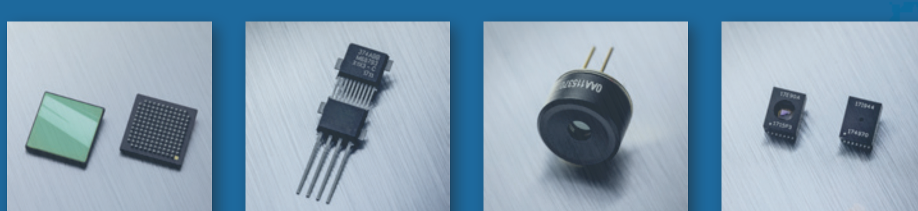
Melexis

INSPIRED ENGINEERING

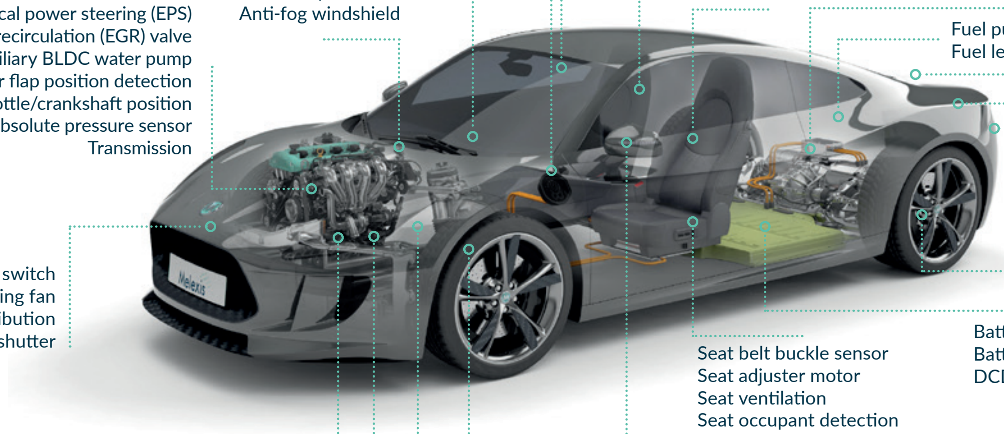
ANNUAL REPORT **2019**



ON THE COVER: THE BUTTERFLY FISH

Through a lateral line system, the small-sized butterfly fish can detect subtle changes in water pressure, much like our pressure sensors. Butterfly fish use pressure-sensing organs to help avoid collisions, engage in schooling, sense the direction of water currents, elude predators and detect prey.

11 CHIPS IN EVERY NEW CAR



Melexis
INSPIRED ENGINEERING

Our solutions allow systems to become more 'aware' of and interact directly with their surroundings. Melexis is focusing on innovation in both new and established product ranges as we want to take advantage of beneficial market developments in sectors including automotive, industry, medical, home and building automation. Our expertise in product definition, design and testing creates integrated analog and digital semiconductor solutions and sensor and driver chips.

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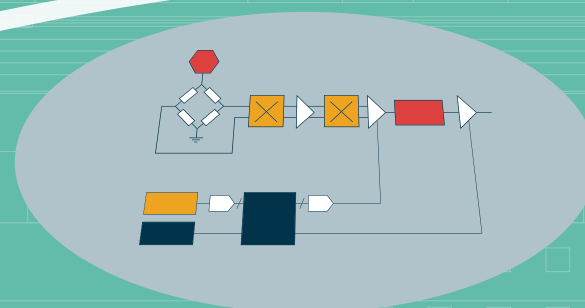
FROM CONCEPT TO CHIP

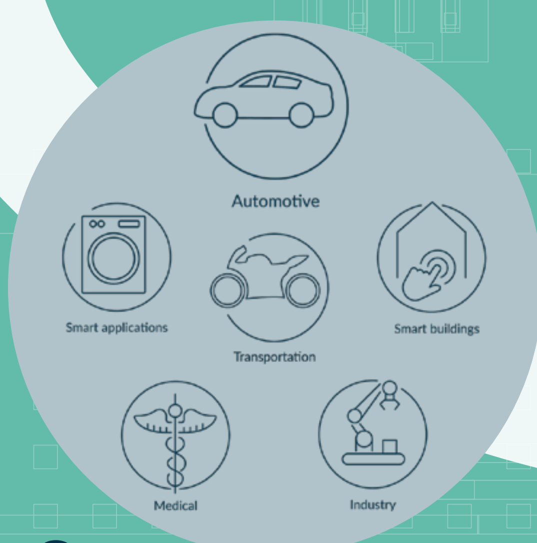
1. DEFINE THE CHIP

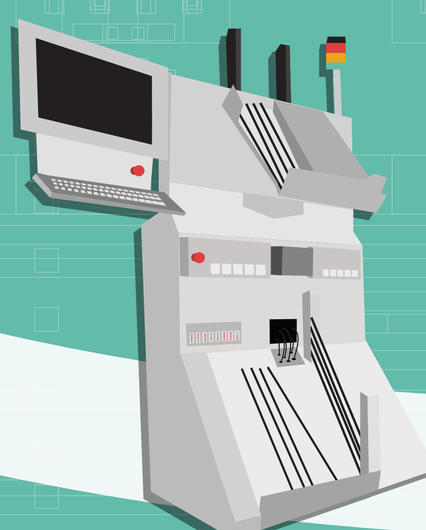
We have to make sure the chip fully meets our customer's needs, so we collect all information on the chip's functions and operating conditions, such as temperature, current, pressure and more.

2. DESIGN THE CHIP

Our systems architects develop the plan. Blocks are then implemented by a design engineer, using basic elements (transistors, resistors) to build a virtual circuit, the correct functionality of which is verified using mathematical models. Then the individual blocks are combined, in order to minimize chip area.







8. CHIPS ARE EVERYWHERE

Every chip has its own story to live. Melexis makes many chips to measure the real world and report accurately what is happening to a controller.

7. TESTING OF THE CHIP

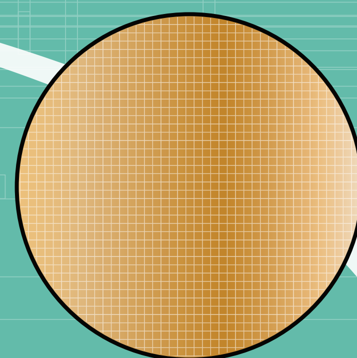
Each chip is tested with a testing regime similar to that of the wafer test (see step 5), but this time at three different temperatures: -40°C, 25°C and 135°C.

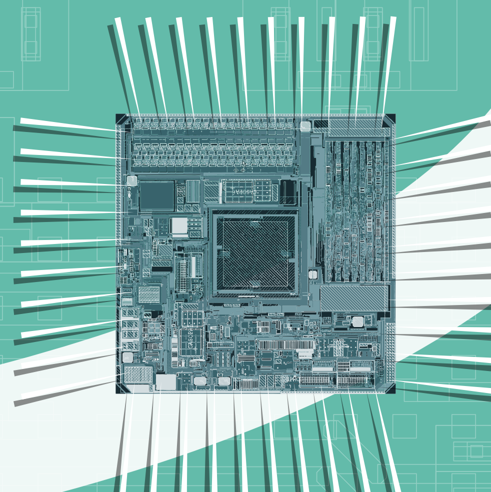
3. LAYOUT OF THE CHIP

Our layout engineers arrange the conceptual standard blocks into their physical locations.

4. MANUFACTURING ON SILICON WAFERS

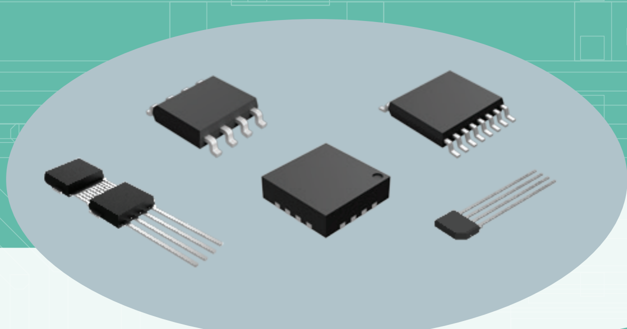
Copies of the layout are made on a single silicon wafer, made from pure sand (or silica). In the wafer fab, the layout is then transformed into a working chip, by transferring very fine patterns on the silicon wafer through a photolithographic process.





5. TESTING OF THE WAFERS

Wafer testing, also known as probing, involves testing the chip with tiny needles which electrically connect each chip to the tester.



6. PACKAGING OF THE CHIP

Wafers are sawn into individual die and then assembled into the required package. The package's main function is to protect the delicate silicon chip from its environment, both the chip itself and its electrical connections or bondwire.

Melexis

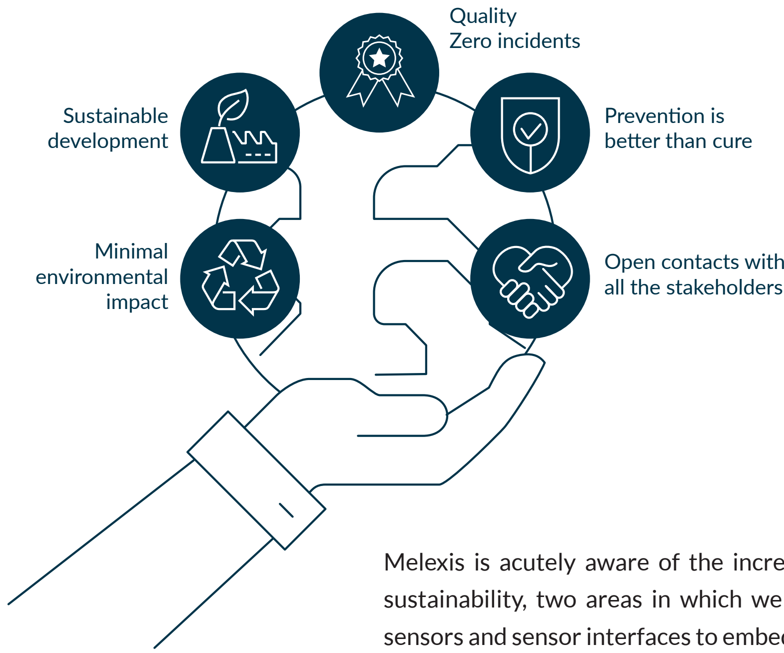
INSPIRED ENGINEERING

SUSTAINABILITY AT HEART

WE CARE ABOUT PEOPLE

Since 1988, Melexis has grown into a company with more than 1,500 colleagues on three continents. Our company combines exceptional people with a unique company culture, great products and a promising future. Melexis is committed to promoting gender equality throughout our entire organization. A shared corporate vision enables our growth and our people represent a vital link in the chain that connects motivated individuals, outstanding teams and great results.

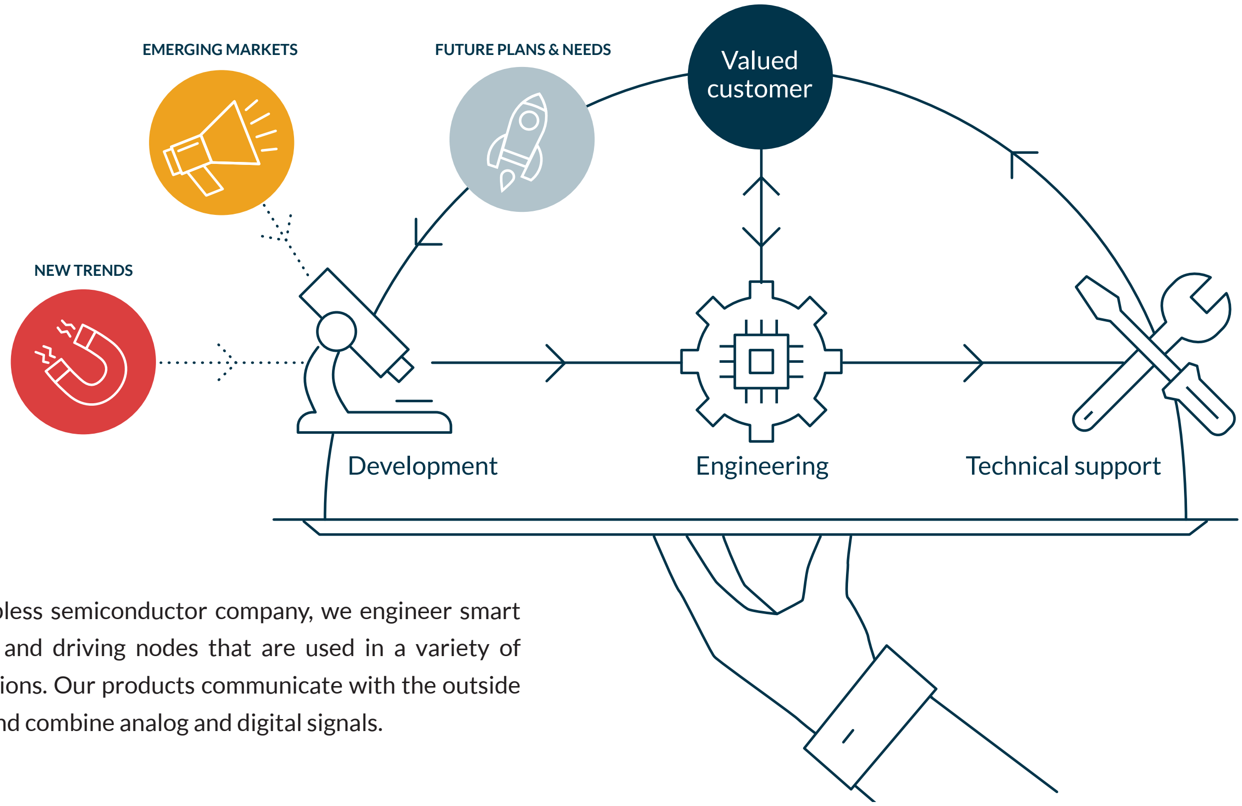
WE CARE ABOUT THE PLANET



Melexis is acutely aware of the increasing worldwide concern for safety and sustainability, two areas in which we have been active for many years. From sensors and sensor interfaces to embedded and smart drivers, we are constantly innovating to help create the most sustainable and reliable solutions possible. Our quality and environmental policy is the guiding principle throughout our organization and strives to keep our environmental footprint as small as possible.

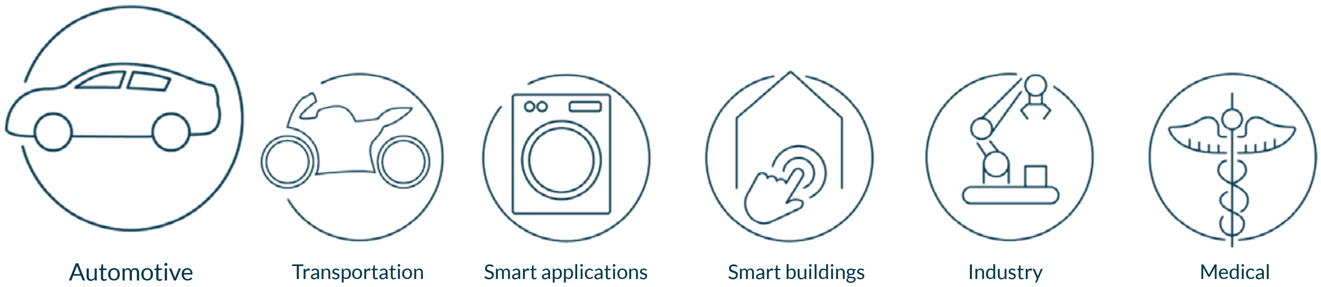
CUSTOMER-DRIVEN INNOVATION

WE ENABLE EDGE SENSING AND EDGE DRIVING



As a fabless semiconductor company, we engineer smart sensing and driving nodes that are used in a variety of applications. Our products communicate with the outside world and combine analog and digital signals.

WE CATER TO DIFFERENT SECTORS



Melexis operates mainly in the semiconductor market for cars, a market that has a solid foundation and exciting growth opportunities. However, we continuously build on our knowledge and experience and are expanding our scope to include new applications, new markets and new sectors, including 2-wheelers, home and consumer electronics, industrial applications and healthcare.

1 LETTER TO OUR SHAREHOLDERS

Dear Melexis shareholder,

2019 was a year of ups and downs. On the one hand, we celebrated our 30-year anniversary with a company-wide virtual party and looked back on the successes that made us the company we are today. On the other hand, it was a challenging year to do business, to say the least. Worldwide car sales dropped by around 5% in 2019, while Melexis sales were impacted almost threefold, fully attributable to inventory corrections at customers, triggered by an uncertain economic and geopolitical situation caused by global trade tensions. Uncertainty and lower visibility seem to be the new normal and they have changed the business reality thoroughly over the past year.

For the full year 2019, sales were 486.9 million EUR. Lower sales combined with a low utilization of test capacity and a change in product mix resulted in a gross profit margin of 40.3% and an operating margin of 14.5% for the year. Melexis' net result was 60.3 million EUR or 1.49 EUR per share. Cash flow from operating activities was strong and stood at 94.4 million EUR, positively impacted by a good working capital management.

In October 2019, we announced, as one of the first automotive semiconductor companies, that the severe inventory corrections we experienced were ebbing away and we noticed an improved customer order behavior. In February 2020 we confirmed this message.

Despite a solid start of the year, Melexis decided on 1 April 2020 to withdraw its full year 2020 outlook provided on 5 February as the economic impact resulting from the COVID-19 pandemic cannot be quantified at the time of writing.

We refer to note AN for our full disclosure on COVID-19.

As a matter of prudence and in light of the extreme unpredictability of the current situation, the Board of Directors also decided to propose to the annual shareholders' meeting to pay out over the result of 2019 a total dividend of 1.30 EUR gross per share, which was paid in October 2019 as interim dividend, meaning a final dividend would not be paid.

The Melexis share price ended at 67.05 EUR, an increase of 32% over the year 2019.

Outperforming product lines in 2019

The product lines clearly outperforming in 2019 were pressure sensors and temperature sensors, both posting double-digit sales growth. A continued stricter legislation, for example with respect to reducing pollution generated by

> We are constantly innovating to help create **the most sustainable and reliable solutions** possible.

gasoline fuel vapor, especially critical with hybrid vehicles, is and will continue to be a strong content growth driver for our pressure sensor product line. Next to addressing challenges in automotive electrification, pressure sensors are also increasingly embedded in motorbikes.

Our temperature sensor product line, for example with the far-infrared array technology, continues to gain traction in applications in adjacent markets such as energy management in buildings. In 2019, Melexis also launched the world's smallest medical-grade far-infrared integrated sensor. Another product line set for growth is embedded lighting. Lighting is one of the key features for future personalization and differentiation within the driver's cabin. In 2019, new products were also announced in our magnetic sensor product lines, optical sensors (time-of-flight) and embedded motor drivers. Melexis is well positioned to benefit from the increase of sensor and driver content in cars, surfing on the secular trends of more electrification, assisted drive and personalization.

Many of the Melexis sensors and drivers are increasingly finding their way to interesting adjacent markets. It remains crucial that Melexis continues to invest in R&D and innovation.

External recognitions

In June 2019, our medical-grade temperature sensor MLX90632 was recognized as a winner of the Excellence in Sensors Innovation at Sensors Expo in the US. On 4 December, our world's smallest medical-grade FIR sensor received attention again by winning the Elektra Excellence in Product Design for Medical in the UK. Because it is so tiny in size, it is extremely well suited for applications such as contactless ear thermometers to fit into children's ears, a much-needed feature in situations where people need to be screened for fever symptoms in an efficient and accurate way.

Shipping milestones

2019 marked three very impressive shipping milestones for Melexis, as we have shipped no less than 1 billion Triaxis® position sensors, 2 billion latch & switch sensors and 1 million time-of-flight sensors over the years. Selling and delivering such significant volumes of our popular solutions was made possible because of our broad partner base, excellent customer service, worldwide footprint and our customers who pushed us to where we are today.

Commitment to sustainability

At the center of our work is a resolute commitment to social responsibility and sustainability. We are constantly innovating to help create the most sustainable and reliable solutions possible. Our quality and environmental policy is the guiding principle throughout our organization and strives to keep our customers' environmental footprint as small as possible. Examples include pressure sensors fitted in vehicles that have a direct impact on reducing emissions, current sensors that help shape the vehicle of the future, and position sensors that play a significant role in engine efficiency.

Sustainability is woven into the fabric of the workplace too; from car-sharing to re-usable food box schemes, employees are encouraged to think and act green. And there's always more we can do. Every year we look for new opportunities to reduce our footprint.

Finally, Melexis continues its commitment to bringing STEM education, and the promotion of careers in science, technology, engineering and maths, to the forefront whenever possible. STEM concerns everyone, because it looks for answers to societal challenges – from energy to health and food security, from sustainable mobility to refining a care robot.

Looking forward to the future

The world will not return to the previous normalcy, that much is clear to us. Our organization is built on sound values which have only strengthened over time. These values serve us well today and will continue to do so tomorrow in a volatile, uncertain, complex and ambiguous world. Combined with our technology mastery and a clear vision, they enable us also to harvest the opportunities that disruption brings, to the benefit of all our stakeholders. Melexis stands for engineering that enables the best imaginable future - a future which is safe, clean and comfortable, a future we are looking forward to.

Yours sincerely,
Françoise Chombar
On behalf of the entire Melexis team

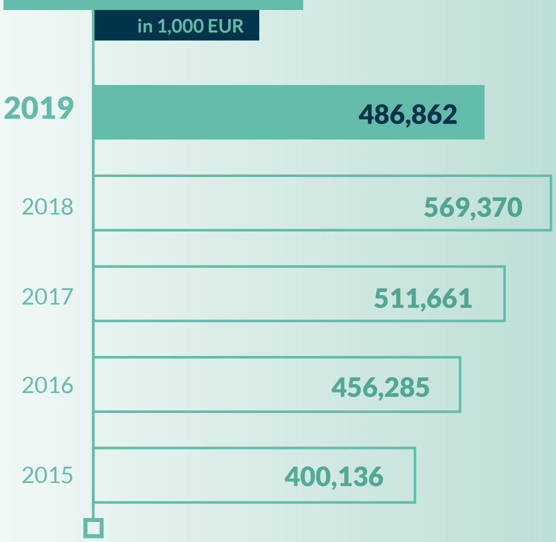
2 OUR KEY FIGURES

in 1,000 EUR

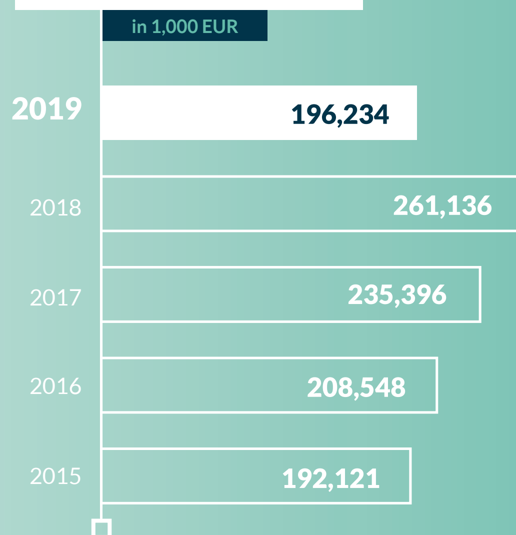
Operating results	2015	2016	2017	2018	2019
Revenue	400,136	456,285	511,661	569,370	486,862
Gross profit	192,121	208,548	235,396	261,136	196,234
EBIT	107,604	114,369	132,608	138,488	70,626
EBITDA	130,414	140,240	164,965	177,610	119,230
Net income	99,071	96,257	110,955	115,451	60,255
Balance structure	**2015**	**2016**	**2017**	**2018**	**2019**
Shareholders' equity	242,511	262,465	294,303	326,006	299,070
Net indebtedness*	(58,703)	(60,808)	(60,798)	418	23,150
Working capital	78,631	76,916	84,633	139,128	146,127
Cash flow and capital expenditure	**2015**	**2016**	**2017**	**2018**	**2019**
Net cash from operating activities	114,998	107,951	113,306	99,079	94,400
Depreciation + amortization	22,809	25,872	32,357	39,122	48,604
Capital expenditure	40,281	28,774	46,417	76,296	26,632
Ratios	**2015**	**2016**	**2017**	**2018**	**2019**
ROE	41%	37%	38%	35%	20%
Liquidity	3.7	2.8	2.5	3.5	4.4
Solvency	79%	73%	73%	76%	71%

* Current definition of net indebtedness does not include impact from IFRS 16. For more information on IFRS 16, see note 6.9.5.H.

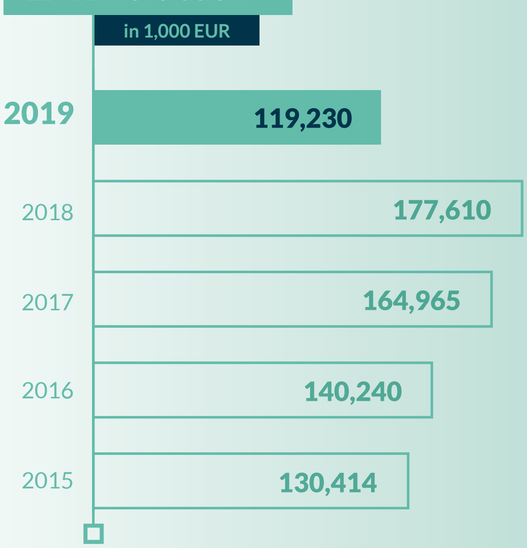
Revenue evolution



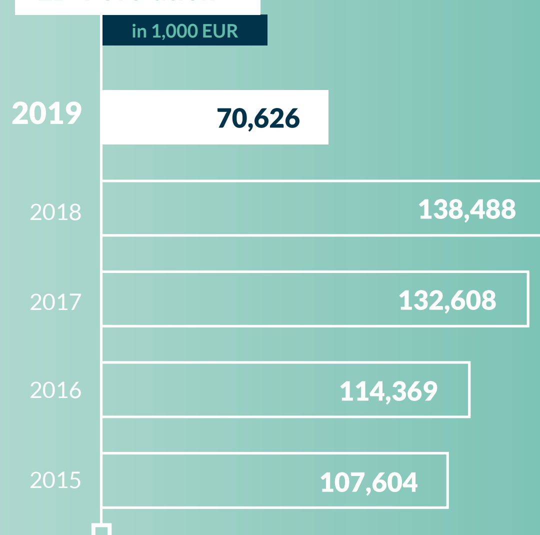
Gross profit evolution



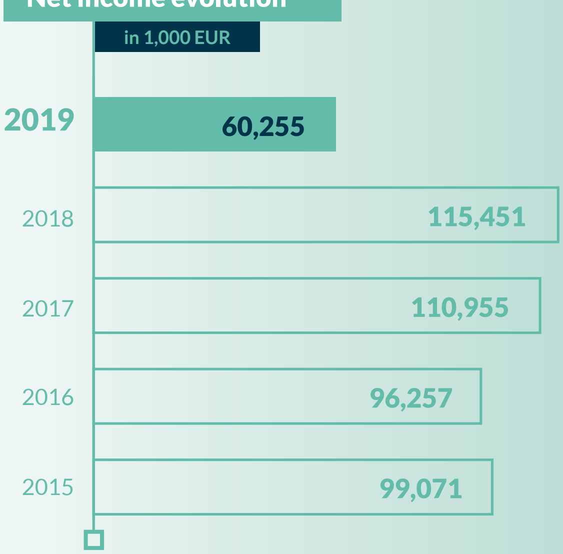
EBITDA evolution



EBIT evolution



Net income evolution



Dividend evolution

3 OUR STRATEGY

Customer focus and a consistent strategic vision are the basis of Melexis' growth journey. Creating innovative and compelling products in response to OEM and consumer preferences combined with a timely and reliable production process is essential to our success and that of our customers.

A mix of team spirit, a shared set of core values and a no-nonsense culture empower our people to offer high quality, leading technological solutions to customers. We continuously build on our knowledge and experience, expanding our scope to include new applications and new sectors.

WE ENABLE EDGE SENSING AND EDGE DRIVING

As a fabless semiconductor company, we engineer small, smart sensing and driving nodes that are used in a variety of vehicle applications. Today, every new car worldwide contains on average 11 Melexis chips.

Our products are invariably found on the edge of the applications that we serve. Either we take an analog signal from the physical environment and convert it to a digital signal, as we do with our smart sensors, or we convert a digital signal into an analog action, as we do through our drivers. Our products communicate with the outside world, either to perceive or activate something. Most of our products are in fact mixed signal, as they combine analog and digital.

Melexis has a well-matched team of experienced engineers. Their expertise in product definition, design and testing of integrated analog-digital sensor and driver solutions has given Melexis a leading position. To maintain and strengthen this position, Melexis is investing substantially in R&D and in people.

IMPRESSIVE PRODUCT SHIPPING MILESTONES

2019 marked three very impressive shipping milestones for Melexis, as we have shipped no less than 1 billion Triaxis® position sensors, 2 billion latch & switch sensors and 1 million time-of-flight sensors over the years. Selling and delivering such significant volumes of our popular solutions was made possible because of our broad partner base, excellent customer service, worldwide footprint and our customers who push us to where we are today. Meet our bestsellers!

- Our unique Triaxis® sensing solution is capable of very precise three-axis magnetic field measurements from a single sensor, resulting in the development of endless linear, angular and 3D applications. Triaxis® sensors are small, suitable for high-temperature operation and can support a wide variety of sensing applications. The third generation of Triaxis® position sensors continues to bring substantial improvements and a variety of Triaxis® sensor packages is available. Triaxis® sensors are ASIL-ready and contain a suite of onboard diagnostics to ensure safe and correct operation. Triaxis® sensors are used for automotive position sensing in different applications like steering angle, pedal position, electronic throttle body, EGR valve, shifter, turbo actuator, motor position, chassis height, and more. There are also other fields beyond the automotive where Triaxis® sensors can be used. To name just a few: agricultural vehicles and equipment, joysticks, man-machine interfaces, heavy-duty vehicles, forklifts, robots, wheelchairs, industrial cranes, and more.

- Our extensive magnetic latch & switch sensors rely on the principles of the Hall-effect to determine the physical position of an object through the position of a magnet. These on-off switching devices are most common in automotive applications such as braking, shifter applications, door locks and seat belts. The fusion of IC know-how and Hall-effect technology spawned an ASIL-ready product range that is now in its third generation and of which billions of units have been shipped for use in safety-critical applications across the globe. We continually develop our portfolio further to match and exceed the functional, flexibility, safety and power consumption needs of modern applications with a fourth generation coming soon.

- Our pioneering optical time-of-flight technology is used frequently in the automobile industry as we have ensured it is fully in line with stringent automotive quality standards. Our first generation time-of-flight (TOF) image sensor has been on the road since 2015 and focuses on human machine interfaces for gesture recognition. The second generation of QVGA chipsets focuses on in-cabin monitoring and exterior applications thanks to its further enhanced sunlight robustness. In 2019, we released the third generation VGA TOF sensors. Our ever expanding automotive TOF portfolio is the most complete on the market and allows customers to select the optimal sensor for their system in terms of precision, resolution and integration level while enabling significant cost savings at the same time.

WE ASPIRE TO PUT 20 ICS IN EVERY NEW CAR WORLDWIDE

Melexis operates mainly in the semiconductor market for cars, a market that has a solid foundation and exciting growth opportunities. In spite of a drop in 2019 global car sales numbers, the amount of electronics integrated into vehicles keeps increasing steadily.

Passenger cars have been filled with sensors to sense temperature, pressure, position and speed for years now. However, the need for sensors keeps increasing considerably. One of the reasons is the mix of engine technologies currently being used, such as internal combustion engines, hybrid and electric motors as well as advanced driver-assistance systems (ADAS) and upcoming autonomous driving requirements. Furthermore, gesture sensors and LED drivers are significantly on the rise as they improve in-cabin comfort experiences. In addition, smart seats, trunks and HVACs require an increasing electrification and motorization as more and more smaller motors are added to the car.

