Half Year Report 2009/10

At the heart of power electronics

LEM

Dear Shareholders,

LEM has started to be on the road to recovery in the second quarter of this fiscal year. Even though our sales are still at a low level of CHF 78.8 million compared to the CHF 111.0 million of the first half year of last year, we can see that for Q2 sales of CHF 43.2 million were up 21% from Q1 35.6 million. Please note that we are comparing to the first half of last year, which was an absolute record half, just before the major economic recession.

Our profitability has equally started to recover. Operational EBIT is CHF 8.6 million, compared to 21.4 million last year, but Q2 outperforms Q1 by 70%.

We are happy to have achieved a return on sales of 10.9%. This confirms that we have taken the timely and adequate actions to reduce our cost base and adapt our production.

The gross margin has improved from the first quarter and is 42.7%.

The recession has been challenging for LEM, its customers and its suppliers.

As a market leader, we have been able to increase our market share substantially, by more than 2 percentage points in our Industry market and by even more in the Traction market. Quality and service have been the main drivers besides our traditional commercial, innovation and cost competitive strengths.

The Industrial segment – Q2 shows improvements

Sales in the Industrial segment reached CHF 72.7 million compared to the CHF 101.9 million of the same period last year. All markets were showing a negative growth, however sales in the second quarter CHF 39.8 million were 21% higher than in Q1 CHF 32.9 million. The European and North American regions remain slow but we have seen Asia becoming stronger, sales in China are actually 15% above the pre-recession levels.

Sales in the **Industry** market have picked up over the last months. Sales for this market are still 28% behind the level of the same period last year. The areas of renewable energies, the solar and wind power generation, have been recovering fast. The solar energy generation has been very successful in Europe and Japan and we are seeing many new wind power generation projects in USA and China. The new products that we have launched for this renewable market at the beginning of the year CAS, CASR and CKSR are performing very well and we need to ramp up the production more rapidly than planned. These new projects have also allowed us to gain market share.
Our main market the electric motor drives are also recovering, which is a positive sign for us. The area of welding and medical applications are not yet taking off.

The **Traction** market has been suffering the least from the global economic crisis. Sales have decreased ‘only’ by 12.8% compared to the same period last year. The relative weakness is mainly due to the world wide decrease in needs for freight locomotives. The Russian market has also been hit by the recession and this is an important market for LEM. Sadly also some European energy metering projects have been put on hold as the new EU norms are being developed. We expect these projects to resume as soon as the norms are put into place. On-board energy metering is an interesting market for LEM.

The **Energy & Automation** market has also been impacted by the recession as the investments into factory automation and the need for our automation transducers have been low. The sales of our Sentinel products for battery monitoring have progressed well and we have developed new major customers for datacenters.
Also WI-LEM, the wireless local energy meter is now measuring energy consumption in French train stations.

Automotive segment also picks up in Q2

Sales in the Automotive segment were CHF 6.1 million, which is 33.4% behind the previous year, but again growth over the quarters was substantial, Q2 with 22% more than Q1. We have benefited from the general upswing in the Automotive market and of the start of production, as of August 2009, of two key customers in USA and Japan. Both of these are for battery management applications. We further depend on the success and start of mass production for the so called green cars world wide. These cars will have 5-10 times more transducer value than a traditional battery management application.

