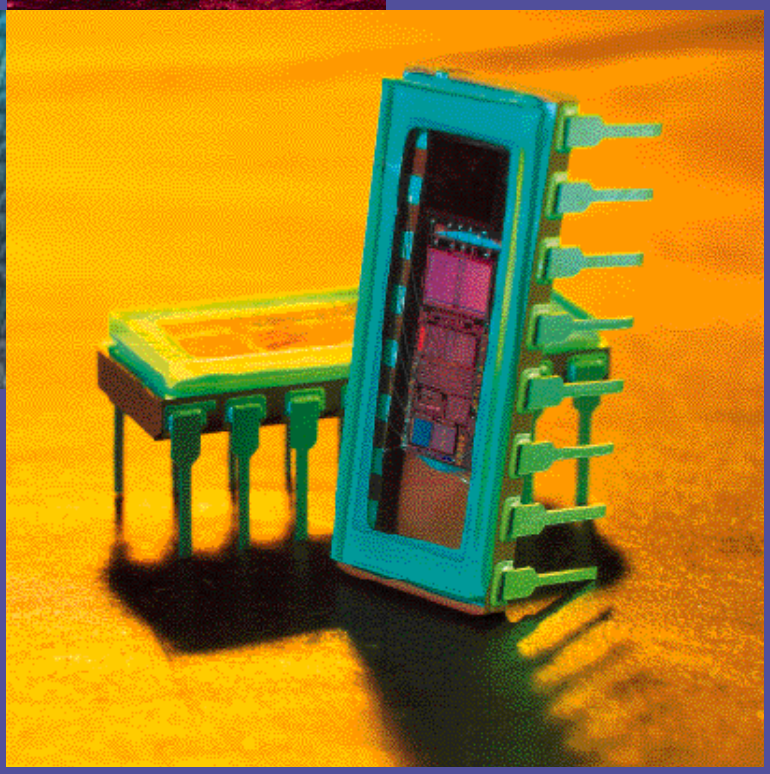
Melexis

Microelectronic Integrated Systems

1998







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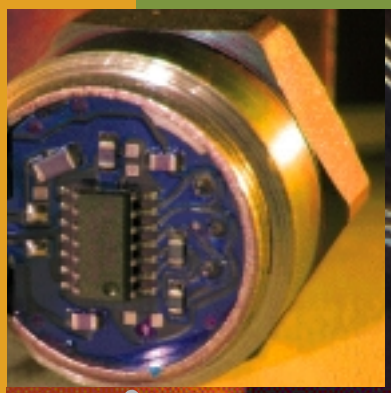

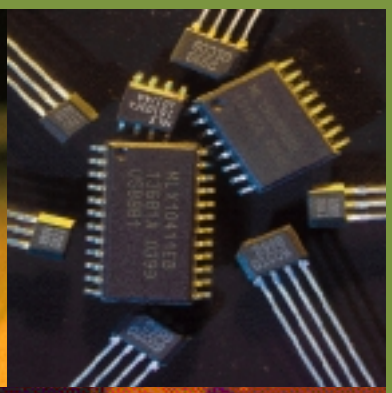

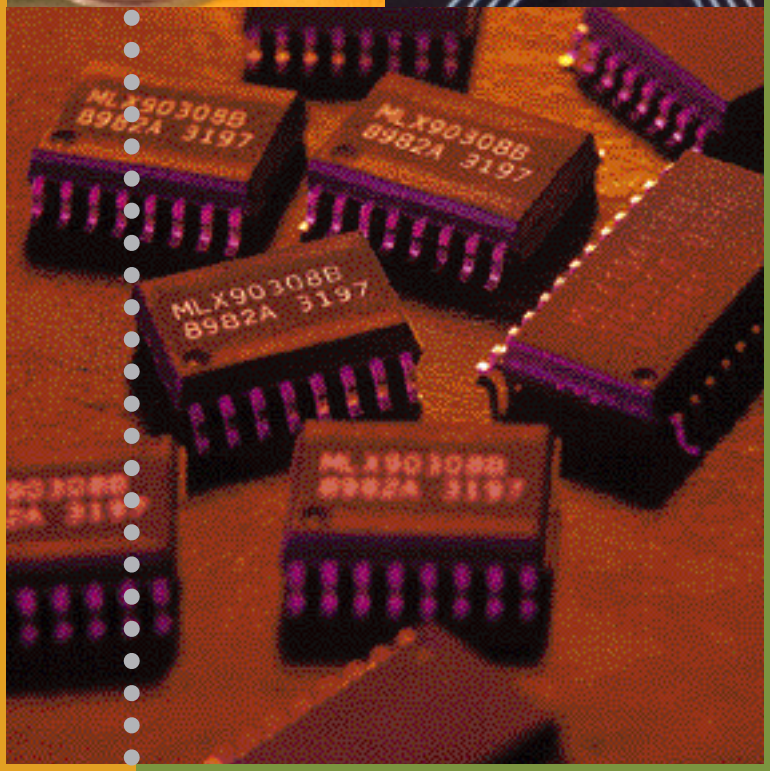
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1 Overview of Activities

Melexis designs and markets advanced integrated semiconductor devices for use in the automotive industry.

The Company's products are sold principally to European and North American original equipment manufacturers (OEMs). These OEMs, such as AB Elektronik, Bosch, Brose, LucasVarity, Magneti Marelli, Nedap, SKF, Temic, Texas Instruments, TRW and VDO incorporate the Company's products into automotive equipment which they in turn supply to manufacturers around the world. Nearly every major automotive manufacturer worldwide has one or more models in production or development containing Melexis' integrated circuits.

Melexis' main products are Hall Effect Devices (for magnetic sensors), Pressure and Acceleration Sensor Elements and Interfaces, Automotive Systems-On-a-Chip and Contactless Identification Systems (Tags). These devices are principally for automotive applications.

Melexis is a technological leader in the design and development of Hall Effect Devices. The Company offers a wide range of magnetic sensor elements for applications such as position sensing, cam and crankshaft sensing, electric motor speed regulation and anti-lock braking system (ABS).

The Company designs and develops integrated pressure sensor chips. Melexis' integrated sensor chips combine the pressure sensing element and the peripheral electronics on one piece of silicon. Melexis' integrated sensors concentrate all the separate elements on one chip, including logic and analog circuitry, power devices, memories, microcontroller cores and power supply regulators. This approach allows the production of chips that operate with minimum external circuitry. These integrated devices are also able to confront extremes of temperature and voltage, commonplace in the automotive environment.

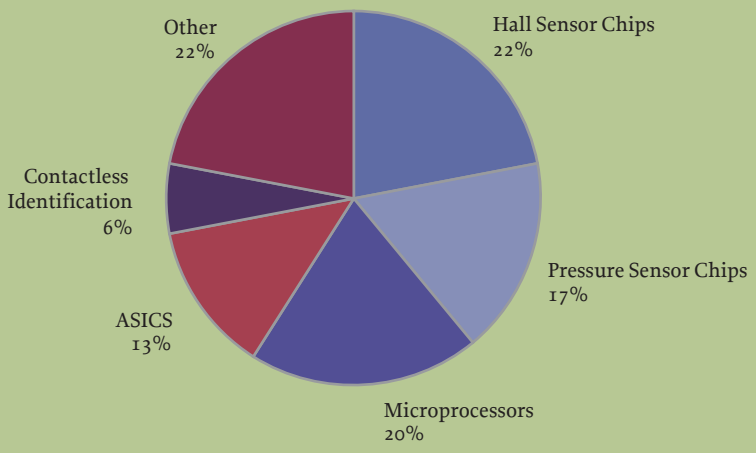
Integrated Pressure Sensors are an exciting new product in the automotive market and sales are expected to become significant as the product penetration grows.

Melexis is a multi-product company. It has 65 products in production and a further 25 in development, or qualification. Melexis sells its products to a wide customer base of automotive equipment OEMs. The Company's top seven customers accounted for approximately 75 per cent of the Company's sales for the year ended 31st December 1998.

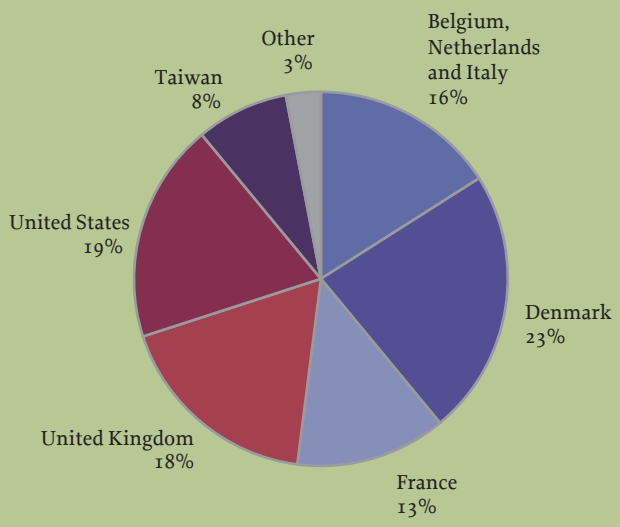
Melexis concentrates its engineering resources and semiconductor design strengths in development of IC applications addressing new opportunities in the automotive market.