The clear transition to a low-carbon energy future is triggering a shift from cars with a classic combustion engine to hybrid and electric cars. Melexis concentrates on three trends: electrification, which targets zero emissions, ADAS, aiming for zero traffic fatalities, and personalization, maximizing the level of comfort for every individual in the vehicle.

Our engineers focus mainly on innovations for the powertrain and chassis, body and safety systems. Developing advanced integrated applications and solutions for these areas is our core business.

TWO PRESTIGIOUS AWARDS FOR OUR BRAND-NEW TEMPERATURE SENSOR

The annual Elektra Awards event is the highlight of the year for the European electronics industry as the gathering assembles, showcases and evaluates the finest new products, technology innovations and company performances. At the event, an independent panel of judges assesses the quality of all entries and announces the winners at an awards ceremony. Melexis was honored to receive the 2019 "Excellence in Product Design for Medical" award for our MLX90632, the world's smallest medical-grade far-infrared sensor.

And that is not its first accolade: previously, it was recognized as a 2019 award winner in the "Excellence in Sensors Innovation" category at the Best of Sensors event which highlights cutting-edge advancements and achievements that are moving the sensor industry forward. Discover why our new miniature far-infrared sensor is so revolutionary on page 23.

ANOTHER WELL-ATTENDED YEAR AT SENSORS EXPO & CONFERENCE

Melexis had the pleasure of taking part in America's largest event dedicated to sensors and connectivity. At the Sensors Expo & Conference in San Jose, California, we were able to demonstrate our cutting-edge technological advances in temperature sensing, time-of-flight, people detection, current, magnetic position and pressure sensors for a number of applications, for the automotive industry and other markets such as smart appliances, home automation and industrial sectors. Attendees were keen to get acquainted with our technologies through multiple demonstrations that included a body temperature mobile device app, a bluetooth ear thermometer, a touchscreen with our current and pressure sensors portfolio, a 3D magnetic cube, the Triaxis® development kit, people detection sensors, a current sensor demonstrator and a time-of-flight body skeleton.

The shift to electric vehicles (EVs) also generates opportunities in cooling and heating systems, both for powertrain components like the battery as well as for HVAC systems. An EV does not generate heat on its own, which requires a wide range of sensors and drivers to keep both the battery as well as individual passengers at an ideal temperature whilst using a minimal amount of energy.

We remain realistic, however, about the role of electric vehicles in today's global car fleet. EV ownership is growing quickly but pure EVs still make up only 3.6% of the total number of registered cars in the European Union. There is some way to go before pure EVs will dominate the market. This means that the Melexis product families of today extended with innovative products will be serving both the more traditional applications and the new ones in the decades to come.

In addition, we are seeing an interesting growth in new markets and sectors, including 2-wheelers, consumer electronics, industrial applications and healthcare.

MELEXIS JOINS THE MINTOFKA PROJECT

Moving to the next level of automated driving requires a variety of safety systems that continuously monitor the driver's readiness to take over. This increases the demands on sensor systems that monitor the vehicle's interior to detect passengers, hand-on-wheel and gesture control. All the while, design requirements and space restrictions of passive safety systems limit the available space in the vehicle. Miniaturization and system integration will be key to higher performance and new features. Melexis partnered up with project partners BMW, Fraunhofer Institute for Applied Optics and Precision Engineering IOF and gestigon®, a VALEO brand, and intends to develop a miniaturized 3D camera system for vehicle interiors within the MinTOFKA (or miniature time-of-flight camera system) project. The three-year project is funded by the German Federal Ministry of Education and Research as part of its call for "Miniaturized optical systems with high integration density".

WE FOCUS ON ASICs AND ASSPs

Two thirds of our developments stem from our own initiative and are created independently, from within Melexis. We call these our ASSPs or application-specific standard products and sell them to multiple customers. It is our intellectual property that we share to the benefit of our customers. As a consequence, we sell these products more widely to a variety of markets, such as the automotive, industrial and consumer markets. This approach is one of the key building blocks for our future growth. In addition, we work with a hybrid concept, in which we offer a basic chip comprising our technology but which the customer can then adapt to his specific needs and use flexibly.

When it comes to our ASICs or custom-made application-specific integrated circuits, customers have every reason to trust Melexis for their mixed-signal ICs and sensor parts. Melexis prides itself on offering more than just a finished and tested component based on the customer's block diagram. The responsible teams actively think of ways to design, develop and deliver customized ASIC solutions for our customers. It is those innovative, progressive solutions at the schematic level and throughout the lifecycle of the program that make all the difference to the customer.

SHOWCASING INNOVATIVE SENSING TECHNOLOGY AT EV TECH EXPO

Located in Stuttgart, the heart of Germany's automotive industry, the EV Tech Expo is the go-to place to discover the latest developments for electrified drivetrains in the hybrid and electric vehicle supply chain. Think chargers, batteries, battery management systems, thermal management systems, thermal-runaway prevention, inverters, e-motors, peripheral solutions like over-current protection, switches, cabling, connectors, etc. At our 30 m^2 Melexis booth, we showcased our superior technologies for current, magnetic position and temperature sensors as well as embedded motor drivers solutions (fans, blowers, pumps) for all the above-mentioned applications. Our booth featured multiple demonstrations and product novelties. Visitors looking for innovative solutions were especially keen to discover, among others, our sensorless water cooling pump, sensorless HVAC blowers and flaps, a current sensor demonstrator, the 3D magnetic cube and far-infrared people detection systems.

WE WANT TO REMAIN OUR CUSTOMER'S PARTNER OF CHOICE

We focus on a product's complete lifecycle. That is why we foster a close relationship with our customers and our suppliers. We aim for strong continuity in these collaborative activities, especially in the field of development, engineering and technical support. Working together with our customers allows us to go beyond simply developing a good product and to continuously search for out-of-the-box solutions. Solutions that other companies have not yet detected. It offers crucial insight and the big-picture perspective needed to develop applications that anticipate future plans and needs, new trends and emerging markets.

CELEBRATING THIRTY YEARS OF INSPIRED ENGINEERING

For over 30 years, Melexis has been imagining - and creating - the best future possible. To mark this exciting milestone, we organized a simultaneous celebration at all our sites in December 2019. Much like a global Eurovision song contest, all sites appointed a site representative who logged in through online video call technology and shared their local celebratory event with the other sites worldwide.

To top it off, we compiled an animated overview of our journey, from where it all started to where Melexis is today: a global leader in semiconductor sensors, supplying more than 1 billion integrated circuits annually. Throughout this journey, we never stop focusing on providing innovative solutions that enhance the daily comfort and safety of our customers' end-users. This video shows a glimpse of all the exciting projects we were involved in, from our first dashboard light sensors and window lift chips to power steering sensors, from drivers that power fans inside your home over the sensors in your phone to sensors that measure the temperature in your microwave. And with recent solutions like hand gesture recognition and ambient lighting, we keep introducing new technologies. In a world that is rapidly changing, we are fully ready for the new challenges ahead. Check out our timeline full of firsts here:

30 Melexis ANNIVERSARY

EXPANSION OF SOFIA SITE IN PROGRESS

As part of our goal to triple the manufacturing space and test capacity of our site in Sofia, Bulgaria, the construction works that began in 2018 have gathered speed in 2019. The new Sofia building will comply with best practices for energy efficiency and is based on contemporary office interior design concepts which will make our Sofia premises an even more efficient and attractive workspace location for our colleagues there. With construction workers currently erecting the new building, the opening of its production and warehouse areas is scheduled by the end of 2020.

4 OUR SOLUTIONS

Melexis products are usually hidden in the interior of an engine, an electric motor or other applications. Even though they are concealed and very small, they are essential to the proper functioning of a car and other devices. Our products ensure more energy-efficient, comfortable and safer systems through intelligent functionalities and better communication.

Melexis develops sensors and drivers for various car engines and applications. Our sensors measure currents in electric and hybrid cars. Our drivers are operating fuel pumps. As start-stop functions in new cars require an intelligent control of the fuel pump, petrol engines need the exact right amount of fuel supply. Electric engines need a stable ambient temperature (as their cooling systems need meticulous adjusting because the all-important driving range depends on it). Our inspired engineering ensures all that.

Melexis products stand out from those of rival manufacturers because of our intrinsic capacity to integrate detection, processing, activation and communication into one single chip. Smart integration is increasingly critical in the delivery of optimal solutions to simplify complex electronic designs.

NO AUTOMATION WITHOUT SENSORS

As cars with autonomous functionalities are being developed, awareness of their surroundings is becoming increasingly important. Cars with automated functionalities use sensors and drivers for tasks such as automated parking, highway autopilot and navigation through heavy traffic. A large number of 'under the hood' adaptations is effectively required to make a car function autonomously and Melexis actively contributes in areas like automatic transmission and throttle by wire.

Melexis is a world leader in magnetic sensing. For over a decade now, our company has pushed the market forward with devices based on our patented Triaxis® Hall-effect sensor technology which continues to set new benchmarks for contactless magnetic position sensing. Typical uses for these sensor devices are to determine movement, position and speed as well as sense currents. As these magnetic sensors perform contactless measurements, they are immune to wear and tear, dust, dirt, humidity and vibration. Furthermore, Triaxis® technology allows magnetic sensors to be deployed across many applications. By taking mechanical tolerances out of the equation and simplifying the magnetic aspects of the design, Melexis' Triaxis® products enable more robust applications and are considerably easier to manufacture than alternative technologies.

Melexis' Hall-effect ICs are used to detect pedal, throttle and steering wheel position as well as steering torque and gear selection. Triaxis® sensors are also used to monitor movement in engines and drivers and to measure current in electrical systems. Other high volume applications for these Hall-effect ICs include mobile devices, games consoles, computers and automation.

Our latest Hall-effect based current measuring solutions draw upon our extensive experience in this area, with millions of devices sold. Our products offer significant performance enhancements and a rugged design, making them ideal for the challenging applications found in the fast-growing market for the electrification of modern automobiles.

The Melexis range of magnetic sensors offers solutions for robust and reliable contactless switches, replacing traditional mechanical switches (which are large, expensive and unreliable) for applications such as seat belt buckles and brake and clutch pedals. Thanks to our unique programmable latch and switch ICs, our customers benefit from increased flexibility in both design and manufacture.

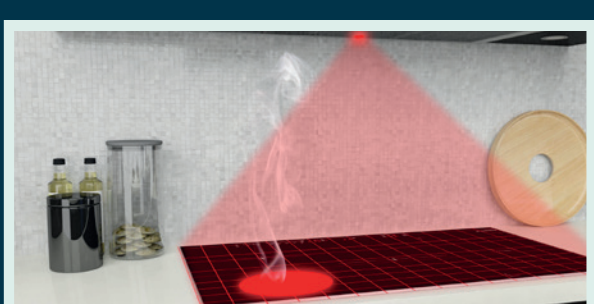
Sensors facilitate many of the drive, comfort and safety applications in modern vehicles. Air-conditioning, particulate traps, exhaust after-treatment systems and electronic stability control systems are just a few examples of applications that simply could not exist without the extensive use of sensor technology.

Melexis also develops advanced pressure sensors, based on micro-electromechanical system (MEMS) technology whereby the pressure causes a temporary and reversible distortion in a mechanical structure etched into the IC. Pressure is one of the most important sensors, for which Melexis also supplies the associated signal-processing interface ICs or via fully integrated pressure sensors.

Both drivers and passengers are surrounded by sensors and controls these days, from tire to seat pressure. In fact, our tire pressure sensors are the smallest in the world while

NEW MILESTONE FOR OUR FAR-INFRARED THERMAL SENSOR ARRAY

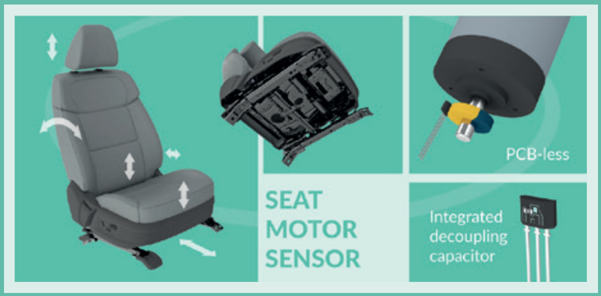
The new **MLX90641** extends critical figures of merit to further advance our technical lead in far-infrared thermal sensing. This latest sensing technology allows easier integration of temperature measurement into applications that enhance safety, efficiency and convenience. The extended temperature range (between -40° and +300°C) and improved thermal stability make this new device even more versatile and will be particularly suited to applications in the world of cooking, such as conventional and microwave ovens as well as industrial applications such as the detection of power electronics overheating, industrial applications and in-cabin monitoring in vehicles. The device is simple to use, stores all results in internal RAM for access via an I2C compatible digital interface and is available with two different field of view options. The new technology meets our customers' needs for accurate temperature sensing in ever more challenging thermal conditions.



BETTER AND SIMPLER AUTOMOTIVE AMBIENT LIGHTING

Lighting is one of the key features for future personalization and differentiation within the driver's cabin. In line with this trend, we have extended our lighting product family: the new **MLX81113** will support the further growth of RGB LED based automotive ambient lighting, also known as LIN RGB. Already well established within nearly every OEM worldwide, our LIN-compatible RGB(W) drivers enable sophisticated yet cost-effective ambient lighting for vehicles from entry-level to mid-range and luxury models. The MLX81113 raises the performance bar and lowers the external component count, thanks to its very high robustness against electromagnetic disturbances that is archived by using silicon-on-insulator technology. Additionally, it is designed in accordance with ISO 26262 to ease system-level functional-safety certification.

still combining more and more functions onto one chip. Integrated pressure sensors contain the measurement function and conditioning electronics in one chip. This broadens our scope of applications and helps our customers address a wide range of challenging technical issues.
MEMS technology is also used in our own far-infrared (FIR) thermal sensor array. In the automotive sector, array sensors are suitable for multi-zone air conditioning, passenger classification (for more effective airbag use) and driver monitoring (to prevent drivers from becoming distracted). In consumer electronics, array sensors are used in microwave ovens to measure the temperature of heated food. In the Internet of Things systems, they are used for numerous tasks in the field of temperature measurement and detection. But that is not all. Our FIR array sensors can also be found in low-resolution visual thermometers (for use in building automation and the industrial, security and do-it-yourself sectors).
Awareness is not only about devices that can interact with the world around them. Portable devices, living spaces and cars in particular must be unobtrusively aware of the user or occupant. For a full and enjoyable user experience, a more intuitive and natural interaction with the various systems is needed.
Proximity sensors can be especially effective for detecting the presence or position of an external object in one or several zones, while 3D time-of-flight (TOF) detection enables a fully contactless human-machine interface. Because our Melexis TOF sensors are extremely proficient



POSITIONING CAR SEATS EVER MORE ACCURATELY

As automotive manufacturers increasingly adopt motorized seat adjustment to enhance the driver and passenger safety and comfort, it is key to accurately detect the seat's position. Accurate detection of the seat position can be used by electronic control units (ECUs) to adjust safety features such as air bag deployment and seat belt tensioning. Our new **MLX92223** is designed to do just that: the Hall-effect latch with its integrated passive components is compatible with the industry's standard ECUs, it enables ever smaller solutions and does away with the need to mount it on a printed circuit board. Other advanced features include a magnetic core with programmable temperature coefficient, an integrated emulated supply resistor, superior electromagnetic compatibility (EMC) and electrostatic discharge (ESD) performance and reverse supply voltage protection. The MLX92223 represents a significant improvement in seat position monitoring and can also be used in other consumer and industrial applications.

FIRST AUTOMOTIVE GRADE SINGLE-CHIP VGA TIME-OF-FLIGHT IMAGE SENSOR

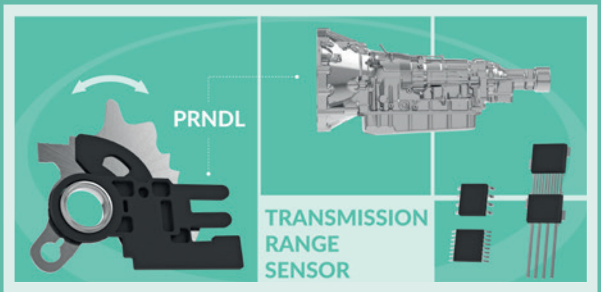
As the automotive industry continues towards semi-autonomous vehicles, progress in advanced driver-assistance systems is bringing many benefits. In-car monitoring is now being used to detect the driver and other occupants of a vehicle, both as a user interface and a safety feature. The **MLX75027** reinforces Melexis' leadership in this application space. The fully integrated system-on-chip solution offers car manufacturers easier access to the most advanced time-of-flight (TOF) technology. It provides video graphic array (VGA) 640 x 480 pixel resolution image sensing and processing in one single ball grid array package. The MLX75027 creates a three-dimensional image of the cabin, allowing it to monitor people and objects, as well as detect gestures. It can also be used to detect free space and obstacles outside the vehicle, such as pedestrians, for collision warning and navigation applications.

at filtering backlight and sunlight, they can also be used to recognize 3D objects in difficult environments such as cars and factories.

Given the ongoing evolution towards autonomous and semi-autonomous vehicles, control dependent on the driver's involvement throughout the journey is a major concern. Our TOF technology is of crucial importance to this application.

Most electronic modules in a vehicle, from the engine controller and ambient lighting to the rear-view mirror, are interconnected over the vehicle's data bus. The flow of data between them constitutes the 'consciousness' of the vehicle.

Most car manufacturers now base their vehicle architecture on a network of at least two interconnected standards. The LIN (local interconnect network) protocol is already widely used in low-speed bus applications while CAN FD (controller area network with flexible data rate) will be the future high-speed backbone of networks in vehicles. The Melexis LIN portfolio allows to reduce the bill of materials of many applications. Engineers are benefiting from the mix of highly advanced technology, design flexibility and cost effectiveness in a single chip. The result is a streamlined, commercially attractive semiconductor platform that makes it possible to develop much smaller LIN modules with a reduced bill of materials.



DUAL-OUTPUT OPTION FOR TRIAXIS® HALL POSITION SENSORS

The **MLX90374** is the latest addition to our third generation Triaxis® Hall sensors and the very first to offer multiple outputs on a single die. The inclusion of a second output helps reduce cost by offering redundant signal transmission while utilizing only a single sensing element. The monolithic MLX90374 determines the absolute position of a moving magnet through a single chip solution and provides two independently configurable output stages. It is ideally suited for automotive applications such as transmission range selection (TRS) sensing or inhibitor switches. It can also be used to detect the position of pedals, steering wheel or seat height, as well as in the drivetrain. Its flexibility, performance and use of smaller and lower cost magnets deliver what customers need, even in high temperature applications such as in the engine bay. Like other members in the third generation Triaxis® family, the MLX90374 offers a programmable measurement range and programmable output characteristics. It will help drive the electrification of automobiles and the move towards greater autonomy.

NEW ADDITION TO OUR SMART EMBEDDED MOTOR DRIVERS

Melexis added the **MLX81206** to its second generation embedded motor driver product portfolio for automotive applications. The single-chip motor predriver offers more Flash memory (64 Kb) and higher integration with the ability to drive BLDC motors from 100 W to 1,000 W. It supports widely used interface standards, making it a simple solution to predriving a range of high-power BLDC motors. With the ability to drive 12 V motors in either a sensor or sensorless configuration, the MLX81206 is the ideal choice for silent and high-performance HVAC blowers, engine cooling fans and pumps in conventional, hybrid and full electric vehicles. Our engineers achieved a high level of integration, bringing together an embedded driver with high-voltage analog circuitry and digital technology, including Flash and non-volatile RAM memory along with an embedded microcontroller. This makes the MLX81206 a highly efficient and complete single-chip solution combining both hardware and software.

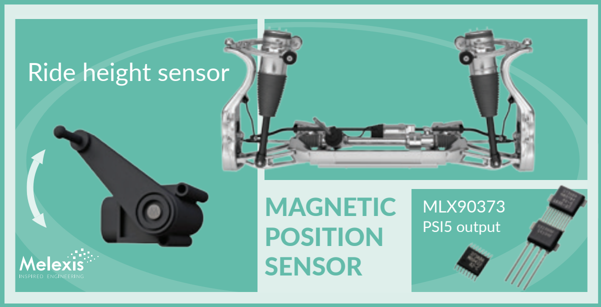
NO INTERACTION WITHOUT DRIVERS

A vehicle's ability to detect information from its surroundings is not enough in itself. True interaction only occurs in combination with driving and actuating. Smart motor drivers for water pumps, oil pumps and powerful fans contribute to more energy-efficient systems. With our patented TruSense™ technology, Melexis has brought major innovations to smart motor drivers and is now applying this expertise to bring differentiating, high-performance solutions to the market.

Brushless direct current (BLDC) motors can be found in pumps, blowers, fans and positioning actuators. However, not all actuator applications are as visible: one of the main actuator markets in the automotive sector deals with the micro-actuators used in HVAC systems. These are used to divert airflow and make the vehicle more efficient and comfortable. A smooth and hassle-free operation of these drive and actuation modules relies on a steady flow of data from the LIN.

UNIQUE RELATIVE PRESSURE SENSOR IC FOR CAR EVAPORATION SYSTEMS

The **MLX90821** relative pressure sensor IC has been designed for measuring pressures as low as 50 mbar and up to 700 mbar in automotive applications. Using the latest MEMS technology, the system-in-package IC solution is suitable for the reliable measurement of evaporation (EVAP) systems for both internal combustion engine and hybrid vehicles. EVAP systems are designed to capture, store and responsibly dispose of vapor, preventing it from escaping into the air. Pressure sensors that can operate at very low pressures, like the MLX90821, are a crucial part of these systems, as they are able to detect even the smallest leaks that can potentially appear at any point in the EVAP system. The MLX90821 is a relative pressure sensor that has the range, reliability, stability and accuracy to cover EVAP systems for both internal combustion and hybrid engines. It allows car and module manufacturers the ability to standardize on a single design for both types of engine, using a sensor IC that is factory calibrated but can also be customized for each individual application.



PSI5 OUTPUT OPTION FOR TRIAXIS® HALL POSITION SENSOR

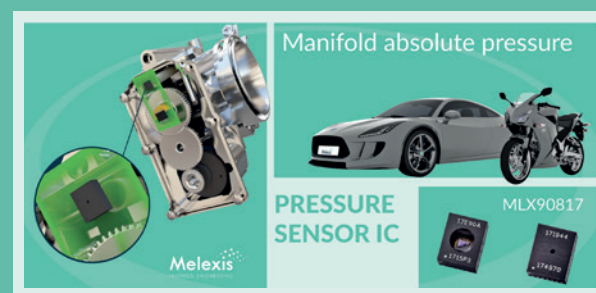
Melexis developed the **MLX90373**, part of the Triaxis® rotary and linear Hall-effect position sensor family and the first Triaxis® angle sensor to offer support for the Peripheral Sensor Interface 5. The PSI5 is an open standard based on the technology used in millions of air bag safety systems and a wide number of automotive sensing applications for safety and comfort, such as steering and chassis ride height measurement. The MLX90373 is a great step forward for the third generation Triaxis® family, as it delivers all of the benefits of our industry-leading 3D sensing technology to a new implementation paradigm, the PSI5 interface. It adds flexibility when using the four time-slots available, it provides for additional external sensor data and will help lower the cost of adoption for more automotive manufacturers.

MAINTAINING MARKET LEADERSHIP

Our Melexis solutions portfolio allows systems to become more 'aware' and interact directly with their surroundings. Our strategy focuses on bringing the right innovation and the right level of integration and solutions to the constantly growing need for sensors and drivers in different market segments of the automotive, industrial, medical, home and building automation sectors. With our long-standing expertise in product definition, design and testing for integrated analog and digital semiconductor solutions and sensor chips, our company is sure to maintain its leading market position.

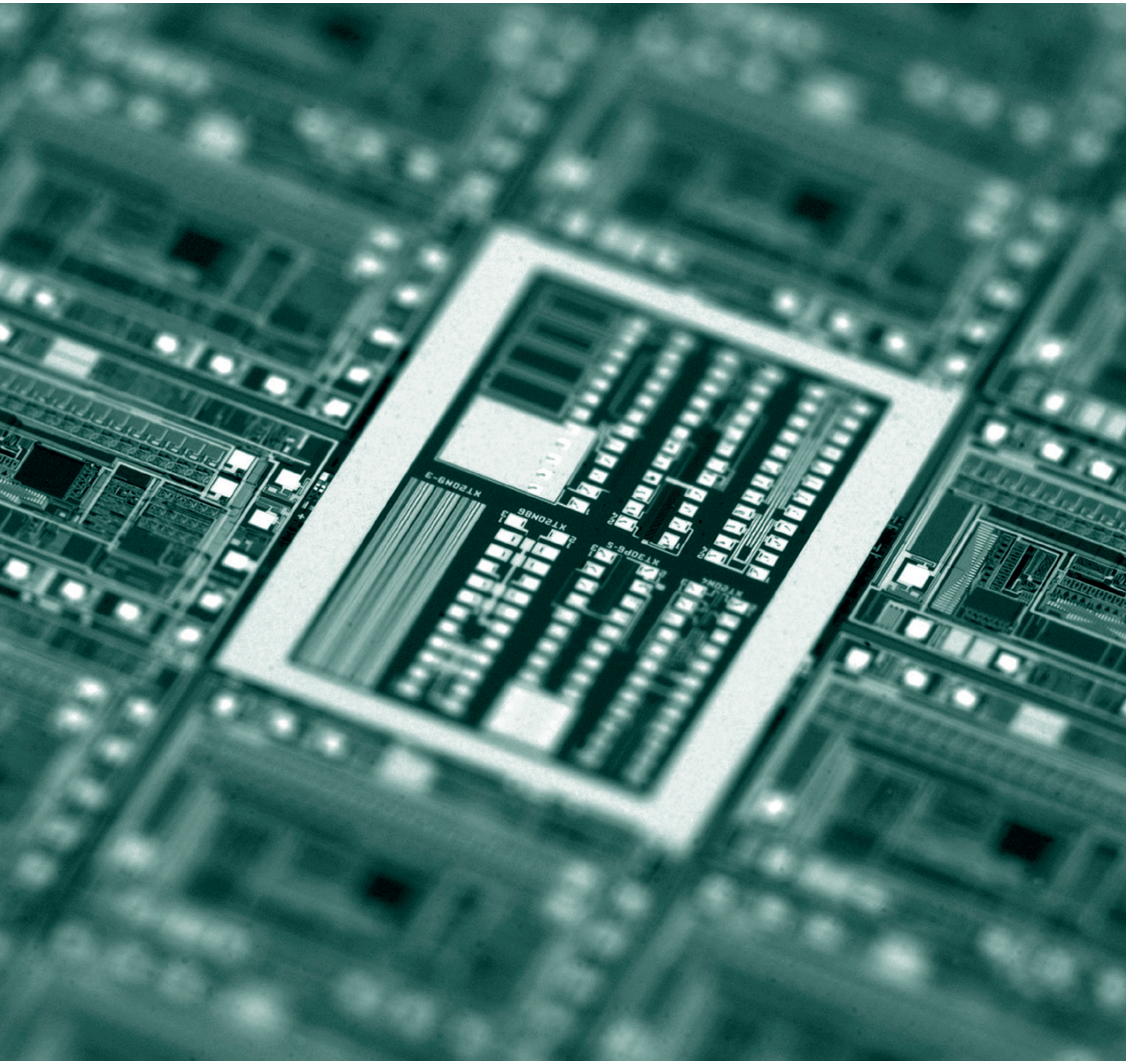
THE WORLD'S SMALLEST MEDICAL-GRADE FAR-INFRARED SENSOR

Melexis launched the world's smallest medical-grade far-infrared (FIR) sensor. As we already shipped millions of our FIR sensing devices, the new device builds upon this expertise. The new medical-grade **MLX90632** is optimized for the normal human body temperature range and offers a medical grade accuracy of ± 0.2 °C. The ultra-small sensor is a complete solution and allows fast and easy integration into space-restricted health monitoring devices. It opens up a world of new applications, including wearables, advanced in-ear devices (so-called hearables) and clinical point-of-care applications where highly accurate human body temperature measurement is required. It can be incorporated into portable diagnosis tools that monitor body temperature continuously and more classic medical devices such as forehead or ear body thermometers. In spite of its recent launch, the MLX90632 already took home the 2019 "Excellence in Product Design for Medical" award at the Elektra Awards and the 2019 "Excellence in Sensors Innovation" award at Best of Sensors.



MORE ANALOG OUTPUT VOLTAGE FOR PRESSURE SENSORS

Melexis added a new member to its portfolio of manifold absolute pressure (MAP) sensor solutions for use in harsh and non-harsh media applications, especially in the automotive sector. In addition to the **MLX90818**, a packaged absolute pressure sensor IC with digital SENT output that is factory-calibrated to cover the range 1.0 bar to 5.5 bar, Melexis engineered the **MLX90817**, providing more traditional analog output voltage. The device shares many unique features with the MLX90818 such as harsh media compliance for some specific versions and unmatched accuracy and small size. With the MLX90817 and the MLX90818, customers have the best solution for any kind of MAP sensor IC application. The MLX90817 and MLX90818 represent a significant step forward in terms of accuracy, size and flexibility and will make a significant contribution to ensuring that the engines of tomorrow become increasingly clean and efficient.



GRI STANDARDS: CORE OPTION

This chapter has been prepared in accordance with the Belgian law of 3 September 2017 detailing the publication of non-financial information and information regarding diversity by certain large companies and groups. To report on this information, Melexis has been inspired by the Global Reporting Initiative (GRI) Standards: Core option and is committed to report on our sustainability efforts consistently over the next years. You can find the GRI content index on pages 129-135.

5 OUR RESPONSIBLE ENTREPRENEURSHIP

TABLE OF CONTENTS

Since its founding in 1988, Melexis has grown into a company with more than 1,500 colleagues on three continents, all of whom are passionate about shaping the future and all of whom care deeply about people and planet.

We care for people. Our company combines exceptional people with a unique company culture, great products and a promising future. A shared corporate vision enables our growth and we realize that it is our people who represent a vital link in the chain that connects motivated individuals, outstanding teams and great results.

We care for the planet too. We are acutely aware of the increasing worldwide concern for safety and sustainability, two areas in which we have been active for many years. From sensors and sensor interfaces to embedded and smart drivers, we are constantly innovating to help create the most sustainable and reliable solutions possible.

This chapter outlines our main guiding principles and subsequently lists the results of our efforts to positively impact and care for various stakeholders, both on a social and an environmental level.

1 OUR GUIDING PRINCIPLES

THE MELEXIS WAY

The Melexis values support our company's vision, they shape our culture and they reflect what we value as a company. These values are straightforward: we are on the customer's side, we always have a plan, we care, we understand the value of money and we enjoy the journey towards success. 'The Melexis Way' truly represents the essence of our identity and guides us in everything we do.

We are on the customers' side

We are rooting for our customers' success. We don't stop at engineering innovations for our customers, we feel part of their team and are with them all the way. The time we spend on-site at our customers offers us unbeatable industry insight. Experiencing our customers' challenges and understanding their perspective allows us to peer over the horizon of our industry to build future-proof innovations.

We always have a plan

We became leaders in the industry because we are not daunted by challenges. We love coming up with new ways to create value, whether it is by removing obstacles or by exploring new and exciting opportunities. We are proud to build the future alongside talented colleagues and customers. And even though we work in the most demanding industries and settings, we are low maintenance ourselves: you can count on us to be collaborative, patient and self-driven.

We care

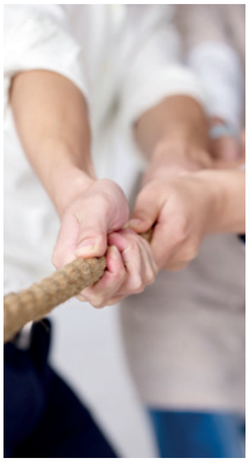
For us, technology is about solving fundamental societal challenges. We think it takes all kinds of people to solve these challenges, so we actively strive to build a diverse team. We take nothing for granted, be it our people, our partners and customers, our planet or our resources. We attract and cultivate talent in an environment that values learning, growth, collaboration and continuous improvement.

