

Half Year Report 2008/09

At the heart of power electronics

Dear Shareholders,

The current economic environment creates an important level of uncertainty about the future developments in our market. Despite this fact we are pleased to report a successful first half year 2008/09 of our company LEM. As a consequence of our effective business strategy, consistent cost management and a still favorable economy during the past six months we have achieved a good performance on both the top and bottom line.

In the reporting period sales have reached CHF 111.0 million representing an increase of 12.7% compared to the same period last year with CHF 98.5 million. At constant exchange rates growth was 17.5%.

Our book to bill ratio was at 1.0, which means in the first half of the year we had about the same level of orders as sales.

If we compare the two consecutive quarters of this fiscal year we see that the level of sales remained stable at around CHF 55.5 million for both quarters. These were record quarters for us.

The gross margin remains stable, increasing by 0.3 percentage points to reach 46.0% compared to 45.7% in the first half of last year.

At the same time our growth remains profitable as we have reached an EBIT of CHF 21.3 million which is an increase of 18.5%.

Our net earnings are CHF 16.0 million up 29.8% from CHF 12.3 million in the same period last year. The tax rate improved from 31.8% to 25.7%.

The Industrial Segment – growth in all markets

Sales growth in the Industrial Segment remained robust reaching CHF 101.9 million, an increase of 15.7% compared to the first half of last year. Europe remained our most important region and showed significant growth of 21.9% followed by Asia with a growth of 11.6%, North America remained flat with a decrease of -1.8%.

The **Industry** market is key for LEM. Sales increased by 10% compared to the same period last year. The main market for LEM transducers remain the electric motor drives. Our products are essential to regulate the motor's speed, while at the same time saving about 30-40% in energy consumption.

The renewable energies are an area of continued growth for LEM. We have seen an increase of 60% from the same period last year. Our products help to convert the energy generated by these sources and ensure safe and high quality electricity to the grid.

The strongest growth was in the **Traction market**, where we increased our sales by 31.3%. This achievement is due to the global investments in the areas of transportation both for goods and passengers. Furthermore, the need for energy efficiency is now also extending into the Traction market and we see a strong demand for our EM4T – Energy Meter for Traction. We have just launched a new product the DV, which is the first Class 1 certified DC Voltage transducer. Class 1 means that the transducer is certified for billing purposes. We are proud to offer a product which is the smallest, the most economic, and highly reliable to fulfill all the requirements for this market.

Sales in the **Energy & Automation** market continue to develop well and increased by 78.7% versus the same period last year. The main growth has been for DC current measurement of the strings of solar panels for photovoltaic applications. This is to ensure that they are all working properly and are well oriented to the sun.

Automotive – unfavorable market conditions, good design-in progress

The Automotive Segment continued to be impacted by the poor performance of the US car market and a weak US dollar. The first half of 2008/09 showed a negative growth of -12.2% which resulted in a total sales of CHF 9.2 million (CHF 10.4 million). At constant exchange rates growth was -5.1%.

Comparing the two first quarters of the fiscal year we see an increase of sales of 15.3% from CHF 4.3 million in Q1 to CHF 4.9 million in Q2.

Going forward we continue to broaden our customer base. We have just started to deliver our products for Battery Management to new sedan platforms in USA, Europe and Asia.

We have several projects that will commence delivery in late 2009/10 for sedans, electric and hybrid electric vehicles in USA, Asia and Europe.

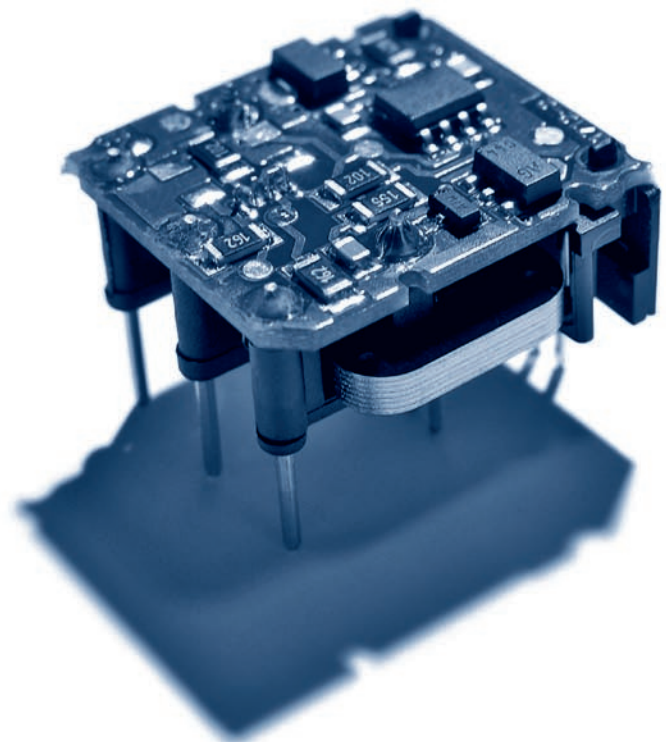
We have also achieved price increases for deliveries in US Dollars.

