Half Year Report
2012/13

At the heart of power electronics

LEM

Business Report

Dear Shareholders,

The first half year 2012/13 has confirmed the trend we projected last year: LEM delivers stable results in a market environment with low visibility. Our clients face uncertainty due to the economic slowdown mainly brought on by the sovereign debt crisis in Europe. Today, the global political and economic implications of the crisis remain unclear and make long-term planning difficult.

This lack of visibility has resulted in our customers requiring increased flexibility in terms of timing and delivery volumes. We anticipated clients' short-term orders and positioned ourselves accordingly. We have carefully managed our supply chain and held sufficient raw material and subcomponents in stock in order to accommodate the volatile demand of our customers.

Our sales decreased by 1.0% to CHF 124.2 million. At constant exchange rates, sales decreased by 7.3%. Reported bookings for the first six months of 2012/13 compared to the first half year of 2011/12 increased by 49.8% to CHF 120.5 million. The Q2 book-to-bill ratio was at 0.98. For the six-month period, we observed that clients kept their stocks at very low levels and minimized their engagement.

The gross margin increased from 40.5% in the first half of 2011/12 to 42.9% in the first half of 2012/13. The operational EBIT for the first half year of 2012/13 was CHF 23.8 million, an increase of 24.1% year on year. This means we achieved an operating EBIT margin of 19.2%, which is within our target range of 15–20%.

Net profit for the first six months of 2012/13 was CHF 20.5 million, an increase of 36.6% compared to the first half year of 2011/12.

Industry segment: robust sales in North America and Asia compensate for weak European sales
Sales in the Industry segment reached CHF 106.0 million in the first six months of 2012/13, a decrease of 6.4% compared with the first half of 2011/12. At constant exchange rates, sales decreased by 11.7%. Thanks to improved production efficiency and ramp-up of production of new products, the operational EBIT for the first half year increased by 15.4% to CHF 21.0 million. Europe remains our biggest market, accounting for 48% of sales, followed by China with 19%. Sales declined in Europe (–14%), grew in China (+6%) and remained stable in the rest of Asia and grew in North America (+12%).

- Sales decreased in the drives & welding business by 18% compared to last year. Europe was weakest, decreasing 27%, with Italy and Germany being hit the hardest.
- The renewable energies & power supplies business recovered during late spring but slowed down again in summer. Sales increased by 13% compared to last year. Whereas Europe weakened in solar, we observed growth in Asia, mainly China and Japan, and in North America. We observed two trends in the renewable energies business: first, growing capacities of solar power plants and the relocation of production from Europe to North America, China and Japan; second, higher requirements for environmental compatibility and accuracy driven by off-shore wind parks.
- The traction business decreased (–6%), mainly due to weak European demand following the credit constraints and prolonged delays in China.
- Sales in high-precision business decreased (–3%). Europe and North America were stable whereas demand weakened in Asia for test & measurement.

Automotive segment: conventional cars business exceed expectations
Sales in the Automotive segment reached CHF 18.2 million, a growth of 48.4% compared to last year. At constant exchange rates, sales increased by 33.0%. Due to our focus on Asian and North American manufacturers, Automotive results have not been strongly impacted by the weak European car market.

- Our growth can mainly be attributed to a strong performance with battery management applications in the conventional cars business, whereas we noticed an increasing number of delays or even suspensions of new projects in the green cars business. In the conventional cars business, our sales grew by 52.2% compared to the first half of 2011/12. We achieved this result by winning market share and by extending the numbers of platforms with existing and new customers. We continue to be the market leader in the USA and have a very good market position in Asia.

- In the green cars business (hybrid electrical and electrical vehicles), sales grew by 34.1% compared to the first half of 2011/12.

Strategy implementation on track

In the first half year, we made progress in implementing our strategic initiatives that will serve to increase LEM's competitive advantage:

- **Increase technology leadership**
  With the launch of three products in the first half year 2012/13, we remain on track with our goal to launch new products that offer either improved performance or reduced costs for our customers. A new open-loop-based product, HO, uses our new ASIC generation delivering higher precision than previously. It also offers new functionalities like overcurrent detection and stand-by mode. Furthermore, it is programmable, which represents a breakthrough in our sensor market. For the traction market, we developed a new voltage transducer, the DVL, in collaboration with key customers. This voltage transducer offers an improved performance based on new digital technology. Another new product, HFWS 63, has been designed for a smart-grid-management application.

  The increased number of product launches is the result of our continued focus on innovation. We have invested CHF 6.9 million in R&D in the first half of 2012/13, representing 5.6% of sales.

