Half Year Report
2011/12

At the heart of power electronics

LEM

Business Report

Dear Shareholders,

Only one year ago we were on the peak of the recovery after the 2008/09 financial crisis. Orders were strong and LEM was challenged to ramp up its capacity in order to meet market demand. Meanwhile, the economic environment has changed. The sovereign debt crisis generates uncertainty about the global economy and consequently about the short-term development of our markets. In addition, the appreciation of the Swiss franc has affected our sales and profitability. We have had a challenging first half of 2011/12, but we nevertheless achieved an operating EBIT margin above 15%.

At CHF 125.5 million, our sales have decreased 11.5% from the first half of 2010/11. At constant exchange rates, sales grew by 2.9%. Reported bookings for the first half of 2011/12 declined by 56.4% to CHF 80.4 million. The Q2 2011/12 reported book-to-bill ratio was at 0.53. The decline in bookings was a result of the weak renewable energies markets and the fact that many customers reduced their inventories after having placed major bookings in previous quarters. Reported bookings also contain cancellations of CHF 24.5 million in the solar business; excluding this one-off adjustment bookings were CHF 104.9 million.

The gross margin decreased by 1.2 percentage points to 42.5% compared to 43.7% in the first half of the last year. The operational EBIT for the first half year was CHF 19.2 million, a decrease of 36.7% year on year. The operational EBIT margin (15.3%) was affected by lower volumes and by currency developments, but remained within our target range (15–20%). In the first half of 2010/11, the EBIT margin was exceptionally high at 21.4%.

Net profit for the first half of 2011/12 amounted to CHF 15.0 million, a decrease of 24.1% compared to the first half of 2010/11.

Industry segment affected by weakening economy

Sales in the Industry segment reached CHF 113.3 million in the first half of 2011/12, a decrease of 13.4% year on year. The operational EBIT for the first six months decreased by 36.4% to CHF 18.2 million. Europe remains the most important market followed by Asia, with 52% and 34% of sales respectively. Sales decline in all regional markets, with Europe –16%, Asia –13% and North America –5%.

The drives & welding business has weakened during the summer across all regions reflecting uncertainties about the development of the global economy. The renewable energies & power supplies business slowed down beginning in Q4 2010/11. This trend was mainly visible in Italy, Germany and China, a consequence of reduced subsidies in the renewable energy sector and the continued reduction of our customers' inventories. The traction business, which is driven by a combination of economic cycles and government spending, proved to be stable for LEM. Traction business in Asia continued to grow despite some projects in China that were stopped for technical reasons. The technology-driven high precision business was relatively stable.

Automotive segment: solid volume growth

The Automotive segment achieved solid volume growth both in the conventional cars and in the green cars businesses. Sales grew by 11.9% to CHF 12.3 million. At last year's exchange rates, growth was 38.2%. We achieved this result with new applications with existing customers as well as with new customers. We have continued to diversify our client base, an asset that will stabilize our performance going forward. The operational EBIT was CHF 1.0 million. The year-on-year decrease of 41% is a result of the exchange rate impact and increased R&D efforts. In the conventional cars business LEM increased its market share in Asia and North America. In the green cars business (hybrid electrical and electrical vehicles), the positive trend of the past quarters continued. Today, LEM products are designed into the majority of all green car projects launched globally. LEM's volume increase will depend on car manufacturers' success with these new platforms.

Continued investment in technology leadership

We continued to invest in order to develop our leadership position. In the first half of 2011/12, we invested CHF 7.0 million, or 5.5% of sales, in R&D. This represents a CHF 0.8 million increase compared with the first half of 2010/11. Our priorities were to strengthen our innovation team and to launch new products that provide better accuracy, faster response time and new features. In traction, we introduced new current (ITC family) and voltage (DV) transducers with unprecedented levels of accuracy that can also be used for energy billing.

Adjusting cost base to sales level

Following the continued slowdown of orders and the appreciation of the Swiss franc, we stepped up the cost reduction measures we had initiated as soon as the first signs of the market weakening became apparent at the end of the last financial year. With these measures, we aim to adjust our cost base to the current sales level. The measures include a worldwide reduction in employee numbers. Global headcount is being reduced from about 1'300 per 30 June 2011 to below 1'100. Permanent headcount in Switzerland is being reduced by 19.

Restructuring cost incurred or provisioned in the first half of 2011/12 amounted to CHF 0.7 million; we expect capacity adjustment measures to result in quarterly savings of CHF 1.1 million, fully applicable for Q4 2011/12.

Outlook

In the second half of 2011/12, we expect orders in the Industry segment to stabilize on a low level and sales to further decrease compared to the first half of 2011/12. The Automotive segment will further benefit from the current growth momentum. With the cost adjustment implemented, we have aligned our cost base to the current sales levels. For the financial year 2011/12, we are cautious regarding our markets and forecast sales of CHF 200 to 230 million, compared to the previous year's sales of CHF 296.2 million.