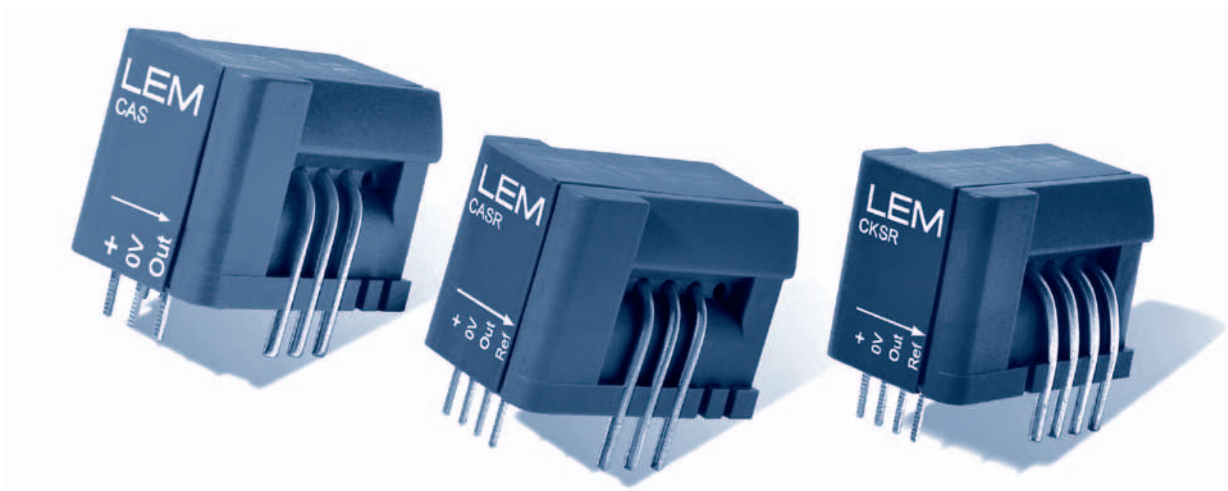
New state of the art facility in China and 20 year anniversary

In September 2009 we held the official opening ceremony for the new site in Beijing, China. The new site covers an area of 10,000 m^2 with a total production area of 6,000 m^2. It incorporates the latest manufacturing technology and the infrastructure for the future.
The opening ceremony itself was attended by leading Chinese and European officials and was also the opportunity to celebrate LEM's 20 year anniversary in China. Since 1998 the Beijing LEM site has been a fully owned LEM company.

Sales in the Chinese market have picked up significantly and are now at the same level as Germany!

Acquisition of Danfysik ACP A/S

After 12 years of collaboration, LEM acquired the Danish company Danfysik ACP A/S at the end of July 2009. This was a strategic bolt-on acquisition in order to strengthen the position of the LEM Group in the field of very high precision current measurements. LEM Danfysik is the world's leader in the development and manufacturing of highest precision current transducers for three main markets: medical scanners, precision industrial motor controls and test & measurement. The operation is based near Copenhagen in Denmark. So far the integration of LEM Danfysik has been progressing well. Sales are in line with expectations and earnings are already contributing to the LEM Group profit.



Julius Renk new CFO

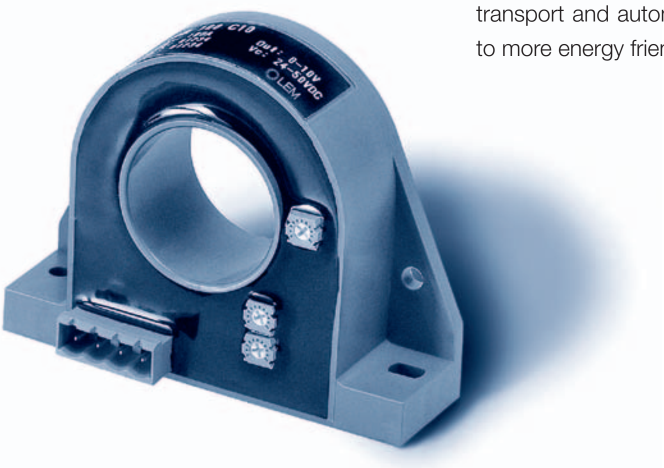
We would like to welcome Julius Renk as new CFO for the LEM Group. He has started as of September 1, 2009 and has assumed the role of CFO taking over from Heinz Stübi, the interim CFO gradually. Julius Renk now has full responsibility. We would like to thank Heinz Stübi for taking over the interim role and for his hard work and dedication.