Melexis has reviewed its engineering and development work and has identified a number of opportunities to patent original work. Melexis currently has 11 patent proposals, of which 4 passed the searches. They will be progressively filed throughout 1999 to strengthen Melexis' position as an innovative supplier. The patent opportunities cover all of the product areas in which Melexis operates.

Sales as per Business Unit 1998



Sales as per Geographical Region 1998



2 Letter to the shareholders

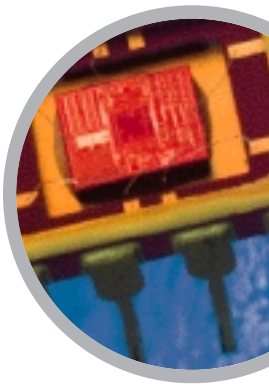
Melexis is one of the very few semiconductor companies showing a very strong growth in sales of 58 % in 1998 in contrast with the semiconductor industry average which did decline in sales in 1998 compared to 1997... This is due to:

. market niche where Melexis operates in, the automotive semiconductor market, which showed a better than average growth of 15 %
. since development delays are long in the automotive market, Melexis was aware that sales were going to grow above average in 1998 based on its integrated circuits being 'designed-in' to many car models.

There was a dip in Melexis' profits in the third quarter of 1998, due to exceptional yield problems with 2 new products. Those yield problems were resolved to a large extent during the 4th quarter.

Despite this incident, and despite the strongly increased spending on R&D and marketing, net profit margin after tax for the year of 1998 was a very strong 26 % of sales.

During 1998, Melexis began aggressive marketing and sales through its subsidiary in the United States. This subsidiary, formerly known as US Mikrochips, was acquired in 1997. The company was renamed Melexis Inc. and is located in New Hampshire. We are happy to report that Melexis succeeded to have 'design-ins' of Melexis standard products with many US automotive equipment manufacturers. Melexis ICs built into products of US equipment makers will find their way into the big three US auto makers; GM, Ford and Chrysler.



Marketing and sales expenditures increased from 0.2% to 2.1% of sales. We will continue to expand our marketing and sales efforts, however, reinforcing our main focus which is our strategic partnerships with selected active customers.

Our strategy of highly integrated embedded microprocessor systems-on-a-chip is now well accepted by our customers and has led to five new development projects in 1998, which will go in production after the year 2001.

Other major integrated system based product developments are at various stages of discussion. Business activities in all areas are developing according to expectations.

Since competition has become aware of the benefits of the automotive market, Melexis has increased its R&D from 4.7 to 7.1 % of sales with the determination to consolidate its technological leadership.

The sales by business units and by country shows a very good spread of activities within our niche market. The distribution is as shown in the charts.

Melexis Inc has customers in Taiwan (Hall Effect Devices). This business did suffer slightly from the economic problems in the other Asian countries.

The Melexis Quality Policy, in both its day to day continuous improvement and its long-term strategic objectives, saw several milestones achieved during the year. We achieved iso 9001 and further improvements in our product reliability statistics.

Rudi De Winter

Together with the usual customer's quality audits, these results demonstrated our commitment and our success to fulfill our quality objectives.

The Board of Directors proposes to appropriate the profit of the year as recorded in the accompanying financial statements.

Yours Sincerely,
Ieper, February 8th, 1998.

Roland Duchatelet	Rudi De Winter
Chairman	*CEO*

Addendum to the annual report dated March 9, 1999

During the financial year 1998, the company provided funds to its parent company Elex N.V. for an average amount of BEF 750 million by means of unsecured advances. Because the Board of Directors did not follow at that time the appropriate procedure as described in Article 60bis of the Company Law, the Board of Directors wishes to complete its annual report by attaching this addendum.

Taking into account the cash position of the company in 1998, the above was for the company an economical opportunity considering the interest rate of 5%. In addition, Elex N.V. could use these means to support the activities of X-Fab. X-Fab is part of the Elex group to which also Melexis group belongs and is one of the most important suppliers of Melexis. This appropriation of the cash position had for the company a positive financial result.

Subsequently to year-end, the company has again provided funds to its parent company Elex N.V. as an unsecured advance. This advance is interest bearing at 5% and is given for an undefined period. In accordance with Article 60bis of the Company Law, three independent directors have been appointed and have been asked to report on this matter. They will be assisted by an independent financial expert.

3 Melexis Business and Products

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

Melexis has always concentrated on the supply of silicon and, as part of this strategy, has chosen to work in partnership with tier one and tier two suppliers. As a result, Melexis components are designed-in to many of the leading automotive equipment suppliers. Melexis has come of age and is now on the 'Approved Supplier' list with many equipment suppliers and their products can be found in over two hundred vehicle models with the majority of the world's major Automotive Equipment Manufacturers.

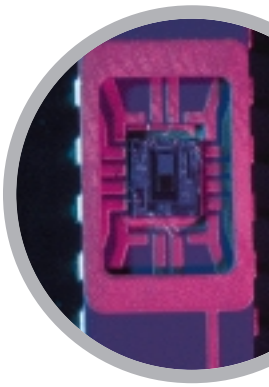
Sensors are increasingly important to the automotive industry where finer controls are needed for almost every aspect of the vehicle performance. They are essential for ensuring compliance with emissions legislation and also to the continually improving levels of safety, performance and reliability that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

In 1998 Melexis won new design-ins at each of the BIG-3 US automotive manufacturers.

Melexis' experience in design for wide temperature range operation as needed for automotive applications allowed entering the market of optical sensing. There are many companies offering optical sensors but when it comes to 125degC operation and automotive quality, there is not a lot of competition. A first device 90241 is being developed for a steering-angle and torque application.

Melexis successfully developed the first commercially available integrated infrared sensors. There is a growing interest in this new type of sensor in the automotive market for next generation air-con systems with better passenger comfort. The integrated IR sensor has on-chip signal conditioning and calibration. The output signals are 100 to 1000 times bigger for the Melexis integrated IR sensor compared to the common known passive IR sensors. This makes the application of these sensors much easier and more precise.

Hall Effect Devices detect magnetic fields and are used in both movement and position sensing. By integrating the sensing element onto the same silicon as its control logic and interface circuitry, Melexis produces sensor chips with various degrees of 'intelligence' to suit most applications. Sensing the rotation of shafts or discs in engine and braking systems, monitoring movement in motors and actuators, sensing pedal position in throttle controls and in many safety



applications, Melexis Hall Devices are a reliable, contactless method of movement and position detection.

Pressure sensor chips and acceleration sensor chips are based on micro-machining technology, where the physical parameter being sensed causes a temporary and reversible deformation to a specifically designed mechanical structure etched into the solid silicon. Either stand-alone or integrated with its control and interface circuitry into a single die, these techniques produce sensors that are used in large numbers in modern automotive applications.

Embedded microcontrollers find a wider use in Melexis products. We find them today in Melexis Hall sensors, pressure sensors, acceleration sensors and sensor interfaces. This is a unique feature to the Melexis products which allows us to stay ahead of the competition because it gives a great level of flexibility to adopt the function to specific applications.

Much of this success comes from the ability of these Melexis parts to operate in the automotive environment with a minimum of external components. The Melexis systems come with on-chip power regulators with a 4 to 26 volts operating range, on-chip handling of load dumps up to 80V, automotive compatible inputs, fully protected outputs, ROM, RAM, OTP and EEPROM memories, and the software support capabilities one expects.

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

Tags were first used to identify high value items, such as cattle and horses, but are now more likely to be known for their use in automotive security as either keyless entry or engine immobiliser systems. Airport baggage handling is another typical application based on tags in baggage labels or in baggage transport trays.

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

It is Melexis' policy to make all general nature Asic developments available as a standard product after approval of the initial customer. This will allow growing faster with equivalent design resources.

Melexis' principal product groups are:

3.1 Hall Effect Devices

Melexis is a technological leader for the design, development and testing of silicon based Hall Effect Devices compatible with a Complementary Metal Oxide Semiconductor (CMOS) technology. Melexis' Hall Effect Devices enable an optimal use of the smaller feature sizes of which semiconductor technology is capable today. Therefore, very sophisticated mixed analog-digital signal conditioning circuitry (such as Chopped Analogue String, Digital Signal Processing by means of DSP core) can be integrated. Most of the devices can be used in a wide voltage range from 2.4 and up to 30 volts.

Melexis' Hall Effect based sensors have, on the basis of their performance, successfully replaced inductive speed sensors (VR), resistive position sensors (potentiometer), bipolar Hall sensors and magneto-resistive sensors (MR, GMR) in various automotive applications. The Melexis' Hall effect sensors not only out-perform these alternative sensors but also allow integration of more signal processing.

