Half Year Report
2016/17

At the heart of power electronics

LEM

Business Report

Dear Shareholders,

LEM reports stable sales and robust margins for the first half of 2016/17. The underlying trends in the individual businesses, however, were mixed: Sales growth in the drives & welding business and the green cars business contrasted with a sluggish traction market and investments in renewable energies that failed to meet expectations. Sales in Europe and China, LEM's largest market, slowed, while we recorded progress in North America and the rest of Asia.

Innovation is the cornerstone of our growth strategy. To capture additional growth opportunities, we plan to increase significantly our research & development (R&D) investments. Following the evaluation of several locations, we have decided to establish a new R&D center in France, in the Lyon/Grenoble high-tech cluster.

We maintained our product innovation pace and launched five new products. Our new GHS models, for example, combine innovative technologies of the semiconductor and the transducer space.

Financial Highlights

Our sales increased by 0.8% to CHF 132.6 million in the first half of 2016/17; at constant exchange rates, this represents a decrease of 0.8%. Bookings for the first six months totaled CHF 132.3 million, up 4.3% on the same period of 2015/16. The book-to-bill ratio improved from 0.96 to 1.00.

Our gross margin stood at 46.3%, up from 45.5% in the first half of 2015/16, while EBIT reached CHF 27.5 million, an increase of 10.6% on the first half of 2015/16. Our EBIT margin for the first six months of 2016/17 was 20.7%, compared with 18.9% a year earlier. Favorable currency effects and lower operating expenses supported the margin improvement.

Net profit came in at CHF 22.1 million, an increase of 11.6% compared with the first half of 2015/16. Free cash flow in the first half of 2016/17 was CHF 18.5 million, compared with CHF –1.4 million a year earlier.

As of 30 September 2016, total assets stood at CHF 152.6 million. After dividend payment of CHF 39.9 million in July 2016, equity reached CHF 65.8 million (CHF 85.9 million as of 31 March 2016), representing an equity ratio of 43.1% (61.3% as of 31 March 2016).

Industry segment – solid drives & welding business

First-half sales in the Industry segment totaled CHF 107.0 million, down 3.0% on the same period a year earlier. At constant exchange rates, sales decreased by 4.5%.

Sales in China slowed (–7%), while sales in the rest of Asia continued on a steady path (+4%). North America benefitted from a positive economic trend (+5%) whereas sales in Europe slowed (–5%). We continued to boost production capacities for recently launched products, which once again proved highly successful.

First-half EBIT decreased slightly, from CHF 21.2 million in 2015/16 to CHF 21.0 million in 2016/17.

- Sales in the drives & welding business grew by 11% compared with the first half of 2015/16. The improved economic environment in the US and Germany and the stable situation in China were the drivers of sales growth. We achieved higher sales in all regions, with LEM gaining market share.
- Sales in the renewable energies & power supplies business, where the usual seasonality effect was less pronounced than in previous years, decreased by 15% on the first six months of 2015/16. The increasing relocation of our customers' production capacities from Europe to China, with concurrent consolidation of the Chinese market, was observed. Sales in China were stable but fell in Europe.
- The traction business slowed by 13% due to less activity in a temporarily weakening Chinese market. We achieved strong sales in Germany and India with energy metering, trackside applications and retrofit orders. Our market share remained stable.
- Sales in the project-driven high-precision business were down by 5%. Activity in China slowed after HVDC projects were completed; however, we recorded an upturn in the US medical market. Our market share remained stable.

Automotive segment – strong green cars business

We achieved profitable growth in all regions. Sales in the Automotive segment reached CHF 25.6 million, up 20.4% on the same period of 2015/16. At constant exchange rates, sales increased by 18.2%. We succeeded in achieving strong growth while maintaining product quality and reliability at a high level, and won a customer award for our overall performance.

We improved our EBIT margin thanks to additional volumes, favorable product mix and successes in the Chinese green cars business. Half-year EBIT increased to CHF 6.5 million compared with CHF 3.7 million in the first half of 2015/16.

- In the conventional cars business, sales decreased by 2%. We experienced a weaker US market.
- Sales in the green cars business climbed 102% on the previous year. Better consumer acceptance and government incentives for green cars resulted in higher registration figures globally.