Outlook

It is difficult to give a forward looking statement at this time as business is picking up but from a very low base.
Our book to bill ratio has been over 1.09 for both the first two quarters and this is a positive sign for the future business development. We also see the increase in demand in all of our 4 markets.

We firmly believe in our strategic direction. The strategic drivers for our business remain intact:

- the need for more energy and the demand for more renewable energy
- the need for reliable energy and for more controls and standby battery management
- the need for better energy efficiencies, increasing the demand for the more efficient motor controls
- the need for more mobility, public transport and automotive with a shift to more energy friendly solutions



We will maintain our clear focus on cost reduction and the operational priorities. At the same time, the financial strength of LEM will allow us to continue to build up new markets, new applications and new products and to continue to invest in the development of promising new business.

Overall, we assume that the upturn will continue and that LEM will benefit from this in all 4 markets, maybe to a lesser extent in the Traction market. At this time we expect sales for the year of about CHF 170 to 180 million (CHF 197 million in 2008/09).

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

With kind regards,

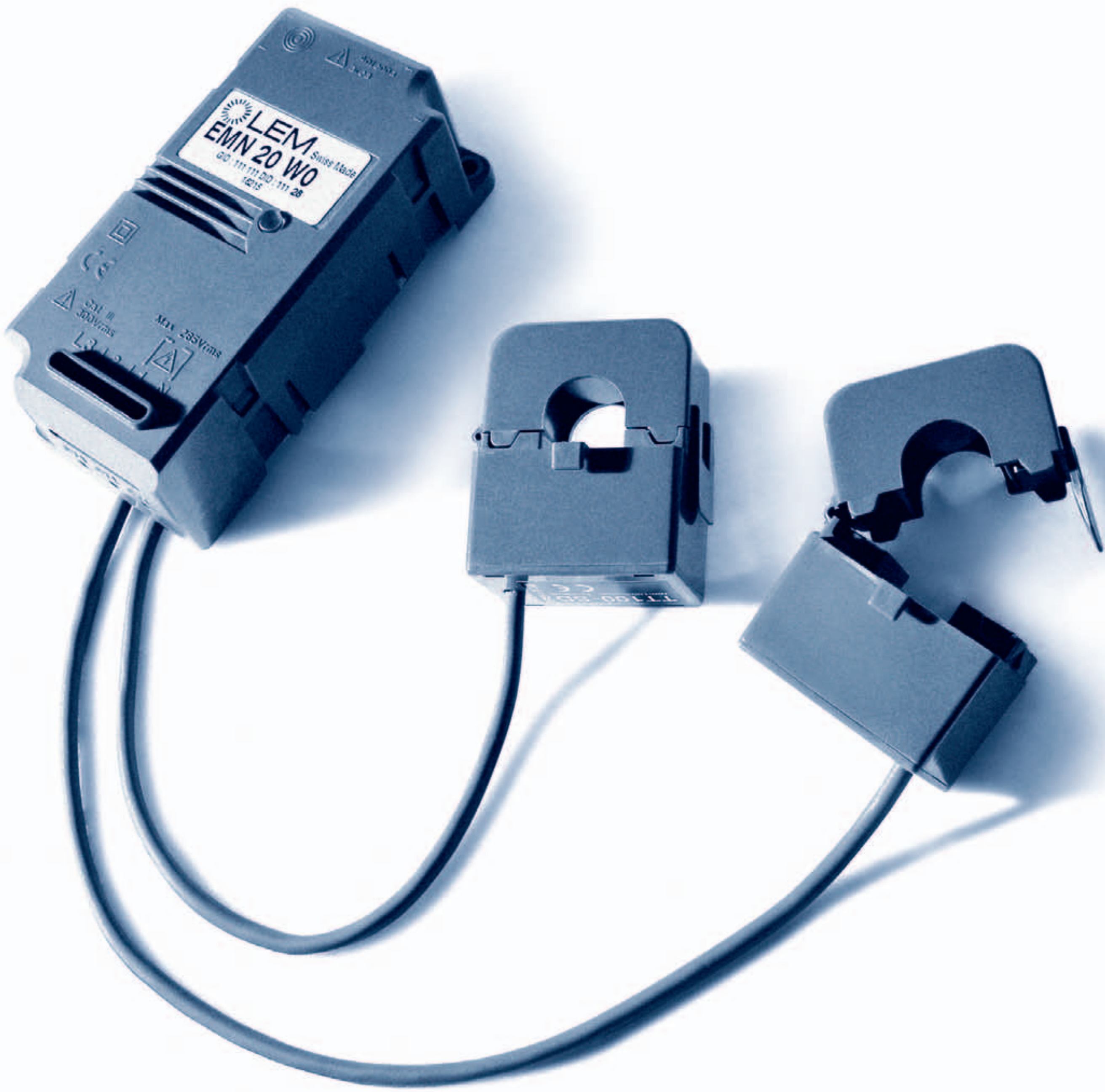
Felix Bagdasarjanz
Chairman of the Board