The Company offers a wide variety of Hall sensors for applications such as position sensor, speed sensor, engine management sensor, electric motor speed regulation and ABS.

• *Products in production:*

Products	*Function*
90201	gear-tooth sensor engine management: cam sensor, speed sensor
90215	programmable linear Hall sensor angular & linear position sensor (pedal, throttle)
90216	Hall latch & switch family position sensor, brushless DC motor
90217	gear-tooth sensor engine management: cam sensor, speed sensor
90222	micro-power switch battery powered application: cell phone flip position
90223	two-wire switch seatbelt latch control, seat position...
90224	dual latch speed sensor with direction detection, active bearing...
90225	gear-tooth sensor with DSP engine management sensor: crank, cam
90236	Hall sensor with dual power drivers brushless DC motor
90237	high-speed programmable linear Hall sensor current sensor, angular & linear position sensor
16102	programmable linear Hall sensor pedal position sensor
16103	gear-tooth sensor with dsp engine management sensor: crank, cam

• *Products in development:*

Product	*Function*
90231	2-wire ABS sensor with direction detection ABS and airgap diagnostic
90242	3-pins fixed programmed linear Hall sensorposition sensor, current sensor, Gauss meter...
90243	high precision Hall effect latch & switch position sensor, brushless DC motor...
90244	linear Hall sensor with built-in redundancy angular & linear position sensor (pedal, throttle)
16105	programmable linear Hall sensor with pwm pedal position sensor ('brake-by-wire')

The Melexis' 90215 has been selected by the famous EDN-magazine as one of the overall top 100 products of the year 1998. In 1998, the Melexis Hall Sensor Technology has been presented in 2 dedicated seminars in San Jose and Chicago.

Melexis' Management expects a considerable growth of this business unit due to the potential of the Hall sensors principally in the field of position sensing, Here, they are expected to replace the high-end potentiometers, a mechanical technology that is unlikely to meet future automotive reliability specifications. For instance, a major German luxury car manufacturer has already replaced the conventional potentiometer with a Melexis Hall sensor for the measurement of the position of the gas pedal in its new models and further there are several design-ins with other car manufacturers.

Management believes there is also considerable further potential for Hall sensors in applications such as ABS, position sensing for brushless motors and for electric windows, current sensing and electronic valve control.

Sales of the Hall sensor business unit grew in 1998 to 15 per cent of total Melexis revenues. Management estimates that world sales of automotive Hall sensor ICs have the potential to increase from $50 million in '97 to $300 million per annum. Management believes the company has technological advantages which will assist in capturing a significant part of this increase.

3.2 Pressure and Acceleration Interface and Sensor Chips.

This product line consists of a variety of pressure and acceleration interface chips mostly for automotive environment, as well as industry standard silicon pressure sensor chips.

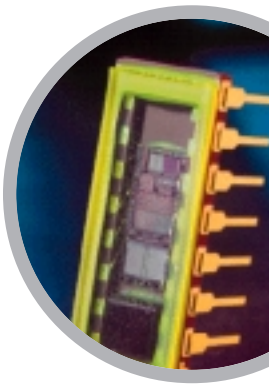
The interface chip processes the output signals of a sensor external to the chip and compensates for non-idealities and cross-sensitivities to get a more accurate sensor module. The integrated pressure and acceleration sensors take the level

of integration one step further and incorporate not only the interface electronics but also the sensor element on the same piece of silicon. The mechanical sensor structures on the silicon are manufactured using micro-machining.

Typical applications include security, automotive engine management or automotive controlling systems.

• *Products in production:*

Products	*Function*
12103	interface for pressure sensor without reverse polarity feature
12106	interface for pressure sensor with reverse polarity feature
14307	oil level sensor interface
90308	sensor interface micro-controller for full flexible field adjustment
86102	pressure sensor chip (non-automotive - mainly used as blood pressure sensor)
96102	interface for crash sensor
96103	interface for low acceleration sensor
12109	interface for pressure sensor with PWM as output signal
12110	interface for very high-pressure sensor



• *Products in development:*

Product	*Function*
12111	next generation interface chip for capacitive pressure sensor
12112	interface chip for piezo resistive pressure sensors
90311	automotive fully programmable sensor interface

There are several more products under development or in their qualification process.

Melexis succeeded in building an integrated side-airbag sensor that is currently in qualification with start of production 99. This device can replace over 30 components in a conventional system.

The integrated automotive pressure sensor is in qualification phase and expects lots of interest in the market for low and medium pressure range (MAP sensing, oil pressure sensing).

3.3 Automotive Systems-On-a-Chip

Melexis designs and produces many automotive customer specific products with and without embedded microcontroller cores. Melexis accepts custom work when it believes that the associated business from that particular customer

is worthwhile and high volume standard products can be derived. The former ASIC business unit is combined with the Automotive Microprocessor business unit and renamed into 'Automotive System-On-a-Chip'. The reasons for this are two-fold:

Melexis is moving in 1999 to a state of the art mixed signal sub-micron process that maintains at the same time all the high-voltage-capabilities that are needed to serve the automotive market. Working in a sub-micron technology will allow the integration of more and more complex functions on the same chip, without adding much to the chip area (or cost). This means that customer applications consisting of sub-systems mounted on a substrate (PCB, flex or ceramic) can now be placed together on the same die.

For complex systems, the development of custom digital circuitry tends to become very challenging. In addition, late design changes in custom digital circuits may jeopardize a complete IC development project. Thanks to the use of embedded microcontrollers instead of custom digital circuitry, enough flexibility is present to provide working solutions in time and at a reasonable price.

• *Products in production:*

Product	*Function*
	Automotive
16201	electric window controller
14308	intelligent indicator driver
42009	microcontroller for heater application
15201	fully integrated high-end air-conditioning controller
15106	single chip immobiliser controller

Several other high volume custom products are currently in production and 10 more products in development or qualification.

In addition, some standard IC's are available for automotive applications such as dashboard indicators, windscreen wipers, remote control door opening and audible warning systems. Sales of the automotive SOC business unit currently account for approximately 33 per cent of total Melexis revenues.

3.4 Contactless Identification ICs

Contactless identification systems, or tags, are mainly used in vehicles for key identification systems related to car access control. A chip integrated in the key transmits a code to an ECU, which opens the lock. Tags are also used for immobiliser systems instead of conventional alarm systems and they are starting to be used to transmit information from the wheels (tire pressure, temperature, rotational acceleration, speed) to the car body. For access control and car

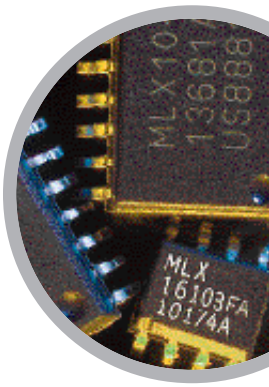
immobilisers, the demand for a higher level of security is increasing. As an answer to this demand, Melexis is developing a new generation of crypto transponders and readers (42008, 90107, and 90112)

The Company also has a non-automotive contactless identification IC business. Non-automotive applications for tags include people access control systems and animal and products traceability applications.

The main competitive advantages of Melexis' tags are their low power consumption and their highly integrated design.

• *Products in production:*

Product	*Function*
	Automotive
90103	read only inductive identification tag for keys
90105	programmable 128 Bit inductive identification tag for keys
90106	key identification reader
	Non-automotive
42001	fertility detection for cattle
42012	fertility detection for cattle according to ISO standard
42003	identification tag for animals
42014	temperature and humidity transponder
42008	1k bit DES crypto transponder
90111	128 bit read-write transponder
41101	13.56Mhz capacitive tag interface
45101	high-end device for multi-access control.



• *Products under development:*

Product	*Function*
90107	2k bit challenge response transponder
90108	64 bit fixed code transponder
90112	read-write tag reader

Sales of the Melexis tags business unit accounts for approximately 7 per cent of total Melexis' revenues. Management estimates that the Company has a share of about 5 per cent of the world's annual automotive tags market. Management believes that this business also has potential in the non-automotive tags market for applications such as people access control systems, and animal and products traceability. However, currently, the Company is focusing its attention on the automotive market.

3.5 Infrared Sensors, Optical Sensors and Gyroscopes

Melexis started this new business unit in 1998 with the purpose to serve additional demand for sensors in the automotive market. It is Melexis' policy to be present in the majority of automotive sensor applications.

Melexis' experience in development of ICs for automotive sensors allowed entering the market of optical sensor ICs.

The micro-machining know-how and precision electronics allowed Melexis to enter the IR sensor IC market. The integrated IR sensors have far more gain than conventional IR sensors and, therefore, the application in noise environment becomes possible.