While remaining ready to adapt to the increasingly volatile nature of our business, we remain confident for the long-term perspective of LEM and keep developing our strengths in order to be able to profit from a recovering economy. The economic growth drivers and trends supporting our business in the past remain fully valid.

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

With kind regards,

F. Bagdasarjanz	
Felix Bagdasarjanz	François Gabella
Chairman of the Board of Directors	CEO

Financial Results

In CHF thousands	April to September 2011/12	2010/11
Sales	125'511	141'780
Cost of goods sold	(72'187)	(79'787)
Gross margin	**53'324**	**61'993**
Sales expense	(11'909)	(10'991)
Administration expense	(15'301)	(14'467)
Research & development expense	(6'959)	(6'144)
Other expense	(145)	(306)
Other income	183	242
Operational EBIT	**19'194**	**30'327**
Additional SOP costs/income	619	(429)
EBIT	**19'813**	**29'899**
Financial expense	(172)	(331)
Financial income	46	87
Foreign exchange effect	(1'035)	(2'406)
Profit before taxes	**18'651**	**27'249**
Income taxes	(3'624)	(7'439)
Net profit of the period	**15'028**	**19'810**

Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets In CHF thousands	30.09.11	31.03.11
Current assets		
Cash and cash equivalents	10'615	27'231
Accounts receivable	46'794	60'026
Inventories	39'087	34'187
Income tax receivable	150	1'310
Other current assets	3'000	1'717
Total current assets	**99'646**	**124'471**
Non-current assets		
Deferred tax assets	1'970	1'919
Property, plant and equipment	27'183	25'612
Intangible assets	7'474	7'796
Other non-current assets	2'182	2'181
Total non-current assets	**38'809**	**37'508**
Total assets	**138'455**	**161'979**

Liabilities and equity In CHF thousands	30.09.11	31.03.11
Current liabilities		
Accounts payable	21'271	29'617
Accrued expenses and deferred income	14'611	16'295
Current income tax payable	5'601	7'560
Current provisions	2'749	1'556
Current financial liabilities	21'004	618
Other current liabilities	1'089	2'821
Total current liabilities	**66'326**	**58'467**
Non-current liabilities		
Non-current provisions	1'022	969
Deferred tax liabilities	5'013	5'541
Other non-current liabilities	100	89
Total non-current liabilities	**6'135**	**6'599**
Total liabilities	**72'461**	**65'066**
Equity		
Share capital	570	575
Treasury shares and derivative instruments on treasury shares	(2'107)	(7'091)
Reserves	16'633	17'914
Retained earnings	50'898	85'515
Equity attributable to equity holders of the parent	**65'994**	**96'913**
Non-controlling interests	0	0
Total equity	**65'994**	**96'913**
Total liabilities and equity	**138'455**	**161'979**

Consolidated Income Statement

In CHF thousands	2011/12	April to September 2010/11
Sales	125'511	141'780
Cost of goods sold	(72'187)	(79'787)
Gross margin	**53'324**	**61'993**
Sales expense	(11'845)	(11'035)
Administration expense	(14'788)	(14'822)
Research & development expense	(6'916)	(6'173)
Other expense	(145)	(306)
Other income	183	242
Operating profit	**19'813**	**29'899**
Financial expense	(172)	(331)
Financial income	46	87
Foreign exchange effect	(1'035)	(2'406)
Profit before taxes	**18'651**	**27'249**
Income taxes	(3'624)	(7'439)
Net profit for the period	**15'028**	**19'810**
Attributable to:		
LEM shareholders	15'028	19'759
Non-controlling interests	0	51
Net profit for the period	**15'028**	**19'810**
Earnings per share, in CHF		
Basic earnings per share	13.25	17.31
Diluted earnings per share	13.25	17.26

Consolidated Cash Flow Statement

In CHF thousands	2011/12	April to September 2010/11
Cash flow from operating activities		
Net profit of the period	15'028	19'810
Adjustment for non-cash items	3'454	5'676
Cash flow from changes in net working capital	(4'112)	(15'044)
Cash flow from operating activities	**14'370**	**10'442**
Cash flow from investing activities		
Investment in fixed assets	(5'309)	(2'893)
Disposal of fixed assets and intangible assets	259	104
Investment in intangible assets	(189)	(89)
Increase (–) / decrease (+) in other assets	0	7
Cash flow from investing activities	**(5'239)**	**(2'871)**
Cash flow from financing activities		
Acquisition of non-controlling interests	0	(197)
Treasury shares acquired (–) / divested (+)	(665)	(2'458)
Dividends paid to the shareholders of LEM Holding SA	(45'461)	(22'895)
Dividends paid to non-controlling interests	0	(50)
Increase (+) in financial liabilities	21'005	8'010
Cash flow from financing activities	**(25'121)**	**(17'590)**
Change in cash and cash equivalents	**(15'990)**	**(10'019)**
Cash and cash equivalents at the beginning of the period	**26'613**	**29'757**
Exchange effect on cash and cash equivalents	(12)	(351)
Cash and cash equivalents at the end of the period	**10'611**	**19'387**