F. Bagdasarjanz

Paul Van Iseghem
President & CEO

V Iseghem

Interim Consolidated Financial Statements



CONSOLIDATED BALANCE SHEET

Assets	30.09.2009	31.03.2009
In CHF thousands		
Current assets		
Cash and cash equivalents	20'379	27'951
Accounts receivable	36'237	31'920
Other current assets	1'963	2'834
Inventories	22'729	23'728
Total current assets	**81'308**	**86'433**
Non-current assets		
Deferred tax assets	1'071	0
Other non-current assets	1'557	1'522
Property, plant and equipment	23'936	23'571
Intangible assets	10'414	4'685
Total non-current assets	**36'978**	**29'778**
Total assets	**118'286**	**116'211**

Liabilities and equity	30.09.2009	31.03.2009
In CHF thousands		
Current liabilities		
Accounts payable	15'712	12'614
Other current liabilities	545	290
Accrued expenses and deferred income	7'656	6'406
Current income tax payable	2'794	6'247
Current provisions	7'158	3'151
Current financial liabilities	9'327	93
Total current liabilities	**43'191**	**28'801**
Non-current liabilities		
Non-current provisions	1'761	2'012
Other non-current liabilities	251	113
Deferred tax liabilities	1'766	1'793
Total non-current liabilities	**3'778**	**3'918**
Total liabilities	**46'969**	**32'719**
Equity		
Share capital	575	575
Treasury shares and derivative instruments on treasury shares	(5'627)	(5'627)
Reserves and retained earnings	76'203	88'349
Equity attributable to equity holders of the parent	**71'151**	**83'297**
Minority interests	165	195
Equity	**71'316**	**83'492**
Total liabilities and equity	**118'286**	**116'211**

CONSOLIDATED INCOME STATEMENT

In CHF thousands	April to September 2009/10	April to September 2008/09
Sales	78'816	111'040
Cost of goods sold	(45'132)	(60'010)
Gross margin	**33'684**	**51'031**
Sales expense	(9'199)	(12'335)
Administration expense	(10'920)	(12'143)
Research & development expense	(5'094)	(5'317)
Other expense	(65)	(2)
Other income	199	152
Operational EBIT	**8'605**	**21'385**
Revaluation SOP provision	(4'810)	(102)
EBIT	**3'796**	**21'283**
Financial expense	(162)	(200)
Financial income	19	135
Foreign exchange effect	(594)	317
Profit before taxes	**3'059**	**21'535**
Income taxes	(1'487)	(5'541)
Net profit for the period	**1'571**	**15'994**
Attributable to:		
LEM shareholders	1'553	15'945
Minority interests	18	48
Net profit	**1'571**	**15'994**
Net profit per share entitled to dividend (in CHF)		
Basic net profit	1.36	13.94
Diluted net profit	1.36	13.88