• *Products under development:*

Products	*Function*
90221	Integrated IR sensor (automotive air-conditioning, appliances for food processing, medical)
90241	optical sensor array (steering angle and torque sensing)

4 Melexis Strategy

The main objective of the Company is to become a leading international provider of automotive semiconductor products. To reach this goal, the key elements of the Company's strategy are:

a) focus on automotive business

Management believes that the market for automotive semiconductors offers high growth opportunities and consequently will focus on Melexis' core business, advanced integrated semiconductor devices for automotive applications. This will allow the Company to benefit from its experience, engineering excellence and competitive advantage in the design, development and testing of highly integrated analog-digital semiconductor devices for the automotive sector.

b) focus on standard products

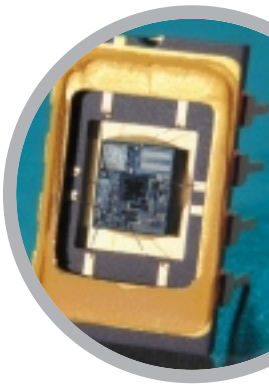
The Company will concentrate on standard products in order to leverage its design and development efforts on larger numbers of each product and thus enhance profitability.

c) preferred partner of more automotive OEMs

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

d) technological leadership for design of automotive semiconductors

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



e) strengthen marketing to enlarge its customer base

The Company seeks to increase its customer base and is committed to increasing its marketing effort in order to achieve this goal. The acquisition of US Microchips was a first important step to fulfill this strategy.

f) excellence in product reliability

Melexis has demonstrated a quality management system which complies with stringent requirements of the standard NBN and ISO 9001. The quality management system has been evaluated according to TÜV Nederland QA's certification scheme:

Designing for quality, product and process, failure mode and effects analysis (FMEA), process control, extensive and sophisticated tests with a zero defect policy and failure analysis are the main components of the quality management system that meets the very stringent reliability requirements for automotive integrated circuits. Each of these areas is considered of strategic importance and resources have been made available to meet the quality expectations of Melexis' customers. The Company is committed to continue allocating resources to enhance and maintain excellence in product reliability, with a target of less than one part per million (1 ppm) returned by customers. As part of this strategy, Melexis is working on a road map towards QS 9000 certification in the first half of the year 2000.

g) licensing of certain products

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

h) targeting of new regions

The Company plans to concentrate special marketing efforts towards Europe, Japan and South America, as it sees these as areas for large potential growth in its sales.

i) review of opportunities for acquisitions

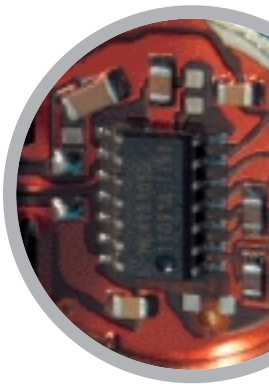
The automotive integrated circuit market is a relatively fast moving sector. Management will keep the market under close review to enable it to take advantage of any acquisition opportunities if and when they arise.

5 The Company's Administration, Management and Supervision

5.1. Officers and Members of the Board of Directors and Key Employees

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

Name	*Age*	*Position*
Roland Duchâtelet	52	Chairman of the Board and Managing Director
Rudi De Winter	38	Vice Chairman of the Board and Managing Director, Chief Executive Officer
Françoise Chombar	36	Director, Chief Operating Officer
Lucien De Schamphelaere	65	Director (non-executive)
Simon Middelhoek	67	Director (non-executive)
Willy Sierens	49	Quality Manager
Brad Marshall	62	President of Melexis Inc.
Karen Van Griensven	28	Chief Financial Officer



Mr. Roland Duchâtelet, 52, 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 served in various positions in production, finance, product development and marketing functions for several large and small companies. He contributed in the start-up of 2 other semiconductor manufacturers: Mietec Alcatel (Belgium) from 1983 to 1985 as business development / sales manager and Elmos GmbH (Germany) from 1985 to 1989 as marketing manager. Mr. Duchâtelet was the co-founder of the parent company of Melexis N.V. He holds a degree as Electronics Engineer, Applied Economics and an MBA from the University of Leuven.

Mr. Rudi De Winter, 38, 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 served as development engineer at Mietec Alcatel (Belgium) from 1984 to 1986 and as development manager at Elmos GmbH (Germany) from 1986 to 1989. In 1990, Mr. De Winter became director together with Mr. Duchâtelet of Elex N.V., the parent company of Melexis N.V. Mr. De Winter holds a degree

as Electronics Engineer from the University of Ghent. Mr. De Winter, Chief Executive Officer and Ms. Chombar, Chief Operating Officer, are married.

Ms. Françoise Chombar, 36, has served as acting Chief Operating Officer since 1994. Prior to that date, she served as planning manager at Elmos GmbH (Germany) from 1986 to 1989. From 1989 she served as operations manager and director at several companies within the Elex group. Ms. Chombar became director in 1996. She holds a degree as Interpreter in Dutch, English and Spanish from the University of Ghent.

Mr. Lucien De Schamphelaere is the founder and Chairman of the Board of Directors of Xeikon N.V., a company listed on the NASDAQ national market. Mr. De Schamphelaere held over a period of over 35 years several management positions in the fields of process control and instrumentation at Agfa Gevaert. Mr. Deschamphelaere is also director of Imec V.Z.W., a Belgium based semiconductor research institute. Mr. De Schamphelaere holds a degree in Electronic Engineering.

Mr. Simon Middelhoek received a M.Sc. degree in Applied Physics from Delft University of Technology in 1956. In 1961 he received his Ph.D. (cum laude) in Mathematics and Physics from Amsterdam University. From 1956 to 1962, he worked at the IBM Zurich Research Laboratory, Switzerland, from 1962 to 1963, at the IBM Thomas J. Watson Research Center in Yorktown Heights, N.Y. and again in Switzerland from 1963 to 1969. In 1969 he joined the Faculty of the Electronic Engineering Department at Delft University of Technology as a professor for electronic instrumentation. In 1974 he initiated a scientific program on silicon sensors and microsystems. In 1996 he retired from his official duties, but is still supervising several Ph.D. students. Mr. Middelhoek is an IEEE Fellow, Member of the Royal Netherlands Academy of Arts and Sciences and Foreign Associate of the National Academy of Engineering (USA). He is editor-in-chief of Sensors and Actuators. At the Transducers 497 conference in Chicago he received one of the first Carrier Achievement Awards for his efforts in the field of silicon sensors.

Mr. Brad Marshall, 62, served as a technical instructor, teaching Basic Electronics, Radar Systems and Missile guidance Systems in the US Air Force from 1955 to 1959. In the Air Force, Mr. Marshall graduated from the University of New Hampshire with a degree in Electronic Engineering, BSEE. He attended Worcester Polytechnic Institute, Worcester, MA, USA obtaining credits toward a Masters degree in Business Administration. From 1964 to 1993, Mr. Marshall was an employee of Sprague Electric now called Allegro, holding positions as R&D and design engineer, business unit manager, Vice President of marketing and product development. Since 1993, Mr. Marshall has been co-founder, shareholder and president of US Mikrochips.

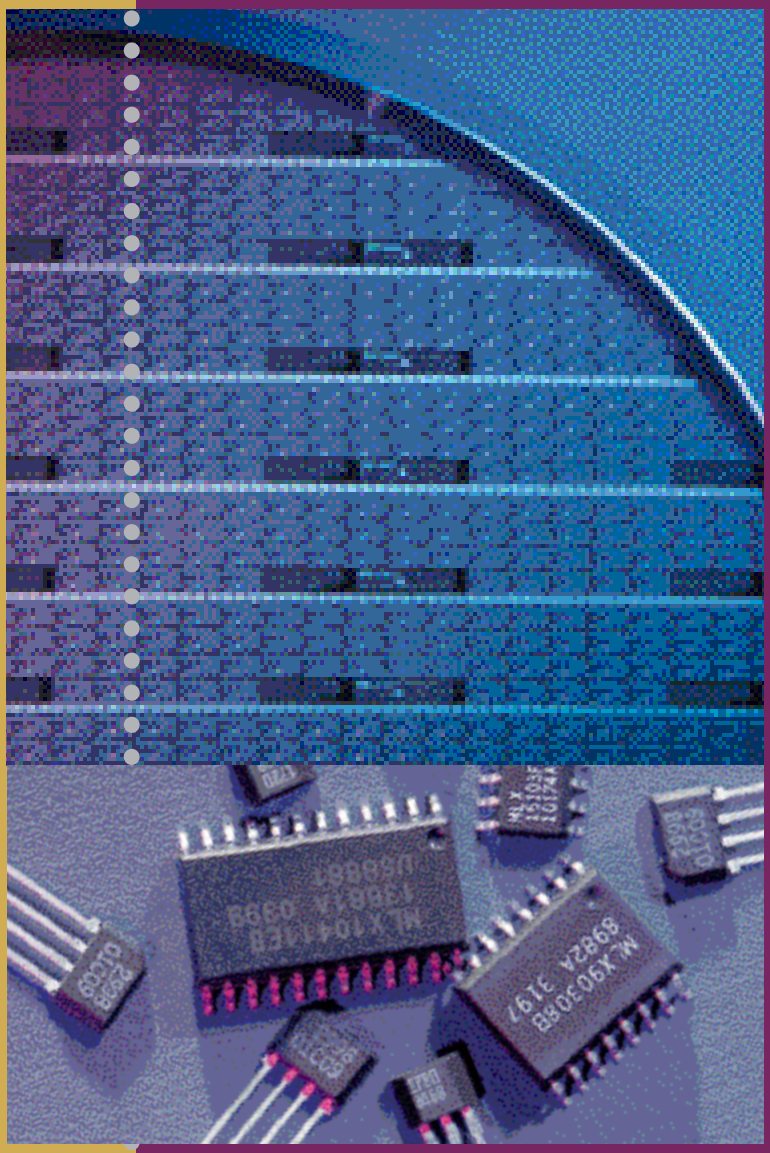
Mr. Sierens joined the company in 1996, prior to which he held positions as process engineer (Electromag), management consultant (PA Technology) and project engineer (Diamant Board). Mr. Sierens holds a degree as Civil Engineer in the field of electro-mechanics from the University of Leuven.