- **Increase efficiency**
  In 2009 LEM acquired Danfysik ACP A/S in Denmark. After its successful integration into LEM Group we decided to centralize the high-precision production. In summer 2012, we finalized the relocation of our production center from Denmark to Geneva. This grouping of production will reduce costs and facilitate efficiency improvements in the supply chain. During the relocation, we maintained product quality on its high level and assured uninterrupted on-time delivery of our products.

- **Increase production flexibility**
  In order to be able to deal with the increased volatility in our markets, we improved our planning and forecasting procedures with our sales & operations planning process (S&OP). This program is based on close cooperation between the sales and operations teams and enables more precise planning of our production capacities and inventories.

Transfer of seat

According to the decision taken by the shareholders at the annual shareholders' meeting on 28 June 2012 we initiated the transfer of the seat of LEM Holding SA from Plan-les-Ouates to Fribourg. The implementation progresses according to plan and will be finalized before our next annual shareholders' meeting taking place on 27 June 2013 in Fribourg.

Outlook

In the second half of 2012/13 we expect a decrease of sales in the Industry segment as a consequence of the economic slowdown. Nevertheless, thanks to the introduction of new products we intend to continue strengthening our market share. Sales in the Automotive segment are expected to remain above last year's level. Our main challenge for the second half of 2012/13 will be to adapt production to the short-term planning of our customers.

For the full financial year 2012/13, we forecast sales of CHF 230 to 240 million, compared to last year's sales of CHF 236.3 million.

Despite the persistent volatility of our markets and the difficult economic environment, we remain confident about the potential of LEM. We are well-positioned to meet the needs of our customers due to our innovation capacity, our global organization and our increased efficiency.

We would like to thank you for your continued trust in LEM.

With kind regards,

Felix Bagdasarjanz	François Gabella
Chairman of the Board of Directors	Chief Executive Officer

Financial Results

In CHF thousands	April to September 2012/13	2011/12 [1]
Sales	124'195	125'511
Cost of goods sold	(70'892)	(74'736)
Gross margin	**53'302**	**50'775**
Sales expense	(11'536)	(12'138)
Administration expense	(11'037)	(11'953)
Research & development expense	(6'923)	(7'529)
Other expense	(150)	(145)
Other income	173	183
Operational EBIT	**23'829**	**19'194**
Additional SOP costs/income	0	619
EBIT	**23'829**	**19'813**
Financial expense	(58)	(172)
Financial income	51	46
Foreign exchange effect	722	(1'035)
Profit before taxes	**24'544**	**18'651**
Income taxes	(4'015)	(3'624)
Net profit of the period	**20'529**	**15'028**

[1] Reclassification for comparative information. Please refer to note 9.

Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets In CHF thousands	30.09.12	31.03.12
Current assets		
Cash and cash equivalents	12'421	21'121
Accounts receivable	46'629	42'140
Inventories	30'814	26'605
Income tax receivable	833	2'009
Other current assets	1'610	2'956
Total current assets	**92'306**	**94'831**
Non-current assets		
Deferred tax assets	3'906	3'485
Property, plant and equipment	24'665	24'173
Intangible assets	6'253	6'657
Other non-current assets	7'478	3'368
Total non-current assets	**42'302**	**37'683**
Total assets	**134'608**	**132'514**

Liabilities and equity In CHF thousands	30.09.12	31.03.12
Current liabilities		
Accounts payable	23'082	17'863
Accrued expenses	15'726	14'855
Current income tax payable	10'050	8'244
Current provisions	2'761	3'043
Current financial liabilities	5'033	3'000
Other current liabilities	260	632
Total current liabilities	**56'912**	**47'637**
Non-current liabilities		
Non-current provisions	441	457
Deferred tax liabilities	2'362	4'217
Other non-current liabilities	639	642
Total non-current liabilities	**3'441**	**5'316**
Total liabilities	**60'353**	**52'953**
Equity		
Share capital	570	570
Treasury shares and derivative instruments on treasury shares	(878)	(1'984)
Reserves	12'688	11'425
Retained earnings	61'875	69'550
Equity attributable to equity holders of the parent	**74'255**	**79'561**
Non-controlling interests		
Total equity	**74'255**	**79'561**
Total liabilities and equity	**134'608**	**132'514**

Consolidated Income Statement

In CHF thousands	April to September 2012/13	2011/12[1]
Sales	124'195	125'511
Cost of goods sold	(70'892)	(74'736)
Gross margin	**53'302**	**50'775**
Sales expense	(11'536)	(12'074)
Administration expense	(11'037)	(11'440)
Research & development expense	(6'923)	(7'486)
Other expense	(150)	(145)
Other income	173	183
Operating profit	**23'829**	**19'813**
Financial expense	(58)	(172)
Financial income	51	46
Foreign exchange effect	722	(1'035)
Profit before taxes	**24'544**	**18'651**
Income taxes	(4'015)	(3'624)
Net profit for the period	**20'529**	**15'028**
Attributable to:		
LEM shareholders	20'529	15'028
Net profit for the period	**20'529**	**15'028**
Basic and diluted earnings per share, in CHF	18.06	13.25

[1] Reclassification for comparative information. Please refer to note 9.