CONSOLIDATED CASH FLOW STATEMENT

In CHF thousands	April to September 2009/10	April to September 2008/09
CASH FLOW FROM OPERATING ACTIVITIES		
Net profit of the year	1'571	15'994
Non-cash items	2'177	3'293
Cash flow before changes in net working capital	**3'748**	**19'287**
Cash flow from changes in net working capital	3'469	(8'007)
Cash flow from operating activities	**7'217**	**11'280**
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in fixed assets	(3'220)	(4'131)
Disposal of fixed assets and intangible assets	67	36
Acquisition of companies	(1'213)	0
Investment in intangible assets	(6'176)	(138)
Cash flow from investing activities	**(10'542)**	**(4'232)**
CASH FLOW FROM FINANCING ACTIVITIES		
Treasury shares aquired	0	(3'875)
Derivative instruments on own shares acquired	0	(1'752)
Dividends paid to the shareholders of LEM Holding SA	(11'372)	(12'650)
Dividends paid to minorities	(48)	(42)
Increase (+) in financial liabilities	7'660	4'122
Cash flow from financing activities	**(3'760)**	**(14'197)**
Change in cash and cash equivalents	**(7'085)**	**(7'150)**
Cash and cash equivalents at the beginning of the period	**27'951**	**25'787**
Exchange effect on cash and cash equivalents	(488)	535
Cash and cash equivalents at the end of the period	**20'379**	**19'172**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	April to September	
	2009/10	**2008/09**
In CHF thousands		
Net Profit for the period recognised in the income statement	**1'571**	**15'994**
Currency translation difference	(2'539)	3'172
Fair value adjustments on cash flow hedges		(125)
Total comprehensive income for the period	**(968)**	**19'040**
Attributable to shareholders	(986)	18'984
Attributable to minorities	18	56

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holder of the company								
In CHF thousands	Share capital	Treasury shares	Performance share plan	Fair value reserve	Translation reserve	Retained earnings and other reserves	Minoritiy Interest	Total equity
1 April 2008	**575**	**0**	**0**	**146**	**(2'982)**	**73'268**	**201**	**71'209**
Total comprehensive income				(125)	3'164	15'945	56	19'040
Dividends paid						(12'650)		(12'650)
Dividends paid to minority interests							(42)	(42)
Performance share plan			517					517
Movement in treasury shares		(3'875)						(3'875)
Movement in derivative instruments on treasury shares		(1'752)						(1'752)
30 September 2008	**575**	**(5'627)**	**517**	**21**	**182**	**76'563**	**215**	**72'446**
1 April 2009	**575**	**(5'627)**	**423**	**(2)**	**3'464**	**84'464**	**195**	**83'492**
Total comprehensive income					(2'539)	1'553	18	(968)
Dividends paid						(11'372)		(11'372)
Dividends paid to minority interests							(48)	(48)
Performance share plan			211					211
30 September 2009	**575**	**(5'627)**	**634**	**(2)**	**925**	**74'645**	**165**	**71'316**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Segment Information

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

April - September 2009	Industrial	Automotive	LEM Group Total
In CHF thousands			
Orders received	77'339	6'176	**83'515**
Sales	72'703	6'113	**78'816**
EBIT	5'169	(1'373)	**3'796**

2. Nature of operations

The 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 industrial, traction, energy and automotive markets.

3. Basic principles of group accounting

These unaudited consolidated financial statements for the six months ended on September 30, 2009 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 2009.

The accounting and valuation policies are consistent with those applied in preparing the annual consolidated financial statements for the year 2008/09, 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 2009/10:

IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of Net Investment in a Foreign Operation
IFRS 8	Operating Segments
IAS 1 revised	Presentation of Financial Statement
IAS 23	Borrowing Costs
Amendment to IFRS 2	Vesting Conditions and Cancellations
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRIC 18	Transfers of Assets from Customers
Amendments to IFRIC 9 and IAS 39	Embedded Derivatives
Amendments to IFRS 7	Improving Disclosures about Financial Instruments

Annual Improvements to IFRS's

These changes led to additional disclosures but do not have material effect on the consolidated financial statements of the LEM Group.