Executing strategy

– Increase our technology leadership

We strive to lead by innovation and continuously launch new products. In order to extend our lead and accelerate our growth, we have decided to significantly increase the R&D investments going forward. We will focus on new technologies in the areas of ASIC, embedded software and the Internet of Things. We are already enhancing R&D capacities in Sofia and Beijing. In addition, following the evaluation of several locations, we have decided to establish a new R&D center in the Lyon/Grenoble high-tech cluster. Geneva will remain our main R&D hub.

This financial year, we have launched five new products: The GHS models for solar markets represent LEM's first integrated primary sensor and a combination of transducer and semiconductor technologies. The LH models for drives and solar markets house our proprietary ASIC for closed loop Hall Effect technology, delivering high performance on par with the more complex fluxgate products. The DVM models for traction applications use LEM's patented insulating digital technology to achieve improved accuracy and temperature stability as well as high immunity against magnetic fields. The accuracy class 1 ART models for smart grid applications use our patented Rogowsky loop technology and provide an electrostatic shield. The 2-phase motor control sensor HAH2 for hybrid-electric cars offers high accuracy and speed in a compact and easy-to-integrate casing.

– Increase our efficiency

Reviewing our activities and international footprint remains a key task for us even though pressure from the currency side has temporarily lessened. We improved internal efficiency by growing the share of cost-effective production to 79% of total sales. Going forward, we aim to increase the automation of production. We expect cost and quality improvements through the effective use of new tooling.

At our site in Sofia, we started to develop shared services for our global operations.

– Increase our production flexibility

We maintained our delivery performance, absorbing the effects of the shorter lead times of our customers. The volatile demand for certain complex products in the traction and high-precision business presents our organization with a challenge. We have initiated a program to reduce these lead times by 30% by optimizing our inbound supply chain management and our inventory policy.

Outlook

For the remainder of the year, we forecast a stable economic situation in most regions translating in a steady development of our Industry businesses. We expect our Automotive businesses to keep its momentum going. Seasonality will influence sales in the third quarter in Europe (Christmas season) and in the fourth quarter in China (Chinese New Year). Customers are likely to remain cautious, maintaining their short-term ordering policy.

For the full financial year 2016/17, we forecast sales of CHF 260–270 million; this compares with CHF 261.5 million for full-year 2015/16. We expect our EBIT margin to be around 20%.

We thank you for your continued trust in LEM.

Yours sincerely,

Andreas Hürlimann	François Gabella
Chairman of the Board of Directors	Chief Executive Officer

Key Figures, Financial Calendar, Contacts

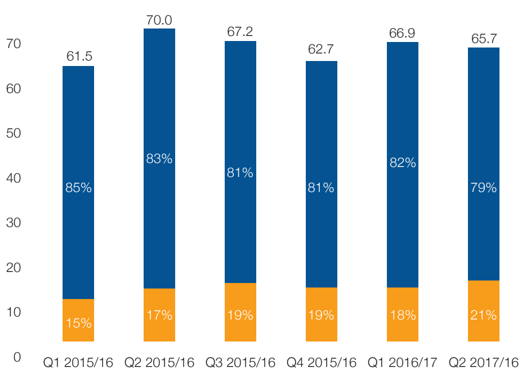
Key figures

	First half vs. first half		
	2016/17 In CHF millions	2015/16 In CHF millions	Change In %
Orders received	132.3	126.9	+ 4.3
Book-to-bill ratio	1.00	0.96	–
Sales	132.6	131.6	+ 0.8
Gross profit	61.4	59.9	+ 2.5
In % of sales	*46.3%*	*45.5%*	*+ 0.8 pt*
EBIT	27.5	24.9	+ 10.6
In % of sales	*20.7%*	*18.9%*	*+ 1.8 pt*
Net profit for the period	22.1	19.8	+ 11.6
EPS basic (in CHF)	19.41	17.40	+ 11.6
Operating cash flow	22.9	0.6	–
Investing cash flow	– 4.4	– 2.0	+ 120.0

	30.9.16	31.3.16	Change In %
Net financial assets/(liabilities)	(8.0)	13.6	–
Equity	65.8	85.9	– 23.4
Equity ratio (in % of total assets)	43.1	61.3	– 18.2 pt
Market capitalization	1'254	929	+ 35.0
Employees (FTEs)	1'441	1'388	+ 3.8