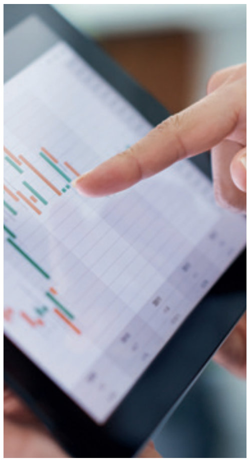
We understand the value of money

We take pride in our track record as an industry leader in terms of innovation, operational excellence, growth and results. We remain committed to lean ways of working that have brought us where we are today. This way, we create enduring value for customers, shareholders and other stakeholders. Our close relationship with customers allows us to focus on engineering solutions that offer maximum added value, day after day.

We enjoy the journey towards success

We are privileged to work with people who bring enthusiasm and eagerness to the job, who are always willing to innovate, and who show confidence in their own and their teams' resourcefulness. We celebrate our victories, but we think it is even more important to enjoy the journey itself – we get a real sense of achievement from working towards audacious goals with a team we can rely on.




THE MELEXIS QUALITY AND ENVIRONMENTAL POLICY

The Melexis quality and environmental policy is the guiding principle throughout our organization. It provides a framework for our day-to-day operations and guides every decision and every action. Our quality mission statement sets out the aim: 'smart solutions that enable innovation and strengthen the confidence of our customers.' Our quality and environmental policy strives to keep our environmental footprint as small as possible because we take our responsibility to both people and planet very seriously. (Read more on page 42)

THE MELEXIS CODE OF CONDUCT

Melexis has outlined an ethical code of conduct to provide a clear and unambiguous reference for expected behavior during business activities. Melexis, our colleagues, the members of our Board and our executive management all follow this code of conduct as it sets out the responsibilities Melexis takes on in the workplace and in doing business with its partners. These responsibilities include rules on anti-corruption and anti-competitive behavior, on health and safety, on privacy and on many other crucial topics. (Read more on page 47)

2 OUR SUSTAINABILITY REPORT

In the following subchapters, various material topics with regards to sustainability will be covered including our stakeholders, human resources, social commitment, a healthy work environment, environmental responsibility, supply chain, our dedication to human rights, anti-corruption and bribery. Unless otherwise specified, the disclosed information refers to the 2019 fiscal year and is valid for the whole organization.

OUR STAKEHOLDER ENGAGEMENT

Melexis takes nothing for granted, be it our people, our partners and our customers, the planet or its resources. An open dialogue with various yet equally important stakeholders is essential in order to improve overall sustainability continuously. Our stakeholders are those people on whom Melexis has an influence or who have an influence on Melexis, including customers, shareholders, suppliers, distributors, representatives and neighbors, and they deserve the utmost integrity, honesty and fairness in all their interactions with our company. The following table shows the different channels Melexis uses to communicate with its stakeholders regarding its activities.

OUR STAKEHOLDER GROUPS	COMMUNICATION CHANNELS
Our colleagues	Monthly internal company newsletters Quarterly internal information meetings Employee values program Regular leadership communications People surveys Global employee performance excellence system Global intranet Social media and website
Our customers	Annual customer audits and business reviews Annual strategic technology roadmaps 24/7 technical support hotline Technical interface engineers Weekly social media posts Monthly press releases Monthly events Weekly letters Brochures and product sheets
Our investors	Annual shareholders meetings Quarterly reports Annual report Investor relations newsletters and press releases Yearly financial statements Weekly social media posts
Our suppliers	Supplier audits and business reviews Weekly social media posts Supplier assessment
Our communities	Industry associations Corporate social responsibility activities Trade fairs Weekly social media posts Monthly press releases

OUR TALENTS

People are not only the most important assets in our company, they ARE our company. Our HR approach builds upon the principles of the self-determination theory: autonomy, relatedness and competence. These innate psychological needs are seen in humanity across time, gender and culture. They are essential to the psychological health, well-being and growth of any individual.

Our community statistics

By region and gender: employee headcount statistics on 31.12.2019

	FEMALE		MALE		2019	2018
Region	**Absolute #**	**Percentage**	**Absolute #**	**Percentage**	**Total absolute #**	**Total absolute #**
APAC	27	35%	51	65%	**78**	**65**
EMEA	463	33%	949	67%	**1,412**	**1,447**
Americas	3	9%	30	91%	**33**	**33**
Total	**493**	**32%**	**1030**	**68%**	**1,523**	**1,545**

Notwithstanding the fact that we are a high-tech engineering company, we are proud that we are able to attract and retain the unusually high number of more than 30% of female colleagues.

HELLO COBOT!

Robots are coming, and that is a good thing. Just ask our colleagues in Ieper, Belgium. In order to reduce manual repetitive work for operators, the shipping department has decided to purchase a cobot, a collaborative robot from Universal Robot. This extremely versatile collaborative industrial robot arm can load up to ten kg and has a long reach capability. It is mainly used in machine tending, palletizing and packaging. The Ieper cobot is used to fold and fill cardboard boxes with reels. Since its introduction, our operators simply need to scan which reels should be put in a box and dropped in a trolley facing the cobot. The cobot determines if it will need a big or small box, picks it up, folds it and fills it with the reels on the trolley. The cobot subsequently pushes the box onto the weighing unit. Software picks up the weight of the box, communicates this to our central database management system and prints the right labels for the corresponding box automatically. As it eliminates the need for human lifting, covers great distances and brings more quality to the overall shipping process, the cobot is a welcome addition to the Melexis family.

By employment type: employee statistics on 31.12.2019

	EMPLOYMENT TYPE					
	Full-time		Part-time		Currently inactive at Melexis (thematical leave)	
Region	**Absolute #**	**Percentage**	**Absolute #**	**Percentage**	**Absolute #**	**Percentage**
APAC						
Female	27	100%		0%		0%
Male	51	100%		0%		0%
EMEA						
Female	391	84%	55	12%	17	4%
Male	925	97%	22	2%	2	0%
Americas						
Female	3	100%		0%		0%
Male	28	93%	2	7%		0%
Female count	**421**	**85%**	**55**	**11%**	17	3%
Male count	**1,004**	**97%**	**24**	**2%**	2	0%
Total 2019	**1,425**	**94%**	**79**	**5%**	**19**	**1%**
Total 2018	**1,457**	**94%**	**74**	**5%**	**14**	**1%**

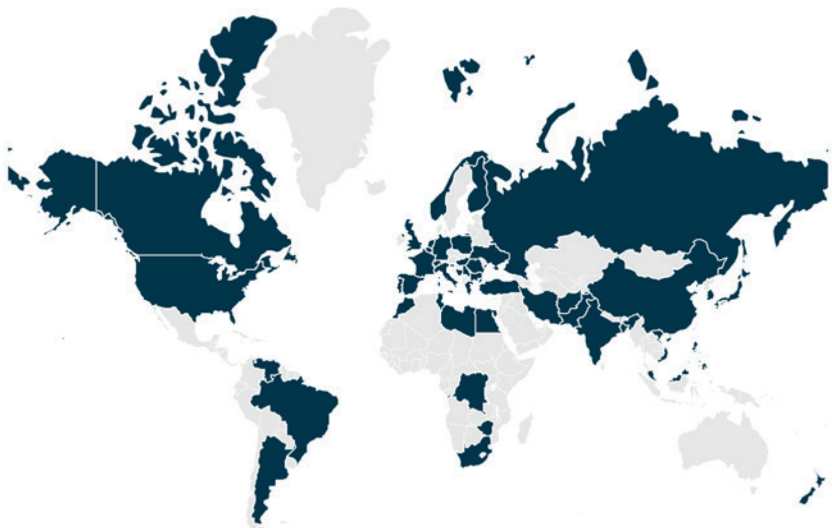
By age: employee statistics on 31.12.2019

	AGE			
Region	**<35**	**35-55**	**>55**	**Total absolute #**
APAC				
Female	17	9	1	**27**
Male	11	38	2	**51**
EMEA				
Female	191	234	38	**463**
Male	424	465	60	**949**
Americas				
Female		2	1	**3**
Male	10	15	5	**30**
Female count	**208**	**245**	**40**	**493**
Male count	**445**	**518**	**67**	**1,030**
Total 2019	**653**	**763**	**107**	**1,523**
Total 2018	**710**	**707**	**128**	**1,545**

By nationality: employee statistics on 31.12.2019

49 NATIONALITIES

Afghanistan, Argentina, Bangladesh, Belgium, Bosnia, Brazil, Bulgaria, Canada, China, Congo, Egypt, Finland, France, Germany, Greece, Hungaria, India, Iran, Italy, Japan, Lebanon, Libya, Malaysia, Mauritius, Morocco, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovenia, South Africa, South Korea, Spain, Switzerland, Tunisia, Turkey, Ukraine, United Kingdom, United States, Venezuela, Vietnam, Zimbabwe



By new hires: employee statistics on 31.12.2019

	AGE			
Region	**<35**	**35-55**	**>55**	**Total absolute #**
APAC				
Female	4	1		**5**
Male	1	10		**11**
EMEA				
Female	30	24		**54**
Male	88	37		**125**
Americas				
Female		1		**1**
Male				
Female count	**34**	**26**		**60**
Male count	**89**	**47**		**136**
Total 2019	**123**	**73**		**196**
Total 2018	**246**	**133**	**16**	**395**

In 2019, we welcomed 196 new Melexians. Our dedicated talent scouts are continuously scanning the labor market to hire for global key positions, including hard-to-fill positions. This global team collaborates seamlessly with the local HR teams, flexibly addressing hiring locations. The career section of our website and online tools like LinkedIn, Xing and Google Ads are actively used. Job fairs and university networking and collaboration activities have been continued, respectively strengthened.

By turnover: permanent employee statistics on 31.12.2019

Melexis is often cited as an attractive employer. We aim to excel in the area of career opportunities, long-term job security, life balance, financial health, appealing job content, personal development and strong management. We strive for optimal working, environmental and social conditions and are privileged to work with people who bring enthusiasm and eagerness to the job.

Employee turnover (permanent employees only) in 2019, by region, age and gender				
	AGE			
Region	**<35**	**35-55**	**>55**	**Total absolute #**
APAC				
Female	2			**2**
Male		1		**1**
EMEA				
Female	28	24	8	**60**
Male	82	33	8	**123**
Americas				
Female		2		**2**
Male		1	1	**2**
Female count	**30**	**26**	**8**	**64**
Male count	**82**	**35**	**9**	**126**
Total 2019	**112**	**61**	**17**	**190**
Total 2018	**70**	**41**	**17**	**128**

We notice a somewhat higher turnover in comparison to 2018, most notably in operations, which is linked to the decline in production levels.

Employee benefits

Benefits may vary according to local legislation obligations. Melexis respects the well-being of its colleagues and wants to stand out as a preferred place to work. That is why Melexis offers its colleagues more benefits than is legally required. These benefits may include, amongst others: parental leave (for both partners), flexible work hours, teleworking, additional health/pension/ life insurance, benefits passes, meal vouchers, etc. All benefits standard to full-time employees are also applicable to part-time employees and employees with an employment agreement of determined duration.

Our people development

At Melexis, people are not taken for granted. Talent is attracted and cultivated in an environment that prizes learning, growth, collaboration and continuous improvement.

We listen to our people

At intervals, a people survey is sent out to all Melexians to gather their feedback on different topics such as company image, development, performance management, remuneration, vision and strategy. The survey allows assessing Melexis as an employer in a structured, consistent and uniform way with the possibility to compare to other high-tech companies and to define areas of strength and areas which need to be improved to create the best imaginable future for our people. To ensure confidentiality, Melexis works with an external partner: Willis Towers Watson, world leader in creating and handling surveys for different clients. It is bound by European, US and global data protection laws governing the use and protection of personal information. In practical terms, this means that no individual data and responses can be revealed. Reports are made only for teams with at least ten respondents. Overall results are analyzed, shared with all Melexis colleagues and an action plan is created to improve challenge areas for Melexis overall, per site and per global function.

MELEXIS AND ANTWERP MANAGEMENT SCHOOL JOIN FORCES IN PIONEERING CHAIR

In an exponentially changing world today, there is an urgent need for scientific and technological progress at the service of well-being in the workplace. This is why Melexis and the Antwerp Management School have joined forces in a pioneering chair that deploys technology and insights from neuroscience to strengthen organizations and their people.

Melexis is recognized as a role model in the field of high-performance organizations with a focus on well-being at work. People and results go hand in hand. With the chair "Developing High-Performance Organizations through Neuroscience and Technology", Melexis goes one step further. The chair will allow the Antwerp Management School to conduct fundamental and applied research on how to make organizations future-proof and develop balanced leaders.

Prof. Dr. Steven Poelmans, holder of the chair, states: "Mental strength and health are essential for creating knowledge and guaranteeing quality, two pillars of the new economy. Training the brain to make better decisions, especially in times of stress, makes people and organizations more performant and resistant to stress. Companies that do not invest in health and well-being in the workplace will be forced out of the market. The front runners will be the companies that are first to focus on the collection, analysis and application of biometric data to increase performance and well-being."

Melexis is proud to be the partner of the first chair as it fits perfectly within our portfolio of initiatives to develop and stimulate individual and organizational learning.

In the picture, from left to right: Prof. Dr. Steven De Haes, Françoise Chombar, Prof. Dr. Steven Poelmans, Prof. Dr. Bart Cambré

We develop and coach our people

The Melexis business competences and values are the fundamentals of our talent development. We aim to nurture talent in a culture of coaching, feedback, recognition and candor.

When joining Melexis or taking up a new position, a structured onboarding program will facilitate a colleague's smooth integration. Melexis is constantly improving its worldwide onboarding program, called 'Melexis OnBoard', to ensure new Melexians are oriented, integrated and delivering results as efficiently, effectively and energetically as possible. The Melexis University serves as the central platform for all relevant content. Once new hires are on board, they can expect to be offered global, competence-based programs and career pathing. The impact of our larger development programs is enhanced by applying higher levels of evaluation. As an innovative employer, Melexis supports further knowledge building on the concept of leadership within organizations through its endowment of the Antwerp Management School Chair.

To this end, we keep investing in learning opportunities: in 2019, Melexis' expenditure on training sessions provided by external parties amounts to EUR 678,331. We aim for nothing less than leadership and ownership on all levels.

PERFECT FIT WITH THE SOUND OF SCIENCE FESTIVAL

The Belgian open-air Sound of Science festival is the annual get-together of choice for young tech lovers and their friends and family. Besides the usual festival tents, food trucks and music, the main draw is the wondrous world of science. As Melexis is firmly committed to encouraging youngsters to take an interest in science and technology, we could not miss out on this tech event. Our micro-electronics information booth intended to delight and trigger people's curiosity. Our young visitors were amazed to find that tiny ICs in cars can actually learn and make the car smarter, for example by automatically knowing when to ignite the windscreen wipes, by telling when to top up fuel or inflate tires and by being able to detect how many people are in a car. Live demonstrations included thermal measurements, a little robot, the impressive VUB electric race car and a virtual-reality walk into the fascinating world of micro-electronics.

ROOFTOP BEEKEEPING IN IEPER

With the surge of interest in urban farming, sustainability, food security and the environment – as well as intense media focus on bees – it is not surprising that beekeeping is becoming increasingly popular. Colleagues at our site in Ieper, Belgium, have introduced a corporate beekeeping initiative. In the summer of 2019, two beehives, each with a population of around 50,000 honeybees, have been installed on the Ieper site's rooftop. To make sure the bee colonies are properly handled, a professional and knowledgeable beekeeper maintains the beehives and informs colleagues about the beehives' inner workings. The initiative creates a better understanding of the invaluable benefits that bees bring (such as pollination and honey production) and does away with a lot of the prejudices people may have towards these wonderful little creatures.

Our remuneration policy

As a global company Melexis employs people in different locations around the world. To become an employer of choice, facilitate teamwork and cooperation, secure engineering excellence in product development and product quality, Melexis has defined a reward policy based on the three cornerstones of fairness, transparency and consistency.

The reward programs are driven by the desire to continuously invest in our people and are based on business performance and local competitive market practices. Melexis' goal is to secure externally competitive and internally equitable remuneration packages based on the three cornerstones above and on differentiation.

Melexis' performance philosophy fosters a culture of excellence through achieving results. Achievement of results has a positive impact on the personal and professional growth of its people and enables Melexis to reward them financially in line with their contribution to the business.

Our people increasingly value Melexis' attention towards life balance as part of their employment value proposition, such as flexible working hours and teleworking.

Over the last years, increased focus is given to health and well-being programs, medical coverage plans, retirement and disability plans and accidents cover. Moreover, Melexis' pension scheme supports our colleagues monetarily after transition to retirement.

A HEALTHY AND SAFE WORKPLACE

Safety in the workplace

Melexis takes safety in the workplace very seriously and works hard to avoid any risk, hazard, accident or injury in the workplace. A safe working environment begins with creating awareness. At Melexis, health and safety trainings as well as exercises (such as evacuation, fire prevention and first aid) are organized on a regular basis. Our Melexis sites comply with local regulations and ensure continuous improvement regarding their working environment. Injuries are tracked at all sites in accordance with local legislation. In 2019 no work-related fatalities or serious injuries have occurred.

In the clean rooms in our testing facilities, rigorous hygiene standards are put in place. A strict protective dress code needs to be respected. Our colleagues' well-being is never disregarded. Preventive maintenance of tools and equipment further contributes to safety in the workplace. Properly functioning tools and equipment prevent not only unexpected downtime but also accidents.

Our colleagues' well-being

Not merely mindful of avoiding accidents and injuries or ensuring business continuity, Melexis also offers a workplace that truly cares. As an employer, Melexis promotes an internal culture of transparency and awareness around well-being by providing a comfortable, safe and secure work environment. We foster an open culture in which people feel free to speak openly. We provide development courses about well-being and have set up a network of internal persons of trust and external professionals who are available for phone or face-to-face counselling when required. We ensure

that these options are properly promoted and regularly review people's perception of their state of well-being by continuously collecting feedback so that improvements can be made.

We expect, in turn, that our people become actively engaged in their own health and participate in activities that promote mental and physical well-being. We also encourage Melexians to live a healthy lifestyle by providing nutritious food options such as fresh fruit at our sites. We equally support different sports activities. Colleagues are offered the possibility to have flexible working hours and to work from home. The Melexis culture is based on trust. We believe that when people are able to organize their work autonomously, they are even more motivated.

Melexis respects all local work-related legislation and abides by the local laws when it comes to social elections, worker representation, shift work, the company's handbook, timely notification of operational changes, etc.

CARPOOLING, CYCLING AND WALKING TO WORK

Ever mindful of our environmental footprint, Melexis is keen to join initiatives that promote clean air and a healthy lifestyle. We encourage everyone to think twice before using the car and instead come to work in a sustainable manner. More often than not, that means creating carpool teams or taking the bike.

For this reason, many of our sites decided to actively take part in the international Car Free Day, held on 19 September 2019. To spice things up, our two Belgian sites, Ieper and Tessenderlo, even decided to stage a friendly competition. The winner took home the Car Free Trophy and all participants were treated to a delicious breakfast. In a bid to extend this eco-conscious initiative over a longer period of time, the colleagues of our Bulgarian site in Sofia reached the targeted goal of traveling 3,000 kms to work with a bike, electric bicycle, kick scooter or on foot during the months of July and August. Mission accomplished. Melexis made good on its promise and donated ten bicycles to disadvantaged children through the crisis center of the P.U.L.S. Foundation Pernik. All the while, our site in Kyiv, Ukraine, has been recognized as one of the country's bike-friendliest companies: the site's infrastructure has been adapted to accommodate employees who come to work by bike and bike challenges, tracking apps and joint bike rides are encouraged.

OUR SOCIAL COMMITMENT

For Melexis, technology is about solving fundamental societal challenges. It is not without reason that one of our core values is that 'We care'. Melexis respects all its stakeholders. Our collective reputation as a corporation and as a collection of individuals representing the Melexis brand must meet the highest standards. This means that all our stakeholders, including customers, shareholders, suppliers, distributors, representatives and neighbors, deserve the utmost integrity, honesty and fairness in all their interactions with our company.

Our social responsibility

In many Melexis sites a social engagement team is set up to coordinate and implement Melexis' efforts to the benefit of the communities we operate in. Every year, a number of local initiatives are set up at our sites. These may include but are not limited to breast cancer awareness in Ieper, a toy collection for underprivileged children in Tessenderlo, a fresh graduate program in Sofia, a 'Women in engineering' network in Germany and car-free days.

Colleagues in Tessenderlo, Belgium, wore pink for breast cancer awareness.

Our educational responsibility

Melexis invests a lot of time and effort in establishing long-term educational partnerships with local universities. Such cooperation takes on many different forms: Melexis colleagues give guest lectures at universities, they provide practical training to students and internships and summer jobs are made available for students.

Our focal point of educational awareness and responsibility is the organization of several STEM-related activities. STEM stands for Science, Technology, Engineering and Mathematics and aims to foster inquiring minds, logical reasoning and collaboration skills. Each of the four STEM domains is indispensable for today's and tomorrow's world. Their real strength, however, lies in where the domains meet, in how they complement and reinforce one another and, of course, in the cross-pollination with other (social) sciences and domains. STEM concerns everyone, because it looks for answers to societal challenges: from energy to health and food security, from sustainable mobility to refining a care robot.

For several years now, Melexis has been firmly committed to bringing STEM to the forefront whenever possible. We organize several successful initiatives for children and aim to boost their interest in the exact sciences and technology from a young age. In Belgium, we cooperate closely with the STEM academy coordinated by Technopolis®. The STEM academy network is aimed at children and youngsters aged five to eighteen and supports initiatives that provide education in areas such as electronics, electricity and robotics. Melexis provides the STEM academy network with financial support via a 'technology bonus'. Our company also offers colleagues the chance to act - during working hours - as 'technology mentors' and share their knowledge at various academies in Belgium. Our CEO, Françoise Chombar, is also the Chair of the STEM platform, an independent group of experts who advise the STEM steering group and the Flemish government on STEM action plans.

Melexis is determined to follow this path for many years to come. You can find more on our STEM support activities on our website: www.melexis.com/en/stem/.

THE (ELECTRIC) RACE IS ON

Students of the Brussels-based VUB Racing team have designed and built an electric formula-style racing car to participate in the Formula Student (FS) competitions. As Europe's most established educational engineering competition, hundreds of university teams endeavor to get selected into one of the FS-races and successfully race their self-constructed vehicles. The students have built the VUB Melexis e-car from scratch at the Brussels university Fablab where they use 3D printers, laser cutters, lathes and milling machines to create the components they need. Apart from the fact that Melexis helps fund their research, the students also discovered our versatile semiconductors. They have integrated our infrared thermometers and Hall sensors into their car as these allow to measure vital statistics and improve the overall performance of their electric prototype. We wish them lots of luck as they compete in the FS-races of the Netherlands and Andorra in the summer of 2020!

SUSTAINED STEM INITIATIVES

As a recognized STEM ambassador, our company backs internal and external STEM initiatives worldwide and focuses on those initiatives that encourage children and young adults to take part in science and technology projects. In 2019, these local site initiatives aimed to cultivate the curiosity of the younger generation.

- Bevaix, Switzerland: Together with the Neuchâtel-based Swiss Foundation for Research in Microtechnics, we organized four workshops for children between 10 and 13 years old. During these workshops, they learn the basics of electronics and sensors while building a micro-robot called Mr. Neon.

- Ieper, Belgium: We organized a workshop around the Melexis bot, a robot that was specifically designed by the STEM coordination team and contains our own integrated circuits. More than 30 children between 6 and 12 years old joined the workshop and left feeling motivated by the Melexis bot they were allowed to take back home. The team is currently working on an updated version of the Melexis bot, with even more devices on board.

- Erfurt, Germany: We invited students and pupils to inform, educate and inspire them to explore a future in technical fields. Second-year students from the technical university Ilmenau joined a field trip to Melexis where they peeked into the production area, learned about failure analysis and discovered several of our applications. Likewise, pupils from the Gutenberg gymnasium participated in a project day to visit companies and help them make informed decisions about their future profession. After a window tour in production, the pupils explored the failure analysis lab, tried to get a fan running and were inspired to take a first step towards summer jobs and internships. In November, we also opened the Erfurt site for the Long Night of Science. This bi-annual event always draws families and kids to companies around Erfurt, to learn about the technologies and get inspired.

- Erfurt and Dresden, Germany: We organized the second "Bring your kids to work" day. To ignite curiosity, employees' children were shown around their parents' workplace. What are microchips, what can they do, how do chips proceed through machines? All these questions and many more were answered. The children applied their new insights by building their own bristle bot and preparing them for a colorful bots race.

- Kyiv, Ukraine: We have been working together with the local Museum of Popular Science and Technology to co-create exhibitions for some years now. The well-attended expos unveil the exciting world of electronics and physics to children and may help them choose their future career field. The cross-pollination cooperation extends both ways as the Museum also invites the children of Melexis employees to the museum so that they can marvel at the awe-inspiring demos that their parents helped create.

OUR ENVIRONMENTAL RESPONSIBILITY

Our quality and environmental policy strives to keep our environmental footprint as small as possible because we take our responsibility to both people and planet very seriously. This environmental awareness and responsibility translates into many different areas. Melexis continuously monitors and measures its environmental performance in order to be able to improve it.

Our quality and environmental policy is based on five principles:

- Sustainable development: we develop products and processes that have a minimal impact on the environment, now and in the future.
- Prevention is better than cure: we design products that are 'safe at launch' and 'first time right', maximizing the value of the effort and materials used.
- The total environmental impact counts: production (including energy consumption), use and end-of-life disposal have as little effect as possible on the environment.
- An open dialogue with all stakeholders: everything we do contributes to our corporate social responsibility, with team members playing an active part. This positive attitude helps determine the financial and technological success of our company. We are proud of our daily efforts to produce less waste, improve efficiency and contribute to building a sustainable future.
- Zero incidents: throughout the entire supply chain and life cycle of our products, we ensure robust competitive processes that continuously reduce incident occurrence and enhance incident detection.

We aim to use our technological expertise to improve the quality of people's lives. Our environmental program focuses on three aspects: our environmental efficiency (relating to the life cycle of our products), our environmental effectiveness (relating to our processes and work environment) and our environmental social responsibility (taking into account our Melexis values and strategies).

This means, among other things, that we are continuously looking for ways to reduce emissions and energy by designing the right and 'green' products for our customers who are also increasingly looking to minimize their impact on the environment. We reduce our use of raw materials as much as possible and we are always looking for the most environmentally-friendly materials to use in our products.

We design our packaging to facilitate its recycling and re-use. We look to reduce our CO_2 emissions and use renewable energy as much as possible. We minimize waste by separating it efficiently to ensure recycling. And we apply the 5S strategy to ensure effective workflows and areas, travel and transportation as we encourage carpooling and streamline shipments and deliveries.

We monitor our environmental impact

In the light of our business activity, it should be noted that ISO 14001 certification rules have defined Melexis as a company with low environmental impact. Melexis designs high-tech semiconductors and integrated circuits and its main production process is testing: we probe products on wafer level and subsequently on the final device.

This means that no chemical substances or hazardous substances are used in our production sites. We use nitrogen for low-temperature testing, electricity is the main source of energy for our operational processes and our water consumption is merely destined towards basic usage in our facilities, for example for showers, toilets and wash basins.

However, we practice a 'precautionary principle' by identifying, assessing, preventing and continuously improving risks related to environmental, quality, supply chain and sustainability aspects. Our internal requirements and targets are often more stringent than applicable guidelines, laws and standards. We do this not just to comply with legal requirements but because we, just like our customers, are genuinely concerned with any impact our solutions may have on their final end-user products.

That is why Melexis employs a variety of mechanisms to monitor, measure and improve the effective implementation of our quality and environmental management system. These include the follow-up on environmental key performance indicators by maintaining balance score cards, specific reporting (including details about waste, water, nitrogen, electricity ...) and regular internal audits in accordance with the Melexis global audit program.

Notwithstanding our ISO 140001 certification as a low environmental impact company, we do collect our main environmental performance data for the purpose of this annual report. The table below indicates the use of materials in all our Melexis sites and our key suppliers. It also contains entries on energy, water, emissions, effluents and waste from our three major manufacturing sites, Erfurt, Ieper and Sofia. The sites of Corbeil and Kuching are not included in these figures because their impact is negligible.

Our environmental performance data of our manufacturing sites Erfurt, Sofia and Ieper on 31.12.2019

			UNITS	2019	2018
Materials*	Materials used by weight	Total	tons	**85.6**	**90.96**
		material category 'Silicon' material category 'Copper' material category 'Gold' material category 'Silver' material category ' Silica' material category 'Tin' material category 'Others'	tons tons tons tons tons tons tons	5.36 33.50 0.23 1.19 37.44 1.46 6.43	4.80 36.48 0.24 1.34 39.73 1.59 6.76
Energy	Energy consumption within the organization	Total	megawatt hour	**27,033**	**27,008**
	Energy intensity	Total	megawatt hour per 1 million sold parts	**21.69**	**18.10**
Water	Water withdrawal	Total	cubic meter	**9,382**	**10,224**
Emissions	Energy indirect (Scope 2) GHG emissions	Total	tons CO_2	**8,339**	**11,479**
	GHG emissions intensity	Total	tons CO_2 per 1 million sold parts	**6.69**	**7.69**
Effluents and waste	Water discharge by quality and destination	Total	tons	**9,382**	**10,224**
	Waste	Total	tons	**212**	**256**
	Significant spills	Number of significant spills in 2019	number	0	0
Environmental compliance	Non-compliance with environmental laws and regulations	Number of non-compliances with environmental laws and regulations	number	0	0

*These data comprise the materials of all our Melexis sites and our key suppliers.

We comply with environmental and industry standards

ISO 14001 certification sets the parameters for an environmental management system. It provides a framework for establishing effective energy-efficient processes and to limit waste, reducing environmental risks and supporting the development of energy-efficient solutions. We have passed all ISO 14001 audits in 2019. We comply with all locally relevant environmental legal requirements for our production sites.

Recognized standards are of crucial importance in the automotive industry and thus also essential to suppliers like Melexis. Vehicle manufacturers must be able to trust suppliers to have their processes under control, understand their customers' needs and continue to innovate. The IATF 16949 quality management system certificate demonstrates that we meet all these criteria.

ISO 26262 provides appropriate standardized requirements, processes and an automotive-specific risk-based approach to determine integrity levels, also known as Automotive Safety Integrity Levels or ASILs. ASILs are used to specify applicable requirements of the ISO 26262 standard so as to avoid unreasonable residual risk. The Melexis ASIL-ready Functional Safety Program has been designed and deployed to institutionalize these competencies and to realize functional safety as an organization-wide capability.

We involve all stakeholders

Melexis is dedicated to considering the needs and expectations of all parties interested in terms of its overarching environmental strategy and performance. We involve and enter into dialogue with all our stakeholders. These include:

- **Our customers**: close communication loops with our customers help us identify new development opportunities for environmentally-friendly products. Melexis is accountable for supporting customers and supplying them with products of the highest quality only, in order to meet customer requirements in a manner that is consistent with environmental standards.
- **Our colleagues**: they are involved in environmental sustainability and continuous improvement activities. Their input is taken into account in management reviews as well as continuous improvement plans.
- **Our investors**: Melexis strives to ensure minimizing risks while maximizing returns to guarantee a good level of relationship to our investors.
- **Our suppliers and subcontractors**: they are a crucial element of our environmental program. We require them to act environmentally responsibly and have their own environmental policy, system and continuous improvement planning in place. Melexis requests environmental information records on all materials supplied to us, all within a defined time frame. An ISO 14001 certification is requested in case of supplier selection.
- **Society**: we recognize that we have a responsibility towards the local communities and surrounding environment where we operate and hence take their needs and requirements into account in terms of strategies and objectives.
- **Legal authorities**: legal requirements set into force with laws and regulations by the relevant local legal authorities are recorded by each national organization. These are communicated to the relevant local sites on a regular basis by our appointed environmental responsible. Compliance with local, national and supranational legislation that is relevant for our customers is also taken into account and given as much attention as our customer-specific requests.