Amendments to IFRS 3 'Business Combinations' are effective for financial years beginning on or after 1 July 2009. For the LEM Group they are therefore only relevant for the business year beginning 1 April 2010.

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 increase in the effective tax rate of LEM Group is caused by changes in volumes, product mix and profitability of the Group's subsidiaries in the various jurisdictions and withholding taxes on dividends distributable out of prior year's profits within the Group.

6. Financial Liabilities

LEM Group increased financial short-term liabilities to CHF 9.3 million (31 March 2009 CHF 0.1 million) mainly as a bridge financing for the acquisition of Danfysik ACP A/S.

7. Shareholders' equity

At the shareholders' meeting held in Geneva on 26 June 2009, the shareholders approved the distribution of an ordinary dividend of CHF 10.00 per share. The gross dividend paid on 29 June 2009 amounted to CHF 11.37 million (prior year: ordinary dividend of CHF 7.00 and extra-ordinary dividend of CHF 4.00 per share; total CHF 12.65 million).

8. Performance Share Plan

In the half year 2009/10 expense of CHF 211 thousand was charged to the income statement based on the fair value at grant date of Performance Share Plan 1 (2008/09 CHF 517 thousand). The details of this plan were disclosed in the Annual Report 2008/09 as well as the interim consolidated financial statements of 30 September 2008.

On 8 May 2009 the Board of Directors decided not to continue the Performance Share Plan in the present form. The new LEM Incentive Scheme (LIS) consists of a cash bonus based on the Economic Value Added of LEM Group over a period of 3 years.

9. Changes in scope of consolidation

During the first half year of 2009/10 the scope of consolidation changed as follows:

On 28 July 2009 LEM Holding SA acquired 100% of the shares of Danfysik ACP A/S in Denmark retroactively per 1 July 2009. The business of high precision transducers was integrated into the business segment Industrial of LEM Group. The total purchase price for the shares and the intellectual property rights amounts to CHF 7.0 million incl. transaction costs and was paid out of existing liquid funds and two bridge financings of EUR 2.0 million each for a period of 3 and 6 months.

In the period from 1 July to 30 September 2009, the acquired business employing 15 people generated third party sales of CHF 1.32 million and a net profit of CHF 0.05 million.

The following table shows the fair value of assets and liabilities acquired in the share deal at the effective date of acquisition, as well as the intangibles acquired and the badwill arising from the transaction. As the purchase price allocation has not been finalised at the reporting date, the amounts are subject to adjustments.

The acquired intellectual property rights are depreciated over 5 years according to LEM accounting policies.

in CHF thousands	Carrying amount	Fair value adjustments	Fair value on acquisition
Cash and cash equivalents	338	0	338
Trade accounts receivable	1'025	-99	926
Inventories	2'744	-298	2'446
Other current assets	530	-353	177
Property, plant and equipment	379	3	383
Intangible assets	5'943	207	6'150
Pre-acquisition goodwill	2'804	-2'804	0
Current liabilities	2'281	163	2'444
Long-term liabilities	129	0	129
Net assets acquired at fair value			**7'846**
Goodwill / (Badwill)			-149
Total purchase consideration, including transaction costs			**7'697**
Less cash and cash equivalents acquired			-338
Net cash outflow on acquisition			**7'359**

In the previous year the following change in the scope of consolidation occurred:

Creation of LEM Management Services S.a.r.l., fully consolidated as of 16 June 2008.