Sales per segment

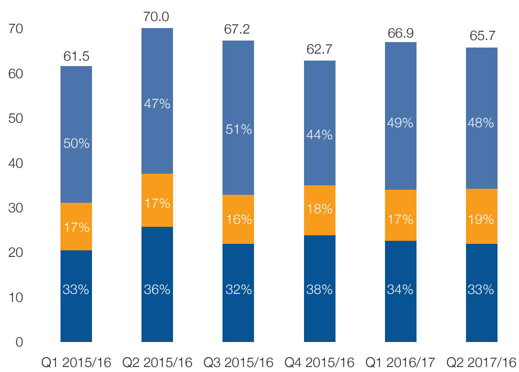
In CHF millions



Industry segment
Automotive segment

Regional sales breakdown

In CHF millions



Asia and rest of the world
North America
Europe

Financial calendar

The financial year runs from 1 April to 31 March

16 February 2017	Third quarter results 2016/17
23 May 2017*	Year-end results 2016/17
29 June 2017*	Ordinary General Meeting of Shareholders for the financial year 2016/17
4 July 2017*	Dividend ex-date
6 July 2017*	Dividend payment date

* New dates

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Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

In CHF thousands	Notes	30.9.2016	31.3.2016
Current assets			
Cash and cash equivalents		20'072	13'629
Accounts receivable		58'997	55'896
Inventories		29'274	27'796
Income tax receivable	9	920	1'694
Other current assets		2'249	1'739
Total current assets		**111'512**	**100'754**
Noncurrent assets			
Deferred tax assets	9	6'602	5'636
Property, plant and equipment		26'150	25'179
Intangible assets		7'370	7'630
Other noncurrent assets		948	979
Total noncurrent assets		**41'070**	**39'424**
Total assets		**152'582**	**140'178**

Liabilities and equity

In CHF thousands	Notes	30.9.2016	31.3.2016
Current liabilities			
Accounts payable		24'508	21'301
Accrued expenses		17'430	18'230
Income tax payable	9	3'005	3'142
Current provisions	4	1'149	1'552
Current financial liabilities	5	28'025	24
Other current liabilities		1'222	593
Total current liabilities		**75'338**	**44'843**
Noncurrent liabilities			
Noncurrent provisions	4	2'215	1'965
Deferred tax liabilities	9	1'815	2'054
Other noncurrent liabilities	6	7'454	5'422
Total noncurrent liabilities		**11'483**	**9'442**
Total liabilities		**86'821**	**54'284**
Equity			
Share capital		570	570
Treasury shares	7	(755)	(502)
Reserves	7	9'251	9'907
Retained earnings	7	56'696	75'919
Total equity		**65'761**	**85'894**
Total liabilities and equity		**152'582**	**140'178**

Consolidated Income Statement

In CHF thousands	Notes	April to September 2016/17	2015/16
Sales		132'620	131'567
Cost of goods sold		(71'257)	(71'696)
Gross margin		**61'363**	**59'872**
Sales expense		(13'579)	(13'801)
Administration expense		(12'496)	(14'085)
Research & development expense		(7'886)	(7'206)
Other expense		(0)	(4)
Other income		102	94
Operating profit	8	**27'503**	**24'871**
Financial expense		(76)	(107)
Financial income		33	46
Exchange effect		(20)	533
Profit before taxes		**27'441**	**25'342**
Income taxes	9	(5'319)	(5'525)
Net profit for the period		**22'122**	**19'818**

Earnings per share, in CHF		
Basic and diluted earnings per share	19.41	17.40

Consolidated Statement of Comprehensive Income

In CHF thousands	April to September 2016/17	2015/16
Net profit for the period recognized in the income statement	**22'122**	**19'818**
Other comprehensive income to be reclassified to profit and loss in subsequent periods		
Currency translation difference	(909)	(1'923)
Total other comprehensive income to be reclassified to profit and loss in subsequent periods	**(909)**	**(1'923)**
Other comprehensive income not to be reclassified to profit and loss in subsequent periods		
Remeasurement gains/(losses) on defined benefit plans	(1'754)	(1'458)
Income tax	380	318
Total other comprehensive income not to be reclassified to profit and loss in subsequent periods	**(1'374)**	**(1'140)**
Other comprehensive income/(loss) for the period, net of tax	**(2'283)**	**(3'063)**
Total comprehensive income for the period	**19'839**	**16'755**
Attributable to shareholders	19'839	16'755