OUR SUPPLY CHAIN

With 92% business to the automotive market, our supplier management is adhering to the automotive industry standards with regards to supplier selection, evaluation, qualification and development. Developing long-term relationships with suppliers is essential for Melexis' success and growth. Melexis is therefore working closely with its suppliers in each step of its process.

How we select our suppliers

Melexis pursues a balanced supplier portfolio in each solution or service category. Preferred suppliers play a key role but, at the same time, we never lose sight of our business continuity plan. Hence, when deemed appropriate, Melexis strives for a dual manufacturing approach. A multifunctional team selects the suppliers and ensures that all aspects from cost to quality to innovation capabilities and supply chain robustness are considered.

Supplier audit is a mandatory step for direct suppliers to get the status of preferred supplier. VDA6.3 is used to assess the supplier's ability to meet automotive and customer specific requirements from both quality and technical perspective. As the lifespan of products is several years, so are the relationships with our suppliers. During this period we conduct regular supplier evaluations according to the 'clover leaf'-method in which quality, technical, logistical and cost aspects are considered. The goal is to detect improvement possibilities at our supplier and define appropriate action.

How we monitor our supply chain

Melexis is committed to operate in a socially and environmentally responsible manner in all areas of its business.

Melexis proactively undertakes due diligence and continuous monitoring of its supply chain to avoid direct or indirect procurement of conflict minerals. Our products do not contain any conflict minerals (gold, tantalum, tungsten and tin) mined from the Eastern Democratic Republic of Congo (DRC) and its adjoining countries, as defined in Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and its affiliated laws or regulations.

Melexis confirms that all products supplied to Melexis customers do not contain 'intentionally introduced' lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyls (PBB) or polybrominated diphenyl ethers (PBDE) as defined in the Restrictions on Hazardous Substances (RoHS) EU Directive 2011/65/EU and the Commission's Delegated Directive (EU) 2015/863 of 31 March 2015 amending Annex II to Directive 2011/65/EU unless exempted by regulation.

Melexis further declares that any unintentional contaminant concentrations of these substances are below 0.1 % for lead, mercury, hexavalent chromium, polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE) for each homogeneous material. Impurities of cadmium are less than 0.01% for each homogeneous material.

In addition, Melexis confirms that all our Green products supplied to Melexis customers do not contain any halogen (bromine and chlorine) as defined under IEC 61249-2-21.

Melexis is not required to register our company's products under the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) Regulation EC/1907/2006. Nevertheless, Melexis aims to achieve the REACH goals, meaning that all products supplied to Melexis' customers do not contain any of the substances in the Candidate List of Substances of Very High Concern (SVHC). Also included are the new substances announced by ECHA (European Chemical Agency) on 15 January 2018. Melexis also acknowledges Annex XVII of REACH regulation and confirms the absence of those substances too.

Our product solutions are tested at every stage of development in accordance with our own internal worldwide procedure for negative health and safety impacts. In addition, Melexis products are inspected annually by an external institute for hazardous substances. Our customers are informed about the results by means of product declarations. Safety data sheets are equally available for all our product solutions.

In short, we can attest that we are compliant with ROHS, REACH, the conflict minerals requirements (e.g. based on Dodd-Frank Wall Street Reform and Consumer Protection Act), ELV/WEEE and any other local legal requirements and requests. Our product declarations and their conformity with the above-mentioned requirements can be consulted in greater detail on www.melexis.com/en/quality-environment.

Melexis is equally committed to not help produce any products for military use.

CORBEIL PROUDLY JOINS THE IATF CLUB

Our Melexis site in Corbeil, France, has proudly joined the IATF (International Automotive Task Force) certification ranks in May 2019. As such, it follows in the footsteps of last year's successful transition audit to IATF 16949:2016 of all our manufacturing and other relevant locations. The IATF 16949 is an ISO-technical specification that ensures our business is constantly and consistently applying the best practices throughout the whole supply chain. Corbeil's significant milestone demonstrates that Melexis takes automotive quality very seriously and is committed to continuously strengthen our customer satisfaction and implement process improvements.

HUMAN RIGHTS, ANTI-CORRUPTION, ANTI-BRIBERY AND ANTI-COMPETITIVE BEHAVIOR

Melexis outlined an ethical code of conduct to provide a clear and unambiguous reference to human rights and expected behavior during business activities. Melexis colleagues are made aware – continuously and through different channels - of the Melexis values, a strict adherence to the code of conduct and the avoidance of any activity that may lead to a disrespect for human rights, corruption, bribery or anti-competitive behavior.

Melexis recognizes that human rights are fundamental and universal. These include freedom from discrimination based on race, creed, color, nationality, ethnic origin, age, religion, gender, sexual orientation, marital status, disability, and the freedom of thought, conscience and religion.

Melexis strives to fight corruption and seeks to avoid conflicts of interest. Melexis wants to distinguish itself from its competitors through high quality products and excellent services. The slightest hint of corruption would conflict with this goal and with our values. The Melexis Code of Conduct provides directions and guidelines to prevent and deal with corruption. Melexis is also implementing and launching anti-corruption training to further reduce any risk of unacceptable behavior.

Melexis has determined that the main risk of corruption stems from dealing with Melexis stakeholders such as customers and suppliers, more specifically the acceptance and giving of personal gifts or hospitality to and from Melexis stakeholders. Therefore, any agreement or understanding regarding favors or benefits in exchange for gifts will not be accepted by Melexis. Exceptions to this rule are only allowed for gifts of minimal value, given in the ordinary course of business. Melexis requires full disclosure of and prior relevant clearance for any gift that is not of minimal value.

Melexis will also not pay or offer bribes or illicit payments to government officials, candidates or any other party in order to obtain or retain business. Melexis colleagues will not assist others in profiting from opportunities discovered through their affiliation with Melexis and which should normally be served by Melexis. Melexis does not allow any personal relationship with a customer, supplier or competitor, in which personal interests conflict or might appear to conflict with that of the company. In case of a family (or any other personal) relationship, management must always be informed to avoid any conflict of interest.

Furthermore, Melexis' general purchase conditions require suppliers to comply with the Melexis Code of Conduct and with all applicable laws, rules and regulations on (international) trade. Melexis also counts on all other business partners it engages with to uphold respectable standards on anti-corruption.

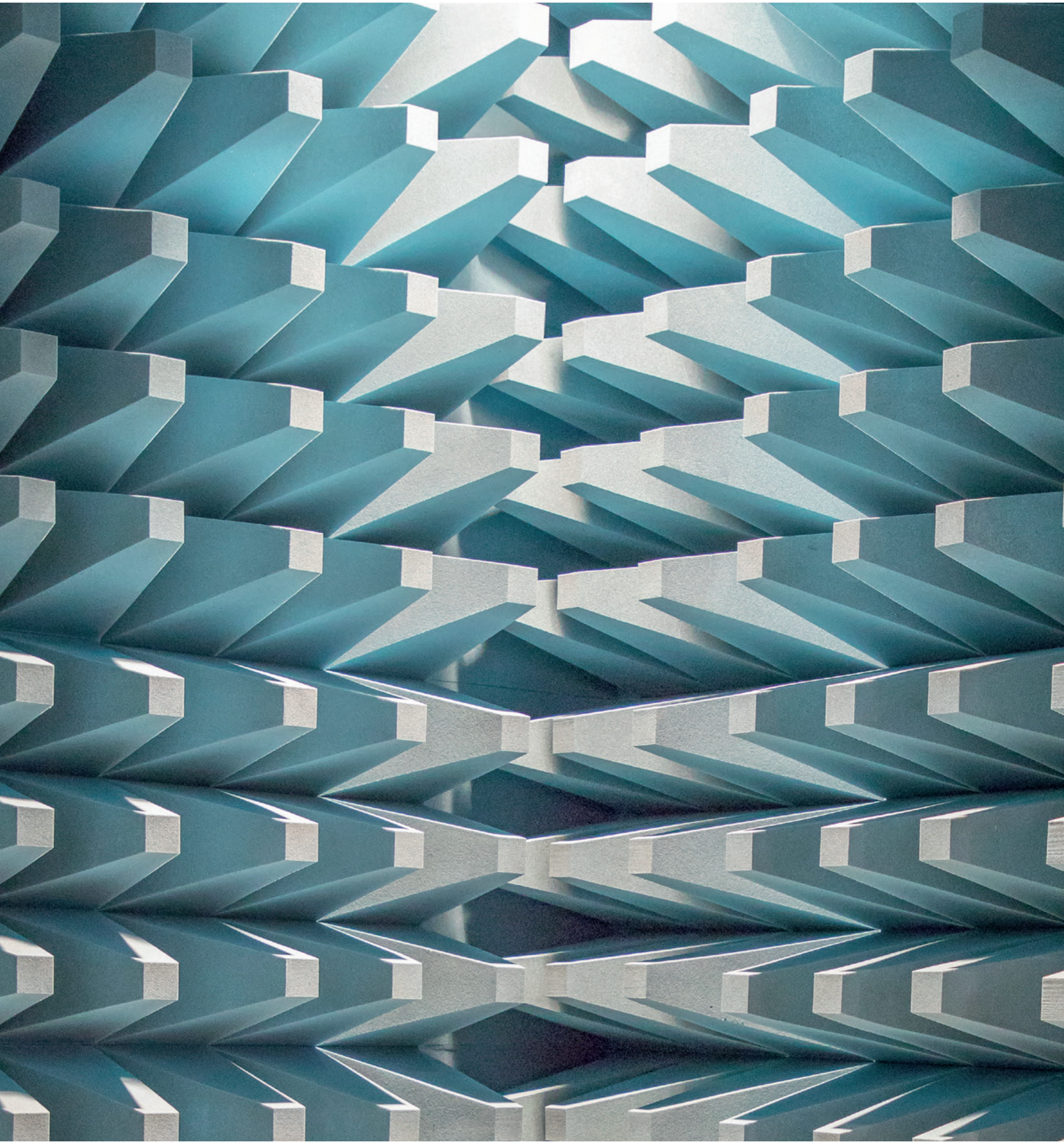
Key suppliers are equally required to sign a quality agreement that states, amongst others, that they ensure that all relevant laws and regulations are known, understood and implemented. The suppliers must respect the protection of internationally proclaimed human rights for all, including the basic human rights of the employees within their supply chain. Therefore, the supplier must work diligently with sub-suppliers to systematically address the process for sourcing minerals that are conflict-free.

Melexis has seen no incidents of corruption in the 2019 reporting period. Melexis remains vigilant, engaged and willing to deal with all significant risks that might present themselves.

Melexis values fair and open competition and respects all relevant laws and regulations that serve it. Melexis colleagues are expected to fully devote their energy to Melexis. Any outside employment which interferes or competes with their employment at Melexis is not allowed. Melexis has a clean history regarding anti-competitive behavior litigation and intends on maintaining this history.

Melexis colleagues are encouraged to speak up if they experience, witness or learn of unlawful harassment, discrimination or unethical behavior. An internal Speak-up policy was implemented in 2018 to increase transparency and stimulate the reporting of any concerns regarding unethical behavior or incidents. Any colleague reporting a possible case of questionable conduct can expect a careful, fast, respectful and discreet examination of his or her report. Any act that is inconsistent with our Code of Conduct will be promptly corrected and is subject to disciplinary action, up to and including termination.

The Melexis code of conduct is publicly available on our website.



6 FINANCIAL REPORT

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6.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR

31 December		2019	2018
ASSETS			
Current assets:	Cash, and cash equivalents (Note 6.9.5.A)	38,771,524	34,521,923
	Current investments, derivatives (Note 6.9.5.B)	78,437	100,619
	Accounts receivable – trade (Note 6.9.5.D)	58,310,231	75,207,173
	Accounts receivable – related companies (Note 6.9.5.Z)	135,774	160,364
	Assets for current tax (Note 6.9.5.X)	1,745,394	1,241,214
	Inventories (Note 6.9.5.E)	128,505,476	120,567,959
	Other current assets (Note 6.9.5.F)	9,781,065	8,653,210
Total current assets		**237,327,901**	**240,452,461**
Non-current assets:	Deferred tax assets (Note 6.9.5.X)	27,649,279	24,993,949
	Other non-current assets	3,000	4,000
	Property, plant and equipment (Note 6.9.5.I)	143,607,634	157,417,332
	Intangible assets (Note 6.9.5.G)	5,209,492	5,151,722
	Leased assets (Note 6.9.5.H)	4,812,548	-
Total non-current assets		**181,281,953**	**187,567,003**
TOTAL ASSETS		**418,609,854**	**428,019,465**

in EUR

31 December		2019	2018
LIABILITIES			
Current liabilities:	Current portion of long-term debt (Note 6.9.5.M)	-	1,040,201
	Lease liabilities (Note 6.9.5.H)	1,824,954	-
	Accounts payable – trade	16,139,383	20,785,292
	Accounts payable – related companies (Note 6.9.5.Z)	15,732,800	13,967,425
	Accrued expenses, payroll and related taxes (Note 6.9.5.J)	10,642,846	10,501,804
	Accrued taxes (Note 6.9.5.X)	3,250,601	15,684,357
	Other current liabilities (Note 6.9.5.L)	4,304,950	2,695,592
	Deferred income (Note 6.9.5.K)	2,279,988	3,067,556
Total current liabilities		**54,175,523**	**67,742,225**
Non-current liabilities:	Long-term debt less current portion (Note 6.9.5.M)	62,000,000	34,000,000
	Lease liabilities (Note 6.9.5.H)	3,026,754	-
	Deferred tax liabilities (Note 6.9.5.X)	337,258	270,962
Total non-current liabilities		**65,364,012**	**34,270,962**
Equity:	Shareholders' capital	564,814	564,814
	Reserve treasury shares	(3,817,835)	(3,817,835)
	Legal reserve	56,520	56,520
	Retained earnings	306,855,934	334,719,404
	Cumulative translation adjustment	(4,589,522)	(5,527,096)
Equity attributable to company owners		**299,069,910**	**325,995,806**
	Non-controlling interest	410	10,471
Total equity (Note 6.9.5.P)		**299,070,320**	**326,006,277**
TOTAL LIABILITIES		**418,609,854**	**428,019,465**

The accompanying notes to this consolidated statement of financial position form an integral part of these consolidated financial statements.

6.2 CONSOLIDATED INCOME STATEMENT

in EUR

31 December	2019	2018
Product sales (Note 6.9.5.O)	486,416,177	568,144,316
Revenues from research and development (Note 6.9.5.O)	445,478	1,225,599
Total revenue	**486,861,654**	**569,369,915**
Cost of sales (Note 6.9.5.Q)	(290,627,802)	(308,233,858)
Gross margin	**196,233,852**	**261,136,058**
Research and development expenses (Note 6.9.5.R)	(79,557,736)	(78,005,430)
General and administrative expenses (Note 6.9.5.S)	(30,600,475)	(30,065,122)
Selling expenses (Note 6.9.5.T)	(15,449,571)	(14,577,879)
Income from operations (EBIT)	**70,626,070**	**138,487,626**
Financial income (Note 6.9.5.W)	2,061,763	6,130,418
Financial charges (Note 6.9.5.W)	(3,440,048)	(5,879,370)
Profit or loss before tax	69,247,785	138,738,674
Income tax (Note 6.9.5.X)	(8,992,551)	(23,287,396)
Net profit or loss for the period	**60,255,234**	**115,451,278**
Earnings per share attributable to the ordinary equity holders of the parent	-	-
Earnings per share non-diluted (Note 6.9.5.AB)	1.49	2.86
Earnings per share diluted (Note 6.9.5.AB)	1.49	2.86

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

6.3 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR

31 December	2019	2018
Net profit or loss	60,255,234	115,451,278
Other comprehensive income		
Recyclable items of profit or loss		
Fair value adjustments to cashflow hedges	-	48,598
Cumulative translation adjustment	937,574	316,809
Total other comprehensive income for the period	**937,574**	**365,407**
Total comprehensive income (loss) for the period	**61,192,808**	**115,816,685**
Total comprehensive income attributable to:		
Owners of the parent	61,192,808	115,816,685

The amounts included in other comprehensive income are net of tax effects.

6.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR

	Number of shares	Share capital	Legal reserve	Retained earnings
31 December 2017	**40,400,000**	**564,814**	**56,520**	**303,381,229**
Net income	**-**	**-**	**-**	**115,451,278**
CTA movement	-	-	-	-
Hedge reserves (Note 6.9.5.C)	-	-	-	-
Dividends	-	-	-	(84,113,104)
31 December 2018	**40,400,000**	**564,814**	**56,520**	**334,719,404**
Net income	**-**	**-**	**-**	**60,255,234**
CTA movement	-	-	-	(214)-
Dividends	-	-	-	(88,118,490)
Non-controlling interest	-	-	-	-
31 December 2019	**40,400,000**	**564,814**	**56,520**	**306,855,934**

Reserve treasury shares	Hedge reserve	Fair value adjustment reserve	CTA	Non-controlling interest	Total equity
(3,817,835)	**(48,598)**	**-**	**(5,843,905)**	**10,471**	**294,302,696**
-	**-**	**-**	**-**	**-**	**115,451,278**
-	-	-	316,809	-	316,809
-	48,598	-	-	-	48,598
-	-	-	-	-	(84,113,104)
(3,817,835)	**-**	**-**	**(5,527,096)**	**10,471**	**326,006,277**
-	**-**	**-**	**-**	**-**	**60,255,234**
-	-	-	937,574	-	937,360
-	-	-	-	-	(88,118,490)
-	-	-	-	(10,061)	(10,061)
(3,817,835)	**-**	**-**	**(4,589,522)**	**410**	**299,070,320**

In 2018 and 2019, no purchases of own shares took place. At the end of 2019, Melexis NV holds 1,785 own shares and Melexis Technologies NV holds 344,356 shares of Melexis NV, in total representing 0.86% of shares outstanding.

6.5 CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR

31 December (indirect method)	2019	2018
Cash flows from operating activities		
Net profit	60,255,234	115,451,278
Adjustments for operating activities		
Deferred taxes (Note 6.9.5.X)	(2,655,330)	1,687,921
Unrealized exchange results (Note 6.9.5.W)	(604,439)	(341,906)
Accrued income tax	10,374,265	17,882,145
Government grants (Note 6.9.5.P)	1,099,238	1,053,023
Depreciation and amortization (Note 6.9.5.V)	46,759,867	39,122,101
Depreciation and amortization leased assets (Note 6.9.5.H)	1,844,526	-
Financial results (Note 6.9.5.W)	2,640,490	1,470,551
Operating profit before working capital changes	**119,713,851**	**176,325,113**
Accounts receivable, net (Note 6.9.5.D)	16,962,935	(6,574,837)
Other current assets (Note 6.9.5.F)	(2,686,597)	816,246
Other non-current assets	1,000	1,200
Due to (from) related companies (Note 6.9.5.Z)	1,765,375	(3,481,748)
Due (to) from related companies (Note 6.9.5.Z)	-	196,975
Accounts payable	(4,678,111)	(1,512,303)
Accrued expenses (Note 6.9.5.J)	141,043	(214,137)
Other current liabilities (Note 6.9.5.L)	1,536,585	(1,410,609)
Other non-current liabilities	(721,272)	282,639
Inventories (Note 6.9.5.E)	(14,303,161)	(25,871,909)
Interest paid (Note 6.9.5.W)	(523,400)	(202,517)
Prepayment income tax	(22,808,021)	(38,631,812)
Net cash from operating activities	**94,400,227**	**99,722,301**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets (Note 6.9.5.I and 6.9.5.G)	(26,631,932)	(76,295,862)
Interest received (Note 6.9.5.W)	90,472	6,786
Investments, proceeds, from current investments	22,182	314,021
Net cash used in investing activities	**(26,519,278)**	**(75,975,056)**

Cash flows from financing activities		
Repayment and proceeds from long-term debts (Note 6.9.5.M)	26,927,071	19,947,940
Repayment leasings (Note 6.9.5.H)	(1,805,366)	-
Impact of exchange results on financing items	(661,015)	(556,364)
Dividend payment (Note 6.4)	(88,118,490)	(84,113,104)
Non-controlling interests	(10,061)	-
Net cash used in financing activities	**(63,667,860)**	**(64,721,528)**
Effect of exchange rate changes on cash	36,511	18,668
(Decrease) increase in cash	4,249,601	(40,955,615)
Cash at beginning of the period	34,521,924	75,477,538
Cash at end of the period	38,771,524	34,521,924
Cash at end of the period minus cash at beginning of the period	4,249,601	(40,955,615)

The accompanying notes to this statement of cash flows form an integral part of the consolidated financial statements.

The movement in net debt[1] is as follows:
in EUR

	1 January 2019	Cash flows	Non-cash changes	31 December 2019
			Foreign exchange movements	
Short-term debt	1,040,201	(1,044,111)	3,910	-
Long-term debt	34,000,000	28,000,000	-	62,000,000
Total debt	**35,040,201**	**26,955,889**	**3,910**	**62,000,000**

1 Current definition of net debt does not include impact from IFRS 16. For more information on IFRS 16, see Note 6.9.5.H.

6.6 RESULT OF OPERATIONS

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the company's financial statements from previous years.

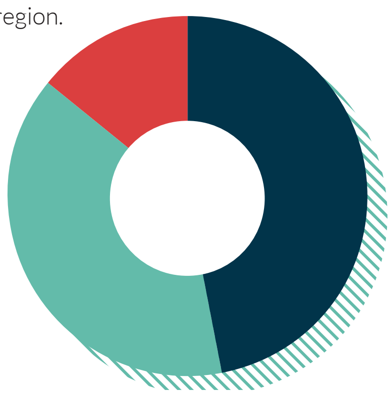
Revenue

In 2019, total revenue decreased by 14% compared to 2018, from EUR 569,369,915 in 2018 to EUR 486,861,654 in 2019. The EUR/USD exchange rate had a positive impact of 2%.

During the year, EUR 445,478 in research and development costs were recharged to customers, compared to EUR 1,225,599 in 2018. Specific research and development activities were performed under contract for customers.

In 2019, worldwide car sales dropped by around 5%[1], while Melexis sales were impacted almost threefold, fully attributable to inventory corrections at customers, triggered by an uncertain economic and geopolitical situation caused by global trade tensions. China experienced the biggest drop in car sales, with a decline of 8% in 2019[2], followed by the US with a decline of 1%[3]. Car sales in Europe increased with 1%[4].

APAC continued being the largest region for Melexis, representing 47% of total sales in 2019, led by China, Thailand and Japan with respectively EUR 52,463,940, EUR 47,557,817 and EUR 31,327,675 in sales. EMEA, being the second largest region for Melexis, accounted for 39% of total sales. NALA comes in third, accounting for 14% of sales in 2019, benefiting from the relative weakness of the APAC region.



1 Source: Auto associations, governments, Melexis calculations
2 Source: China Association of Automobile Manufacturers (CAAM)
3 Source: Bureau of Economic Analysis, U.S. Department of Commerce
4 Source: ACEA

Cost of sales

Cost of sales consists of materials (raw materials and semi-finished parts), subcontracting, labor, depreciation and other direct production expenses. The cost of sales amounted to EUR 290,627,802 in 2019 compared to EUR 308,233,858 in 2018.

Expressed as a percentage of total revenue, the cost of sales increased from 54.1% in 2018 to 59.7% in 2019. This increase results mainly from a lower test capacity utilization and a changed product mix (Note 6.9.5.Q).

Gross margin

The gross margin, expressed as a percentage of total revenues, decreased from 45.9% in 2018 to 40.3% in 2019.

Research and development expenses

Research and development expenses amounted to EUR 79,557,736 in 2019, representing 16.3% of total revenue, versus EUR 78,005,430 in 2018. The main research and development activities focused on magnetic sensors, inductive sensors, pressure sensors, temperature sensors, optical sensors, tire monitoring sensors, sensor interfaces, embedded drivers, embedded lighting and smart drivers.

General, administrative and selling expenses

General, administrative and selling expenses mainly consisted of salaries and salary related expenses, office equipment and related expenses, commissions, travel and advertising expenses. The general, administrative and selling expenses increased by 3.2% compared to 2018. The main variances are an increase in salaries from EUR 16,452,636 in 2018 to EUR 19,181,772 in 2019, an increase in depreciation and amortization from EUR 3,988,848 in 2018 to EUR 5,806,002 in 2019 and a decrease in external services from EUR 7,799,435 in 2018 to EUR 6,767,441 in 2019 (Notes 6.9.5.S and 6.9.5.T).

Income from operations

The company recorded an operational income for 2019 of EUR 70,626,070 compared to EUR 138,487,626 in 2018, a decrease of 49%. The increase in operating expenses, combined with a decrease in sales, led to a decrease in the operating margin from 24.3% in 2018 to 14.5% in 2019.

Financial result

The net financial result amounted to EUR 1,378,284 loss in 2019 compared to EUR 251,047 profit in 2018. The (net) interest result amounted to a loss of EUR 839,049 in 2019 compared to a loss of EUR 528,473 in 2018. The currency exchange result (both realized and unrealized) amounted to a loss of EUR 426,589 in 2019, compared to a gain of EUR 450,463 in 2018 (Note 6.9.5.W).

Income taxes

Income taxes amounted to EUR 8,992,551 in 2019 compared to EUR 23,287,396 in 2018 (Note 6.9.5.X).

Net income

The company recorded a net income for 2019 of EUR 60,255,234, a decrease of 48% compared to 2018.

6.7 LIQUIDITY, WORKING CAPITAL AND CAPITAL RESOURCES

Cash and cash deposits amounted to EUR 38,771,524 as of December 31, 2019, compared to EUR 34,521,923 as of December 31, 2018.

Working capital increased from EUR 139,127,894 in 2018 to EUR 146,127,371 in 2019, mainly due to changes in inventories, accounts receivable, accounts payable and (accruals for) income tax.

In 2019, operating cash flow before working capital changes amounted to EUR 119,713,851 compared to EUR 176,325,113 in 2018. Net operating cash flow including working capital changes amounted to EUR 94,400,227.

The cash flow from investing activities was negative by an amount of EUR 26,519,278, as a result of investments in fixed assets amounting to EUR 26,631,932, compensated by proceeds from investments for an amount of EUR 22,182 and interests received for an amount of EUR 90,472. The investment in fixed assets in 2019 was significantly below the 2018 level as lower sales reduced the need for new equipment.

The cash flow from financing activities was negative by an amount of EUR 63,667,860. This was mainly the net result of the repayment and proceeds of long-term debt amounting to EUR 26,927,071, repayment of leasings amounting to EUR 1,805,366 and the 2019 interim and the 2018 final dividend payment amounting to EUR 88,118,490.

6.8 STATEMENT OF THE BOARD OF DIRECTORS

The Melexis Board of Directors hereby certifies, for and on behalf of the company, that, to its knowledge:

(a) the financial statements prepared in accordance with International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the entities included in the consolidation as a whole, and,

(b) the management report includes a fair review of the development and performance of the business and the position of the company and the entities included in the consolidation as a whole, together with a description of the principal risks and uncertainties they face.

The consolidated statements were approved and authorized for issue by the Board of Directors on 1 April 2020 and were signed on its behalf by Françoise Chombar.

The consolidated statements haven't been changed after the approval by the Board of Directors.

Françoise Chombar
Managing Director, Chief Executive Officer (CEO)

6.9 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.9.1 General

Melexis NV is a limited liability company incorporated under Belgian law. The company has been operating since 1988. The company designs, develops, tests and markets advanced integrated semiconductor devices mainly 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 accounting year covers the period from 1 January 2019 to 31 December 2019.

The Melexis Group of companies employed on average (FTE) 1,500 people in 2019 and 1,421 in 2018.

The registered office of the Group is located at Rozendaalstraat 12, 8900 Ieper, Belgium. The company is listed on Euronext.

The consolidated results as included in the press release were authorized for issue by the Board of Directors subsequent to the meeting held on 31 January 2020.

6.9.2 Statement of compliance

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and in conformity with IFRS as adopted by the European Union until 31 December 2019 (collectively "IFRS"). Melexis did not apply any new IFRS requirements not yet effective in 2019.

6.9.3 Summary of significant accounting policies

The consolidated financial statements of Melexis NV were prepared according to IFRS as accepted by the EU on 1 January 2019. The principal accounting policies adopted when preparing the consolidated financial statements of Melexis NV were as follows:

Basis of preparation

The consolidated financial statements were prepared under the historical cost convention, except for investments available for sale, assets held for sale and derivative financial instruments, which were stated at their fair value as disclosed in the accounting policies hereafter.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised when the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The critical estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

Assumptions and estimates are applied when recognizing and measuring provisions for tax and litigation risks, determining inventory write-downs, assessing the extent to which deferred tax assets will be realized (Note 6.9.5.X), useful lives of property, plant and equipment and intangible assets (Note 6.9.5.G and 6.9.5.I).

Deferred tax assets are recognized for deductible temporary differences, unused tax losses/tax attributes carried forward and fair value reserves entries only if it is probable that future taxable profits (based on Melexis' operational plans) are available to use those temporary differences and losses/tax attributes. This includes management's best estimate based on all facts and circumstances. The actual tax results in future periods may differ from the estimate made at the time the deferred taxes are recognized. Other assumptions and estimates are disclosed in the respective notes relevant to the item where the assumptions or estimates were used for measurement (Note 6.9.5.X).

Please refer to the accounting policies of inventories, property, plant and equipment, intangible assets and provisions in this chapter for the assumptions and estimates.

Presentation currency

The euro has been designated as the presentation currency of Melexis NV. To consolidate the company and each of its subsidiaries, the financial statements of foreign consolidated subsidiaries, with a non-EUR currency, are translated at year-end exchange rates with respect to the statement of financial position and at the average exchange rate for the year with respect to the income statement. All resulting translation differences are included in a translation reserve in equity.

Foreign currency transactions

Each entity within the Group translates its foreign currency transactions and balances into its functional currency by applying to the foreign currency amount the exchange rate between the functional 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 1 January 1999, and in accordance with Belgian law, Melexis NV keeps its books and prepares its consolidated financial statements in euro. The functional currency of the subsidiaries is as follows:

Melexis Inc.	USD
Melexis GmbH	EUR
Melexis Bulgaria EOOD	BGN
Melexis Ukraine	UAH
Melexis Technologies SA	CHF
Melexis NV/BO France	EUR
Sentron AG	CHF
Melefin NV	EUR
Melexis Technologies NV	EUR
Melexis NV/BO Philippines	PHP
K.K. Melexis Japan Technical Research Center	JPY
Melexis Electronic Technology (Shanghai) Co., Ltd	CNY
Melexis Switzerland SA (liquidated in December 2019)	CHF
Melexis (Malaysia) Sdn. Bhd.	MYR
Melexis Technologies NV/BO Malaysia	MYR
Melexis Dresden GmbH	EUR
Melexis France SAS	EUR
Melexis Korea Yuhan Hoesa	KRW

Assets and liabilities of Melexis Inc., Melexis Ukraine, Melexis Bulgaria EOOD, Sentron AG, Melexis Technologies SA, Melexis Switzerland SA, K.K. Melexis Japan Technical Research Center, Melexis NV/BO Philippines, Melexis Electronic Technology (Shanghai) Co. Ltd, Melexis Technologies NV/BO Malaysia, Melexis (Malaysia) Sdn. Bhd. and Melexis Korea Yuhan Hoesa are translated at closing rate, 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 statement of financial position.