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

. *Compensation of Directors*

As indicated in the Articles of Association, the office is non-remunerative.
In 1998 the aggregate cash compensation paid or accrued by the Company for its directors and officers was as follows: (in 1000 Euro)

	Basic Salary	*Monetary value of benefits*	*Bonuses*	*Long-term Compensation*
Remuneration of directors (in 1000 EURO)	_			
a) As directors	-	-	-	-
b) As executives	194	-	-	-
Remuneration of other senior executives	104	-	-	-



6 *Selected summary financial data*

6.1 Introduction

The selected financial data presented below have been extracted and derived from the IAS consolidated financial statements of Melexis N.V. for the three years ended at 31 December, 1998 and have been audited by Arthur Andersen Bedrijfsrevisoren.

Consolidated Income statements	*Years ended 31 st December*			
	1998 USD	1998 EUR	1997 EUR	1996 EUR
Total sales	33.558.432	30.186.379	19.153.728	13.368.030
Revenues from Research and development	1.622.229	1.459.201	597.459	505.885
Cost of sales	(22.775.182)	(20.486.648)	(11.855.742)	(9.187.871)
Gross margin	12.405.479	11.158.932	7.895.445	4.686.044
Research and development expenses	(2.510.980)	(2.258.668)	(921.227)	(407.715)
General and administrative expenses	(1.765.216)	(1.587.841)	(614.374)	(162.760)
Selling expenses	(750.392)	(674.990)	(38.857)	0
Income from operations	7.378.891	6.637.433	6.320.987	4.115.569
Financial results(net)	1.714.465	1.542.190	821.816	391.115
Other(net)	(15.309)	(13.771)	(98.745)	0
Profit before taxes	9.078.047	8.165.852	7.044.058	4.506.684
Income taxes	109.089	98.127	2.652	0
Net income	9.187.136	8.263.979	7.046.710	4.506.684

Condensed Consolidated Balance sheets	*31st December*			
	1998 USD	1998 EUR	1997 EUR	1996 EUR
Cash and restricted cash (See 6.5.3.)	37.996.403	32.566.408	32.767.751	2.737.609
Total assets	70.931.468	60.794.784	48.262.779	10.169.127
Total current liabilities	8.241.367	7.063.610	2.829.597	1.441.548
Long-term debt	137.383	117.749	353.248	588.747
Shareholders' equity	62.552.718	53.613.425	45.079.779	8.138.832

6.2 Exchange Rates

As imposed by Belgian law, Melexis N.V. keeps its books and prepares its financial statements in Belgian Francs. For the purpose of this annual report, the Company has translated its 31 December 1998 financial statements into United States dollars. Assets and liabilities 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 as of 31 December 1998.

Furthermore, the company has translated all assets, liabilities, revenues and expenses for the years 1996, 1997 and 1998 from Belgian Francs in Euro at the exchange rate which was in effect on 31 December, 1998. All discussions in this chapter are based on comparisons of Euro amounts.

6.3 Management's Discussion and Analysis of Financial Condition and Results of operations

The following Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's financial statements for the years ended 31 December, 1998, 1997 and 1996.

6.3.1. 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 N.V., the current majority shareholder of Melexis N.V., in the spring of 1996.

In October 1997, Melexis N.V. and its parent company, Elex N.V., 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., based in Webster, Massachusetts. Us MikroChips was founded in January 1993 to take advantage of a rapidly growing market in Asia for Hall Sensors in cooling fans. The company was co-founded by Brad Marshal, its current president, who was appointed as director of Melexis in 1997. Since April 1994, the co-operation between US MikroChips and Melexis has increasingly deepened. US MikroChips Hall Sensor expertise coupled with Melexis' integrated circuit technology allowed US MikroChips to capture 33% share of the roughly US$22.5m Asian cooling fan Hall sensor market, making US MikroChips effectively the largest volume producer in the world.

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

Melexis currently buys its wafers from X-FAB, which is a related company. The price is based on market prices for processed wafers. X-FAB sells an important part of its production to IC-vendors other than Melexis N.V. at similar prices.

Melexis buys services from related companies, mainly development work of engineers who work in other locations. These services are invoiced at a cost plus basis whereby the margin is based on market rates, which is in many cases less than 10%.

6.3.2. Results of operations

Revenues

For 1998, total revenues increased by 60 % as compared to 1997. The major relative increase can be found in Hall sensors and pressure and acceleration interfaces.

Due to its strong growth of 147 % in turnover, the Hall sensor product line has become the major business unit within the company, realizing 22 % of the total turnover of the company. Micro-processors (20%), Pressure (17 %) and ASIC (13%) are the other business units realizing more than 10% of the total turnover of the company.

The following table shows a break down of total net product sales by business area:

	Years ended 31st December			
	1998 USD	1998 EUR	1997 EUR	1996 EUR
Microprocessor	6.863.463	6.173.797	4.631.073	4.240.719
Asics	4.567.505	4.108.545	3.407.929	2.839.819
Hall Sensors IC	7.653.851	6.884.764	2.779.521	2.404.339
Pressure Sensors IC	6.032.194	5.426.057	2.738.169	681.629
Contactless ID IC	2.213.581	1.991.153	1.318.822	774.178
Other- miscellaneous	7.850.067	7.061.264	4.875.673	2.933.231
Total	35.180.661	31.645.580	19.751.187	13.873.915

Specific research and development activities are included in the sales per business unit. These specific R&D activities are performed under contract for customers. The company invoiced EUR 1.459.201 research and development costs to its customers, compared to EUR 597.459 in 1997 and to EUR 505.885 in 1996. This increase in revenue is in line with the increase in research and development costs of the company.

Costs of sales

Costs of sales consist of materials (raw material and semi-finished parts), subcontracting, labor, depreciation and other production expenses. They increased from EUR 9.187.871 in 1996, EUR 11.855.742 in 1997 up to EUR 20.486.648 in 1998.

Expressed as a percentage of sales, the cost of sales increased from 60 % in 1997 to 64.7 % in 1998.

The relative increase of the cost of sales can be attributed partly to some unique costs related with the launch of some new products and partly to some price erosion for the 'older' products.

Gross margin

The gross margin, as a percentage of sales, decreased from 40% in 1997 to 35.3% in 1998 due to the increase of the cost of sales.

Research and development expenses

Research and development expenses amounted to EUR 2.258.668 in 1998, representing 7.1% of total revenues. This 145 % increase over 1997 is a result of increased research and development efforts. The number of research and development engineers approximately doubled in 1998. The research and development activities are concentrating on the further development of Hall Sensors, Integrated pressure sensors and the support environment for the 16bit microprocessor, all for automotive applications. A newly founded research team for specific research in the area of infrared and gyroscope applications has actually already two products in its development phase.

Actually, more than 20 products are at their development-stage.

General and administrative expenses

General and administrative expenses consist mainly of salaries and salaries related expenses, office equipment and related expenses, travel and entertainment expenses and increased significantly over 1998. The increase is directly linked to the globalization of the activities of the company. The acquisition of Melexis USA, which increased substantially the sales-activities, and the substantial increase of research and development efforts, have increased substantially the general and administration expenses of the company.

Financial results

The net financial results (gains) increased strongly over 1998 as interest income rose due to the increased cash and cash equivalents which the company has since its IPO in october 1997. The net exchange gains (both realized and unrealized) declined at approximately EUR 259.963.

Net income

The company recorded a net income for 1998 of EUR 8.263.979. This represents a 17% increase over 1997.

This small improvement compared with the net increase of 56% over 1996 was a combination of the increased turnover combined with a more than relative cost-increase (cost of goods sold and non-operating cost).

6.3.3. Liquidity, working capital and capital resources

For the years 1995 and 1996, the Company satisfied its liquidity requirements mainly through cash flow generated from operations.

