

The following information complies with the Corporate Governance Directive of the SIX Swiss Exchange (SIX) and the disclosure rules of the Swiss Code of Obligations. In order to enhance the clarity of this chapter, reference is made to other parts of the Annual Report and our website (www.lem.com). Key elements are contained in the Articles of Incorporation revised October 1, 2007.

1 Group structure and shareholders

Group structure

LEM Holding SA is domiciled at 8, Chemin des Aulx in CH-1228 Plan-les-Ouates, Geneva. LEM's registered shares are listed on the main segment of the SIX Swiss Exchange (LEHN, security no. 2 242 762; ISIN 0022427626). On March 31, 2010, the market capitalization was CHF 391 million.

The LEM Group is structured into the Industrial Segment and the Automotive Segment. Appropriate segment reporting pursuant to IFRS is contained on page 31 of the notes to the consolidated financial statements. All companies in the LEM Group are listed under "scope of consolidation" on page 46, where the company names, registered offices, share capitals and the relevant percentages of shares held are indicated. There are no other listed companies in the scope of consolidation.

Significant shareholders

On 31 March 2010 the following shareholders held 3% or more of the share capital and voting rights:

Shareholder

WEMACO Invest AG, in Zug and Werner O.Weber, in Zollikon, Switzerland	27.4%
7-Industries Holding B.V., in Amsterdam, Netherlands	12.6%
Threadneedle Asset Management Holding Ltd, in London, United Kingdom	10.6%
Sarasin Investmentfonds AG, in Basel, Switzerland	8.8%
Erwin Studer and Joraem de Chavonay SA, in Zollikon / Zug, Switzerland	6.0%
Impax Asset Management Ltd, United Kingdom	4.5%

There are no known shareholder agreements between individual shareholders.

Cross-shareholdings

LEM has no interlocking shareholding with other joint-stock companies.

2 Capital structure

Capital and shares

The nominal value of the share capital of LEM Holding SA is CHF 575'000, which is divided into 1'150'000 fully paid-up registered shares with a par value of CHF 0.50 each. There are no shares with preferred voting rights. All shareholders are entitled to the same dividends.

Detailed information about the capital structure in the last three years is shown in LEM Holding statutory accounts on page 52.

There are no restrictions on the transfer of shares. In order to be registered in the share register, each shareholder shall declare that he holds the shares for his own account.

On 31 March 2010, LEM Holding SA held 5'232 treasury shares and 30'000 options on shares.

Authorized and conditional capital

There is no authorized or conditional capital, nor are there any profit sharing certificates or participation in certificates or any convertible bonds outstanding.

Information on the Performance Share Plan and the stock option plans is provided below under Section 5, "Compensation and Shareholdings", under the Note "Stock option plans, Performance Share Plan" on page 40 and in the notes to the LEM Statutory Accounts on page 55.

3 The Board of Directors

Election, terms of office and cross-involvement

The Board of Directors is comprised of at least three members who are individually elected at the ordinary shareholders' meeting for a mandate of one year, which is renewable up to an age limit of 70. The Board constitutes itself and the Chairman is nominated by the Board.

At the ordinary shareholders' meeting on 26 June 2009, Felix Bagdasarjanz, Peter Rutishauser, Anton Lauber and Ueli Wampfler were re-elected as members of the Board of Directors. Felix Bagdasarjanz maintained the Chairmanship. All of the members of the Board are non-executive and have at no time been part of the executive management of LEM. Furthermore, they have no significant business connections with the LEM Group.

Internal organizational structure

The Board of Directors meets as often as necessary, but five to six annual meetings are planned in advance. In the completed financial year, seven full-day meetings and four half-day preparatory meetings were held. Additionally, several ad hoc conference calls took place during the year. The meetings usually take place at the company's headquarters. The Chairman, after consultation with the CEO, determines the agenda for the Board meetings. The members of the Board of Directors can ask for additional items to be included. The Board members receive supporting documents beforehand which allows a good preparation of the



The Board of Directors

meeting. As a rule the CEO (and for most of the agenda items also the CFO) attend the meetings of the Board of Directors without having a right to vote. Depending on the issues, other members of Senior Management participate in the meetings in order to respond to specific questions. Decisions can be taken by the Board if at least half of the Directors are present, and a simple majority of them is sufficient. In the event of deadlock, the Chairman has the casting vote. Minutes of the meetings including decisions taken are prepared by the outside Secretary of the Board and distributed to the members of the Board, the CEO and the CFO.