Consolidated Cash Flow Statement

In CHF thousands	April to September 2012/13	2011/12
Cash flow from operating activities		
Profit before taxes	24'544	18'651
Adjustment for non-cash items and taxes paid	125	90
Cash flow from changes in net working capital	(1'630)	(4'112)
Cash flow from operating activities	**23'039**	**14'629**
Cash flow from investing activities		
Investment in fixed assets	(3'172)	(5'309)
Investment in intangible assets	(163)	(189)
Increase (–) / decrease (+) in other assets	(4'110)	0
Cash flow from investing activities	**(7'445)**	**(5'498)**
Cash flow from financing activities		
Treasury shares acquired (–) / divested (+)	1'276	(665)
Dividends paid to the shareholders of LEM Holding SA	(28'374)	(45'461)
Increase (+) / decrease (–) in financial liabilities	2'000	21'000
Cash flow from financing activities	**(25'098)**	**(25'126)**
Change in cash and cash equivalents	**(9'504)**	**(15'995)**
Cash and cash equivalents at the beginning of the period	**21'121**	**26'613**
Exchange effect on cash and cash equivalents	771	(12)
Cash and cash equivalents at the end of the period	**12'388**	**10'606**

Consolidated Statement of Comprehensive Income

In CHF thousands	April to September 2012/13	2011/12
Net profit for the period recognized in the income statement	**20'529**	**15'028**
Currency translation difference	1'264	275
Total comprehensive income for the period	**21'792**	**15'303**
Attributable to shareholders	21'792	15'303

Consolidated Statement of Changes in Equity

Attributable to equity holder of the company

In CHF thousands	Share capital	Treasury shares	Share plan	Translation reserve	Retained earnings and other reserves	Total equity
1 April 2011	**575**	**(7'091)**	**1'556**	**(2'676)**	**104'549**	**96'913**
Net profit of the period					15'028	15'028
Other comprehensive income				275		275
Total comprehensive income				*275*	*15'028*	*15'303*
Changes in capital	(5)	3'968			(3'963)	(0)
Dividends paid					(45'461)	(45'461)
Performance share plan		1'681	(1'556)		(216)	(91)
Purchase and sales of treasury shares		(665)			(5)	(670)
30 September 2011	**570**	**(2'107)**	**0**	**(2'401)**	**69'932**	**65'994**
1 April 2012	**570**	**(1'984)**	**0**	**(2'502)**	**83'477**	**79'561**
Net profit of the period					20'529	20'529
Other comprehensive income				1'264		1'264
Total comprehensive income				*1'264*	*20'529*	*21'792*
Dividends paid					(28'374)	(28'374)
Purchase and sales of treasury shares		1'106			170	1'276
30 September 2012	**570**	**(878)**	**0**	**(1'238)**	**75'802**	**74'255**

Notes to the Interim Consolidated Financial Statements

1 Nature of operations
LEM Group is a market leader in providing innovative and high-quality solutions for measuring electrical parameters. Its core products – current and voltage transducers – are used in a broad range of applications in drives & welding, renewable energies & power supplies, traction, high precision, conventional and green cars businesses.

2 Basic principles of group accounting
These unaudited consolidated financial statements for the six months ended on 30 September 2012 have been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting." They do not include all the information and disclosures presented in the annual consolidated financial statements and should therefore be read in conjunction with the year ended 31 March 2012.

The accounting and valuation policies are consistent with those applied in preparing the annual consolidated financial statements for the year 2011/12, except where noted below.

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

In accordance with IAS 1 "Presentation of Financial Statements," the financial information is presented in thousands of CHF. The totals are calculated with the original unit amounts, which could lead to rounding differences. These differences in thousands of units are not changed in order to keep the accuracy of the original data.