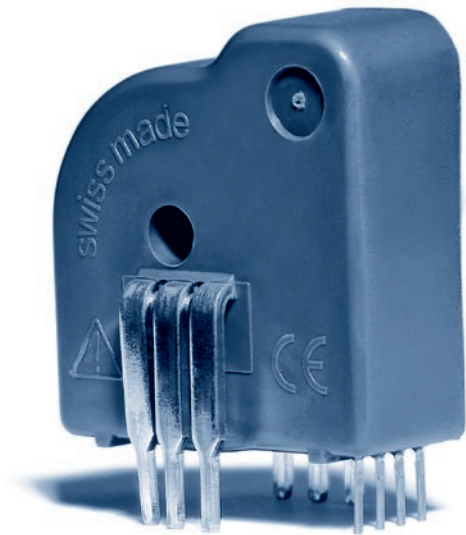
China – strong growth continues

Sales in the Chinese market grew by 36% to CHF 13.4 million whilst our production volumes increased by 141% to CHF 32.4 million.

We have just achieved our IRIS (International Railway Industry Standard) certification for our factory in Beijing and were the first company to do this with the new standards. With over 400 colleagues in China, Beijing is our largest LEM site.

The BRIC (Brazil, Russia, India and China) countries continue to develop well. Sales have increased by 29.4% compared to the previous half year. Growth was particularly high in Russia.





Outlook

It is difficult to make a precise outlook statement at this junction of financial and economic uncertainties. We are confident to have a good strategy in place, which remains the tailwind for LEM's development.

The turmoil in the global markets is also affecting our company. For the full year we expect sales to be about CHF 190 million (CHF 203 million in 2007/08).

We are focusing on our new markets to foster growth, and at the same time we have started to reduce our cost base.

We would like to thank you for your continued trust in LEM.
With kind regards,

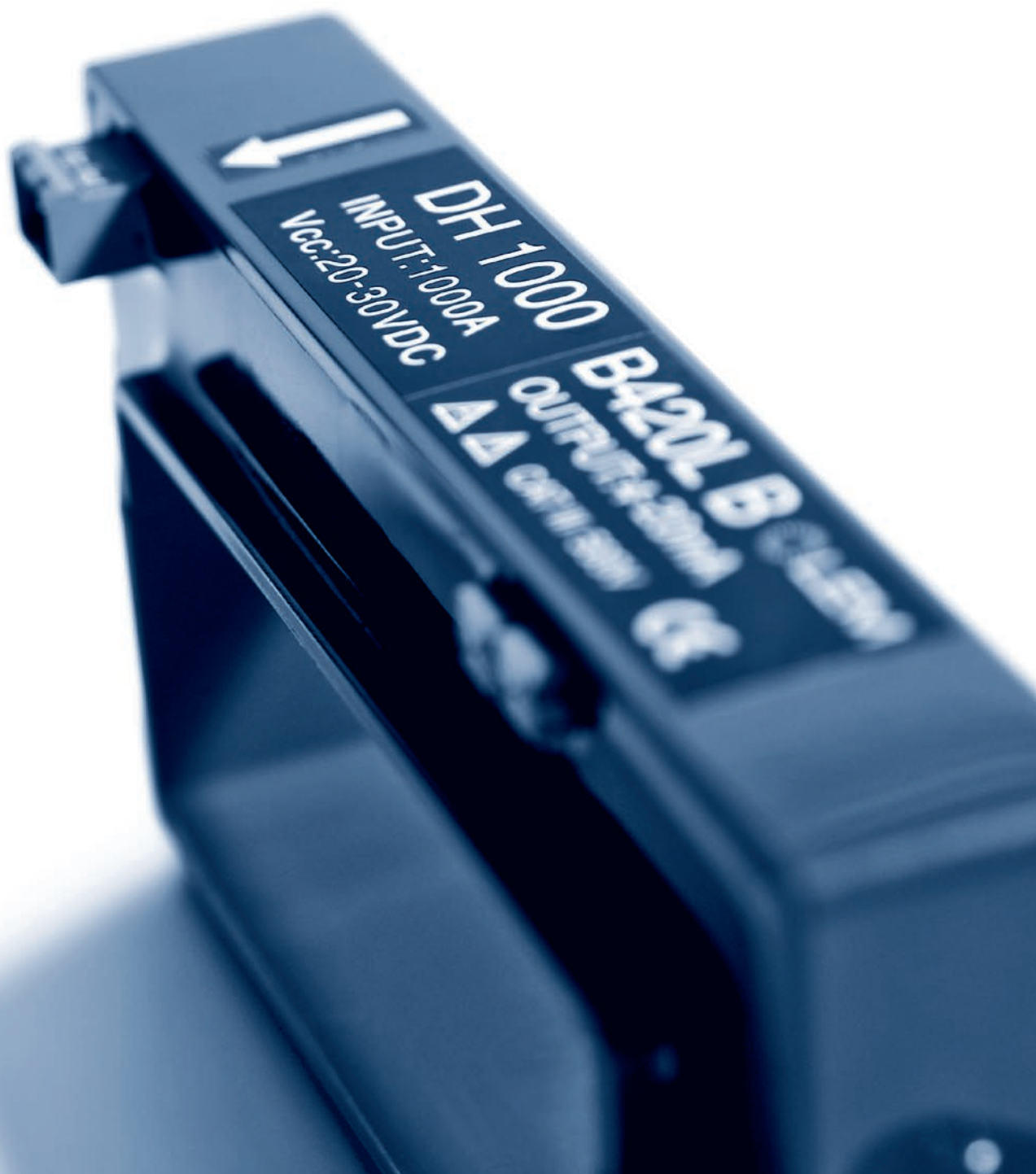
A handwritten signature in blue ink, reading "F. Bagdasarjanz".