Principles of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is re-assessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists, the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

The consolidation scope includes on the one hand Melexis NV and its 2 branch offices being Melexis NV/BO Philippines, and Melexis NV/BO France. On the other hand, the subsidiaries being part of the consolidation scope are Melexis Ukraine, Melexis Inc., Melexis GmbH, Melexis Bulgaria EOOD., Sentron AG, Melefin NV, Melexis Technologies NV, Melexis Technologies SA, K.K. Melexis Japan Technical Research Center, Melexis Electronic Technology (Shanghai) Co. Ltd, Melexis Switzerland SA, Melexis (Malaysia) Sdn. Bhd., Melexis Technologies NV/BO Malaysia, Melexis Dresden GmbH, Melexis France SAS and Melexis Korea Yuhan Hoesa. In December 2019, Melexis Switzerland SA was liquidated.

Cash and cash equivalents

Cash includes cash on hand and cash in different bank accounts. 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.

Hedging

The company can apply hedge accounting for a part of its financial instruments as defined under IFRS 9.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The hedges whereby hedge accounting is applied are cash flow hedges. At the inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The table with outstanding derivatives at year end is disclosed in Note 6.9.5.C.

Inventories

Inventories, including work-in-progress, 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 reserve 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. Inventory is written off when no sales are expected in the next six months.

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	3-5 years
• Mask set	5 years

Melexis does capitalize the expenses for masks as tangible assets. A mask is a thin sheet of material from which a pattern has been cut, placed over a semiconductor chip so that an integrated circuit can be formed on the exposed areas. Masks can be used for the lifetime of the product. Therefore, masks are depreciated over the estimated useful lifetime of 5 years.

An item of property, plant and equipment is initially measured at its cost. Cost includes:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The estimated costs of dismantling and removing the item and restoring the site on which it is located, unless those costs relate to inventories produced during that period.

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

Depreciation starts when the asset is ready for use.

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 and other financial assets

(a) Classification

The Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss)
- Those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

From 1 January 2018, the Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale when:

- They are available for immediate sale
- Management is committed to a plan to sell
- It is unlikely that significant changes to the plan will be made or that the plan will be withdrawn
- An active program to locate a buyer has been initiated
- The asset or disposal group is being marketed at a reasonable price in relation to its fair value
- A sale is expected to complete within twelve months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- Their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy
- Fair value less costs of disposal.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated. The results of operations disposed during the year are included in the consolidated statement of comprehensive income up to the date of disposal.

Retirement benefits: defined contribution schemes

A defined contribution plan is a pension plan under which the Group pays fixed contributions (percentage of annual gross salary). The scheme is funded through payments to the insurance company. Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

Intangible assets

Intangible assets, externally purchased, 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. Melexis does not have intangible assets with indefinite useful lives.

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, IP is 10 years.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

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 statement of financial position. When the excess is negative, a bargain purchase gain is recognized immediately in the statement of comprehensive income. The identifiable assets and liabilities recognized upon acquisition are measured at their fair values as at that date. Any non-controlling 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 (unless it concerns badwill, this is recognized in the comprehensive income). Goodwill is carried at cost less accumulated impairment losses. Impairment of goodwill is included in operating profit. Goodwill is tested yearly for impairment losses.

Research and development costs

According to IAS 38 Par. 54 development costs are capitalized, only if among others the technical and economic feasibility can be proven, the future economic benefits are probable and costs can be reliably measured.

Management has reviewed the development expenses based on the IFRS criteria and is of the opinion that the development expenses should be expensed as technical feasibility can only be proven in a late stage of the project cycle and economic benefits remain unpredictable throughout the full life cycle.

Equity

The shares of Melexis NV are listed without par value. Melexis' aim in managing its equity is to maintain a healthy financial structure with a minimal dependency on external financing as well as to create shareholders value. Melexis intends to pay out regular (interim) dividends in order to maximize the return on equity for its shareholders.

Treasury shares

Treasury shares are presented in the statement of financial position 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 statement of comprehensive income 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.

Non-controlling interests

Non-controlling 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

Melexis has one major revenue stream. The Group designs, develops and delivers semiconductors. Sales are recognized when control over the product has transferred, being when the products are shipped to or delivered at the customer.

The Group is involved in several consignment arrangements. Revenue is not recognized upon delivery of a product if the product is held on consignment, but when the control is transferred to the customer. When the performance obligation is not met, a contract liability is recognized.

The Group does not have contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

For development services revenue is recognized upon delivery of the finished products because development phase is not a separately identifiable performance obligation in the contracts with customers. Rather, the customer is purchasing the final goods (tailor made semiconductors) that those development activities create, combined with subsequent manufacturing. The revenue for this combined performance obligation is recognized at a point in time when control over the finished goods transfers to the customer. Fulfillment costs incurred during the development phase usually do not meet asset recognition criteria because of significant risks and uncertainties involved in the development process. They are recognized in the profit or loss as incurred. There are no contract assets and liabilities.

Variable consideration - some of the contracts contain commercial discounts and rebates. These incentives are included in the transaction price. A reduction of revenue is recognized as a liability for the most likely amount when it is expected that the customer will achieve the expected volume to receive a discount, so it is highly probable that no significant reversal of revenue would take place in the future.

Borrowing costs

Borrowing costs are expensed as incurred. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are included in the cost of the asset.

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 statement of comprehensive income and as deferred income on the statement of financial position.

Income taxes

The income tax charge is based on the result of 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 the moment when the timing difference is likely to reverse. Deferred tax assets are not discounted and are classified as non-current assets in the statement of financial position.

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 and intangible assets 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 amount 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 have decreased.

Segments

Melexis uses the management approach for determining its segment information. As of 2014, Melexis has only one operating segment. The available information that is evaluated regularly by the chief operating decision maker has only one operating segment. Melexis' products and production processes have evolved in such a way that the distinction between automotive and non-automotive segments is no longer relevant. Operating decisions are taken for each individual product during a committee lead by the CEO, based on performance assessments. Financial information on geographical segments is presented in Note 6.9.5.Y.

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 result for the period attributable to ordinary shareholders by the weighted average number of shares outstanding during the period.

Financial liabilities

All movements in financial liabilities are accounted at trade date.
Borrowings are initially recognized at fair value. Subsequently they are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on issue. Any differences between cost and redemption value are recognized in the statement of comprehensive income upon redemption.

Trade and other payables

Trade payables and other short-term monetary liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method.

Derivative financial instruments

If a forecast transaction is no longer considered highly probable but the forecast transaction is still expected to occur, the cumulative gain or loss recognized in other comprehensive income is frozen and recognized in profit or loss in accordance with the policy set out in the paragraph above. Subsequent changes in the fair value of the derivative are recognized in profit or loss. If the Group closes out its position before the transaction takes place (even though it is still expected to take place) the cumulative gain or loss on changes in fair value of the derivative is recognized in profit and loss. If, at any point, the hedged transaction is no longer expected to occur, the cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss immediately.

The effective portion of gains and losses on derivatives used to manage cash flow interest rate risk (such as floating to fixed interest rate swaps) are also recognized in other comprehensive income and accumulated in the cash flow hedge reserve. However, if the Group closes out its position early, the cumulative gains and losses recognized in other comprehensive income are frozen and reclassified from the cash flow hedge reserve to profit or loss using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognized in profit or loss within finance expense or finance income.
Where derivatives are used to hedge the Group's exposure to fair value interest rate risk (such as fixed to floating rate swaps), the hedged item is re-measured to take into account the gain or loss attributable to the hedged risk (in the case of a fixed rate loan, the hedged risk is changes in the fair value of interest rates) with the gains or losses arising recognized in profit or loss. This offsets the gain or loss arising on the hedging instrument which is measured at fair value through profit or loss.
An overview of the derivative financial instruments with negative fair value can be found in Note 6.9.5.C.

Adoption of new and revised standards

The consolidated financial statements of Melexis NV are prepared according to IFRS as accepted by the EU on 1 January 2019.
During the current financial year, the Group has adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, that are relevant to its operations and effective for the accounting year starting on 1 January 2019. The Group has not applied any new IFRS requirements that are not yet effective as per 31 December 2019.
The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2019 and have been endorsed by the European Union:

1. IFRS 16, 'Leases' (effective 1 January 2019). This standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet).

IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group leases various properties and cars. Rental contracts are typically made for fixed periods of 1 to 9 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was between 0.8% and 2.11%. There were previously no leases recognized as finance leases. The cumulative catch-up approach has been applied, where the amount of the right-of-use assets is equal to the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The reconciliation from IAS 17 to IFRS 16 is shown in the table below:

in EUR

Operating lease commitments disclosed at 31 December 2018	5,996,977
(Less) discounted using the incremental borrowing rate at the date of initial application	109,747
(Less) short-term leases not recognized as a liability	748,198
Lease liability recognized at 1 January, 2019	5,139,032

The recognized right-of-use assets relate to the following asset types:

in EUR

	1 January 2019
Buildings	4,983,443
Company cars	155,589
Total right-of-use assets	**5,139,032**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Property, plant and equipment - increase by EUR 5,139,032
- Lease liabilities - increase by EUR 5,139,032

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Until the 2018 financial year, leases of buildings, equipment and cars were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Melexis recognizes the interest expenses of lease liabilities in the interest paid component in the cash-flow statement. Melexis opted not to distinguish between lease and non-lease components and accounted for the full amount of the lease liability.

For more information on the impact of the implementation of IFRS 16 we refer to Note 6.9.5.H.

2. Amendments to IFRS 9, 'Prepayment features with negative compensation' (effective 1 January 2019 with the EU). This amendment allows companies to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met - instead of at fair value through profit or loss, because they would otherwise fail the SPPI-test. In addition, this amendment clarifies an aspect of the accounting for financial liabilities following a modification. Melexis concluded that the implementation of IFRS 9 has no material impact. Melexis has only one type of financial derivatives, being FX hedge contracts. The business model applied is the held to collect business model and no factoring is applied. The accounting policy for this hedge has not changed under the new model. Trade receivables are subject to IFRS 9's credit model. The Group analyzed its receivables against the requirements of the expected credit loss model and concluded that there is no significant difference between the previous model applied and the expected credit model that is applied under IFRS 9. Melexis is also not materially impacted by the new classification and measurement requirements of IFRS 9.
3. IFRIC 23, 'Uncertainty over income tax treatments' (effective 1 January 2019). This interpretation clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.
4. Amendments to IAS 28, 'Long-term interests in associates and joint ventures' (effective 1 January 2019). Clarification regarding the accounting for long-term interests in an associate or joint venture, to which the equity method is not applied, under IFRS 9. Specifically, whether the measurement and impairment of such interests should be done using IFRS 9, IAS 28 or a combination of both.
5. Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement' (effective 1 January 2019). The amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. In addition, an entity will have to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling. The amendments will affect any entity that changes the terms or the membership of a defined benefit plan such that there is past service cost or a gain or loss on settlement.
6. Annual improvements to IFRS Standards 2015-2017 cycle, applicable as of 1 January 2019 and containing the following amendments to IFRS:
   - IFRS 3 Business combination, paragraph 42A: The amendments clarify that, when an entity obtains control of a business that is a joint operation (as defined in IFRS 11), it applies the requirements for a business

combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

- IFRS 11 Joint Arrangements, paragraph B33CA: A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. In such cases, previously held interests in the joint operation are not remeasured.
- IAS 12 Income Taxes, paragraph 57A: The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
- IAS 23 Borrowing Costs, paragraph 14: The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

The following new standards and amendments to standards have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2019 and have been endorsed by the European Union:

1. Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance—in particular the definition of a liability; and clarifications in important areas such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.
2. Amendments to the definition of material in IAS 1 and IAS 8 (effective 1 January 2020). The amendments clarify the definition of material and make IFRS more consistent. The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole. The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The amendments are not expected to have a significant impact on the preparation of financial statements.
3. Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective 1 January 2020). The amendments require qualitative and quantitative disclosures to enable users of financial statements to understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.

The following new standards and amendments have been issued, but are not mandatory for the first time for the financial year beginning 1 January 2019 and have not been endorsed by the European Union:

1. Amendments to the guidance of IFRS 3 Business Combinations, that revises the definition of a business (effective 1 January 2020). The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organized workforce. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries, particularly real estate, pharmaceutical, and oil and gas. Application of the changes would also affect the accounting for disposal transactions.
2. IFRS 17 'Insurance contracts' (effective 1 January 2022). This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The following standard is mandatory since the financial year beginning 1 January 2016 (however not yet subject to EU endorsement). The European Commission has decided not to launch the endorsement process of this interim standard but to wait for the final standard:

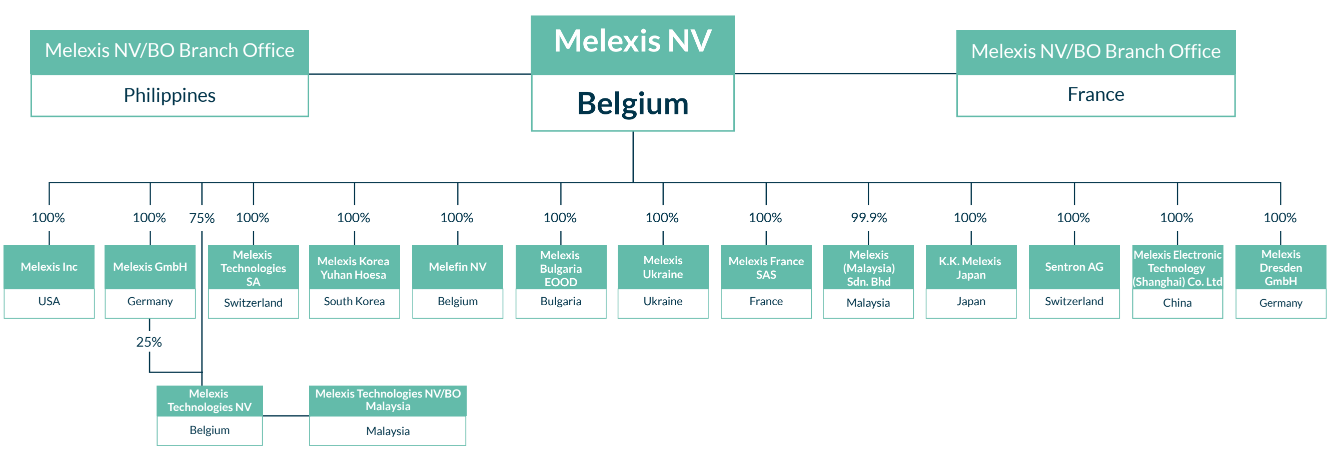
1. IFRS 14, 'Regulatory deferral accounts' (effective 1 January 2016). It concerns an interim standard on the accounting for certain balances that arise from rate-regulated activities. IFRS 14 is only applicable to entities that apply IFRS 1 as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first-time adoption or subsequently) and on presentation and disclosure.

At any time, management aims at providing a fair representation of the financial statements to its stakeholders according to IFRS legislation. In case of changes in IFRS legislation that materially impact, but are not yet adopted by Melexis, management ensures timely disclosure of the impact on Melexis' financial statements. There is no impact expected.

The Group elected not to adopt early the new Standards, Interpretations and Amendments, which have been issued but are not yet effective as per 31 December 2019.

6.9.4 Overview of Group structure

Through the acquisition of minority stakes in the course of 2019, the shareholding in Melexis Technologies SA respectively Melefin NV was increased from 99.9% to 100%. In November 2019, Melexis Technologies SA distributed its 60% equity stake in Melexis Technologies NV as a dividend in kind to Melexis Switzerland SA. In December 2019, Melexis Switzerland SA was liquidated. These transactions result in Melexis NV directly holding a 75% participation in Melexis Technologies NV and a 100% participation in Melexis Technologies SA.



Please refer to chapter 8.1 for the shareholder structure.

6.9.5 Notes

A. CASH AND CASH EQUIVALENTS

in EUR

31 December	2019	2018
Cash at bank and in hand	38,771,524	34,521,923
Total	**38,771,524**	**34,521,923**

B. CURRENT INVESTMENTS, DERIVATIVES

in EUR

31 December	2019	2018
Current investments, derivatives	78,437	100,619

In principle, Melexis' current investments are classified as assets available for sale. On 31 December 2019, Melexis had no current investments in portfolio classified as assets available for sale. Melexis' financial derivatives with a positive market value are classified as assets at fair value through profit and loss. The fair value changes for derivatives where no hedge accounting is applicable are immediately recognized in the statement of comprehensive income. As of 31 December 2019, the fair value of the financial derivatives recognized as an asset under current investments amounted to EUR 78,437. A detailed overview of the outstanding derivatives, categorized under Current investments, is included in Note 6.9.5.C. On 31 December 2019, Melexis had no assets in portfolio classified as investments held to maturity.

C. DERIVATIVES

Notional amounts

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

31 December		2019	2018
Outstanding FX hedge contracts at 31 December not exceeding 1 year	USD	13,000,000	20,000,000

FX hedge contracts are entered into in order to hedge (part of) the outstanding balance sheet exposure in foreign currency (USD).

Fair value

The fair value of derivatives is based upon mark-to-market valuations (input received from bank).

The following table presents an overview of the fair value of outstanding derivatives, classified as an asset under Current investment, Derivatives:

in EUR

31 December	2019	2018
Assets	**Fair value**	**Fair value**
Outstanding FX swaps - level 2	78,437	100,619
Total, classified under Current investment (see also Note 6.9.5.B)	**78,437**	**100,619**

These financial instruments are classified as financial assets at fair value through profit or loss. Refer to Note 6.9.5.W for the representation of the gains and losses relating to these assets.

No outstanding derivatives were classified as a liability under Derivative financial instruments.

As of 31 December 2019, there were no outstanding derivatives for which hedge accounting was applied as defined under IFRS 9. As a result, no changes in the fair value of hedging instruments were recognized in a hedging reserve.

D. TRADE RECEIVABLES

in EUR

31 December	2019	2018
Trade accounts receivables	58,382,459	75,275,355
Allowance for doubtful accounts	(72,228)	(68,182)
Total	**58,310,231**	**75,207,173**

As of 31 December 2019, trade receivables of EUR 6,541,671 were past due.
The aging analysis of these receivables, including allowance for doubtful accounts, is as follows:

in EUR

31 December	2019	2018
Not due	51,768,559	62,760,649
<30 days	4,960,377	10,293,088
>30 <60 days	854,631	773,134
>60 days	726,663	1,380,302
Total	**58,310,231**	**75,207,173**

In the following aging analysis, the distinction is made between the receivables for which an allowance for doubtful accounts is made and the receivables for which no allowance for doubtful accounts is needed:

in EUR

31 December 2019			
	Allowance for doubtful accounts	**No allowance for doubtful accounts**	**Total receivables**
Not due		51,768,559	**51,768,559**
<30 days		4,960,377	**4,960,377**
>30 <60 days		854,631	**854,631**
>60 days	72,228	726,663	**798,891**
Total	**72,228**	**58,310,231**	**58,382,459**

The credit control department reviews on a regular basis the outstanding balances of customers.
When there is a significant increase in the credit risk of a customer, an allowance for doubtful accounts is made. The analysis of the increased credit risk is performed according to the credit loss model of IFRS 9. The output of the analysis did not result in material amounts to be accounted for.

E. INVENTORIES

Inventory is written off when no sales are expected or when the goods contain defects. In 2019, EUR 6,365,644 of additional inventory was written off. EUR 4,414,462 of the inventory written off during the previous year was reversed because it had been scrapped or sold.

Work in progress consists of material that is being worked on in probing, assembly and final test.

in EUR

31 December	2019	2018
Raw materials and supplies, at cost	15,088,422	14,478,203
Work in progress, at cost	105,528,739	95,373,107
Finished goods, at cost	14,784,236	15,661,388
Reserve for obsolete stock	(6,895,921)	(4,944,739)
Net	**128,505,476**	**120,567,959**

F. OTHER CURRENT ASSETS

in EUR

31 December	2019	2018
Other receivables	6,681,549	6,299,380
Prepaid expenses	3,099,516	2,353,831
Total	**9,781,065**	**8,653,210**

The other receivables mainly relate to VAT.

G. INTANGIBLE ASSETS

in EUR

31 December	Licenses	IP	Total
Acquisition value			
Balance end of previous period	18,222,305	1,264,810	19,487,115
Additions of the period	2,055,746	-	2,055,746
Retirements (-)	(10,439)	-	(10,439)
CTA	85,472	-	85,472
Total	**20,353,085**	**1,264,810**	**21,617,895**
Depreciation			
Balance end of previous period	13,123,283	1,212,110	14,335,393
Additions of the period	1,970,705	52,700	2,023,405
Retirements (-)	(10,439)	-	(10,439)
Transfers	60,044	-	60,044
CTA	-	-	-
Total	**15,143,593**	**1,264,810**	**16,408,403**
NET BOOK VALUE	**5,209,492**	**-**	**5,209,492**

Licenses are being amortized over a period of 5 years. IP is amortized over 10 years. All intangible assets have finite useful lives. The yearly amortization expenses are included in the statement of comprehensive income mainly as cost of sales (Note 6.9.5.Q) and research and development expenses (Note 6.9.5.R).

At the end of 2019, the IP has been fully amortized.

H. LEASED ASSETS AND LIABILITIES

This note provides information for leased assets where Melexis is a lessee. The balance sheet shows the following amounts related to leased assets:

in EUR

31 December	Land and building	Furniture and vehicles	Total
Leased assets			
First-time adoption of IFRS 16 standard	4,983,443	155,589	5,139,032
Additions of the year	1,442,368	66,371	1,508,740
End of the period	**6,425,811**	**221,960**	**6,647,772**
Accumulated depreciation			
Additions of the period	1,751,571	88,418	1,839,990
CTA		(4,766)	(4,766)
End of the period	**1,751,571**	**83,652**	**1,835,223**
NET BOOK VALUE	**4,674,240**	**138,308**	**4,812,548**

The balance sheet shows the following amounts related to lease liabilities:

in EUR

31 December	Current liabilities	Non-current liabilities	Total
Beginning of the period	1,933,030	3,206,002	5,139,032
End of the period	**1,824,954**	**3,026,754**	**4,851,708**

The table below shows the duration of the outstanding lease contracts:

in EUR

31 December	Land and building	Furniture and vehicles	Total
< 1 year	455,946	13,102	469,048
> 1 year < 5 years	4,043,710	124,991	4,168,700
> 5 years	213,960	-	213,960
TOTAL			**4,851,708**

The statement of profit and loss shows the following amounts relating to leases:

in EUR

Depreciation charges leased buildings	1,751,571
Depreciation charges leased vehicles	88,418
Interest expense (included in finance cost)	44,108
Expenses related to short-term leases or low-value assets (included in admin expenses):	1,004,973

I. PROPERTY, PLANT AND EQUIPMENT

in EUR

31 December	Land and building	Machinery and equipment	Furniture and vehicles	Fixed assets under construction	Total
Cost					
Beginning of the period	54,499,122	299,269,965	18,079,506	15,254,159	387,102,753
Additions of the period	957,680	9,422,528	2,195,690	12,521,754	25,097,652
Retirements (-)	-	(4,672,972)	(766,255)	-	(5,439,227)
Transfers	1,597,278	13,879,796	196,198	(15,673,272)	-
CTA	296,925	1,981,625	56,360	9,528	2,344,438
End of the period	**57,351,006**	**319,880,942**	**19,761,499**	**12,112,168**	**409,105,615**
Accumulated depreciation					
Beginning of the period	17,648,126	200,264,236	11,773,059	-	229,685,421
Additions of the period	2,266,775	33,307,153	2,779,771	-	38,353,699
Retirements (-)	-	(3,134,452)	(693,772)	-	(3,828,224)
CTA	127,186	1,119,034	40,866	-	1,287,086
End of the period	**20,042,087**	**231,555,971**	**13,899,924**	**-**	**265,497,982**
NET BOOK VALUE	**37,308,918**	**88,324,971**	**5,861,576**	**12,112,168**	**143,607,634**

Additions of the year mainly relate to test equipment and infrastructure under construction.

Retirements: no material amount of compensation from third parties has been included in the consolidated statement of comprehensive income.

Fixed assets under construction: this mainly relates to the construction in progress of test equipment and infrastructure. The transfer to machinery and equipment relates to the finished construction of new test equipment.

J. ACCRUED EXPENSES, ACCRUED CHARGES, PAYROLL AND RELATED TAXES

in EUR

31 December	2019	2018
Holiday pay and year-end bonus	8,342,620	8,175,162
Other social accruals	962,641	729,532
Remuneration	570,365	714,055
Social security	449,208	664,396
Direct and indirect taxes	318,011	218,659
Total	**10,642,846**	**10,501,804**

K. DEFERRED INCOME

in EUR

31 December	2019	2018
Capital grants	425,175	490,224
Deferred income	1,854,813	2,577,332
Total	**2,279,988**	**3,067,556**

The capital grant is attributed to the consolidated statement of comprehensive income pro rata the depreciation of the new machinery and equipment related to the investment grant.

The deferred income relates to shipments that were not delivered at the customer before year end. As this performance obligation was not met, revenue was not recognized at year end but will be recognized when the shipment will be delivered to the customer. The performance obligation was met shortly after year end and revenue was recognized in January of the next year.

L. OTHER CURRENT LIABILITIES

in EUR

31 December	2019	2018
Accrued real estate withholding tax	110,600	102,000
Accrued financial services	270,783	311,945
Accrued design services	1,979,087	405,050
Accrued management services	434,354	454,526
Accrued HR services	176,720	94,939
Accrued transport services	-	133,000
Accrued insurances	112,000	90,680
Accrued IT services	75,620	142,798
Accrued grant	94,000	-
Accrued licenses and royalties	287,228	481,348
Other	764,557	479,306
Total	**4,304,950**	**2,695,592**

M. LONG- AND SHORT-TERM DEBT

in EUR (unless stated otherwise)

31 December	2019	2018
Secured loans		
Bank loan (in CHF) at floating interest rate; matured in 2019	-	40,201
Total secured loans	-	40,201
Unsecured loans		
Unsecured loan at floating interest rate; maturing in 2022	-	7,500,000
Unsecured loan at floating interest rate; maturing in 2028	37,000,000	-
Unsecured loan at floating interest rate; maturing in 2022	-	7,500,000
Unsecured loan at floating interest rate; maturing in 2028	15,000,000	10,000,000
Unsecured loan at floating interest rate; maturing in 2028	10,000,000	10,000,000
Total unsecured loans	62,000,000	35,000,000
Total debt	62,000,000	35,040,201
Current maturities	-	1,040,201
Long-term portion of debt	62,000,000	34,000,000

As of 31 December 2019 and for Melexis consolidated, there are the following financial covenants:

- Net debt/EBITDA ratio ≤ 3.5
- Tangible net worth/total assets ≥ 30%

As per 31 December 2019, Melexis is respecting all its financial covenants.

There are no major differences between the fair value and carrying amount of the debt.

The repayment of debt as of 31 December 2019 is scheduled as follows:

in EUR

31 December	
2020	-
2021	-
2022	-
2023	-
2024	-
Thereafter	62,000,000
Total	**62,000,000**

N. SHAREHOLDERS' EQUITY AND RIGHTS ATTACHED TO THE SHARES

Shareholder's capital

As of 31 December 2019, the common stock consisted of 40,400,000 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% of its profits for the financial year until such reserve has reached an amount equal to 10% 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 that 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.

Reserves

Reserve treasury shares: for own shares repurchased by the company or entities belonging to the Melexis Group, the amount of consideration paid, is recognized as a deduction from equity. In case of a cancellation or sale of treasury shares, the result of the transaction is included in retained earnings.

Revaluation reserve hedge: changes in the fair value of the hedging instrument, for which hedge accounting is applied as defined under IFRS 9, are recognized in a hedging reserve. For more details about the fair value of the hedging instruments through equity, please refer to note 6.9.5.C.

Revaluation reserve fair value: the difference between the purchase price and the fair value of current investments classified as available for sale is recognized directly into equity into 'Revaluation reserve fair value'. For more detail about the fair value of the current investments, please refer to note 6.9.5.C.

Legal reserve: the part of the retained earnings that cannot be used for distribution to the shareholders as a result of the legal requirement to have a legal reserve of at least 10 per cent of the share capital.

Retained earnings: the net earnings retained by the company to be reinvested in its core business, or to pay debt.

Cumulative translation adjustment: the foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

O. PRODUCT SALES AND RESEARCH AND DEVELOPMENT REVENUES

Research and development revenues relate to revenues for specific product developments.

The product sales and research and development revenues are as follows:

in EUR

31 December	2019	2018
Product sales	486,416,177	568,144,316
Research and development revenues - product developments	445,478	1,225,599
Total	**486,861,654**	**569,369,915**

For the revenue from product sales, please refer to the operating segments section in note 6.9.5.Y.

P. GOVERNMENT GRANTS

The government grants mentioned below consist of capital grants and operational grants. Capital grants are received for investments in buildings, machinery and equipment. The capital grants consist of a percentage of the purchase price of the building, machinery and equipment. Capital grants can be revoked if the expected investment threshold is not met. Operational grants are received as an incentive for research and development expenses. Operational grants are paid after pre-defined milestones are met. Capital grants are recognized as cost of sales in relation to the depreciation period of the underlying assets. The operational grants are recognized as a reduction of research and development expenses when incurred.

in EUR

31 December	2019	2018
Grants for research and development	1,025,811	1,278,212
Investment grants in building, machinery and employment grants	95,041	148,534
Total	**1,120,852**	**1,426,746**

Grants for research and development are recognized as a reduction of other expenses included in total research and development expenses, see note 6.9.5.R.

Investment grants in building, machinery and employment grants are recognized as a reduction of purchases included in total cost of sales, see note 6.9.5.Q.

Q. COST OF SALES

Cost of sales includes the following expenses:

in EUR

31 December	2019	2018
Purchases	204,998,967	226,224,891
Transportation costs	3,563,227	5,009,422
Salaries	33,126,524	31,962,790
Depreciation and amortization (*)	34,292,096	27,273,885
Maintenance	6,041,820	8,536,248
Utilities	3,394,119	3,598,319
Other direct production costs	5,211,048	5,628,303
Total	**290,627,802**	**308,233,858**

Cost of sales decreased in 2019 due to a decrease in sales. The lower cost of sales can mainly be attributed to lower purchases.

(*) Includes amounts written off on inventory for the amount of EUR 6,365,644 and reversal of amounts written off in previous year for EUR 4,414,462.

R. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses include the following expenses:

in EUR

31 December	2019	2018
Salaries	46,044,566	44,085,970
Depreciation and amortization	8,506,294	7,859,368
External services	10,497,319	11,154,772
Fees	5,618,636	4,761,607
Prototype wafers	938,945	1,976,606
Rent and maintenance	938,756	1,431,294
Subsidies	(1,056,085)	(1,264,623)
Travel	1,.314,182	2,660,209
Engineering purchases	6,755,123	5,340,228
Total	**79,557,736**	**78,005,430**

Headcount remained stable in the course of 2019, but the average employment cost per employee increased year-over-year.

S. GENERAL AND ADMINISTRATIVE EXPENSES

General and administration expenses include the following expenses:

in EUR

31 December	2019	2018
Salaries	9,027,868	8,289,230
Depreciation and amortization	5,575,001	3,872,844
External services	5,166,814	5,680,043
Fees	2,344,812	2,024,021
Maintenance	2,272,228	2,655,173
Insurances	1,344,819	1,301,564
Utilities	2,236,519	2,045,176
Rent[1]	12,982	919,630
Travel	548,719	914,498
Other	2,070,713	2,362,943
Total	**30,600,475**	**30,065,122**

T. SELLING EXPENSES

Selling expenses include the following expenses:

in EUR

31 December	2019	2018
Salaries	10,153,904	8,163,406
Depreciation and amortization	231,001	116,005
Commissions	1,143,162	1,253,638
External services	1,600,627	2,119,393
Travel	1,160,834	1,478,976
Other	1,160,042	1,446,462
Total	**15,449,571**	**14,577,879**

1 The decrease in rent is a result of rent expenses being recognized as depreciation leased assets under IFRS 16. More details on IFRS 16 can be found in note 6.9.5.H.