The Board of Directors reflects, in its working procedures, the efficiency and effectiveness of the teamwork as well as its interaction with the management of the company on a regular basis. Regular feedback-sessions at the end of a meeting provide valuable inputs for the continuous improvement of the Board's coherence and leadership.

Definition of areas of responsibility

The Board of Directors delegates the management of the company to the CEO to the fullest extent permitted

by the Swiss Code of Obligations. The Board of Directors reviews and assesses at least on an annual basis and takes decisions in the following areas:

- Review and approval of the strategy, business plan, annual business objectives and budget for the LEM Group.
- Approval of creation/closing of any subsidiary and purchase/sale of any interest in any company or entry into any merger or joint venture agreement.
- Appointing/dismissing of the Senior Management.
- Monitoring the ethical and legal behavior of LEM.
- Reviewing of human resources management, especially co-worker satisfaction and management development and legal, intellectual property, social & environmental aspects.

Information and control systems of the Board of Directors vis-à-vis Management

The Board of Directors ensures that it receives sufficient information from the Senior Management to perform its supervisory duty and to make the necessary decisions.

The Board of Directors obtains the information required to perform its duties through several means:

- The Board of Directors receives monthly and quarterly reports on the current development of the business.
- Informal meetings and teleconferences are held as required between the Chairman and the CEO as well as between the Chairman and individual members of the Board.
- The Committees meet at regular intervals and exchange detailed information with the Management.
- The Board receives detailed information to each agenda item one week before the board meeting.
- At least once a year a session is held in the Board meeting including all Senior Managers.

Business risk management

In compliance with Art 663b of the Swiss Code of Obligations, LEM is using a standardized procedure to analyze its business risks. LEM's risk management covers all types of risk: financial, operational and strategic – up to the external business environment, compliance and reputational aspects.

The Senior Management conducts an annual risk analysis. The results and consecutive action plans are thereafter presented to and formally approved by the Board of Directors.

The risk management approach follows five steps: In a first step, potential hazards are evaluated and a consensual list with 10–15 main hazards is set up. In a second step, each hazard is assessed by a multiplication of probability with frequency. Step two results in a risk map which visualizes LEMs potential risk environment. In step three an action plan is put in place to reduce the risks. The hazards thereafter are revalued a second time, taking into consideration the action plans. In step four the action plan is validated and thereafter monitored on a monthly basis (step five).

Members of the Board of Directors

Education, professional background and other notable activities.

(Absence of information on other notable activities indicates that there are none of relevance.)



Felix Bagdasarjanz

Education

Dr. of Electrical Engineering, ETH Zurich

Professional background

Since 2002, Independent business consultant
1999–2002, CEO of ESEC and Member of the Executive Board of Unaxis
1997–1999, Member of the Executive Board of ABB Switzerland
1992–1997, Managing Director ABB Drives AG/ ABB Industrie AG

Other notable activities

Member of the Board of Schneeberger Holding AG, Roggwil, BE
Head of expert team (engineering sciences), Federal Office for Professional Education and Technology, The Innovation Promotion Agency, KTI/CTI

CH Nationality
Born – 1945
Chairman
Entry – 2002
Member NCC



Peter Rutishauser

Education

Dr. sc. nat., ETH
lic. oec., HSG

Professional background

Since 1989, independent businessman

Other notable activities

Delegate of the Board of Directors of Equatis AG and of Trisport AG
Member of the Board of Directors of Glatz AG, Pavatex AG
Chairman of the Board of Directors of Humanis AG and WUPA Holding AG

CH Nationality
Born – 1956
Member
Entry – 2003
Chairman AC



Anton Lauber

Education

Federal Proficiency Certificate as a Mechanic
Certified Machinery Engineer,
Technical University Brugg-Windisch
MBA studies at University of Applied Sciences, Lucerne
University of St. Gallen: Program for top managers in SMEs
IMD: Program Leading the Family Business

Professional background

Since 2009, President Division Components Schurter Group
1998–2009, Member of the Board of Directors of Schurter Holding AG and other group companies
1993–1998 Chairman of the Management of Schurter AG, Lucerne, CEO and Delegate of the Board of Directors, Member of the Schurter-Group Management
1989–1993 Technical Director Schurter AG, Lucerne
Up to 1988, Managing Director Generatoren-fabrik ABB, Switzerland