Felix Bagdasarjanz
Chairman of the Board

A handwritten signature in blue ink, reading "P. Van Iseghem".

Paul Van Iseghem
President and CEO

Interim Consolidated Financial Statements



CONSOLIDATED BALANCE SHEET

Assets	30.09.2008	31.03.2008¹
	TCHF	TCHF
Current assets		
Cash and cash equivalents	19'172	25'787
Trade debtors and other debtors	49'442	41'169
Other current assets	2'786	2'051
Inventories	32'847	22'411
Total current assets	104'248	91'418
Non-current assets		
Deferred tax assets	145	165
Other financial assets	1'507	1'496
Property, plant and equipment	20'913	18'450
Intangible assets	4'394	4'429
Total non-current assets	26'960	24'541
Total assets	131'207	115'959
Liabilities and equity		
	30.09.2008	31.03.2008
	TCHF	TCHF
Short-term liabilities		
Trade and other payables	23'215	17'034
Other short-term liabilities	402	650
Accrued expenses and deferred income	12'984	9'639
Current income tax payable	3'959	4'798
Short-term provisions	4'154	3'416
Short-term financial liabilities	6'298	2'087
Total short-term liabilities	51'012	37'624
Long-term liabilities		
Long-term provisions	5'981	5'395
Other long-term liabilities	110	77
Deferred tax liabilities	1'658	1'653
Total long-term liabilities	7'749	7'125
Total liabilities	58'761	44'749
Equity		
Share capital	575	575
Reserves	14'127	16'200
Retained earnings	57'529	54'233
Equity attributable to equity holders of the parent	72'231	71'008
Minority interests	215	201
Equity	72'446	71'209
Total liabilities and equity	131'207	115'959

¹Adjusted due to the introduction of IFRIC 14, see note 2

CONSOLIDATED INCOME STATEMENT

April to September

	2008/09	2007/08
	TCHF	TCHF
Sales	111'040	98'513
Cost of goods sold	(60'010)	(53'455)
Gross margin	51'031	45'058
Sales expense	(12'617)	(11'050)
Administration expense	(11'913)	(11'290)
Research & development expense	(5'367)	(5'071)
Other expense	(2)	(13)
Other income	152	331
Operating profit	21'283	17'965
Financial expense	(200)	(570)
Financial income	135	136
Exchange effect	317	542
Earnings before taxes	21'535	18'074
Income taxes	(5'541)	(5'755)
Net earnings	15'994	12'318
Attributable to:		
LEM shareholders	15'945	12'281
Minority interests	48	37
Net earnings	15'994	12'318
Earnings per share	CHF	CHF
Earnings per share undiluted	13.9	10.7
Earnings per share diluted	13.9	10.4