In 1997, the cash and working capital position increased considerably by the I.P.O.-cash-revenues.

Cash and cash deposits amounted to EUR 32.566.408 as of 31 December, 1998 in comparison to EUR 32.767.751 as of 31 December, 1997. The cash position remained relatively stable.

A part of the Company's cash balance as of December 31, 1998 served as a guarantee for loans taken up by its parent company and was subject to a compensating balance agreement with a commercial bank. These loans amounted as of December 31, 1998 to EUR 23,9 million. Subsequently to year-end, the restricted cash balance has been transferred to its parent company as an unsecured advance in order to allow the parent company to repay its financial obligations. Melexis charges 5% interest on this advance.

In 1998, cash flow from operating activities amounted to EUR 2.998.238. Although the company generated over EUR 8 million net profits, the cash proceeds were used in increased trade and intercompany receivables and increased inventories. The cash flow from investing activities was negative for EUR 8.071.644 as a result of the needed investments in fixed assets to realize the turnover growth. The cash flow from financing activities was positive for EUR 4.893.157 as a result of an extraordinary use of an overdraft-facility at the end of the year.

6.4. Detailed Consolidated Financial Statements

6.4.1. Independent Auditor's report

To the Board of Directors and Shareholders of Melexis N.V.,

We have audited the accompanying consolidated balance sheets of Melexis N.V. (a Belgian corporation) and subsidiary as of 31st December 1998, 1997 and 1996, and the related consolidated statements of income and cash flows for the years then ended, expressed in Euros. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Melexis N.V. and subsidiary as of 31st December 1998, 1997 and 1996, and the results of their operations and their cash flows for the years then ended in accordance with the accounting standards issued by the International Accounting Standards Committee (see Note 6.5.2).

Also, in our opinion, the amounts in the accompanying financial statements translated into U.S. dollars have been computed on the basis set forth in Note 6.5.2.

Arthur Andersen, Bedrijfsrevisoren
Ludo De Keulenaer
Antwerp, Belgium
10 March 1999

6.4.2. Detailed Consolidated Financial statements

Melexis N.V.

Consolidated balance sheets	1998 USD	1998 EUR	1997 EUR	1996 EUR
		31st December		
Assets				
Current assets :				
Cash and restricted cash (note a)	37.996.403	32.566.408	32.767.751	2.737.609
Accounts receivable – trade (note b)	7.578.873	6.495.790	4.189.391	2.219.762
Accounts receivable – Affiliated companies	2.852.251	2.444.641	967.498	775.022
Other current assets	1.130.947	969.325	924.500	277.889
Inventories (note c)	7.106.531	6.090.950	3.364.857	2.445.670
Total current assets	*56.665.005*	*48.567.114*	*42.213.997*	*8.455.952*
Property, plant and equipment (note e)	12.903.351	11.059.357	4.973.873	1.671.834
Financial fixed assets	181.421	155.495	-	41.341
Accounts receivable – directors	2.279	1.953	-	-
Other non-current assets	11.000	9.428	-	-
Goodwill (note d)	1.168.412	1.001.437	1.074.909	-
TOTAL ASSETS	70.931.468	60.794.784	48.262.779	10.169.127
Liabilities and shareholders' equity				
Current liabilities :				
Bank loans and overdrafts (note g)	5.736.210	4.916.459	52.189	357.958
Current portion of long-term debt (note h)	274.765	235.499	235.499	235.499
Accounts payable - trade	1.729.143	1.482.035	1.069.872	476.383
Accounts payable - affiliated companies	-	-	770.060	195.634
Accounts payable - due to directors	-	-	14.994	6.564
Accrued expenses, payroll and related taxes (note f)	436.779	374.360	638.977	169.510
Other current liabilities	64.470	55.257	48.006	-
Total current liabilities	*8.241.367*	*7.063.610*	*2.829.597*	*1.441.548*
Long-term debt less current portion (note h)	137.383	117.749	353.248	588.747
Deferred taxes	-	-	155	-
Shareholders' capital	705.250	565.197	565.197	515.619
Share premium	33.580.992	30.135.419	29.844.658	-
Legal reserve	65.000	56.520	56.520	-
Retained earnings	17.491.973	14.613.404	7.571.651	3.116.529
Current year's profit	9.187.136	8.263.979	7.041.753	4.506.684
Cumulative translation adjustment	1.522.367	(21.094)		
Total shareholders' equity (note j, k)	*62.552.718*	*53.613.425*	*45.079.779*	*8.138.832*
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	70.931.468	60.794.784	48.262.779	10.169.127

The accompanying notes form an integral part of these balance sheets.

Melexis N.V.

Consolidated Income Statements

Years ended 31st December

	1998 USD	1998 EUR	1997 EUR	1996 EUR
Total sales (note l)	33.558.432	30.186.379	19.153.728	13.368.030
Revenues from Research and Development (note l)	1.622.229	1.459.201	597.459	505.885
Cost of sales	(22.775.182)	(20.486.648)	(11.855.742)	(9.187.871)
Gross margin	12.405.479	11.158.932	7.895.445	4.686.044
Research and development expenses	(2.510.980)	(2.258.668)	(921.227)	(407.715)
General and administrative expenses	(1.765.216)	(1.587.841)	(614.374)	(162.760)
Selling expenses	(750.392)	(674.990)	(38.857)	-
Income from operations	7.378.891	6.637.433	6.320.987	4.115.569
Financial income (note m)	2.589.340	2.329.154	921.350	538.080
Financial charges (note m)	(874.875)	(786.964)	(99.534)	(146.965)
Other expenses (net)	(15.309)	(13.771)	(98.745)	-
Income before taxes	9.078.047	8.165.852	7.044.058	4.506.684
Income taxes (note i)	109.089	98.127	2.652	0
Net income	9.187.136	8.263.979	7.046.710	4.506.684
Earnings per share (Note 6.5.2.)	0.20	0.18	0.17	0.11

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

Melexis N.V.

Consolidated Statements of Cash Flows

Years ended 31st December

	1998 USD	1998 EUR	1997 EUR	1996 EUR
Cash flows from operating activities :				
Net income	9.187.136	8.263.979	7.046.710	4.506.684
Adjustments to reconcile net income to net cash provided by operating activities :				
Depreciation	1.824.745	1.641.388	520.295	300.555
Depreciation Goodwill	292.101	262.750		
Changes in operating assets and liabilities:				
Accounts receivable, net	(3.007.301)	(2.306.400)	(1.596.834)	(678.359)
Other current assets	(122.109)	(44.825)	(593.888)	(199.267)
Due to (from) affiliated companies	(1.983.178)	(2.247.203)	1.345	436.067
Accounts payable	(91.952)	412.163	463.769	195.025
Accrued expenses	(260.659)	(264.772)	140.779	117.625
Other current liabilities	12.085	7.251	2.185	-
Inventories	(3.434.711)	(2.726.093)	(475.152)	(1.409.051)
Net cash provided by operating activities	2.416.157	2.998.238	5.509.209	3.269.279
Cash flows used in investing activities :				
Financial fixed assets	-	-	-	(18.914)
Acquisition of subsidiary, net of cash acquired	(181.421)	(155.495)	(1.163.688)	-
Additions to property plant and equipment	(9.300.476)	(7.726.872)	(3.659.785)	(1.125.457)
Goodwill	(287.544)	(189.277)	-	-
Net cash used in investing activities	(9.769.441)	(8.071.644)	(4.823.473)	(1.144.371)
Cash flows from financing activities :				
Repayments of bank loans and overdrafts			(305.769)	(29.923)
Repayments of long-term debt	(241.309)	(244.927)	(235.499)	(264.423)
Proceeds from bank loans and overdrafts	5.679.260	4.864.270	-	-
Proceeds from long term debt	-	-	-	679
Proceeds from (repayments of) accounts payable to directors	(18.641)	(16.947)	(8.562)	(27.377)
Proceeds from issuance of shares	-	-	29.894.236	-
Refund of part of IPO cost	323.242	290.761		
Net cash provided by (used in) in financing activities	5.742.552	4.893.157	29.344.406	(321.044)
Effect of exchange rate changes on cash and restricted cash	3.850.110	(21.094)	-	-
Increase (decrease) in cash and restricted cash	2.239.378	(201.343)	30.030.142	1.803.864
Cash and restricted cash at beginning of period	35.757.025	32.767.751	2.737.609	933.745
Cash and restricted cash at end of period	37.996.403	32.566.408	32.767.751	2.737.609

The accompanying notes form an integral part of these statements of cash flows.

6.5 Notes to the consolidated financial statements

6.5.1. Nature of business

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

6.5.2. Significant Accounting Policies

The accompanying consolidated financial statements are prepared under the historical cost convention and in accordance with International Accounting Standards ('IAS'). They reflect adjustments made for international reporting to the Company's statutory accounts, which have been prepared using different valuation principles. Certain accounting practices of Melexis N.V. used in preparing the accompanying financial statements conform with IAS, but may not conform with accounting principles generally accepted in the United States of America.