Other notable activities

President Hochschule Lucerne / University of Applied Sciences
Member of IAQ – International Academy for Quality
Member of the Board of Directors of Beutler Nova AG, Gettnau
Member of the Board of Directors of Bossard Holding AG, Zug

CH Nationality
Born – 1951
Member
Entry – 2004
Chairman NCC



Ueli Wampfler

Education

Lic. oec., University of Zurich
Certified auditor

Professional background

Since 2004, Founder and Senior Partner of Wampfler & Partner AG, Zurich
1998–2004, Director STG Schweizerische Treuhandgesellschaft, Zurich
1974–1998, STG Coopers & Lybrand, Zurich (partner since 1991)

Other notable activities

Member of the Board of Directors of Swisa Holding AG
Member of the Board of Directors of PH Partner Holding AG
Member of the Board of Directors of Merbag Holding AG, Zug; Mercedes-Benz Automobil AG, Schlieren, and Merbag Immobilien AG, Schlieren
Member of the Board of Directors of Caspar Finanz AG, Zug (Traco Power Group)
Member of the Board of Directors of OFRAG Vertriebsgesellschaft, Lupfig
Member of the Board of Directors of Fuchs-Movesa AG, Lupfig
Member of the Board of Directors of Rebew AG, Zürich

CH Nationality
Born – 1950
Member
Entry – 2007
Member AC

AC = Audit Committee

NCC = Nomination and Compensation Committee

Internal control system

In compliance with Art 728 a/b of the Swiss Code of Obligations, LEM has put in place an internal control system.

Starting from the material positions in the financial result of the Annual Report, the important underlying processes and process owners have been identified. For each process, key risks that could lead to errors in the financial reporting have been identified. For each key risk, key controls have been defined and responsibilities assigned to assure effective compliance and documentation of the key controls. The process has been presented to and approved by the Audit Committee.

Looking forward, the process owners will perform an annual process review whereby identified weaknesses shall be continuously improved and key risks and controls shall be updated. Based on the input of the process owners the CFO prepares an annual report on the internal control system which is presented to and discussed with the Audit Committee.

Committees

Two standing committees support the Board of Directors. They are comprised of two non-executive and independent members of the Board of Directors. They meet whenever necessary but at least twice a year.

- The primary objective of the **Audit Committee (AC)** is to provide the Board of Directors with effective support in financial matters, in particular the selection and supervision of the external auditor, assessment of the effectiveness, compliance and clarity of the Group financial reporting and the assessment and preparation of the financial reports to the shareholders. Furthermore, it reviews critical accounting policies, financial control mechanisms and compliance with corresponding laws and regulations as well as the development and continuous improvement of the internal control system. If required, the exter-

nal Group auditors are invited to participate at the meeting. The AC prepares proposals to be decided by the Board of Directors. In the completed financial year four half-day meetings were held.

- The **Nomination and Compensation Committee (NCC)** deals with succession, recruitment and compensation of the members of the Board of Directors and the Senior Management. It ensures and monitors the personnel development plan and adequate succession planning for the middle and top management. It reviews and updates the performance based compensation system for the Senior Management. The NCC prepares proposals to be decided by the Board of Directors. In the completed financial year three half-day meetings were held.

4 Senior Management

None of the members of the Senior Management have other activities in governing or supervisory bodies, any official functions or political posts nor any permanent management functions for important Swiss and foreign interest groups.

Management contracts

There are no management contracts with companies or individuals outside the LEM Group.

5 Compensation and shareholdings

Board of Directors

General principles

Remunerations for the Board of Directors are approved by the Board of Directors based on recommendations by the Nomination & Compensation Committee (NCC).

The remuneration of the Board of Directors is reviewed on an annual basis.

The Board of Directors has decided to adopt a remuneration scheme with a fixed fee paid in cash in the amount of CHF 120'000 for the Chairman and CHF 60'000 for a member. Committee activity will be compensated with CHF 30'000 for the Committee's chairman and with CHF 20'000 for its members. There will be no additional variable compensation nor any participation in an equity based compensation plan. The members of the Board of Directors are requested to hold for their own account a minimum of 1'000 shares.

Compensation of former members

In financial year 2009/10, no compensation was paid to former members of the Board of Directors.

For more details on financial compensation, see note 18 "Stock option plans, Performance Share Plan" on page 40 and the notes of LEM Holding Statutory Accounts on page 55.