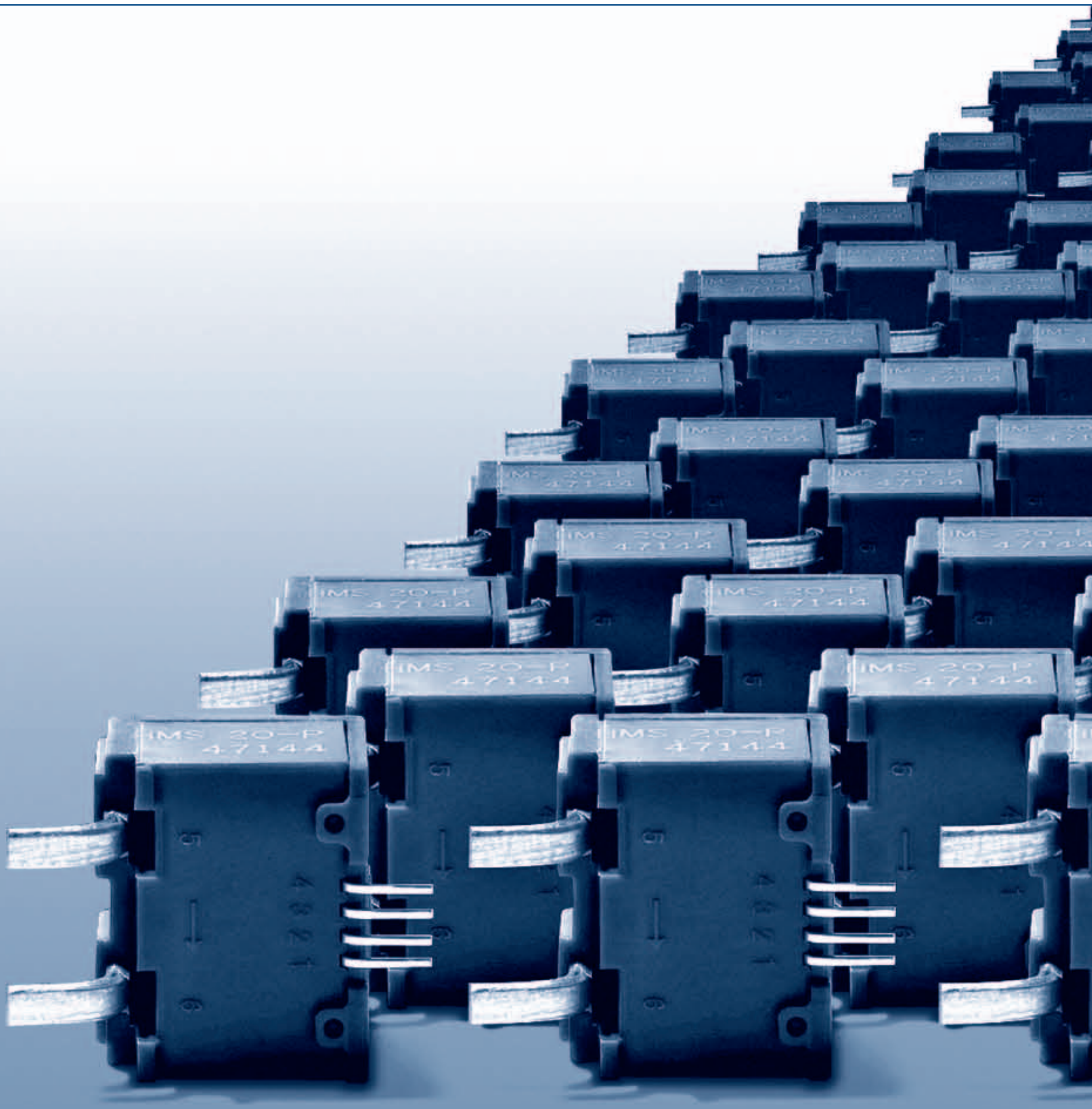
10. Events after the balance sheet date

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 30 October 2009 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	
	30.09.09	31.03.09	2009/10	2008/09
EUR	1.511	1.517	1.517	1.612
GBP	1.649	1.633	1.73	2.032
JPY	0.0115	0.0118	0.0114	0.01
USD	1.036	1.149	1.088	1.05
RUB	0.034	0.034	0.034	0.044
CNY	0.152	0.168	0.160	0.153



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