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.

Consolidation method

The consolidation scope includes Melexis N.V. and its wholly owned subsidiary Melexis USA (formerly US MikroChips Inc), which was acquired in the last quarter of 1997. The goodwill has been computed on the financial position effective on December 31, 1997, as a difference between the acquisition cost and the net equity of Melexis USA. The fair value is not materially different from the book value at acquisition date.

Goodwill is amortized over five years starting in 1998.

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 all contractual conditions.

Research and development costs

Research and development costs are expensed as incurred and not capitalized, since they do not meet all conditions of International Accounting Standard Nr 9.

Cash and restricted cash

The company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
Cash and cash equivalents consist mainly of deposits with commercial banks in Belgium and the United States of America.
Cash which is restricted in use is classified in the caption 'Cash and restricted cash'. The underlying restrictions are disclosed in note 6.5.3.

Inventories

Inventories are comprised of material, labor and manufacturing overheads and are stated at the lower of cost (determined on FIFO basis) or net realizable value. Management performs periodic reviews of inventories and provides reserves for excess and obsolete inventory.

Property, plant and equipment

Property, plant and equipment are stated at cost and are depreciated over the estimated useful lives of the assets as follows:

Estimated useful lives	
- *Buildings*	33 years
- *Machinery, equipment and installations*	5 years
- *Furniture and vehicles*	5 years
- *Computer equipment*	4 years

Depreciation is calculated using the straight-line method. The cost of maintenance and repairs is charged against income as incurred.

Foreign currency translation

Melexis N.V. has opted to prepare its consolidated financial statements in Euro whereas the legal reporting currency of Melexis N.V. is the Belgian Franc. For the translation of Belgian Francs in Euro, all assets, liabilities, revenues and expenses for the years 1996, 1997 and 1998 are translated at the Euro rate which was in effect on December 31, 1998. The consolidated financial statements as of 31 December 1998 are also stated in US Dollars. The company's management has elected the current rate method to translate the consolidated financial statements into US Dollars from 1997 onwards. Accordingly, all assets and liabilities are translated at exchange rates in effect at the end of the period, and revenues and expenses and cash flows are translated at the average exchange rate during the period. Equity accounts are translated at historical rates. All cumulative translation gains or losses from the translation into the company's reporting currency are included as a separate component of shareholders' equity in the accompanying consolidated balance sheets.

Exchange gains or losses arising from transactions denominated in foreign currencies are included in other income (expense) in the accompanying consolidated income statements.

Earnings per share

The earnings per share data for all periods mentioned are calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period. Stock splits were considered as if the split had occurred at the beginning of the earliest period reported.

6.5.3. Notes

a | Cash and restricted cash

Cash and restricted cash consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Cash at bank and in hand	817.412	444.419	278.121
Short term deposits	31.748.996	32.323.332	2.459.488
Total	32.566.408	32.767.751	2.737.609

The short-term deposits at December 31, 1997 consisted of USD 1.000.000 and BEF 1.267.000.000. The short term deposits at December 31, 1998 consisted of DEM 2.800.000 and BEF 1.223.000.000.

A part of the Company's cash balance as of December 31, 1998 served as a guarantee for loans taken up by its parent company and was subject to a compensating balance agreement with a commercial bank. These loans amounted as of December 31, 1998 to EUR 23,9 million. Subsequently to year-end, the restricted cash balance has been transferred to the parent company as an unsecured advance in order to allow the parent company to repay its financial obligations. Melexis charges 5% interest on this advance.

b | Trade accounts receivable

Trade accounts receivable consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Trade accounts receivable	6.545.369	4.238.970	2.256.946
Allowance for doubtful accounts	(49.579)	(49.579)	(37.184)
Total	6.495.790	4.189.391	2.219.762

c | Inventories

Inventories consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Raw materials and supplies	1.106.908	1.233.855	784.317
Work in progress	2.298.995	1.718.410	1.283.099
Finished goods	2.759.415	486.960	378.254
Reserve for obsolete stock	(74.368)	(74.368)	-
Net	6.090.950	3.364.857	2.445.670

d | Goodwill

The goodwill relates to the acquisition of Melexis USA, and is determined as the difference between the acquisition cost and the net equity of Melexis USA as of December 31, 1997. There were no material differences between the fair values of the assets and liabilities and their book values at 31 December 1997.

The book value of the goodwill at December 31, 1998 was as follows:

Goodwill accounted for at 31December 1997:	*1.074.909*
Additional goodwill 1998:	*258.651*
Less: amortization of goodwill:	*(262.750)*
Cumulative translation adjustment:	*(69.373)*
Net goodwill per 31 December 1998:	*1.001.437*

e | Property, plant and equipment

Property, plant and equipment consist of the following:

	Land & buildings	Machinery & equipment	Furniture & vehicles	Total
Year ended 31st December, 1998	EUR	EUR	EUR	EUR
Cost:				
Beginning of the period	527.233	5.894.140	208.629	6.630.002
Additions of the year	1.939.200	5.648.599	113.752	7.701.551
End of the period	**2.466.433**	**11.542.739**	**322.381**	**14.331.553**
Accumulated depreciation:				
Beginning of the period	160.732	1.414.655	80.742	1.656.129
Depreciation for the period	110.360	1.480.931	50.097	1.641.388
End of the period	**271.092**	**2.895.586**	**130.839**	**3.297.517**
Net CTA movement	1.079	23.910	332	25.321
Net book value - 31st December, 1998	2.196.420	8.671.063	191.874	11.059.357
Year ended 31st December, 1997	EUR	EUR	EUR	EUR
Cost:				
Beginning of the period	507.984	2.005.849	120.802	2.634.635
Additions of the year	19.249	3.552.709	87.827	3.659.785
Increase from acquired subsidiaries (note 6.5.3.d)	0	335.582	0	335.582
End of the period	**527.233**	**5.894.140**	**208.629**	**6.630.002**
Accumulated depreciation:				
Beginning of the period	141.225	764.047	57.530	962.802
Depreciation for the period	19.507	477.576	23.212	520.295
Increase from acquired subsidiaries (note 6.5.3.d)	0	173.032	0	173.032
End of the period	**160.732**	**1.414.655**	**80.742**	**1.656.129**
Net book value - 31st December, 1997	366.501	4.479.485	127.887	4.973.873

f | Accrued expenses, payroll and related taxes

Accrued expenses, payroll and related taxes consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Vacation pay accruals	174.117	111.974	60.358
Salaries	-	-	12.947
Advances received	-	-	9.056
Commissions	-	328.688	-
Servicing costs	198.315	198.315	86.763
Taxes	1.928	-	-
Other	-	-	386
Total	374.360	638.977	169.510

g | Bank loans and overdrafts

Bank loans and overdrafts consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Bank loans	4.853.147	-	357.958
Bank overdrafts	63.312	52.189	-
Total	4.916.459	52.189	357.958

As of 31 December 1998, the company, together with its parent company, had credit lines with Belgian commercial banks for a total amount of BEF 150 million. ELEX NV and Melexis N.V. are co-debtors.

For these commercial loans, the company engaged itself to the following financial covenants:

- *Minimum solvency-ratio of 30% on a consolidated basis*
- *Minimum bankdebt/equity-ratio of 1.6 on a consolidated basis*

Furthermore and as described in a), the Company has a compensating balance agreement with a commercial bank whereby loans taken up by its parent company are guaranteed by cash and cash deposits owned by Melexis N.V.
Such deposits are presented in the balance sheet as 'restricted cash'.

h | Long-term debts

Long-term debts consist of the following:

	31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Long-term loans	353.248	588.747	824.246
Less current maturities	235.499	235.499	235.499
Long-term portion of long-term loans	117.749	353.248	588.747

The company has a long-term loan with a Belgian commercial bank. This loan is denominated in BEF, bearing interest at 5,55% per annum and is repayable in quarterly installments of EUR 58.875. The first installment was paid on 20 August 1996. The loan is secured by a power of attorney that was given to the lending bank in connection with mortgage raising. The mortgage relates to the industrial land and buildings of the company of which the net book value amounted to EUR 328.243 as of 31 December 1998.

i | Income taxes

Melexis N.V. is subject to a special income tax regime. Under this regime, a 0% tax rate is applicable. This special tax regime expires at the end of financial year 1999. At that moment, the company will be subject to the then applicable tax regime (currently 40,17 % on taxable income). There are no significant temporary differences between the financial reporting and tax basis of the company's assets and liabilities, and no deferred taxes have been provided for such differences.

j | Statement of shareholders' equity

	Number of Shares	Share capital (EUR)	Share premium (EUR)	Legal reserve (EUR)	Retained earnings (EUR)	CTA (EUR)	Total equity (EUR)
January 1, 1995	20.800	515.619		816	15.497		531.932
Net income				50.746	3.049.470		3.100.216
December 31, 1995	20.800	515.619		51.562	3.064.967		3.632.148
Net income					4.506.684		4.506.684
December 31, 1996	2.080.000	515.619		51.562	7.571.651		8.138.832
Net income				4.958	7.041.753		7.046.711
Capital increase IPO		49.578	29.844.658	0	0		29.894.236
December 31, 1997	45.600.000	565.197	29.844.658	56.520	14.613.404		45.079.779
Refund IPO costs			290.761				290.761
Net income					8.263.979		8.263.979
CTA movement						(21.094)	(21.094)
December 31, 1998	45.600.000	565.197	30.135.419	56.520	22.877.383	(21.094)	53.613.425

k | Shareholders' equity and rights attached to the shares

As of 31st December 1998, the common stock consisted of 45.600.000 issued and outstanding ordinary shares without face value.