Senior Management

General principles

Remunerations for the Senior Management are approved by the Board of Directors based on recommendations by the CEO and the Nomination & Compensation Committee. The remuneration of the CEO is proposed to the Board of Directors by the Chairman and decided in a private meeting of the Board.

The remuneration of the Senior Management is reviewed on an annual basis.

The total annual compensation for the Senior Management consists of a fixed base salary and a performance related cash bonus (LEM Incentive System).

LEM Incentive system

The LEM Incentive System (LIS) consists of two parts:

- LIS part 1: performance related to the individual's function and responsibility.
- LIS part 2: performance related to LEM group.

Members of the Senior Management

The Senior Management was comprised of the following members on 31 March 2010:



Paul Van Iseghem

Nationality: Belgian
Education: PhD, UCLA
Born – 1946
Function: President & CEO LEM Group
With LEM since 2000
Previous functions: President LEM components
Previous companies and positions:
ITT CANNON,
Vice President Engineering & Operations



Julius Renk

Nationality: German
Education: Lic. oec. HSG,
CEMS Master in Int'l Management
Born – 1970
Function: CFO
With LEM since 2009
Previous companies and positions:
Financial positions with RTL Group,
AB Enzymes



Hans-Dieter Huber

Nationality: German
Education: Cert. Eng. (BA)
Born – 1959
Function: Vice President, Industry
With LEM since 1995
Previous functions:
Business Development Manager
Previous companies and positions:
ABB, Division Manager



Luc Colombel

Nationality: French
Education: Engineer
Born – 1959
Function: Vice President,
Automotive and Traction
With LEM since 1996
Previous functions:
Business Development Manager
Previous companies and positions:
Arcelor Group, Strategic Development and
Sales Manager



Simon Siggen

Nationality: Swiss
Education: Engineer EPFL
Master in Logistics
Born – 1967
Function: Vice President, Operations
With LEM since 2002
Previous functions:
Operations Manager
Previous companies and positions:
Leclanché, Business segment Director



Eric Favre

Nationality: Swiss
PhD, EPFL
Born – 1962
Function: Vice President, R&D
With LEM since 2000
Previous functions: Technology Manager
Previous companies and positions:
ETEL Aerospace, Director Aerospace division

For the LIS part 1, annual objectives are agreed between the manager and his superior at the beginning of each business year and a final review is performed at the end of the year. The objectives as well as the performance evaluation are approved by the next level superior. The final approval is given by the Nomination and Compensation Committee (NCC) of the Board of Directors, in the case of the CFO by the Audit Committee (AC). Objectives and performance evaluation of the CEO are agreed between the CEO and the Chairman of the Board of Directors and they are approved by the Board of Directors. The maximum value of the annual

bonus related to LIS part 1 is 35% of the base salary for the Senior Management, 30% for the CFO and 60% for the CEO.

The LIS part 2 is an annual bonus which is based on the performance of LEM evaluated over a period of three consecutive years. The performance is evaluated by determining the Economic Value Added (EVA) cumulated over these three years. The definition of the EVA objective takes place at the beginning of year one and the evaluation of the performance at the end of year three determines this last year's annual bonus. Once the forward looking EVA objective is defined, the EVA objective remains unchanged over the period of

three years. Every year, the new three year objective for the cumulated EVA is defined and kept unchanged over the respective three year period. The bonus payment takes place every year based on the comparison between the EVA objective defined three years before and the performance achieved at the end of the three years period. The EVA objectives are set yearly by the Board of Directors, based on the proposal by the NCC. The maximum value of the annual bonus related to LIS part 2 is 25% of the base salary for the Senior Management, 20% for the CFO and 40% for the CEO.

CORPORATE GOVERNANCE

The bonus payments are made in cash and in the first quarter of the new fiscal year based on the annual accounts and the personal performance review conducted by the direct superior and approved by the next level superior.

For more information on the previous Performance Share Plan and on the previous Stock option plans, see note 19 "Stock option plans, Performance Share Plan" on page 40 and the notes of LEM Holding Statutory Accounts on page 55.

Compensation of former members
In financial year 2009/10, no significant compensation was paid to a former member of the Senior Management.

Pensions and Healthcare Plans

Pension benefits at LEM are designed to provide and contribute to a reasonable level of retirement income reflecting the number of years of service with LEM and also to help in the case of disability or death.

As a general policy, the level of pension benefits provided to employees is country-specific and is influenced by local market practice and regulations.