U. PERSONNEL EXPENSES AND AVERAGE NUMBER OF EMPLOYEES

in EUR

31 December	2019	2018
Wages and salaries	98,352,862	92,501,395
Total	**98,352,862**	**92,501,395**

The average number of employees (FTE) was 1,500 in 2019 and 1,421 in 2018.

Key management personnel compensation

For more detail on compensation of key management, see chapter 7.

V. DEPRECIATION AND AMORTIZATION EXPENSES

Depreciation and amortization include the following expenses:

in EUR

31 December	2019	2018
Cost of sales	34,292,096	27,273,885
Research and development	8,506,294	7,859,368
General and administration	5,575,001	3,872,844
Selling	231,001	116,005
Total	**48,604,393**	**39,122,101**

The increase in depreciation and amortization expenses is impacted by the reclassification of leasing under IFRS 16. Depreciation of leased assets amounted to EUR 1,844,526 in 2019. More details on IFRS 16 can be found in note 6.9.5.H.

W. NET FINANCIAL RESULT

in EUR

31 December	2019	2018
Financial income	**2,061,763**	**6,130,418**
Interest income	90,472	6,786
Exchange differences	1,971,224	5,338,832
Fair value adjustment inflation swaps	-	4,672
Other	68	780,128
Financial charges	**(3,440,048)**	**(5,879,370)**
Interest charges	(929,521)	(535,259)
Bank charges	(134,896)	(154,113)
Exchange differences	(2,353,449)	(4,888,368)
Result on financial instruments excluding fair value adjustments	-	(73,633)
Fair value adjustment FX swaps	22,182	(227,997)
Net financial results	**(1,378,284)**	**251,047**

X. INCOME TAXES

The income tax expenses can be broken down as follows:

in EUR

31 December	2019	2018
Current tax expenses	11,576,407	21,348,927
Deferred tax expenses	(2,583,856)	1,938,469
Total	**8,992,551**	**23,287,396**

Intra-group transactions resulted in intangible assets in the Melexis Technologies SA and Melexis Bulgaria EOOD statutory (standalone) financial statements. These assets, although eliminated in consolidated figures, result in tax deductible amortization charges in the hands of these companies. Deferred tax effects linked to these transactions could amount to approximately EUR 5.6 million at year end 2019.

As from financial year 2016, the Board of Directors deemed it expedient to start capitalizing research and development efforts in Melexis Technologies NV's standalone/tax financial statements. Such approach is found to be a best practice approach from a Belgian accounting and tax perspective. Deferred tax effects linked thereto amount to approximately EUR 21.6 million at year end 2019.

Added to deferred tax effects linked to available tax offsets carried forward in the hands of Melexis NV, Melexis Technologies NV and Melefin NV and deferred tax effects resulting from, among others, fair value adjustments related to financial instruments, the maximum amount of deferred tax assets to be recognized amounts to EUR 30.3 million at year end 2019.

As in previous years, the company assessed to what extent it is probable that this positive tax effect will effectively be realized in the future. In this respect, the Board of Directors in particular took into account the uncertainties related to the rapid technological evolutions in the sector, the highly competitive market as well as the fact that the company only has short-term contracts with its customers. Deferred tax amounts recognized in financial statements per 31 December 2019 are based on management's best estimate covering expected business performance in the foreseeable future. Taking into account these considerations, the Board of Directors decided to recognize as per 31 December 2019 a cumulative deferred tax asset of EUR 27,649,279. Accordingly, the unrecognized deferred tax asset amounts to approximately EUR 2.7 million at year end 2019.

Furthermore, a deferred tax liability of EUR 337,258 was recognized at year end 2019, related to temporary differences in asset depreciation and FX recognition.

Consolidated figures show a current tax receivable amounting to EUR 1,745,394 and a current tax liability amounting to EUR 3,250,601. The most important component of the current tax receivable is the overpayment of Swiss taxes for financial year 2019, amounting to EUR 1.0 million. The most important component of the current tax liability is the Belgian corporate income tax owed by Melexis Technologies NV for the financial year 2018, amounting to EUR 2.1 million.

Components of deferred tax assets are as follows:
in EUR

	1 Jan 2019	Charged to income statement	Charged to equity	31 Dec 2019
Tax amortization charges	22,450,000	2,488,000	-	24,938,000
Fair value adjustments to financial instruments	(29,763)	6,561	-	(23,202)
Tax losses carried forward	2,290,000	60,000	-	2,350,000
Miscellaneous	283,712	95,591	5,178	384,481
Total	**24,993,949**	**2,650,152**	**5,178**	**27,649,279**

Components of deferred tax liabilities are as follows:
in EUR

	1 Jan 2019	Charged to income statement	31 Dec 2019
Miscellaneous	(270,962)	(66,296)	(337,258)
Total	**(270,962)**	**(66,296)**	**(337,258)**

Reconciliation of the expected tax expenses and the consolidated income taxes is as follows:

in EUR

31 December	2019	2018
Income before taxes	69,247,785	138,738,674
Expected taxes at domestic rate	20,483,495	41,038,900
Effective taxes	8,992,551	23,287,396
Difference to be explained	(11,490,944)	(17,751,504)
Explanation of the difference		
Difference in foreign tax percentages and other tax regimes	1,343,519	(4,462,800)
Effect of IP amortization	2,118,641	(1,576,255)
Tax effect of non-deductible items	903,561	512,322
Tax effect of non-taxable income	(470,553)	(393,275)
Tax effect of patent/innovation income deduction	(12,835,332)	(7,765,735)
Tax effect of notional interest deduction	(177,735)	(142,498)
Tax effect of investment deduction	(3,674,561)	(3,332,470)
Tax losses carried forward	(1,099,612)	(1,024,863)
Current tax adjustments relating to prior years	(237,806)	(1,665,214)
Miscellaneous	667,176	94,755
Unrecognized deferred tax assets for the current period	1,551,743	-
Change of recognition of deferred tax assets (decrease + / increase -)	420,015	2,004,529
Total	**(11,490,944)**	**(17,751,504)**
Difference	**0**	**0**

Y. OPERATING SEGMENTS

Business segments

Melexis' products and production processes that are regularly evaluated by the chief operating decision maker have only one operating segment. Operating decisions are taken for each individual product during a committee lead by the CEO, based on performance assessments.

Information about transactions with major customers

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

in %

31 December	2019	2018
Customer A	15	16
Customer B	7	6
Customer C	6	6
Customer D	6	6
Customer E	3	4
Customer F	3	3
Customer G	3	3
Customer H	2	2
Customer I	2	2
Customer J	2	2
Total	**49**	**51**

Information about geographical areas

The Melexis Group's activities are conducted predominantly in EMEA (Europe, Middle-East and Africa), APAC (Asia Pacific) and NALA (North and Latin America).

The origin of all revenue is in Belgium, as the invoicing entity is located in Belgium.

in EUR

31 December 2019	Europe, Middle East and Africa	North and Latin America	Asia Pacific	Total
Revenue by origin	486,861,654	-	-	486,861,654
Non-current assets	168,592,217	1,812,820	10,876,917	181,281,953

in EUR

31 December 2018	Europe, Middle East and Africa	North and Latin America	Asia Pacific	Total
Revenue by origin	569,369,915	-	-	569,369,915
Non-current assets	173,930,334	1,557,444	12,079,226	187,567,003

Due to the fact that the production sites are mainly located in Europe, the assets are also centralized in Europe (see table above).

The following table summarizes sales by destination, determined by the customer's billing address:

In EUR

31 December	2019	2018
Europe, Middle East and Africa	**192,546,533**	**219,451,908**
Germany	83,899,256	103,118,626
France	11,259,202	12,180,228
United Kingdom	11,354,209	12,832,640
Poland	17,008,904	16,876,187
Switzerland	13,354,221	13,262,835
Ireland	3,934,827	4,474,582
Czech Republic	2,832,431	3,678,098
Austria	13,124,111	14,247,582
Netherlands	1,025,163	1,369,374
Romania	13,376,941	16,232,832
Bulgaria	3,997,666	4,868,481
Spain	1,797,905	1,454,041
South Africa	231,720	684,608
Hungary	2,695,208	3,928,993
Italy	5,980,061	4,796,155
Other	6,674,707	5,446,649
North and Latin America	**66,222,468**	**68,944,073**
United States	43,966,445	46,157,706
Canada	6,191,932	5,853,965
Mexico	15,967,146	16,790,298
Brazil	96,945	142,103
Asia Pacific	**228,092,654**	**280,973,934**
Japan	31,327,675	43,206,797
China (excluding Hong Kong)	52,463,940	66,809,833
Hong Kong	29,077,259	36,934,603
Thailand	47,557,817	60,986,798
South Korea	25,057,533	26,548,956
Philippines	13,655,376	10,612,264
Taiwan	12,394,417	14,637,653
India	2,770,289	2,788,116
Singapore	12,662,371	16,819,728
Other	1,125,976	1,629,186
Total	**486,861,654**	**569,369,915**

Z. 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 and branches which have been consolidated:

Melexis Inc.	US entity
Melexis GmbH	German entity
Melexis Bulgaria EOOD	Bulgarian entity
Melexis Ukraine	Ukrainian entity
Melexis Technologies SA	Swiss entity
Melexis NV/BO France	French branch
Sentron AG	Swiss entity
Melefin NV	Belgian entity
Melexis Technologies NV	Belgian entity
Melexis NV/BO Philippines	Philippine branch
K.K. Melexis Japan Technical Research Center	Japanese entity
Melexis Electronic Technology (Shanghai) Co., Ltd	Chinese entity
Melexis Switzerland SA	Swiss entity (liquidated in December 2019)
Melexis (Malaysia) Sdn. Bhd.	Malaysian entity
Melexis Technologies NV/BO Malaysia	Malaysian branch
Melexis Dresden GmbH	German entity
Melexis France SAS	French entity
Melexis Korea Yuhan Hoesa	South Korean entity

- Xtrion NV owns 53.58% of the outstanding Melexis shares. The shares of Xtrion NV are controlled directly and/or indirectly by Mr. Roland Duchâtelet, Mr. Rudi De Winter and Ms. Françoise Chombar. Mr Duchâtelet and Ms. Chombar are directors at Melexis NV.
- Elex NV is 99.9% owned by Mr. Roland Duchâtelet. One share is held by Mr. Roderick Duchâtelet.
- Xtrion NV owns 48.4% of the outstanding shares of X-FAB Silicon Foundries SE, producer of wafers, which are the main raw materials for the Melexis products. X-FAB Silicon Foundries SE sells the majority of its products also to third parties. X-FAB Silicon Foundries SE is listed on Euronext Paris since 2017.
- Melexis, as in prior years, purchases part of its test equipment from the Xpeqt Group. Xpeqt Group develops, produces and sells test systems for the semiconductor industry. Xpeqt Group is owned by Xtrion NV for 99.99%. One share is held by Ms. Françoise Chombar and one share is held by Mr. Roland Duchâtelet.
- Xtrion NV owns 86% of the outstanding shares of X-CelePrint Ltd.
- Xtrion NV owns 86% of the outstanding shares of X Display Company Technology Ltd.
- Xtrion NV owns 24% of the outstanding shares of Anvo-Systems Dresden GmbH.
- Elex NV owns 99.9% of the outstanding shares of Fremach International NV.

Please refer to chapter 7 for the potential conflicts of interest and the remuneration of key management.

2. Outstanding balances at year end

As of 31 December 2019 and 2018, the following balances were outstanding:

Receivables

In EUR

31 December		2019	2018
On	Elex NV	2,033	2,033
	Xtrion NV	4,840	4,840
	Fremach Group	-	13,975
	X-FAB Group	114,617	114,462
	Xpeqt Group	14,284	25,054
	Total	**135,774**	**160,364**

Payables

In EUR

31 December		2019	2018
On	Elex NV	62	62
	Xtrion NV	36,912	507,129
	X-FAB Group	15,002,727	10,866,700
	Xpeqt Group	694,525	2,549,720
	Anvo-Systems Dresden GmbH	(1,426)	(185)
	X-Celeprint Ltd	-	44,000
	Total	**15,732,800**	**13,967,425**

3. Transactions during the year

Sales/purchases of goods and equipment

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

In EUR

31 December	2019	2018
Sales to		
Fremach Group (mainly integrated circuits or ICs)	16,448	31,460
Xpeqt Group	2,080	(543)

31 December	2019	2018
Purchases from		
X-FAB Group (mainly wafers)	163,213,600	190,845,313
Xpeqt Group (mainly equipment and goods)	5,282,419	19,876,066
Xtrion NV (mainly IT infrastructure)	512,109	613,321
Anvo-Systems Dresden GmbH	-	(2,614)

Sales/purchases of services

31 December	2019	2018
Sales to		
Elex NV (infrastructure office building)	20,160	20,160
Xpeqt Group (infrastructure office building)	119,660	132,916
Xtrion NV (infrastructure office building)	48,000	48,000
X-FAB Group	734,993	612,707
Anvo-Systems Dresden GmbH	187,627	68,892

31 December	2019	2018
Purchases from		
Xtrion NV (mainly IT, R&D services and related support)	2,117,421	1,591,181
Elex NV (support services)	216,317	113,965
Xpeqt Group	3,922,226	4,922,671
X-FAB Group	3,075,021	2,633,742
Anvo-Systems Dresden GmbH	-	46,840
X-CelePrint Ltd	-	32,828

The Board of Directors and the Audit Committee have reviewed and analyzed the major transactions and concluded that 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.

AA. REMUNERATION OF BOARD OF DIRECTORS

In accordance with the company's bylaws, directors can be remunerated for their mandate. The independent directors or entity that they represent, have received in total EUR 60,000 remuneration and EUR 13,344 expenses in 2019. The other directors are not remunerated.

AB. EARNINGS PER SHARE

Net earnings per share are calculated by dividing the net result for the period attributable to ordinary shareholders of EUR 60,255,234 in 2019 and EUR 115,451,278 in 2018 by the weighted average number of ordinary shares outstanding during the period (40,400,000 in 2019 and 40,400,000 in 2018).

The average number of ordinary shares outstanding diluted and non-diluted are the same.

No material share transactions or potential share transactions occurred after the balance sheet date.

On 1 April 2020, the Board of Directors decided to propose to the annual shareholders' meeting to pay out over the result of 2019 a total dividend of 1.30 EUR gross per share, which was paid in October 2019 as interim dividend.

AC. COMMITMENTS & ESTIMATED LIABILITIES

Purchase commitments

As of 31 December 2019, the company had purchase commitments for tangible fixed assets amounting to EUR 14,451,168 mainly related to the Sofia 2020 building expansion and test equipment for the production sites.

AD. BUSINESS COMBINATIONS

No business combinations in 2019.

AE. LITIGATION

The company is currently not involved in any litigations.

AF. AUDITOR'S SERVICES

On a consolidated basis, the audit fees required by law amounted to EUR 169,515.

AG. RESERVES POST-RETIREMENT BENEFITS

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate. The contributions to defined contribution schemes amounted to EUR 1,120,462 in 2019 compared to EUR 1,012,549 in 2018.

The company's employees in Belgium participate in defined contribution plans, funded through a group insurance. The employer contributions paid to the group insurance are based on a fixed percentage of the salary. By law, employers are required to provide an average minimum guaranteed rate of return over the employee's career, equal to 3.75% on employee contributions and 3.25% on employer contributions for contributions until 2015 and 1.75% on all contributions as from 2016. Since the minimum guaranteed reserves were entirely covered by plan assets by the insurance company, no amounts were recognized in the statement of financial position on 31 December 2019 and 2018.

AH. SUBSEQUENT EVENTS

For subsequent events, please refer to note AN on COVID-19.

AI. LIST OF SUBSIDIARIES CONSOLIDATED

Subsidiary	Place of incorporation	Principal activities	Ownership interest
Melexis Inc.	USA	R&D, Sales & Applications	100%
Melexis GmbH	Germany	R&D, Manufacturing, Sales & Applications	100%
Melexis Ukraine	Ukraine	R&D	100%
Melexis Bulgaria EOOD	Bulgaria	R&D, Manufacturing	100%
Sentron AG	Switzerland	R&D	100%
Melefin NV	Belgium	Treasury	100%
Melexis Technologies NV	Belgium	R&D, Sales & Applications	100%
Melexis Technologies SA	Switzerland	R&D, Sales & Applications	100%
K.K. Melexis Japan Technical Research Center	Japan	Sales & Applications	100%
Melexis Electronic Technology (Shanghai) Co., Ltd	China (Shanghai)	Sales & Applications	100%
Melexis Switzerland SA (liquidated in December 2019)	Switzerland	Holding	100%
Melexis (Malaysia) Sdn. Bhd.	Malaysia	Manufacturing	99.9%
Melexis Dresden GmbH	Germany	R&D	100%
Melexis France SAS	France	Manufacturing	100%
Melexis Korea Yuhan Hoesa	South Korea	Sales & Applications	100%

AJ. RISK FACTORS

An investment in 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.

a. 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: (1) increase market share; (2) enhance its brand; (3) implement and execute its business and marketing strategy successfully; (4) continue to develop and upgrade its technology; (5) respond to competitive developments; and (6) 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, result 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 income from operations 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, income from operations and financial condition. Furthermore, 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, result of operations and financial condition.

Manufacturing

The Group has multiple manufacturing sites around the world. These sites are exposed to risks related to interruptions of our manufacturing processes, such as political upheavals, natural disasters, occupational accidents and pandemics. These could impede the Group's ability to manufacture at these sites on the planned scale or to export products manufactured at those sites, which in turn can impact our financial condition and results of operations. Contingency plans are in place in order to be able to respond adequately to crisis situations.

Dependence on data and IT systems

The Group heavily depends on the reliability and security of its IT systems: networks, infrastructure, operating systems and databases. These systems are subject to attempted security breaches and other cybersecurity threats, a risk that is becoming more important with the rise in the level of threats to data security. If successful, this could adversely impact our business and result in an immediate loss of revenue for the Group. To mitigate these risks, an array of precautionary measures were put in place.

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.

Please refer to the foreign currency risk in note 6.9.5.AL for more information about the impact of foreign currencies.

Credit risk on short-term investments

The company is subject to risks of financial losses on investments in marketable securities and short-term deposits.

Managing 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 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 result 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 issuing 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, result 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, result 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, result 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, result 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 (1) adverse publicity; (2) loss of revenues and market share; (3) increased service, warranty or insurance costs; or (4) claims against the company. Any of the foregoing could have a material adverse effect on the company's business, result 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 have been generated via the representative and distribution network of Melexis. As the majority of the Melexis ASSPs 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, result of operations and financial condition.

Protection and enforcement of intellectual property rights

The semiconductor industry is characterized by frequent claims alleging the infringement of patents and other intellectual property rights. Thus, 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 result 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 for 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 will be able to preserve any of its other intellectual property rights in the future.

Claims

Melexis receives, on a regular basis, claims from customers and competitors. The company uses all possible resources to limit the risk for the company. More information on the pending claims can be found in note 6.9.5.AE Litigation.

The importance of significant customers

Melexis' biggest customer accounts for 15% of total sales. No other customers have sales over 10% of total sales. For the year ended 31 December 2019, the 10 most important customers accounted for 49% of total sales (cfr. note 6.9.5.Y).

Significant supplier

Melexis sources the majority of its wafers from X-FAB, a related party that is controlled by Melexis' largest shareholder, XTRION (cfr. also Related Parties in Chapter 6). Conditions of the commercial relations between X-FAB and Melexis are in line with those that would have been agreed upon between independent parties in comparable circumstances. The arm's length character of these conditions are analyzed, determined, and tested in accordance with the principles and best practices in this respect as detailed in the OECD's 2017 Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Notwithstanding due care taken in the Group's transfer pricing analysis, there can be no assurance that the tax authorities or courts will not take a position contrary to the Group's position.

To reduce the risk of dependency on one supplier, Melexis also sources from two other Asian wafer fabs. For packaging services, Melexis sources from several Asian vendors.

Significant shareholders

The main shareholder holds 53.58% 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.

For the required information with respect to the potential conflicts of interest, please refer to the related parties in chapter 7.7.

b. 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.

The automotive industry

As a semiconductor company with most of its revenue coming from the automotive industry, Melexis sales are impacted by, among others, the amount of vehicles produced and sold worldwide.

The demand for vehicles is influenced by the economic and geopolitical situation in different regions. Macro-economic risks and trade tensions can lead to reduced purchasing power, causing the demand for vehicles to drop.

Other factors that can lead to a reduced demand for vehicles include a shift in consumer purchase behavior, uncertainty amongst consumers on what type of car to buy and new forms of mobility such as car sharing and robotaxis.

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, Microchip Technology, AMS, Elmos, Honeywell, Infineon Technologies, TDK (Micronas), NXP, ST Microelectronics, On Semiconductor and Texas Instruments.

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 with the car manufacturers.

The company's current and potential competitors could 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. Furthermore, 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 result 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 10 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, result of operations and financial condition.

Purchasing

The vast majority of the company's products are manufactured and assembled by foundries and subcontract manufacturers under a 'fabless' model. This reliance upon foundries and subcontractors involves certain risks, including potential lack of manufacturing availability, reduced control over delivery schedules, the availability of advanced process technologies, changes in manufacturing yields, dislocation, expense and delay caused by decisions to relocate manufacturing facilities or processes, and potential cost fluctuations.

During downturns in the semiconductor economic cycle, reduction in overall demand for semiconductor products could financially stress certain of the company's subcontractors. If the financial resources of such subcontractors are stressed, the company may experience future product shortages, quality assurance problems, increased manufacturing costs or other supply chain disruptions.

During upturns in the semiconductor cycle, it is not always possible to respond adequately to unexpected increases in customer demand due to capacity constraints. The company may be unable to obtain adequate foundry, assembly or test capacity from third-party subcontractors to meet customers' delivery requirements even if the company adequately forecasts customer demand.

Alternatively, the company may have to incur unexpected costs to expedite orders in order to meet unforecasted customer demand. The company typically does not have supply contracts with its vendors that obligate the vendor to perform services and supply products for a specific period, in specific quantities, and at specific prices.

The company's foundry and assembly subcontractors typically do not guarantee that adequate capacity will be available within the time required to meet customer demand for products. In the event that these vendors fail to meet required demand for whatever reason, the company expects that it would take up to twelve months to transition performance of these services to new providers. Such a transition may also require qualification of the new providers by the company's customers or their end customers, which would take additional time. The requalification process for the entire supply chain including the end customer could take several years for certain of the company's products.

Melexis sources the majority of its wafers from a related party (cfr. also Related Parties in Chapter 6), but sources from two Asian wafer fabs as well, to reduce the risk of dependency on one supplier. For the packaging services, Melexis sources from several Asian vendors.

c. Risks related to the trading on Euronext

Possible volatility of share 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. Furthermore, 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.

AK. SENSITIVITY ANALYSIS ON FINANCIAL RISK

Melexis is mainly sensitive to foreign currency rate and interest rate risks.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency, especially in USD. In 2019, approximately 45% of the Group's sales are denominated in USD and approximately 54% of the Group's costs are denominated in USD.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR/USD exchange rate of the Group's result before tax, with all other variables held constant.

FY 2019	Increase / decrease in EUR/USD rate	Effect on profit or loss before taxes (in EUR)
Reference rate: 1.12 (average FY 2019)		
	+0.05 (1.17)	284,556
	-0.05 (1.07)	(311,175)

On 31 December 2019, the following financial assets and liabilities were present, shown in USD and CHF:

	31 Dec 2019 (in USD)	31 Dec 2019 (in CHF)
Financial assets	**43,516,124**	**119,989**
Cash and cash equivalents	16,651,107	114,067
Trade and other receivables	26,865,017	5,922
Financial liabilities	**20,881,270**	**754,446**
Trade and other payables	20,881,270	754,446
Loans and borrowings	-	-

An increase/decrease of the EUR/USD rate of +/- 500 base points (reference rate = 1.12) would have an impact on the balance sheet value of -858,533/ +938,538 EUR at 31 December 2019.

An increase/decrease of the EUR/CHF rate of +/- 500 base points (reference rate = 1.09) would have an impact on the balance sheet value of +25,741 EUR/ -28,228 EUR at 31 December 2019.

The portion of other non-functional currencies (other than USD and CHF) is not material.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

On 31 December 2019, approximately 100% of the Group's borrowings are at a floating rate of interest. Melexis is currently not using interest rate derivatives to hedge the interest rate risk.

The following table demonstrates the sensitivity of the Group's financial result to a reasonably possible change in interest rates (through the impact on floating rate borrowings), with all other variables held constant.

The calculation is based on outstanding debt at year end and assumes an increase/decrease of the interest rate on the whole interest rate curve.

	Increase / decrease	Effect on financial result (in EUR)
FY 2019	**in base points**	
	+15	93,000
	-15	(93,000)

AL. FINANCIAL INSTRUMENTS

Financial risk management

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

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 to ensure that sales are only made to new and existing customers with an appropriate credit history.

(2) Interest rate risk

At year end, the Group does not use derivatives to manage interest rate risks of the outstanding bank debt.

The schedule of long-term-debt repayments is disclosed in note 6.9.5.M.

(3) Liquidity risk

Liquidity risk arises from the possibility that 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.

(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 risk. The table with outstanding derivatives at year end is taken up in note 6.9.5.C.

(5) Inflation risk

The inflation risk of the Group arises from the possibility that the salaries will increase due to inflation. At year end, the Group does not use derivative contracts to manage (part of) the inflation risk.

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 31 December 2019 was minimal since their deviation from their respective fair values was not significant.

AM. BREXIT

After the Brexit, Melexis continues to assess the risks related to the expiration of the transition period. Melexis has some customers and suppliers in the United Kingdom. As the number of customers and suppliers is limited, the impact of the end of the transition period will be minor. Actions that Melexis is considering to take before the end of the transition period include, but are not limited to:

- Increasing production to be able to deliver to customers before the end of the transition period
- Preparing changes in work and residency permits for employees with a UK passport
- Updating the ERP system.

AN. COVID-19

The COVID-19 epidemic is considered as a subsequent event. However, it does not have an impact on, nor does it give rise to the correction of the statutory and consolidated financial statements ending on 31 December 2019.

Status 1 April 2020

Melexis has been closely monitoring and responding to the COVID-19 outbreak around the world and this since January. More than ever, the health and safety of our people and our other stakeholders are our foremost concern. We have a Melexis COVID-19 taskforce in place which has been working intensely to plan for and react to the outbreak in a timely fashion. Specific measures – such as homeworking, social distancing and business continuity planning – are implemented in all facilities worldwide.

Business impact

With over 90% of its products sold in automotive, Melexis depends on the worldwide demand for vehicles. Melexis expects this demand to be significantly impacted in 2020 by COVID-19 and the accompanying measures, such as quarantine measures and cities put on lockdown. On the other hand, part of Melexis products like temperature sensors are critical components to many of the equipment to overcome the pandemic, ranging from diagnostics, over fever measurement and respiratory devices, leading to increased demand.

COVID-19 also adversely impacts the Melexis supply chain, for example by causing a delay in delivery of equipment, wafers, packaging services, etc. due to mitigation measures taken by governments and bottlenecks in production, transportation and customs activities. Supply chain and business contingency planning ensures that our manufacturing sites keep running under the best achievable circumstances.

Financial impact

On 1 April 2020, Melexis decided to withdraw its full year 2020 outlook as the economic impact resulting from the COVID-19 pandemic cannot be quantified at this moment.

As a matter of prudence and in light of the extreme unpredictability of the current situation, the Board of Directors has decided to propose to the annual shareholders' meeting to pay out over the result of 2019 a total dividend of 1.30 EUR gross per share, which was paid in October 2019 as interim dividend, meaning a final dividend would not be paid.

Melexis has a strong balance sheet. At the end of the first quarter of 2020, Melexis' cash position amounted to around 50 million EUR and the outstanding bank debt to 62 million EUR. Unused committed credit lines equal 112 million EUR.

7 CORPORATE GOVERNANCE STATEMENT

With the Royal Decree of 12 May 2019 (B.S.G. 17 May 2019), the 2020 Belgian Code on Corporate Governance (hereinafter "Code 2020") was introduced as the new reference code on corporate governance as of 1 January 2020 for all listed companies in Belgium. For the reporting year 2019 however, the 2009 Code on Corporate Governance (Royal Decree of 6 June 2010) is still the relevant reference code.

The full text of the Corporate Governance Code of 2009 and the Code 2020 can be found on the website of the Belgian Corporate Governance Committee, both in English and Dutch (https://www.corporategovernancecommittee.be/en/).

Melexis has already aligned its Corporate Governance Charter with the Code 2020 on Corporate Governance in the first quarter of 2020. The Corporate Governance Charter can be consulted on the website of the company at: https://www.melexis.com/en/investors/corporate-governance/corporate-governance-charter.

As of 1 January 2020, the new Belgian Code of Companies and Associations (BCAC) applies. In this Corporate Governance Statement however, we still refer to the articles of the old Belgian Companies Code (of 7 May 1999) as this was the applicable law during the reporting year.

7.1 SHAREHOLDERS

Melexis seeks to guarantee transparent and clear communication with its shareholders. Active participation of the shareholders is encouraged by Melexis.

In order to achieve this goal, the shareholders can find all important and relevant information on Melexis' website. Melexis publishes its annual reports, half year reports, statutory reports, quarterly results and the financial calendar on its website in the section "Investor Relations". Melexis realizes that the publication of these reports and information benefits its trust-based relationship with its shareholders and other stakeholders.

Furthermore, Melexis is committed to guaranteeing shareholder rights:

- Shareholders can submit questions to the company (at the latest six days) prior to the annual shareholders' meeting of shareholders in order to have those questions answered during the meeting.
- At the latest 30 days prior to the annual shareholders' meeting, the agenda and other relevant documents are published on Melexis' website.
- Shareholders representing at least 3% of the share capital have the right to add items and/or resolution proposals to the agenda at the latest 22 days prior to the annual shareholders' meeting.
- During the annual shareholders' meeting, shareholders have the right to vote on each item on the agenda. In case they cannot attend the meeting, they have the right to appoint a proxy holder.
- The minutes of the annual shareholders' meeting with the voting results will be published on Melexis' website after the meeting.

The Directors of Melexis are:

Name	Age	Expiry mandate	Position
Roland Duchâtelet	73	2022	Chair of the Board, Non-executive director
Françoise Chombar	57	2022	Managing director, CEO
Procexcel BVBA, represented by Jenny Claes	72	2021	Non-executive and independent director
Shiro Baba	70	2021	Non-executive and independent director
Martine Baelmans	55	2022	Non-executive and independent director

7.2 MANAGEMENT STRUCTURE

The Board of Directors determines the strategic direction of Melexis and supervises the state of affairs within Melexis.

The Board of Directors is assisted in its role by an Audit Committee and a Nomination and Remuneration Committee. These board committees have an advisory function. Only the Board of Directors has the decision-making power.

The daily management of Melexis has been delegated by the Board of Directors to the Chief Executive Officer, Ms. Françoise Chombar, who can represent the company by her sole signature within the framework of the daily management. For actions that fall outside the scope of daily management, Melexis is validly represented by two directors acting jointly.

The Chief Executive Officer is also the Chair of the Executive Management. The Executive Management is responsible for leading Melexis in accordance with the global strategy, values, planning and budgets approved by the Board of Directors. The Executive Management is also responsible for screening the various risks and opportunities that the company might encounter in the short, medium or longer term, as well as for ensuring that systems are in place to identify and address these risks and opportunities.

7.3 BOARD OF DIRECTORS

Composition

In accordance with article 13 of Melexis' Articles of Association, the Board of Directors consists of at least 5 members, of which at least three members should be independent in accordance with article 526ter of the Belgian Companies Code.

The Board of Directors is composed of at least half non-executive members and at least one executive member. Independent directors qualify as non-executive directors.