3 Segment information

In CHF thousands	April to September 2011		
	Industry	Automotive	LEM Group Total
Sales	113'251	12'260	**125'511**
Operating profit	18'739	1'074	**19'813**

In CHF thousands	April to September 2012		
	Industry	Automotive	LEM Group Total
Sales	105'992	18'203	**124'195**
Operating profit	20'976	2'853	**23'829**

4 Adjustments to new IAS/IFRS standards and interpretations
The following new and revised standards and interpretations became effective for the reporting year 2012/13:

- Amendments to IAS 12 "Deferred Tax": Recovery of underlying assets provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model.
- Amendments to IFRS 1: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters provide relief from having to reconstruct transactions that occurred before the date of transition to IFRSs.
- Amendments to IFRS 7 "Disclosures": Transfers of financial assets require disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.

The new and revised standards do not have a material effect on the consolidated financial statements of LEM Group.

5 Other non-current assets
LEM Group increased other non-current assets by CHF 4.0 million due to the prepayment of retirement contributions to the Swiss retirement fund.

6 Financial liabilities
LEM Group increased financial short-term liabilities to CHF 5.0 million (CHF 3.0 million at 31 March 2012) via short-term credit lines.

For the purpose of the consolidated statement of cash flow, the bank loans are shown in the cash flow from financing activities.

7 Provisions
The transfer of LEM Denmark's contract manufacturing and R&D activities to LEM Switzerland has been effective during the first half year. The associated restructuring provision has been used.

8 Shareholders' equity
At the shareholders' meeting held in Geneva on 28 June 2012, the shareholders approved the distribution of an ordinary dividend of CHF 25.00 per share. The gross dividend paid on 9 July 2012 amounted to CHF 28'374 thousand (prior year: ordinary dividend of CHF 40.00; total CHF 45'461 thousand).

In the first half year 2012/13, the 3'419 remaining treasury shares on LEM's own account have been sold for a total amount of CHF 1'619 thousand.

In the frame of its market-making contract, LEM has acquired a net of 625 shares for a total amount of CHF 343 thousand. At 30 September 2012, LEM owns 1'794 treasury shares.

9 Change in the classifications of items in the consolidated income statement

In the frame of the continuous improvement of its processes and systems, LEM has reviewed the definition of each line of its consolidated income statement and reached the conclusion that some items should be reclassified in order to provide a more relevant financial information about its operations.

These reclassifications are related to the following items:

- Prior to the reclassification, management compensation had partially been shown in administration expenses and partially in the lines to which the managers contributed. After the reclassification, all management compensation is shown in the line to which the managers contribute.
- Facility cost (rent, energy, ...) has been attributed into the lines according to the resources used by each activity.
- Expenses of operation support teams had previously been shown partially in administration expenses. After the reclassification, these expenses are fully shown in cost of goods sold.

The impacts by category of changes are disclosed below:

In CHF thousands	Management compensation	Facility costs	Operation support costs	Total impact
Sales				0
Cost of goods sold	(1'174)	(825)	(550)	(2'549)
Gross margin				**(2'549)**
Sales expense	(3)	(226)		(229)
Administration expense	1'552	1'246	550	3'348
R&D expense	(375)	(195)		(570)
Other expense				0
Other income				0
Operational EBIT	**0**	**(0)**	**0**	**(0)**

10 Income taxes

Income tax expense is calculated based on the best estimate of the applicable annual income tax rate expected for the full year.

The decrease in the effective tax rate of LEM Group is due to the qualification as High- and New-Technologies Enterprise in China and to the new double taxation agreement between Japan and Switzerland, which liberates dividend payments from LEM's Japanese subsidiary from withholding taxes.

11 Changes in scope of consolidation

During the year, the activity of LEM SA has been separated into two distinct companies. LEM Intellectual Property SA is in charge of the intellectual property of the Group, with its office in Fribourg; LEM Switzerland SA is responsible for the Swiss production and contract R&D activities, with its office in Geneva.

LEM is currently in the process of simplifying the structure of its European agencies. At 30 September 2012, this has not generated any changes in the scope of consolidation.

12 Events after the balance sheet date

The Board of Directors and Senior Management are not aware of any significant events up to the date of approval of the consolidated financial statements on 5 November 2012 that would require an adjustment in carrying amounts of the Group's assets and liabilities.

13 Exchange rates

The following exchange rates were used:

	Period-end rate for balance sheet		Period average rate for income statement	
	30.09.12	31.03.12	2012/13	2011/12
EUR	**1.208**	1.204	**1.202**	1.209
GBP	**1.519**	1.444	**1.500**	1.373
JPY	**0.0121**	0.0109	**0.0120**	0.0106
USD	**0.940**	0.902	**0.949**	0.847
RUB	**0.030**	0.031	**0.030**	0.030
CNY	**0.148**	0.142	**0.150**	0.131
DKK	**0.162**	0.162	**0.162**	0.162

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