CONSOLIDATED CASH FLOW STATEMENT

April to September

	2008/09	2007/08
	TCHF	TCHF
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	15'994	12'318
Adjustment for non-cash items		
- Current income taxes	5'604	5'216
- Net financial result	65	433
- Expenses for share-based payments	1'135	550
- Depreciation and amortisation	2'386	2'221
- Increase (+) / decrease (-) of provisions and deferred taxes	951	50
Interest received	135	136
Interest paid	(200)	(570)
Taxes paid	(6'453)	(3'548)
Expenses for cash settlement of options	(206)	(5'442)
Cash flow before changes in net working capital	19'412	11'366
Change in inventory	(9'342)	(1'507)
Change in debtors and other current assets	(8'047)	1'160
Change in payables and current liabilities	9'382	(2'495)
Cash flow from changes in net working capital	(8'007)	(2'842)
Cash flow from operating activities	11'405	8'524
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in tangible fixed assets	(4'131)	(3'270)
Disposal of tangible and intangible fixed assets	36	83
Investment in intangible fixed assets	(138)	(416)
Increase (-) / decrease (+) in long-term financial assets	0	(5)
Cash flow from investing activities	(4'232)	(3'608)
CASH FLOW FROM FINANCING ACTIVITIES		
Purchase of treasury shares	(3'875)	0
Purchase of options on treasury shares	(1'752)	0
Dividends paid to the shareholders of LEM Holding SA	(12'650)	(5'175)
Dividends paid to minorities	(42)	(38)
Derivative financial instruments	(125)	0
Increase (+) in financial liabilities	4'122	1'187
Decrease (-) in financial liabilities	0	(7'260)
Cash flow from financing activities	(14'323)	(11'286)
Change in cash and cash equivalents	(7'150)	(6'370)
Cash and cash equivalents at the beginning of the period	25'787	19'799
Exchange effect on cash and cash equivalents	535	(201)
Cash and cash equivalents at the end of the period	19'172	13'227

SEGMENT INFORMATION – CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Segment information

April - September 2007	Industrial	Automotive	LEM Group Total
TCHF			
Orders received	97'977	11'078	109'055
Sales	88'069	10'444	98'513
EBIT	17'703	262	17'965

April - September 2008	Industrial	Automotive	LEM Group Total
TCHF			
Orders received	102'866	8'563	111'429
Sales	101'866	9'174	111'040
EBIT	21'590	(307)	21'283

Consolidated statement of changes in equity

Attributable to equity holder of the company									Minority Interest	Total equity
TCHF	Share capital	Capital reserves	Reserve for treasury shares	Treasury shares	Reserve for derivative	Stock option plan	Currency translation diff.	Retained earnings		
Balance on 1 April 2007¹	600	19'009	7'820	(7'820)	0	1'429	2'098	42'440	178	65'754
Changes in capital	(25)	25								0
Dividends paid								(5'175)		(5'175)
Dividends paid to minority interests									(38)	(38)
Attribution of earnings								12'281	37	12'318
Currency translation difference							(1'138)			(1'138)
Stock option plan						(59)		(4'833)		(4'892)
Treasury shares			(7'820)	7'820						0
Balance on 30 September 2007¹	575	19'034	0	0	0	1'370	960	44'713	177	66'829
There of P&L items recorded in equity							(1'138)			(1'138)
Balance on 1 April 2008¹	575	19'034	0	0	146	0	(2'982)	54'234	201	71'209
Dividends paid								(12'650)		(12'650)
Dividends paid to minority interests									(42)	(42)
Attribution of earnings								15'945	48	15'994
Currency translation difference							3'164		8	3'172
Derivative financial instruments					(125)					(125)
Performance share plan						517				517
Treasury shares		(3'875)	3'875	(3'875)						(3'875)
Treasury shares (options)				(1'752)						(1'752)
Balance on 30 September 2008	575	15'159	3'875	(5'627)	21	517	182	57'529	215	72'446
There of P&L items recorded in equity	0	0	0	0	0	0	3'164	0		3'164

¹Adjusted due to the introduction of IFRIC 14, see note 2

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations

The LEM Group (the 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 industrial, traction, energy and automotive markets

2. Basic principles of Group accounting

These unaudited consolidated financial statements for the six months ended on September 30, 2008 have been prepared in accordance with International Accounting Standard IAS-34 'Interim Reporting'.

The accounting and valuation policies are consistent with those applied for the 2007/08 Annual report except for the adoption of the new IFRIC 14.