The directors are appointed by the majority of the votes cast at the annual shareholders' meeting for a period of four years. In the same way, the annual shareholders' meeting may revoke a director at any time. There is no age limit for directors and directors with an expiring mandate can be reappointed within the limits stipulated in the Belgian Companies Code.

Currently, the Chief Executive Officer is the only member of the Board of Directors that has an executive mandate. The Chair of the Board is Mr. Roland Duchâtelet.

The composition of the Board of Directors complies with the requirement of article 518bis of the Belgian Companies Code that at least one third of its members has to be of a different gender.

Mr. Roland Duchâtelet has been a private shareholder of the company since April 1994 and has served as a director ever since. Prior to that date, Mr. Duchâtelet served in various positions in production, product development and marketing for several large and small companies. He contributed to 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 is the co-founder of the parent company of Melexis NV. He holds a degree in electronic engineering, a degree in applied economics and an MBA from the University of Leuven.

Ms. Françoise Chombar has served as acting Chief Operating Officer since 1994. Prior to that date, she served as planning manager at Elmos GmbH (Germany) from 1986 to 1989. From 1989 she served as operations manager and director at several companies within the Elex group. Ms. Chombar became director in 1996. She holds a master's degree in interpreting in Dutch, English and Spanish from the University of Ghent. In 2004, Ms. Chombar was appointed co-Managing Director and Chief Executive Officer. After the resignation of Mr. Rudi De Winter, mid February 2011, as Managing Director and Chief Executive Officer, Ms. Chombar has continued these functions. Ms. Chombar is currently a Board member at Umicore, a global materials technology and recycling group. On 26 July 2019, she was appointed as a member of the Board and the Strategy and Governance / Nomination Committees of Soitec, a company specialized in generating and manufacturing semiconductor materials. Ms. Chombar is also president of the STEM platform, an advisory board to the Flemish government, aiming to encourage young people to pursue an education in Science, Technology, Engineering or Mathematics.

Ms. Jenny Claes has a long track record in three different companies and was mainly active in the field of logistics. This included responsibilities for commercial planning, production planning, warehousing, transport, international sales administration, ICT and quality management. She participated in the start-up of the European distribution center of SKF in Tongeren and held the position of General Manager of SKF Logistics Services Belgium from the end of 2003 until the end of 2008. Ms. Claes held the position of Manager Quality and Business Excellence of SKF Logistics Services worldwide. Ms. Jenny Claes holds a master's degree in international trade.

Mr. Shiro Baba has 38 years of professional and management experience in different fields related to the semiconductor business. He started his career in 1975 with the semiconductor division of Hitachi. As from 1999, he held several general management positions within the Hitachi semiconductor division. From 2003 until 2009, Mr. Baba was employed by Renesas Technology Corp. as general manager of the Automotive Semiconductor business unit, among others, and later as Board Director and senior VP. His last mandate was President & CEO of Hitachi ULSI Systems Co. before retiring in 2013. In April 2013, Mr. Baba was appointed independent director of Melexis. Mr. Baba obtained a master's degree in electrical and physical engineering from the Tokyo Institute of Technology and in electrical engineering from Stanford University.

Board of Directors
Martine Baelmans, Shiro Baba, Françoise Chombar, Roland Duchâtelet, Jenny Claes

Ms. Martine Baelmans started her career at KU (Catholic University) Leuven in 1987 as assistant at the Division of Applied Mechanics and Energy Conversion. Since 2006, she has been full professor at the Faculty of Engineering Sciences. She is currently also vice-rector for education policy, innovation and entrepreneurship at this university. Ms. Baelmans holds a master's degree in mechanical engineering and a PhD degree in engineering sciences from KU Leuven. Her research has been mainly focused on thermodynamics and heat transfer, particularly in applications for electronics cooling.

Appointment and replacement of directors

The Articles of Association (Articles 13 and following) and the Melexis Corporate Governance Charter contain specific rules concerning the (re-)appointment, the induction and the evaluation of directors.

Directors are appointed for a term not exceeding four years by the annual shareholders' meeting, which can also revoke their mandate at any time. An appointment or dismissal requires a simple majority of the votes cast.

If and when a position of a director prematurely becomes vacant within the Board, the remaining directors temporarily appoint a new director until the annual shareholders' meeting appoints a new director. Said appointment will then be included in the agenda of the next annual shareholders' meeting.

The Nomination and Remuneration Committee submits a reasoned recommendation to the Board on the nomination of directors and equally makes recommendations to the Board on the remuneration policy for directors and Executive Management.

Functioning of the Board of Directors

The terms of reference of the Board of Directors are part of the Corporate Governance Charter.

In 2019, the Board convened nine (9) times and treated, among others, the following topics:

- Financial results of the Group
- Financial and legal risks to which the Group is exposed
- Possible acquisitions
- Group (re-)structuring
- Intercompany agreements
- Strategic review
- Dividend policy
- Budget for the next financial year
- Recommendations of the Audit Committee and the Nomination and Remuneration Committee.

All members attended the meetings.

Evaluation of the Board and its Committees

The effectiveness of the Board of Directors and its Committees is monitored and reviewed every three years in order to achieve possible improvements in the management of Melexis.

The last review was performed in 2019, led by the Chair.

In the evaluation, special attention is paid to:

- The functioning of the Board of Directors and its relevant committees
- The thoroughness with which important issues are prepared and discussed
- The effectiveness of the interaction with the Executive Management
- The quality of the information provided
- The individual contribution of each member of the Board.

7.4 COMMITTEES

Audit Committee

The Audit Committee assists the Board of Directors in its supervisory duties with respect to the internal supervision in the broadest sense, including the financial reporting, as described in the company's Corporate Governance Charter and article 526bis of the Belgian Companies Code. The Audit Committee also monitors the assessment and follow-up by the Executive Management of the auditor's recommendations.
The Audit Committee is composed of three non-executive members: Procexcel BV, represented by Ms. Jenny Claes, independent director and Chair[1], Mr. Roland Duchâtelet and Mr. Shiro Baba, independent director.

According to article 526bis, §2 of the Belgian Companies Code, the members of the Audit Committee as a whole have competences relevant to the sector in which Melexis is operating and at least one of its members has a competence in auditing and accounting. Both Procexcel BV, represented by Ms. Jenny Claes, and Mr. Shiro Baba comply with the latter requirement through their relevant work experience. In this respect, we refer to the short biographies of the above-mentioned members in this chapter.
The Chief Executive Officer, the Chief Financial Officer, the external and internal auditor are invited to the meetings of the Audit Committee to warrant the interaction between the Board of Directors and the Executive Management.

The Audit Committee met four (4) times in 2019. All members attended the meetings.

In addition to the exercise of its legal powers and the duties listed in the Melexis Corporate Governance Charter, the Audit Committee reviewed, among others:

- Statutory audit fees
- Reports of the statutory auditor and internal auditor
- Extension of the statutory auditor's mandate
- New Code of Conduct
- IFRS 16
- Delegation of Authority.

1 On 4 March 2019, Ms. Jenny Claes replaced Mr. Roland Duchâtelet as Chair of the Audit Committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee, which qualifies as a remuneration committee pursuant to article 526quater of the Belgian Companies Code, advises, among others, the Board of Directors concerning the way in which the company's strategic objectives may be promoted by adopting an appropriate nomination and remuneration program. This committee supervises the development of remuneration, allocation of variable remuneration and the general performance within Melexis.

The Nomination and Remuneration Committee is composed of three non-executive members of which a majority of independent directors, Ms. Martine Baelmans, independent director and Chair[2], Mr. Roland Duchâtelet, and Procexcel BV, represented by Ms. Jenny Claes, independent director. The committee has the relevant expertise regarding remuneration policy.

The Nomination and Remuneration Committee met three (3) times in 2019. All members attended the meetings.

In addition to the exercise of its legal powers and the duties listed in the Melexis Corporate Governance Charter, in 2019 the Nomination and Remuneration Committee reviewed, among others:

- Remuneration and variable remuneration of Executive Management
- Assessment of the variable remuneration of the CEO
- Termination of the mandate of a member of the Executive Management.

2 On 4 March 2019, Ms. Martine Baelmans replaced Mr. Roland Duchâtelet as Chair of the Nomination and Remuneration Committee.

7.5 EXECUTIVE MANAGEMENT

Composition

The Executive Management[3] is composed of the following members:

Name	Age	Position
Marc Biron	49	VP Sense & Drive
Françoise Chombar	57	Chief Executive Officer
Kristof Coddens	49	VP Artificial Intelligence
Karen van Griensven	49	Chief Financial Officer
Vincent Hiligsmann	49	VP Corporate Strategy – Global Sales, Brand & Communication
Veerle Lozie	46	VP Operations & IT
Damien Macq	53	VP Sense & Light
Sam Maddalena[4]	43	VP Corporate Strategy – Global Product Marketing, OEM Business Development
Nicolas Simonne	45	VP Development & Quality
Heidi Stieglitz	60	VP Human Resources & Sites

As evidenced, the Executive Management consists of a diverse team, not only as to gender diversity but also considering age and professional background. The Board of Directors sees to it that, among others, the above-mentioned diversity criteria are taken into consideration by Melexis in its selection processes and management succession planning.

Executive management

Karen van Griensven, Kristof Coddens, Heidi Stieglitz, Sam Maddalena, Françoise Chombar, Marc Biron, Nicolas Simonne, Vincent Hiligsmann, Veerle Lozie, Damien Macq

3 Certain members are representatives of private companies with limited liability (BV/SRL).

4 On 17 December 2019, the mandate of Sam Maddalena as a member of the Executive Management ended.

7.6 REMUNERATION REPORT

Remuneration policy

a) Procedure to develop the remuneration policy and determine individual remuneration

The Board of Directors determines, upon recommendation by the Nomination and Remuneration Committee, the remuneration policy and individual remuneration of the Executive Management. The directors' remuneration is approved by the shareholders' meeting.

The remuneration policy of Melexis is analyzed on an annual basis by the Nomination and Remuneration Committee in close cooperation with the HR department. This evaluation takes into account the market pay levels to ensure that compensation within Melexis is established in such a way that it enables the company to attract and motivate its talent.

The Nomination and Remuneration Committee evaluates the performance of the CEO and discusses with the CEO the performance of the other members of the Executive Management, based on the guidelines of the company's remuneration policy.

The Nomination and Remuneration Committee then makes recommendations to the Board of Directors with respect to the compensation level of the CEO and the other members of the Executive Management based on performance outputs and a benchmark analysis of compensation levels for similar positions at comparable companies. The company has not materially deviated from its remuneration policy during the reported financial year.

From the next financial year onwards, the Board of Directors has determined, upon recommendation of the Nomination and Remuneration Committee, a remuneration policy which can be found on Melexis' website. It will submit the policy to the annual shareholders' meeting on 12 May 2020. If approved, this policy will apply to the remuneration of directors and Executive Management from financial year 2020 onwards. The remuneration policy is intended to apply for several years. The policy shall, however, be analyzed on an annual basis by the Nomination and Remuneration Committee.

b) Remuneration of directors

Only independent directors receive a compensation for their mandate as director. Such compensation consists of a fixed annual amount subject to the approval of the shareholders' meeting.

The other directors are not remunerated for their mandate and do not receive any fringe benefits. Executive directors may receive a remuneration dependent on their executive roles and responsibilities within the company.

All directors are entitled to compensation of their reasonable costs, subject to the submission of suitable justification.

The directors do not receive shares in the company as part of their remuneration. At Melexis, long-term shareholder perspective is sufficiently represented on the Board of Directors since the Chair and the CEO are important (indirect) shareholders of the company.

c) Remuneration of the members of the Executive Management

The compensation of the CEO combines two integrated elements: (i) base remuneration and (ii) variable pay.

(i) The base remuneration remains in line with market average.

(ii) Variable remuneration consists of a cash bonus up to 50% of the annual base remuneration, the multi-year payment will be the following:

a. For 50% based on performance criteria measured over the performance year itself, using the same matrix as the one Melexis uses to assign the corporate portion of the variable pay for the Executive Management team (see below)

b. For 25% based on performance criteria measured over two financial years. Pay-out is based on the total over the past 2 years of the same matrix used to assign the corporate portion of the variable pay for the Executive Management team (see below)

c. For 25% based on performance criteria measured over three financial years. Melexis' automotive top line growth over the past 3 years is to outperform the average automotive semiconductor market growth, the benchmark being a 3 years rolling average based on the market data provided by a selected market intelligence provider.

(iii) No shares, options or other rights to acquire shares are granted as part of the compensation.

The compensation of the other members of the Executive Management combines three integrated elements: (i) base remuneration, (ii) variable pay and (iii) other benefits. The remuneration packages are granted with the purpose to attract and to retain the best team and management talent in each part of the world where Melexis is present.

(i) The base remunerations remain in line with market average.

(ii) The variable remuneration for the other members of the Executive Management contains both a short and a long term element. The cash bonus consists of a a) short-term cash bonus that varies from 25% up to 30% of the annual base remuneration, depending on whether a certain member of the Executive Management is involved in business creation or not, and b) a long-term cash bonus of 20%, of which 10% is to be earned in the first year following the performance year and 10% in the second year following the performance year.

The short-term cash bonus is calculated on yearly established targets, based on the following performance criteria:

a) 50% based on the global business performance measured through the achievement of the target revenue and EBIT growth of the company over the performance year in order to link the bonus to the operational result of the company.

b) 50% based on the individual/team performance measured through achievement of pre-established targets:

The total short-term cash bonus can be increased with 20% at the discretion of the Board of Directors, upon recommendation of the Nomination and Remuneration Committee.

For the long-term cash bonus, the company's performance against approved financial targets regarding revenue growth and EBIT growth is taken into consideration.5 The considerations for the long-term cash bonus are fixed for a three-year period. Changes for the following period can be implemented after board approval.

(iii) The other benefits concern only a smaller part of the total compensation of the Executive Management. They can comprise extralegal arrangements through a group insurance that is in effect in Executive Managers' respective home countries, i.e. pension, life insurance, disability and medical insurance, all of which are defined contribution schemes.

(iv) No shares, options or other rights to acquire shares are granted as part of the compensation.

In the event that any variable remuneration would be paid based on incorrect financial data, such miscalculation could be compensated with the payment of future remuneration.

d) Outlook

The remuneration report for financial year 2020 will be prepared in accordance with the requirements of Directive 2007/39/EC on the exercise of certain rights of shareholders in listed companies and Belgian implementation thereof.

5 In April 2019, it was decided to double the long-term cash bonus to a total of 20% (10% is to be earned in the first year following the performance year and 10% in the second year following the performance year). In terms of pay-out this means that the first part of the long-term cash bonus of 5% will be paid in 2020, while the first part of the long-term cash bonus of 10% will only be paid in 2021.

Remuneration of directors

The remuneration of the directors is subject to the approval of the annual shareholders' meeting.

Only the mandates of the independent directors are remunerated. Their compensation consists of a fixed annual remuneration of EUR 20,000 and reimbursement of costs to attend the Board and/or Committee meetings. The directors are expected to uphold the expenditure policy within Melexis and to submit suitable justification for their costs. In 2019, Melexis paid a total of EUR 60,000 remuneration to the independent directors. Additionally, Melexis paid EUR 13,344 as reimbursement of costs as mentioned in the table below. These costs can be justified as travel expenses:

in EUR

Name	Remuneration	Costs
Procexcel BV, represented by Jenny Claes	20,000	-
Shiro Baba	20,000	13,344
Martine Baelmans	20,000	-

The other directors are not remunerated for their mandate and do not receive any fringe benefits.

The performances of directors are evaluated by the Board of Directors to ensure that only persons with competences matching Melexis' international ambitions are nominated as director.

Remuneration of Executive Management

CEO

Of all the members of the Executive Management, only the CEO is also a member of the Board of Directors. The CEO does not receive an additional remuneration for this mandate.

In 2019, Sensinnovat BV (of which Ms. Françoise Chombar is the permanent representative) received a fixed remuneration amounting to EUR 249,996 and a variable pay of EUR 78,125.

in EUR

Françoise Chombar	Remuneration paid out in 2019
Base remuneration	249,996
Short-term variable remuneration	15,625
Mid-term variable remuneration	31,250
Long-term variable remuneration	31,250
Pension	0
Extralegal arrangements	0
Reimbursement of costs	7,995

The CEO does not benefit from contributions in a pension scheme, nor does she have any extralegal arrangements through an individual/group insurance paid for by the company or receive any other fringe benefits.

Other Executive Managers

The total amount of the fixed remuneration of the other members of the Executive Management amounted to EUR 1,839,947 in 2019. The total of the 2019 variable pay component pay-outs amounted to EUR 362,286.

in EUR

Executive Managers	Remuneration 2019
Base remuneration	1,839,947
Variable remuneration	362,286
Extralegal arrangements	12,906
Reimbursement of costs	94,519

In accordance with article 554, part 4 of the Belgian Companies Code and the recommendations of the Belgian Corporate Governance Code, the remuneration policy of Melexis determines that a compensation in case of normal termination of the contract of the members of the Executive Management working under a Management Contract will be three months' remuneration (fixed, calculated on the twelve months preceding the termination) upon advice from the Remuneration Committee. The Remuneration Committee points out that this severance payment is in line with market practices. The severance payment will be higher in case an executive manager's (except the CEO) contract is terminated due to a change of control in Melexis (see 7.9). The severance payment can also be higher for members of the Executive Management working under an employment contract. Severance payments will be determined by the applicable legislation.

In 2019, it was decided to terminate the management contract with one member of the Executive Management team, Mr. Sam Maddalena (VP Corporate Strategy – Global Product Marketing, OEM Business Development).

7.7 POLICY ON CERTAIN TRANSACTIONS

Conflicts of interest in the Board of Directors

According to article 523 of the Belgian Companies Code, a member of the Board of Directors has to inform the other Directors about any item on the agenda of the Board that will cause a direct or indirect conflict of interest of a financial nature to him/her. In this event, the respective Director may not participate in the deliberation and voting on this agenda item.

Pursuant to article 524 of the Belgian Companies Code, companies listed on the stock exchange must follow a special procedure before decisions are taken or operations are executed concerning (i) the relations of the listed company with an affiliated company, except its subsidiaries, and (ii) the relations between a subsidiary of the listed company and an affiliated company of the subsidiary, other than a subsidiary of the subsidiary. Prior to the decision or transaction, a Committee composed of three independent directors, assisted by one or more independent experts, must prepare a written motivated advice for the Board of Directors. The auditor delivers an opinion regarding the accuracy of the information contained in the Committee advice and in the minutes of the Board of Directors' decision. The advice of the Committee, an excerpt from the minutes of the Board of Directors and the opinion of the auditor have to be recorded in the annual report of the company.

In 2019, there were no conflicts of interest for which the procedures of the above mentioned articles needed to be applied.

Other transactions with directors and Executive Management

As determined by the Melexis Corporate Governance Charter, members of the Board of Directors and the Executive Management have to refrain from any action that could raise an impression of being in conflict with the interests of the company. Therefore, any transaction between a director or a member of the Executive Management and the company has to be reported to the Chair of the Board of Directors.

In 2019 however, there were no transactions between the company and its directors or a member of the Executive Management involving a conflict of interest. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Insider trading

Melexis developed an Insider Trading Policy to comply with the European and Belgian provisions on Insider Trading and Market Abuse. In this respect, a list is kept up to date of all people with managerial responsibilities as well as all other people who have access to sensitive information related to the Melexis share.

The purpose of the Melexis Insider Trading Policy is to prevent the abuse of inside information.

Before trading any company shares, the members of the Board of Directors and the Executive Management have to receive the green light from the Compliance Officer and have to report back once the transaction has been completed. Furthermore, in compliance with the same legislation, the members of the Board of Directors and the Executive Management as well as their closely associated persons have to notify all their transactions above a certain threshold in Melexis shares to the Belgian Financial Services and Markets Authority, who will publish these notices on its website.

Compliance with the Melexis Insider Trading Policy is supported and verified by the Compliance Officer.

7.8 INTERNAL CONTROL AND RISK ASSESSMENT PROCEDURES IN RELATION TO FINANCIAL REPORTING

The internal control and risk assessment procedures in relation to the process of financial reporting are coordinated by the CFO. Such procedures have to make sure that the financial reporting is based on reliable information and that the continuity of the financial reporting in conformity with the IFRS accounting principles is guaranteed.

The process of internal control in relation to the financial reporting is based on the following principles:

- Data on transactions or use of assets of the company are registered accurately and saved in an automated global enterprise resource planning (ERP) system by the different Melexis functions.
- Accounting transactions are registered in globally standardized operating charts of accounts.
- The financial information is prepared and reported in first instance by the accounting teams in the different legal entities of Melexis worldwide.
- Subsequently, the finance managers at the different Melexis sites will review the prepared and reported local financial information before sending it to the Global Finance Department.
- In the Global Finance Department, the financial information will receive its final review before it is included in the consolidated financial statements.
- All Melexis sites use the same software for the reporting of the financial data for consolidation.
- Random checks are made to assure that:
  - Transactions have been saved as required for the preparation of the financial accounts in conformity with the IFRS accounting principles
  - Transactions have been approved by the authorized persons of the company.

Melexis is validly represented by the sole signature of the CEO for all aspects of the daily management of the company. Specific powers are granted to members of the Executive Management to represent Melexis in matters that relate to the function for which they are responsible. For actions that fall outside the scope of the daily management, the company is validly represented by two directors acting together.

In the event of detection of certain deficiencies, this will be reported to the Executive Management to determine which appropriate measures can be taken.

The risk assessment in connection with the financial reporting is based on the following principles:

- Risks that the company is confronted with are detected and monitored with the responsible persons of the different functions of the company.
- By using an automated ERP system, the responsible persons of the functions have permanent access to the financial information with regard to their function for monitoring, controlling and directing purposes with regard to their business activities.
- Closing the accounts at the end of every month warrants that the financial consequences of the identified risks are monitored closely to be able to anticipate to possible adverse evolutions.
- The financial results are also monthly reviewed on a global level.
- A data protection system based on antivirus software, internal and external backup of data and the controlling of access rights to information, protects the company's information and guarantees the continuity of the financial reporting. The adequacy and integrity of these IT systems and procedures are reviewed regularly.
- In accordance with the 2009 Belgian Code on Corporate Governance, Melexis has set up an internal audit function, whose resources and skills are adapted to assess the financial reporting and the risk management of the company. The Audit Committee receives a periodic summary of the internal audit activities.

7.9 ELEMENTS PERTINENT TO A TAKE-OVER BID

Capital structure

The registered capital of Melexis NV amounts to EUR 564,813.86 and is represented by 40,400,000 equal shares without par value. The shares are in registered or non-material form.

Restrictions on the transfer of securities

The Articles of Association contain no restrictions on the transfer of the shares. The Board of Directors is furthermore not aware of any restrictions imposed by law on the transfer of shares by any shareholder, except in the framework of market abuse regulations.

Restrictions on the exercise of voting rights

Each share entitles the holder to one vote. The Articles of Association contain no restrictions on the voting rights and each shareholder can exercise his voting rights provided that he is validly admitted to the annual shareholders' meeting and his rights have not been suspended. Pursuant to article 9 of the Articles of Association, the company is entitled to suspend the exercise of the rights attached to securities belonging to several owners until one person is appointed towards the company as representative of the security.

No one can vote at the annual shareholders' meeting using voting rights attached to securities that have not been reported in due time in accordance with the Articles of Association and with the law.

The Board is not aware of any other restrictions imposed by law on the exercise of voting rights.

Agreements among shareholders

The Board of Directors is not aware of any agreements among shareholders that may result in restrictions on the transfer of securities or the exercise of voting rights.

Amendments to the Articles of Association

The Articles of Association can be amended by an Extraordinary General Meeting in accordance with the Belgian Companies Code. Each amendment to the Articles of Association – including capital increases or reductions, mergers, demergers and a winding up – in general requires an attendance quorum of 50% of the subscribed capital and acceptance by a qualified majority of 75% of the votes cast. More stringent majority requirements have to be complied with in a number of cases, such as the modification of the corporate object or the company form.

Authorities of the Board of Directors to issue, buy back or dispose of own shares

The Articles of Association do not mention any special authorities granted to the Board of Directors to increase the registered capital.

The Board of Directors is authorized by the Extraordinary General Meeting of April 23rd, 2019 to acquire own shares of the Company, either directly or by a person acting in his or her own name but on behalf of the Company or by a direct subsidiary within the meaning of Article 5, §2, 1°, 2° and 4° of the Belgian Companies Code. The Company is subject to the following conditions for the acquisition of own shares in the context of Article 620 of the Belgian Companies Code:

- This authorization applies to a number of own shares that is at most equal to the number of shares as a result of which, due to the acquisition thereof, the limit of 20% referred to in Article 620, § 1, first section, 2° of the Belgian Companies Code would have been achieved.
- The acquisition of a share in the framework of this authorization must take place at a price per share between EUR 0,01 and EUR 100,00.
- The par value of the number of own shares to be acquired that the company wishes to purchase, including the previously acquired own shares held by the company, may not exceed twenty per cent (20%) of the share capital of the company.
- The compensation for the acquisition of these own shares may not exceed the company's resources that, in accordance with Article 617 of the Belgian Companies Code, are eligible for distribution.
- The acquisition of the shares in the framework of this authorization will entail the immediate creation of a non-distributable reserve 'acquisition of own shares' equal to the global purchase price of the acquired shares, and this by means of a withdrawal from the available profit reserve. The creation of a non-distributable reserve is only mandatory if and for as long as the shares are held in portfolio.

This authorization is valid for a period of five (5) years from the publication of this decision in the Belgian Official Gazette (10 May 2019).

The existing authorizations of the Board of Directors for the alienation of own shares held in accordance with article 622, §2, of the Belgian Companies Code and article 622, §2, 1° of the Belgian Companies Code were awarded for an indefinite period by the resolutions of the Extraordinary General Meeting of 22 April 2014:

- The number of own shares disposed of may not exceed the number of shares in the company that a direct subsidiary of the company may hold as a legitimate cross-shareholding within the meaning of article 631, § 1 of the Companies Code.
- The disposal of a share under this authority shall take place at the last closing price at which the shares were quoted on the Brussels stock exchange at the moment of disposal.
- The shares concerned may only be transferred to Melexis Technologies NV, whose registered office is situated at 3980 Tessenderlo, Transportstraat 1, RPR Hasselt 0467.222.076, or to a company of which Melexis NV directly or indirectly holds more than 99% of the dividend entitled securities.
- The reserves the company has made unavailable for distribution due to the 'acquisition of own shares' are transferred back to reserves available for distribution for an amount equal to the acquisition value of the disposed shares.

The Board of Directors is also authorized for an indefinite period of time to dispose of purchased own shares in accordance with article 622, §2, section 2, 1° of the Companies Code to the extent that the shares are disposed of on the regulated market on which they are quoted.

On 31 December 2019, the Melexis Group was in the possession of 346,141 shares out of 40,400,000 shares in the registered capital of the company, or 0.86% of the total outstanding share capital. In accordance with article 622 of the Companies Code, the voting rights on these shares are suspended.

Termination of management agreements

All management agreements with the members of the Executive Management (except the CEO) provide for a severance payments equal to twelve months' fixed remuneration if the management agreement is terminated due to a change of control.

Other elements

The company has not issued securities with special control rights.

No agreements have been concluded between the company and its directors or employees providing for a compensation if, as a result of a take-over bid, the directors resign or are made redundant without valid reason or if the employment of the employees is terminated.

7.10 AUDITOR

PwC Bedrijfsrevisoren BV, whose registered office is situated at 1932 Sint-Stevens-Woluwe, Woluwedal 18, listed in the Register for Legal Entities of Brussels with company number 429.501.944, was appointed as statutory auditor of the company. Ms. Sofie Van Grieken, auditor, and Mr Koen Vanstraelen, auditor, are appointed as the permanent representatives of the auditor.

The annual fee for this mandate, on a consolidated basis, amounted to EUR 169,515 in audit fees, VAT excluded, and is adjusted annually according to the consumer index.

7.11 COMPLIANCE WITH THE 2009 BELGIAN CODE ON CORPORATE GOVERNANCE

Melexis complies with the corporate governance rules of the 2009 Belgian Code on Corporate Governance.

Melexis' compliance with the Code 2020 is detailed in the most recent version of the Corporate Governance Charter.

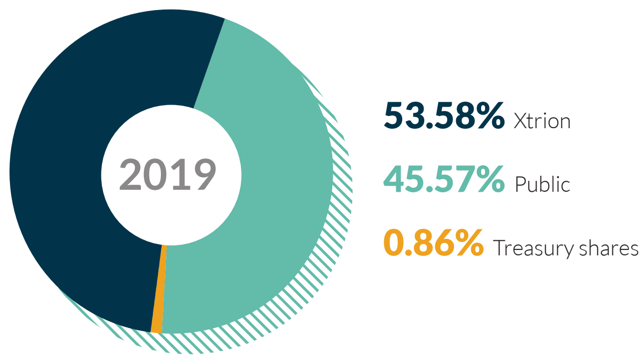
8 SHAREHOLDER INFORMATION

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

8.1 SHAREHOLDER STRUCTURE

Situation on 31 December 2019

Company	Number of shares	Participation rate
Xtrion NV	21,644,399	53.58%
Treasury shares	346,141	0.86%
Public	18,409,460	45.57%
Total	40,400,000	100.00%



8.2 SHARE INFORMATION

- **First day of listing** 10 October 1997
- **Number of shares outstanding on 31 December 2019** 40,400,000
- **Market capitalization on 31 December 2019** EUR 2,708,820,000

(in EUR)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Earnings per share	1.49	2.86	2.75	2.38	2.45	2.10	1.37	1.25	1.06	1.12	(0.09)
Net cash from operating activities	2.34	2.47	2.80	2.67	2.85	2.35	1.75	1.41	1.35	1.04	0.46
Gross dividend	1.30	2.20	2.10	2.00	1.90	1.00	0.70	0.65	0.60	0.30	0.00
Year end price	67.05	50.90	84.37	63.65	50.18	37.50	23.18	12.88	10.37	13.46	6.78
Year's high	72.65	92.83	87.37	65.88	59.47	37.54	24.44	13.40	13.84	13.80	7.44
Year's low	47.66	45.62	64.41	40.94	37.70	23.10	13.19	10.60	8.35	6.84	3.33
Average volume of shares traded/day	126,252	107,094	54,966	59,810	73,249	35,665	22,741	22,958	34,818	34,900	22,137

8.3 SHAREHOLDER CONTACT INFO

Investor Relations
Phone: +32 13 67 07 79
Rozendaalstraat 12, B-8900 Ieper, Belgium
www.melexis.com/InvestorRelations.aspx

8.4 FINANCIAL CALENDAR 2020

29 April 2020
Announcement of Q1 Results

12 May 2020
Annual Shareholders' Meeting

29 July 2020
Announcement of Half Year Results

28 October 2020
Announcement of Q3 Results

3 February 2021
Announcement of Full Year Results

8.5 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 per share out of distributable reserves:
2015: EUR 1.30 interim dividend
EUR 0.60 final dividend
2016: EUR 1.30 interim dividend
EUR 0.70 final dividend
2017: EUR 1.30 interim dividend
EUR 0.80 final dividend
2018: EUR 1.30 interim dividend
EUR 0.90 final dividend
2019: EUR 1.30 interim dividend
(approval by the annual shareholders' meeting on 12 May 2020)

9 EXCERPTS FROM THE MELEXIS NV STATUTORY

The following information is extracted from the separate Belgian GAAP financial statements of Melexis NV. These separate financial statements, together with the management report of the Board of Directors to the general assembly of shareholders as well as the auditors' report, will be filed with the National Bank of Belgium within the legally foreseen time limits.

It should be noted that only the consolidated financial statements as set forth in chapters 6 and 7 present a true and fair view of the financial position and performance of the Melexis Group.

Therefore, these separate financial statements present no more than a limited view of the financial position of Melexis.