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

Under Belgian Company Law, the shareholders decide on the distribution of profits at the annual shareholders' meeting, based on the latest audited 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 per cent 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. Dividends may be paid either in cash or in kind.

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.

l | Segment information

Revenues by destination

The following table summarizes sales by destination:

	Years ended 31 st December		
	1998	1997	1996
	EUR	EUR	EUR
France	4.151.256	3.851.578	5.295.415
United Kingdom	5.816.294	3.282.391	1.477.078
Germany	7.359.438	3.486.312	2.270.590
United States of America	5.930.210	4.720.292	2.646.162
Netherlands	2.444.037	1.182.857	401.110
Belgium	2.159.392	1.443.760	1.180.022
Italy	316.405	710.162	
Brazil	130.688	591.630	
Switzerland	147.029	211.810	384.859
Denmark	237.393	252.510	65.007
Other (net)	2.953.438	17.885	153.672
TOTAL	31.645.580	19.751.187	13.873.915

Revenues by customer

The following table summarizes sales by customer (sales in excess of 5% of total sales and as a % of total sales):

	Years ended 31 st December		
	1998	1997	1996
	%	%	%
Customer A	11	23	37
Customer B	6	8	12
Customer C	15	16	11
Customer D	5	5	6
Customer E	13	8	4
Customer F	13	12	1
Customer G	3	6	2
TOTAL	66	78	73

m | Financial results

	Years ended 31 st December		
	1998	1997	1996
	EUR	EUR	EUR
Financial income:	2.329.154	921.350	538.080
- interest income	1.429.040	486.244	152.052
- exchange differences	800.233	434.758	361.969
- other	99.881	348	24.059
Financial charges:	786.964	99.534	146.965
- interest charges	221.431	66.943	105.330
- exchange differences	540.270	0	11.648
- other	25.263	32.591	29.987
Net financial results	1.542.190	821.816	391.115

n | Government grants

The company's income statement for the year ended december 31, 1998 includes EUR. 347 000 government grants which have been received in connection with an investment program.

o | Related parties

Melexis currently buys its wafers from X-FAB, which is a related company. The price is based on market prices for processed wafers. X-FAB sells an important part of its production to IC-vendors other than Melexis N.V. at similar prices. Melexis also buys services from other related companies, mainly development work of engineers who work in other locations. These services are invoiced at cost plus basis whereby the margin is based on market rates.

A part of the Company's cash balance as of December 31, 1998 served as a guarantee for loans taken up by its parent company and was subject to a compensating balance agreement with a commercial bank. These loans amounted as of December 31, 1998 to EUR 23,9 million. Subsequently to year-end, the restricted cash balance has been transferred to its parent company as an unsecured advance in order to allow the parent company to repay its financial obligations. Melexis charges 5% interest on this advance.

p | Commitments

As of 31st December 1998, the company had purchase commitments for tangible fixed assets amounting to EUR 602.624.

q | Litigation

The company is currently not subject to any legal proceeding.

r | Post-retirement Benefits

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

s | Reconciliation of Belgian and International Accounting Standards

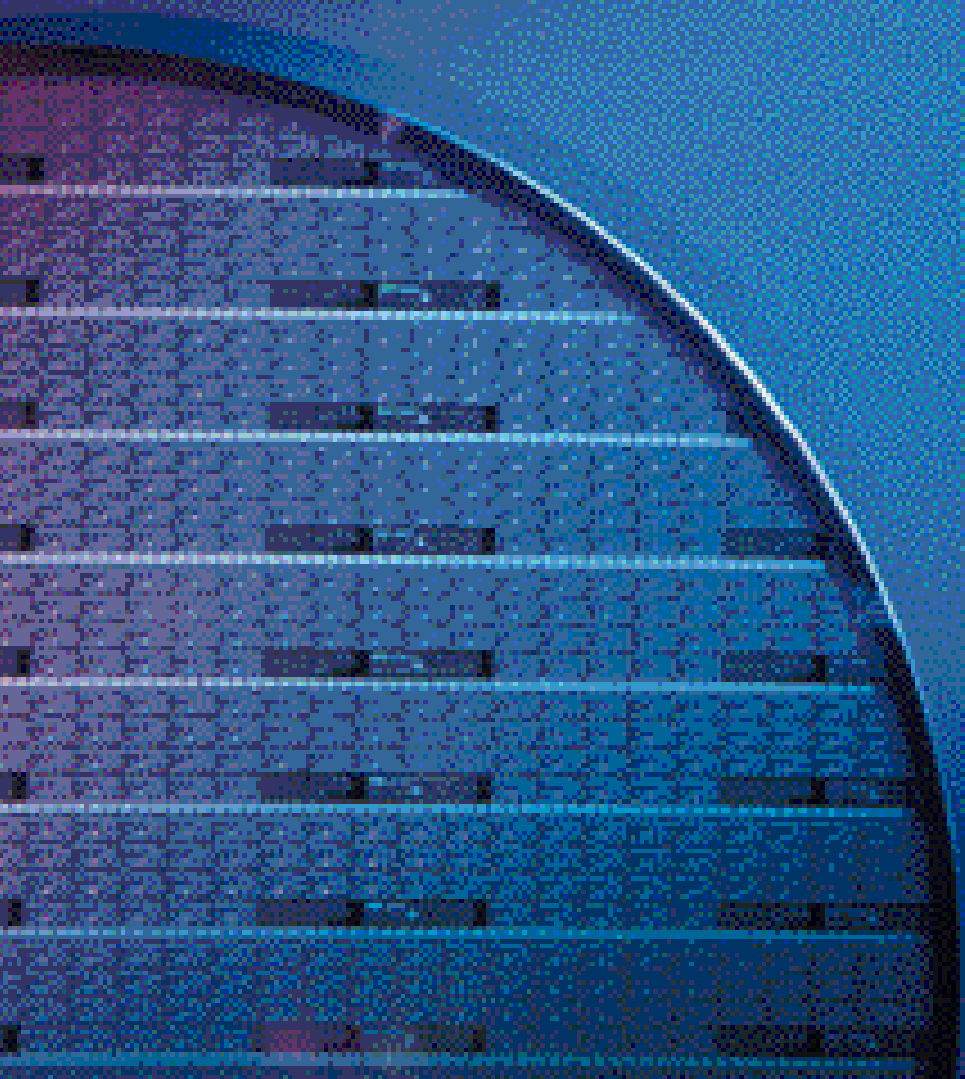
The accompanying financial statements have been prepared in accordance with International Accounting Standards. The differences between financial statements prepared under Belgian GAAP and financial statements prepared under International Accounting Standards relate mainly to differences in the valuation of the costs in connection with the Initial Public Offering.

The costs of the Initial Public Offering for Melexis n.v. amount to EUR 2.411.248 and have been deducted from the proceeds, which are recorded as capital and share premium. In the statutory financial statements these costs have been capitalised as incorporation costs and are amortised over a period of five years. In 1998 the company received a refund for ipo costs of EUR 290.761.

Therefore the reconciliation between both sets of financial statements at 31 December 1998 is as follows (EUR 000):

Net equity per IAS financial statements	53.613
- Net effect of IPO-costs	2.121
- Cumulative Amortisation IPO-cost	(559)
Net equity per statutory consolidated financial statements	55.175

Corporate Name	Melexis N.V.
Registered Office	Rozendaalstraat 12, B-8900 Ieper, Belgium
Date and Place of Incorporation	24th October 1988 at Ieper
VAT Number	BE 435.604.729
Registry of Commerce	Registry of Commerce of Ieper, under the number 31.905
Legislation under which the Company Operates	Laws of the Kingdom of Belgium
Legal Form	Limited liability company ('naamloze vennootschap | société anonyme')
Purpose	According to Article 3 of the Articles of Association, the purpose of the Company is: The development, production and assembly of microelectronic integrated systems.
Liability of the Shareholders of the Company	According to Belgian Company Law, the liability of the shareholders of the Company is limited to the amount of their capital contributions.
Principal Offices of the Company	The Company's office is located in Belgium at Rozendaalstraat 12, B-8900 Ieper, and the telephone number is 00-32-(0)57-22 61 31.



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