The change relates to:

- IFRIC 14/IAS 19 – The limit on a defined Benefit asset, Minimum Funding Requirements and Their Interaction: This Interpretation outlines the assessment of the maximum surplus in a defined-benefit plan that pursuant to IAS 19 allows employee benefits to be recognised as an asset. According to the provisions of IFRIC 14, the Group recognised an adjustment to retained earnings as of 1 April 2007 of TCHF 874.

The impact of the introduction of IFRIC 14 on the Group's consolidated balance sheet and statement of income is shown below.

Balance Sheet

TCHF	01.04.2007	30.09.2007	31.03.2008
Other financial assets (before restatement)	73	76	130
Restatement IFRIC 14	1'092	1'092	1'366
Other financial assets (restated)	1'165	1'168	1'496
Deferred Tax Liabilities (before restatement)	1'607	1'604	1'380
Restatement IFRIC 14	218	218	273
Deferred Tax Liabilities (restated)	1'825	1'822	1'653
Total effect on the Retained Earnings			
Retained Earnings (before restatement)	41'565	43'839	53'140
Restatement IFRIC 14	874	874	1'093
Retained Earnings (restated)	42'439	44'713	54'233

Income Statement

TCHF	01.04.2007 – 31.03.2008
Administrative expense (before restatement)	26'332
Restatement IFRIC 14	(274)
Administrative expense (restated)	26'058
Deferred tax (before restatement)	470
Restatement IFRIC 14	55
Deferred Tax (restated)	525
Net earnings (before restatement)	21'692
Restatement IFRIC 14	219
Net earnings (restated)	21'911
Diluted/Undiluted Earnings Per Share (before restatement)	18.4
Diluted/Undiluted Earnings Per Share (restated)	18.6

3. Income taxes

The variation in the Groups effective tax rate is caused by changes in volumes, product mix and profitability of the Groups subsidiaries in the various jurisdictions and the change in the applicable statutory tax rate in some countries.

4. Financial liabilities

The Group increased financial liabilities in LEM Holding SA by TCHF 4'211, bearing an interest rate of libor + 0.60%.

5. Shareholders' equity

Dividend

At the shareholders' meeting held in Geneva on 27 June, 2008, the shareholders approved the distribution of an ordinary dividend of CHF 7.00 per share followed by an extraordinary dividend of CHF 4.00 per share. The ex-dividend day was 30 June, 2008. The total amount spent for the gross dividend was TCHF 12'650.

6. Performance Share Plan

On 27 June, 2008 the Board of Directors decided to initiate a Performance Share Plan (PSP) for 30 members of the management.

The number of shares granted under this plan will be transferred to the employees after a vesting period of three years. The plan is equity settled.

The number of the shares eventually vested will depend on the achievement of certain performance targets, determined based on an Economic Value Added (EVA) model, which is expected to reflect the market value growth of LEM.

The fair value of the PSP will be recorded in the Income Statement straight-line over the 3 year vesting period. The expense is adjusted at every reporting date based on the expected number of shares that will be granted.

Terms of PSP

	PSP – 2008/09
Number of shares granted	8'960
Vesting period	3 years
Allocated to recipients	27.06.2008
Fair value per unit (CHF)	303.5

In the half year 2008/09, an expense of TCHF 517 was charged to the income statement based on the fair value at grant date of PSP.

In order to fund the PSP program, LEM has purchased 12'400 treasury shares at a share price of CHF 312.50 and purchased call options on own shares as follows:

Terms of Options

Transaction date	Number of options	Strike price	Premium paid	Excercise period
20.9.2008	15'000	360	61.70	1.3.2011 - 30.4.2013
20.9.2008	15'000	390	55.10	1.3.2012 - 30.4.2013

The call options which were acquired are intended to be gross settled and they are therefore treated as equity instruments.

7. Changes in scope of consolidation

During the first half year of 2008/09 the scope of consolidation changed as follows:

- Creation of LEM Management Services Sarl, fully consolidated as of 16. June 2008.

8. Events after the balance sheet date

Between the balance sheet reference and the approval of the consolidated financial statements by the Board of Directors on October 30, 2008, no further significant events occurred which might make the 2008/09 consolidated financial statements for the six months ending on September 30, 2008 less meaningful or which would warrant disclosure at this point.

9. Exchange rates

The following exchange rates were used:

	Period-end rate for balance sheet		Period average rate for income statement	
	30.09.08	31.03.08	2008/09	2007/08
EUR	1.585	1.57	1.612	1.648
GBP	1.99	1.99	2.032	2.425
JPY	0.01	0.01	0.01	0.0102
USD	1.097	1.0	1.05	1.211
RUB	0.044	0.042	0.044	0.047
CNY	0.161	0.142	0.153	0.159





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