For this reason, the Board of Directors deemed it appropriate to publish only an abbreviated version of the non-consolidated balance sheet and income statement prepared in accordance with Belgian GAAP as at and for the year ended 31 December 2019. Participations in affiliated companies are recognized at purchase price.

The statutory auditors' report is unqualified and certifies that the non-consolidated financial statements of Melexis NV prepared in accordance with Belgian GAAP for the year ended 31 December 2019 give a true and fair view of the financial position and results of Melexis NV in accordance with all legal and regulatory dispositions.

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

Condensed non consolidated statement of financial position

in 1,000 EUR

ASSETS	2019	2018
FIXED ASSETS	**1,334,386**	**710,974**
II. Intangible assets	272	463
III. Tangible assets	46,077	52,458
A. Land and buildings	14,798	14,562
B. Plant machinery and equipment	29,246	33,315
C. Furniture and vehicles	1,636	1,689
F. Assets under construction and advanced payments	397	2,892
IV. Financial assets	1,288,037	658,053
A. Affiliated companies	1,287,996	657,974
1. Participations	1,287,996	657,974
B. Other enterprises linked by participating interests	-	-
1. Participations	-	-
C. Other financial assets	41	79
2. Receivables and caution money	41	79
CURRENT ASSETS	**4,249**	**2,368**
V. Amounts receivable after more than one year	3	3
1. Other receivables	3	3
VII. Amounts receivable within one year	1,904	188
A. Trade receivables	104	110
B. Other receivables	1,800	78
VIII. Cash investments	21	21
A. Own shares	21	21
B. Other investments and deposits	-	-
IX. Cash deposits	192	62
X. Deferred assets and accrued income	2,128	2094
TOTAL ASSETS	**1,338,635**	**713,342**

Condensed non consolidated statement of financial position (continued)

in 1,000 EUR

	2019	2018
SHAREHOLDERS' EQUITY	**823,292**	**128,732**
I. Capital	565	565
A. Outstanding capital	565	565
IV. Reserves	4,206	96
A. Legal reserve	57	57
B. Reserves not available for distribution	4,149	39
1. In respect of own shares held	4,149	39
V. Retained earnings	818,216	127,744
VI. Investment grants	305	327
DEBTS	**515,343**	**584,610**
VIII. Long-term debt	-	10,000
D. Banks	-	10,000
IX. Amounts payable within one year	512,560	571,322
A. Current portion of amounts payable after more than one year	-	-
C. Trade debts	1,553	5,749
1. Trade payables	1,553	5,749
E. Taxes, remuneration and social security	2,956	2,972
1. Taxes	69	178
2. Remuneration and social security	2,888	2,793
F. Other amounts payable	508,051	562,601
X. Accrued charges and deferred income	2,783	3,289
TOTAL LIABILITIES	**1,338,635**	**713,342**

Condensed non consolidated statement of comprehensive income

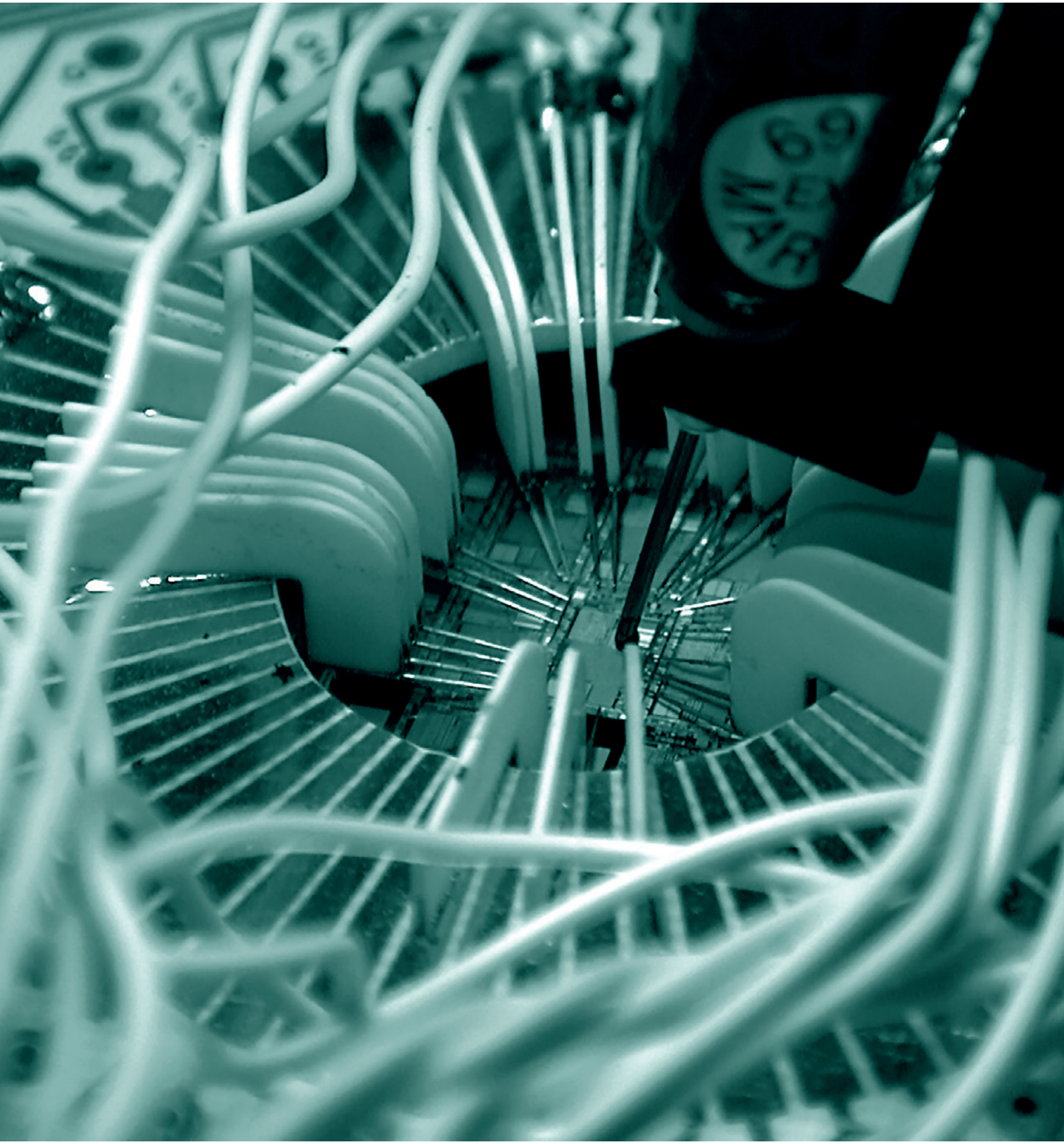
in 1,000 EUR

	2019	2018
I. Operating income	63,211	68,931
A. Turnover	61,589	67,218
C. Other operating income	1,622	1,712
II. Operating charges	(53,015)	(56,330)
B. Services and other goods	15,517	23,273
C. Remuneration, social security charges and pensions	24,610	21,094
D. Depreciations	12,708	11,775
E. Amounts written off stocks, contracts in progress and trade receivables	-	-
G. Other operating charges	180	188
III. Operating result	10,196	12,601
IV. Financial income	779,997	191
B. Income from current assets	1	1
C. Other financial income	88	190
V. Financial charges	(7,020)	(6,322)
A. Debt charges	6,928	6,153
C. Other financial charges	92	169
VI. Result of the year before taxes	783,173	6,470
VII. Income taxes	286	187
A. Taxes	29	26
B. Regularization	(315)	(213)
VIII. Result of the year	783,459	6,657
IX. Profit of the year available for appropriation	**783,459**	**6,657**

Appropriation of the result

in 1,000 EUR

	2019	2018
A. Result to be appropriated	911,203	216,624
1. Result of the period available for appropriation	783,459	6,657
2. Result carried forward	127,744	209,966
C. Transfers to capital and reserves	(3,799)	(4)
1. To other reserves	(3,799)	(4)
D. Result to be carried forward	854,886	127,744
1. Result to be carried forward	854,886	127,744
F. Distribution of profit	(52,518)	(88,876)
1. Dividends	(52,518)	(88,876)



10 GLOSSARY

Earnings per share
Profit attributable to equity holders of Melexis divided by the weighted average number of ordinary shares

Earnings per share diluted
Profit attributable to equity holders of Melexis divided by the fully diluted weighted average number of ordinary shares

Revenue
Product sales + revenues from research and development

EBIT (Earnings before interests and taxes)
Turnover/Sales – cost of sales – research and development expenses – general and administrative expenses – selling expenses – other operating expenses

EBITDA (Earnings before interests and taxes + depreciation, amortization and impairment)
EBIT + depreciation, amortization and impairment

Shareholders' equity
Shareholders' capital + retained earnings (inclusive current year's result) +/- reserves (reserve treasury shares, revaluation reserve hedge, revaluation reserve fair value, legal reserve) +/- cumulative translation adjustment

Net indebtedness
Current portion of long-term debt + long-term debt less current portion + bank loans and overdrafts – current investments – cash and cash equivalents

Working capital
(Total current assets – cash and cash equivalents - current investments) – (current liabilities – bank loans and overdrafts – current portion of long-term debt – derivative financial instruments)

Net cash from operating activities
Net result +/- adjustments for operating activities +/- changes in working capital

Capital expenditure
Investments in property, plant and equipment

ROE (Return on equity)
Net income/Shareholders' equity

Liquidity
Current assets/current liabilities

Solvency
Shareholders' equity/total assets

Tangible net worth
Total assets – liabilities – intangible assets

11 LIST OF USED ACRONYMS

ADAS	Advanced driver-assistance system
AEC	Automotive electronics council
ASIC	Application-specific integrated circuit
ASIL	Automotive safety integrity level
ASSP	Application-specific standard product
AWD	All-wheel drive
BGA	Ball grid array
BLDC	Brushless DC (direct current)
BMS	Battery management systems
BOM	Bill of materials
CAN FD	Controller area network with flexible data rate
CEO	Chief executive officer
CFO	Chief financial officer
CMOS	Complementary metal oxide semiconductor
CTA	Cumulative translation adjustments
DC	Direct current
DRC	Democratic Republic of Congo
DSP	Digital signal processor
ECHA	European chemical agency
ECU	Electronic control unit
EGR	Exhaust gas recirculation
ELV/WEEE	End-of-life vehicles/Waste electrical and electronic equipment
EMC	Electromagnetic compatibility
EMI	Electromagnetic interference
ESD	Electrostatic discharge
ESP	Electronic stability program
EV	Electric vehicle
EVAP	Evaporation
FAE	Field application engineers
FIR	Far-infrared
FOV	Field of view
FS	Formula Student
GHG	Greenhouse gases
GRI	Global reporting initiative
HVAC	Heating, ventilation and air conditioning
I2C	Inter-integrated circuit
IATF	International automotive task force
IAS(B)	International accounting standards (board)
IC	Integrated circuit
ICE	Internal combustion engine
IFRS	International financial reporting standards
IMC	Integrated magnetic concentrator
IOT	Internet of things
IP	Intellectual property
ISO	International organization for standardization
ISO/TS	International organization for standardization/technical specification
KPI	Key performance indicator
LIN	Local interconnect network
MAP	Manifold absolute pressure
MEMS	Micro-electromechanical system
MinTOFKA	Miniaturisiertes time-of-flight kamerasystem
OEM	Original equipment manufacturer
OSIC	Oxygen sensor integrated circuit
PBB	Polybrominated biphenyl
PBDE	Polybrominated diphenyl ether
PCB	Printed circuit board
PRNDL	Park-reverse-neutral-drive-low
PSI5	Peripheral sensor interface 5
PWM	Pulse width modulation
QVGA	Quarter video graphics array
R&D	Research & development
REACH	Registration, evaluation, authorization and restriction of chemicals
RF	Radio frequency
RGB	Red, green and blue
ROHS	Restriction on the use of hazardous substances
ROM	Read-only memory
SENT	Single edge nibble transmission
SIP	Single-in-line package
SOC	System-on-chip
SOI	Silicon-on-insulator
SOT	Small outline transistor
STEM	Science, technology, engineering and mathematics
SVHC	Substances of very high concern
SWTW	Semiconductor wafer test workshop
TOF	Time-of-flight
TPMS	Tire pressure monitoring system
TRS	Transmission range selection
UNIC	Ukrainian network of integrity and compliance
VGA	Video graphics array

12 OUR INDUSTRY ASSOCIATIONS

Melexis participates in the following industry associations through which we get access to and learn from the industry's best practices.

NAME OF THE ASSOCIATION	TYPE OF ASSOCIATION	WEBSITE
AEC-Q100	Industry association	www.aecouncil.com
Agoria - Transport & Mobility Club	Local industry association	www.agoria.be/nl/Transport-Mobility-Technology-Solutions
CAN in Automation (CiA)	Industry association	www.can-cia.org
DGQ	Local quality association	www.dgq.de
EIRMA	Industry association	www.eirma.org
IEEE	Professional org. of advanced technology	www.ieee.org
ISELED Alliance	Industry association	www.iseled.com
ISO	Standardization	www.iso.org
MIPI alliance	Industry association	www. mipi.org
NBN	Standardization	www.nbn.be
Silicon Saxony	Network	www.silicon-saxony.de/netzwerk/verein
VDA	Industry association	www.vda.de
VDE/GMM: Testequipment und Verfahren	Network	www.vde.com
VDI	Industry association	www.vdi.de
ZVEI	Industry association	www.zvei.org

13

GRI CONTENT INDEX

Melexis is inspired by the Global Reporting Initiative (GRI) framework to guide its sustainability reporting. Melexis will continue to work throughout the upcoming years to report its sustainability efforts in accordance with the GRI Standards: Core option. This is our GRI content index.

	GRI STANDARDS REFERENCE	DISCLOSURE	PAGE REF.
GENERAL	**GRI 102: General disclosures**		
	Organizational profile		
		102-1 Name of the organization	62, 138
		102-2 Activities, brands, products, and services	62
		102-3 Location of headquarters	62, 138
		102-4 Location of operations	95, 136-137
		102-5 Ownership and legal form	62, 71
		102-6 Markets served	62, 90
		102-7 Scale of the organization	52, 62
		102-8 Information on employees and other workers	30-33
		102-9 Supply chain	45-46
		102-10 Significant changes to the organization and its supply chain	There were no significant changes to the supply chain.
		102-11 Precautionary principle or approach	42
		102-12 External initiatives	A list of externally-developed economic, environmental and social charters, principles, or other initiatives to which Melexis subscribes or which it endorses can be found on our website: https://www.melexis.com/en/quality-environment
		102-13 Membership of associations	128
	Strategy		
		102-14 Statement from senior decision-maker	8
		102-15 Key impacts, risks, and opportunities	Not reported
	Ethics and integrity		
		102-16 Values, principles, standards, and norms of behavior	26-27, 47
		102-17 Mechanisms for advice and concerns about ethics	27, 47

GENERAL	Governance		
		102-18 Governance structure	103-107
		102-19 Delegating authority	Not reported
		102-20 Executive-level responsibility for economic, environmental, and social topics	Not reported
		102-21 Consulting stakeholders on economic, environmental, and social topics	Not reported
		102-22 Composition of the highest governance body and its committees	Not reported
		102-23 Chair of the highest governance body	Not reported
		102-24 Nominating and selecting the highest governance body	Not reported
		102-25 Conflicts of interest	27, 47, 113
		102-26 Role of highest governance body in setting purpose, values and strategy	105
		102-27 Collective knowledge of highest governance body	105-107
		102-28 Evaluating the highest governance body's performance	108
		102-29 Identifying and managing economic, environmental, and social impacts	Not reported
		102-30 Effectiveness of risk management processes	95-99, 105
		102-31 Review of economic, environmental, and social topics	Not reported
		102-32 Highest governance body's role in sustainability reporting	Not reported
		102-33 Communicating critical concerns	Not reported
		102-34 Nature and total number of critical concerns	95-99
		102-35 Remuneration policies	36, 110-112
		102-36 Process for determining remuneration	36, 110-112
		102-37 Stakeholders' involvement in remuneration	Not reported
		102-38 Annual total compensation ratio	111-112
		102-39 Percentage increase in annual total compensation ratio	111-112
	Stakeholder engagement		
		102-40 List of stakeholder groups	29, 45
		102-41 Collective bargaining agreements	Approximately 50% of all employees are covered by collective bargaining agreements.

GENERAL		102-42 Identifying and selecting stakeholders	Our stakeholders are those people on which Melexis has an influence or who have an influence on Melexis.
		102-43 Approach to stakeholder engagement	29, 45
		102-44 Key topics and concerns raised	We are planning to involve our stakeholders in a materiality analysis in the future, but currently do not have insight in their key topics and concerns.
	Reporting practice		
		102-45 Entities included in the consolidated financial statements	91
		102-46 Defining report content and topic Boundaries	Not reported
		102-47 List of material topics	Not reported
		102-48 Restatements of information	There have been no restatements of information provided in the previous reports.
		102-49 Changes in reporting	There have been no lists of material topics in previous years.
		102-50 Reporting period	138
		102-51 Date of most recent report	The most recent report is the 2018 annual report.
		102-52 Reporting cycle	Annual
		102-53 Contact point for questions regarding the report	138
		102-54 Claims of reporting in accordance with the GRI Standards	24, 138
		102-55 GRI content index	24, 129-135
		102-56 External assurance	Not reported
	GRI 103: Management approach		
		103-1 Explanation of the material topic and its boundary	Not reported
		103-2 The management approach and its components	Not reported
		103-3 Evaluation of the management approach	Not reported

ECONOMIC	**GRI 201: Economic performance**		
		201-1 Direct economic value generated and distributed	59
		201-2 Financial implications and other risks and opportunities due to climate change	Not reported
		201-3 Defined benefit plan obligations and other retirement plans	64, 94
		201-4 Financial assistance received from government	66, 79, 82
	GRI 202: Market presence		
		202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Not reported
		202-2 Proportion of senior management hired from the local community	Not reported
	GRI 203: Indirect economic impacts		
		203-1 Infrastructure investments and services supported	78
		203-2 Significant indirect economic impacts	Not reported
	GRI 204: Procurement practices		
		204-1 Proportion of spending on local suppliers	Not reported
	GRI 205: Anti-corruption		
		205-1 Operations assessed for risks related to corruption	27, 47
		205-2 Communication and training about anti-corruption policies	27, 47
		205-3 Confirmed incidents of corruption and actions taken	27, 47
	GRI 206: Anti-competitive behavior		
		206-1 Legal actions for anti-competitive behavior, antitrust and monopoly practices	47

ENVIRONMENTAL	**GRI 301: Materials**		
		301-1 Materials used by weight or volume	43
		301-2 Recycled input materials used	43
		301-3 Reclaimed products and their packaging materials	43
	GRI 302: Energy		
		302-1 Energy consumption within the organization	Not reported
		302-2 Energy consumption outside of the organization	Not reported
		302-3 Energy intensity	Not reported
		302-4 Reduction of energy consumption	Not reported
		302-5 Reductions in energy requirements of products and services	Not reported

ENVIRONMENTAL	**GRI 303: Water**		
		303-1 Water withdrawal by source	43
		303-2 Water sources significantly affected by withdrawal of water	Not reported
		303-3 Water recycled and reused	Not reported
	GRI 304: Biodiversity		
		304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside	Not reported
		304-2 Significant impacts of activities, products, and services on biodiversity	Not reported
		304-3 Habitats protected or restored	Not reported
		304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not reported
	GRI 305: Emissions		
		305-1 Direct (Scope 1) GHG emissions	Not reported
		305-2 Energy indirect (Scope 2) GHG emissions	43
		305-3 Other indirect (Scope 3) GHG emissions	Not reported
		305-4 GHG emissions intensity	43
		305-5 Reduction of GHG emissions	Not reported
		305-6 Emissions of ozone-depleting substances (ODS)	Not reported
		305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	Not reported
	GRI 306: Effluents and waste		
		306-1 Water discharge by quality and destination	43
		306-2 Waste by type and disposal method	43
		306-3 Significant spills	43
		306-4 Transport of hazardous waste	Not reported
		306-5 Water bodies affected by water discharges and/or runoff	Not reported
	GRI 307: Environmental compliance		
		307-1 Non-compliance with environmental laws and regulations	43
	GRI 308: Supplier environmental assessment		
		308-1 New suppliers that were screened using environmental criteria	45
		308-2 Negative environmental impacts in the supply chain and actions taken	Not reported

SOCIAL	**GRI 401: Employment**		
		401-1 New employee hires and employee turnover	32-33
		401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	33
		401-3 Parental leave	33
	GRI 402: Labor/management relations		
		402-1 Minimum notice periods regarding operational changes	38
	GRI 403: Occupational health and safety		
		403-1 Workers representation in formal joint management–worker health and safety committees	37, 38
		403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	37
		403-3 Workers with high incidence or high risk of diseases related to their occupation	Not reported
		403-4 Health and safety topics covered in formal agreements with trade unions	Not reported
	GRI 404: Training and education		
		404-1 Average hours of training per year per employee	Not reported
		404-2 Programs for upgrading employee skills and transition assistance programs	35
		404-3 Percentage of employees receiving regular performance and career development reviews	Not reported
	GRI 405: Diversity and equal opportunity		
		405-1 Diversity of governance bodies and employees	30, 105, 109
		405-2 Ratio of basic salary and remuneration of women to men	Not reported
	GRI 406: Non-discrimination		
		406-1 Incidents of discrimination and corrective actions taken	Not reported
	GRI 407: Freedom of association and collective bargaining		
		407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	Not reported
	GRI 409: Forced or compulsory labor		
		409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	47
	GRI 410: Security practices		
		410-1 Security personnel trained in human rights policies or procedures	Not reported

SOCIAL	**GRI 411: Rights of indigenous peoples**		
		411-1 Incidents of violations involving rights of indigenous peoples	Not reported
	GRI 412: Human rights assessment		
		412-1 Operations that have been subject to human rights reviews or impact assessments	Not reported
		412-2 Employee training on human rights policies or procedures	Not reported
		412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Not reported
	GRI 413: Local communities		
		413-1 Operations with local community engagement, impact assessments, and development programs	Not reported
		413-2 Operations with significant actual and potential negative impacts on local communities	Not reported
	GRI 414: Supplier social assessment		
		414-1 New suppliers that were screened using social criteria	Not reported
		414-2 Negative social impacts in the supply chain and actions taken	Not reported
	GRI 415: Public policy		
		415-1 Political contributions	Not reported
	GRI 416: Customer health safety		
		416-1 Assessment of the health and safety impacts of product and service categories	42
		416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Not reported
	GRI 417: Marketing and labeling		
		417-1 Requirements for product and service information and labeling	Not reported
		417-2 Incidents of non-compliance concerning product and service information and labeling	Not reported
		417-3 Incidents of non-compliance concerning marketing communications	Not reported
	GRI 418: Customer privacy		
		418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	Not reported
	GRI 419: Socioeconomic compliance		
		419-1 Non-compliance with laws and regulations in the social and economic area	Not reported

14 OUR SITES WORLDWIDE

Sales & Applications

Manufacturing

Research & Development

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Responsible editor

Françoise Chombar, Managing Director

Annual report

This annual report has been compiled internally with the utmost care. If we have overlooked something or if you have any question regarding this report, please feel free to contact us via investor@melexis.com.

This annual report covers the period 1 January – 31 December 2019. You can find the financial report as of page 49. However, the report has also been made compliant with the Belgian law of 3 September 2017 detailing the publication of non-financial information and information regarding diversity by certain large companies and groups. For this information, Melexis has been inspired by the Global Reporting Initiative Standards: Core option. We are committed to report on our sustainability efforts increasingly over the next few years. You can find the GRI content index on pages 129-135.

Design and layout

www.magelaan.be

MELEXIS NV

Statutory auditor's report to the general shareholders' meeting on the consolidated accounts for the year ended December 31, 2019

3 April 2020

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING OF MELEXIS NV ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

We present to you our statutory auditor's report in the context of our statutory audit of the consolidated accounts of Melexis NV (the "Company") and its subsidiaries (jointly "the Group"). This report includes our report on the consolidated accounts, as well as the other legal and regulatory requirements. This forms part of an integrated whole and is indivisible.

We have been appointed as statutory auditor by the general meeting *d.d.* April 20, 2017, following the proposal formulated by the board of directors and following the recommendation by the audit committee. Our mandate will expire on the date of the general meeting which will deliberate on the annual accounts for the year ended December 31, 2019. We have performed the statutory audit of the consolidated accounts of Melexis NV for 3 consecutive years.

Report on the consolidated accounts

Unqualified opinion

We have performed the statutory audit of the Group's consolidated accounts, which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and which is characterised by a consolidated statement of financial position total of EUR 418.609.854 and a profit for the year of EUR 60.255.234.

In our opinion, the consolidated accounts give a true and fair view of the Group's net equity and consolidated financial position as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing (ISAs) as approved by the IAASB which are applicable to the year-end and which are not yet approved at the national level. Our responsibilities under those standards are further described in the "*Statutory auditor's responsibilities for the audit of the consolidated accounts"* section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to our audit of the consolidated accounts in Belgium, including the requirements related to independence.

We have obtained from the board of directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - subsequent event

As far as the outbreak of COVID 19 is concerned, we draw your attention to note “AN. Covid-19” of the consolidated accounts in which the board of directors expresses their view that, although the consequences thereof may have a significant impact on the Group’s operations in 2020, such consequences do not have a material impact on the Group's financial position for the year ended 31 December 2019. Our opinion is not qualified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounts of the current period. These matters were addressed in the context of our audit of the consolidated accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1) First key audit matter regarding fraud in revenue recognition

Description of the key audit matter
As is the case for many listed Companies, growth expectations in terms of revenues and period result are high which could result in pressure to meet ambitious targets: variable (executive) management reward and incentive schemes are based on achieving specific targets and, in our opinion, therefore may also place pressure to manipulate revenue recognition. The majority of the group’s sales arrangements is generally straightforward, being on a point of sale basis and requiring little judgement to be exercised.

We consider this point as a key audit matter because there is a risk that management may override controls to intentionally misstate revenue transactions, either through the judgements made in estimating rebates, applying non-contractual price changes, recording fictitious revenue transactions or through intentionally increasing period-end sales to distributors, having a right of overstock return, to achieve the mentioned targets.

How our audit addressed the key audit matter
We assessed the Melexis revenue recognition policies and how they are applied, including the relevant controls, and tested controls over revenue recognition where appropriate. We discussed key contractual arrangements with management and obtained relevant documentation, including rebate arrangements. Where rebate arrangements exist, we obtained third-party confirmations or performed appropriate alternative procedures, including review of contracts and recalculation of rebates. We also performed an analysis over changes to prior period rebate estimates to challenge the assumptions made, including assessing the estimates for evidence of management bias.

As part of our overall revenue recognition testing, we used data analysis tools to test the correlation of revenue transactions to cash receipts for the complete set of sales throughout the year. We performed cut-off and sales price testing for a sample of revenue transactions around the period end date to check whether they were accurately recognised and recorded in the appropriate period.

Other audit procedures are specifically designed to address the risk of management override of controls included journal entry testing, applying particular focus to the existence and timing of revenue transactions. Having performed these procedures, we did not identify exceptions that are significant to the financial statements as a whole.

2) Second key audit matter regarding tax positions

Description of the key audit matter
The global nature of Melexis operations, of which an overview can be found in section 6.9.4 of the notes to the consolidated financial statements, results in complexities in the payment of and accounting for income taxes: the group operates across 14 countries and is subject to periodic challenges by local tax authorities on a range of income tax matters during the normal course of business. Income tax legislation is open to different interpretations and the income tax treatment of some items is uncertain. Income tax audits can require several years to conclude and transfer pricing judgements may impact the group's income tax liability. Management applies judgement in assessing these income tax exposures in each jurisdiction, many of which require interpretation of local income tax laws. Given the complexities and the level of judgement involved, we consider this point as a key audit matter.

How our audit addressed the key audit matter
We obtained an understanding of the group's process for determining income tax provisions and calculating the income tax charge, and walked through management's controls over income tax reporting. The group audit team, including income tax specialists, evaluated the income tax positions taken by management, in each significant jurisdiction in the context of local income tax law, evaluated the correspondence with income tax authorities and the status of any income tax audits. We assessed the group's transfer pricing judgements, considering the way in which the group's business operate and the correspondence and agreements reached with tax authorities. We found the group's judgements in respect of the group's position on uncertain tax items and contingencies to be consistent and in line with our expectations.

3) Third key audit matter regarding claims and litigations

Description of the key audit matter
The semiconductor industry is characterized by claims alleging the infringement of patents and other intellectual property (IP) rights. The group might receive communications or claims from third parties asserting patents or other IP rights on certain technologies or processes used by the group. In the event any third party claim were to be valid, the group 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.

We consider this point as a key audit matter, the majority of the group's sales arrangements being within the Automotive market where service level agreements are very precise and strict, the group might receive claims from third parties for supply chain break-downs and / or delays directly or indirectly caused by the group as well as for undetected quality problems since, despite rigorous and extensive testing, some defects might only be discovered after a product has been installed and used by customers

How our audit addressed the key audit matter
We assessed the Melexis policy for obtaining patent protections: however, there can be no certainty that patents will be issued for 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. We confirmed that intellectual property, legal and quality risks are discussed on a regular basis within the Audit Committee. As part of our audit procedures, we have discussed positions with the group's legal department and collected and assessed written confirmations from the group's lawyers. We found the positions taken by the group to be sustained by appropriate evidence.

Responsibilities of the board of directors for the preparation of the consolidated accounts

The board of directors is responsible for the preparation of consolidated accounts that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated accounts, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated accounts

Our objectives are to obtain reasonable assurance about whether the consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounts.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated accounts in Belgium. A statutory audit does not provide any assurance as to the Company's future viability nor as to the efficiency or effectiveness of the board of directors' current or future business management.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our statutory auditor's report to the related disclosures in the consolidated accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our statutory auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated accounts, including the disclosures, and whether the consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation;

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts, the non-financial information and the other information included in the annual report on the consolidated accounts.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, the directors' report on the consolidated accounts, the non-financial information and the other information included in the annual report on the consolidated accounts and to report on these matters.

Aspects related to the directors' report on the consolidated accounts and to the other information included in the annual report

In our opinion, after having performed specific procedures in relation to the directors' report on the consolidated accounts and to the other information included in the annual report, this report is consistent with the consolidated accounts for the year under audit, and it is prepared in accordance with article 3:32 of the Companies' and Associations' Code.

In the context of our audit of the consolidated accounts, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the directors' report on the consolidated accounts and the other information included in the annual report on the consolidated accounts, containing:

- Letter to our shareholders
- Our key figures
- Our strategy
- Our solutions
- Our responsible entrepreneurship
- Corporate governance statement
- Shareholder information
- Excerpts from the Melexis nv statutory
- Glossary
- List of used acronyms
- Our industry associations
- GRI content index
- Our sites worldwide
- About this report

is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you.

The non-financial information required by virtue of article 3:32, §2 of the Companies' and Associations' Code is included in the directors' report on the consolidated accounts. The Company has prepared the non-financial information, based on the Global Reporting Initiative (GRI) framework. However, in accordance with article 3:80, §1, 5° of the Companies' and Associations' Code, we do *not* express an opinion as to whether the non-financial information has been prepared in accordance with the Global Reporting Initiative (FRI) framework as disclosed in the consolidated accounts.

Statement related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated accounts, and our registered audit firm remained independent of the Group in the course of our mandate.

- The fees for additional services which are compatible with the statutory audit of the consolidated accounts referred to in article 3:65 of the Companies' and Associations' Code are correctly disclosed and itemized in the notes to the consolidated accounts.

Other statements

- This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Hasselt, April 3, 2020

The statutory auditor
PwC Reviseurs d'Entreprises SRL / PwC Bedrijfsrevisoren BV
Represented by

Sofie Van Grieken
Réviseur d'Entreprises / Bedrijfsrevisor

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Melexis

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