Consolidated Statement of Comprehensive Income

In CHF thousands	April to September 2011/12	2010/11
Net profit for the period recognized in the income statement	**15'028**	**19'810**
Currency translation difference	275	(2'579)
Unrealized gain on derivatives designated as cash flow hedges		29
Total comprehensive income for the period	**15'303**	**17'259**
Attributable to shareholders	15'303	17'208
Attributable to non-controlling interests		51

Consolidated Statement of Changes in Equity

Attributable to equity holder of the company

In CHF thousands	Share capital	Treasury shares	Share plan	Fair value reserve	Translation reserve	Retained earnings and other reserves	Non-controlling interests	Total equity
1 April 2010	**575**	**(3'387)**	**925**	**7**	**1'482**	**83'563**	**214**	**83'379**
Total comprehensive income				29	(2'579)	19'759	51	17'259
Dividends paid						(22'895)		(22'895)
Dividends paid to non-controlling interests							(50)	(50)
Changes in non-controlling interests						18	(215)	(197)
Performance share plan			86					86
Purchase and sales of treasury shares		(1'838)						(1'838)
30 September 2010	**575**	**(5'225)**	**1'011**	**36**	**(1'097)**	**80'445**	**0**	**75'744**
1 April 2011	**575**	**(7'091)**	**1'556**	**0**	**(2'676)**	**104'549**	**0**	**96'913**
Total comprehensive income				0	275	15'028	0	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**	**0**	**(2'401)**	**69'932**	**0**	**65'994**

Notes to the Interim Consolidated Financial Statements

1 Segment information

In CHF thousands	April to September 2010		
	Industry	Automotive	LEM Group Total
Sales	130'819	10'961	**141'780**
EBIT	28'226	1'673	**29'899**

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

2 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.

3 Basic principles of group accounting

These unaudited consolidated financial statements for the six months ended on 30 September 2011, 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 that ended 31 March 2011. The accounting and valuation policies are consistent with those applied in preparing the annual consolidated financial statements for the year 2010/11, 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.

4 Adjustments to new IAS/IFRS standards and interpretations

The following new and revised standards and interpretations became effective for the reporting year 2011/12:

- Improvements to IFRSs sets out amendments across 7 different standards, related basis for conclusions and guidance.
- IAS 24 Related Party Disclosures (revised): removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, it also clarifies and simplifies the definition of a related party.
- Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement: removes an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognize as an asset prepayments of minimum funding contribution.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor.
- IFRS 1 Severe hyperinflation and removal of fixed dates for first-time adopters
- IFRS 7 Transfers of financial assets

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

5 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 changes of the profitability of the Group's subsidiaries in the various jurisdictions, withholding taxes on dividends distributed out of prior years profits within the Group and to a withholding tax refund of CHF 0.6 million.

6 Financial liabilities

LEM Group increased financial short-term liabilities to CHF 21.0 million (CHF nil at 31 March 2011) via short-term credit lines.

7 Provisions

On 22 September 2011, LEM announced a restructuring plan. At 30 September 2011, the provision booked in relation with this plan amounts to CHF 0.5 million.

8 Shareholders' equity

At the shareholders' meeting held in Geneva on 1 July 2011, the shareholders approved the distribution of an ordinary dividend of CHF 40.00 per share. The gross dividend paid on 11 July 2011 amounted to CHF 45.46 million (prior year: ordinary dividend of CHF 5.00 plus extraordinary dividend of CHF 15.00 per share; total CHF 22.90 million).
On 4 July 2011, LEM Holding reduced its capital of 10'000 shares of CHF 0.5 each by the cancellation of the 10'000 own shares previously acquired for a total amount of CHF 3.97 million.
In the first quarter 2011/12, the Performance Share Plan was settled. The agreements for Chinese and Japanese employees were amended and settled in cash. The cash settlement concerned 1'136 shares for which a total amount of CHF 0.65 million was paid. The remaining 4'828 shares were transferred to employees generating a net impact in the equity of CHF 0.22 million.
In the first half year 2011/12, LEM acquired 1'722 own shares for a total amount of CHF 0.67 million.

9 Changes in scope of consolidation

In the previous year, the following change in the scope of consolidation occurred:
TVELEM acquired its own shares representing the outstanding 10% of ownership. After this operation, the percentage of interest in TVELEM reached 100%.

10 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 2 November 2011 that would require an adjustment in carrying amounts of the Group's assets and liabilities.

11 Exchange rates

The following exchange rates were used:

	Period-end rate for balance sheet		Period average rate for income statement	
	30.09.2011	31.03.2011	2011/12	2010/11
EUR	**1.218**	1.299	**1.209**	1.372
GBP	**1.406**	1.474	**1.373**	1.627
JPY	**0.0117**	0.0111	**0.0106**	0.0120
USD	**0.901**	0.917	**0.847**	1.071
RUB	**0.028**	0.032	**0.030**	0.035
CNY	**0.141**	0.140	**0.131**	0.158
DKK	**0.164**	0.174	**0.162**	0.184

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