The pension and healthcare benefits in the main countries where LEM operates are described in more detail below.

LEM in Switzerland

The LEM pension plan operates a defined benefit plan that provides retirement benefits and risk insurance for death and disability. The insured salary is based on LPP Swiss law and is without limitation on the amount. The pension fund is funded by contributions from the company and the insured employees. The average contribution for the employee is 40% and 60% for the company. You can find more information in the notes under retirement benefit obligations.

LEM does not provide healthcare benefits to its employees in Switzerland.

LEM in China

The pension plan is a government plan.

Both company and employee pay a certain percentage of a fixed amount for the insurance each month.

The healthcare plan is both government and company funded.

LEM in Japan

Only the government plan prevails.

The labour insurance (injury or disease regarding work) and health insurance is for all employees.

The regular employees are included in the pension programs. There is a special pension fund for Directors.

LEM in Germany

In addition to the legally required pension and health insurances, the company pays into an insurance pension plan for employees.

6 Shareholders' participation rights

The rules on Shareholders' participation rights are outlined in the Articles of Incorporation. The rules for the convening of shareholders' meetings, the participation rights and the majority rules for decisions are all following the Swiss law. The complete Articles of Incorporation can be downloaded from the Investor Relations pages on the internet page www.lem.com.



A global management meeting

Voting rights and representation restrictions and inscription in the share register

There are no limitations on voting rights for shareholders who are entered into the shareholders' register with voting rights. Anyone purchasing registered shares is registered by the Board of Directors in the share register on request as a shareholder with voting rights, provided he expressly declares that the shares have been bought and will be held for his own account.

Each shareholder may be represented by the representative of the Company, by the independent representative, or by a third party who need not be a shareholder of LEM Holding SA.

Statutory quorums

The Articles of Incorporation contain no deviation from the applicable law.

Convocation of the general meeting of shareholders

Shareholders registered are convened to shareholders' meetings by ordinary mail and by publication in the Swiss Official Gazette of Commerce at least 20 days prior to the day of the meeting. Any shareholder who, on the day determined by the Board of Directors, is registered as a shareholder has the right to attend and vote at the shareholders' meeting.

Agenda

According to Article 10 of the Articles of Incorporation, one or several shareholders who collectively hold 10% of the share capital can call for a shareholders' meeting and submit matters to be placed on the agenda.

Dividend policy

The aim is to pay out 25–50% of the net profit in the form of dividends, to be decided by the Board of Directors.

7 Change of control and defensive measures

Duty to make an offer

In accordance with Art. 32 of the Swiss Federal Act on Stock Exchanges and Securities Trading (SESTA), any shareholder who exceeds 33.3% of the control of the company has to make a public offer for all outstanding shares. The Articles of Incorporation of the company do not provide for any exceptions to this rule.

Clauses of changes of control

There is no particular clause in the Articles of Incorporation for changes of control. If dismissed in the case of a change of control of the company, three members of the Senior Management will receive additional severance payments equal to 6 months remuneration.

8 Auditors

The Group auditors Ernst & Young Ltd, Geneva were appointed in 2005 initiating their mandate with the financial year 2005/06. The responsible partner since 2005 is Hans Isler.

Ernst & Young charged the following fees for professional services rendered for the 12 month period ending March 31, 2010:

Type of service	2009/10
In CHF thousands	
Audit services	280
Tax services	480
Other services	272
Total	1'032

Other services include due diligence services and consulting services related to the acquisition of LEM Danfysik.

Evaluation and control of the auditors is done by the Audit Committee which makes recommendations to the Board

of Directors. In particular, the Audit Committee evaluates the performance, fees, and independence of the auditors.

The auditors report on the results of their audits both orally and in writing. Financial statements as well as management letters are discussed in the Audit Committee in the presence of the external auditors.

During 2009/10 Ernst & Young attended two regular Audit Committee meetings.

9 Information policy

LEM informs its shareholders on the business status and its results on a quarterly basis. After the first six months a half-year report is published. This report, as well as the Annual Report, is distributed to all shareholders inscribed in the share register and made publicly available on its website www.lem.com. Once a year, LEM holds a presentation for the media and financial analysts. Internal processes assure that price-sensitive facts are published without delay in accordance with the ad hoc publicity rules of the SIX Swiss Exchange.

At www.lem.com, detailed information (e.g., the Articles of Incorporation, interim and annual reports, investor presentations, as well as important dates) is available.

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