Consolidated Statement of Changes in Equity

Attributable to shareholders

In CHF thousands	Notes	Share capital	Treasury shares	Capital reserve	Translation reserve	Retained earnings	**Total equity**
1 April 2015		**570**	**(283)**	**12'226**	**326**	**79'105**	**91'943**
Net profit for the period						19'818	19'818
Other comprehensive income/(loss)					(1'923)	(1'140)	(3'063)
Total comprehensive income					*(1'923)*	*18'678*	*16'755*
Dividends paid	7					(45'547)	(45'547)
Movement in treasury shares	7		(341)	341		(516)	(516)
30 September 2015		**570**	**(624)**	**12'567**	**(1'597)**	**51'719**	**62'635**
1 April 2016		**570**	**(502)**	**12'445**	**(2'538)**	**75'919**	**85'894**
Net profit for the period						22'122	22'122
Other comprehensive income/(loss)					(909)	(1'374)	(2'283)
Total comprehensive income					*(909)*	*20'748*	*19'839*
Dividends paid	7					(39'879)	(39'879)
Movement in treasury shares	7		(253)	253		(92)	(92)
30 September 2016		**570**	**(755)**	**12'698**	**(3'447)**	**56'696**	**65'762**

Consolidated Cash Flow Statement

In CHF thousands	Notes	April to September 2016/17	2015/16
Cash flow from operating activities			
Profit before taxes		27'441	25'342
Adjustment for noncash items and taxes paid		(1'622)	(4'751)
Cash flow before changes in net working capital		25'819	20'591
Cash flow from changes in net working capital		(2'940)	(19'994)
Cash flow from operating activities		**22'879**	**597**
Cash flow from investing activities			
Investment in fixed assets		(4'198)	(2'306)
Investment in intangible assets		(202)	(349)
Increase (–)/decrease (+) in other assets		38	673
Cash flow from investing activities		**(4'362)**	**(1'982)**
Cash flow from financing activities			
Treasury shares acquired (–)/divested (+)	7	(92)	(516)
Dividends paid to the shareholders of LEM Holding SA	7	(39'879)	(45'547)
Increase (+)/decrease (–) in financial liabilities	5	28'000	40'000
Cash flow from financing activities		**(11'971)**	**(6'063)**
Change in cash and cash equivalents		**6'546**	**(7'448)**
Cash and cash equivalents at the beginning of the period		**13'629**	**20'920**
Exchange effect on cash and cash equivalents		(102)	(237)
Cash and cash equivalents at the end of the period		**20'072**	**13'235**

Notes to the Interim Consolidated Financial Statements

1 General information

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 drives & welding, renewable energies & power supplies, traction, high precision, conventional and green cars businesses.

2 Significant accounting principles

These unaudited consolidated financial statements for the six months ended on 30 September 2016 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 those for the year ended 31 March 2016.

The accounting and valuation policies are consistent with those applied in preparing the annual consolidated financial statements for the year 2015/16.

The preparation of the interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and related disclosures at the date of the interim financial statements. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates.

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.

In 2016/17, LEM Group introduced the following revised standards and interpretations:

Standard or interpretation	Title	Impact	Effective date
IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture Amendments to IFRS 10 and IAS 28	NA	1 January 2016
IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception Amendments to IFRS 10, IFRS 12 and IAS 28	NA	1 January 2016
IFRS 11	Accounting for Acquisitions of Interests in Joint Operations Amendments to IFRS 11	NA	1 January 2016
IFRS 14	Regulatory Deferral Accounts	NA	1 January 2016
IAS 1	Disclosure Initiative Amendments to IAS 1	None	1 January 2016
IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization Amendments to IAS 16 and IAS 38	NA	1 January 2016
IAS 16 and IAS 41	Agriculture Bearer Plants Amendments to IAS 16 and IAS 41	NA	1 January 2016
IAS 27	Equity Method in Separate Financial Statements Amendments to IAS 27	NA	1 January 2016
Amendments	Annual improvements to IFRS 2012–2014	None	1 January 2016

NA = not applicable

The following table summarizes the principal exchange rates that have been used in the translation process.

Currency	Period-end rate in CHF for balance sheet			Period average rate in CHF for income statement		
	30.9.2016	31.3.2016	Var. in %	2016/17	2015/16	Var. in %
BGN	0.552	0.555	– 0.5%	0.559	0.539	+ 3.7%
CNY	0.145	0.149	– 2.7%	0.148	0.154	– 3.9%
DKK	0.146	0.147	– 0.7%	0.147	0.141	+ 4.3%
EUR	1.086	1.093	– 0.6%	1.093	1.055	+ 3.6%
GBP	1.257	1.383	– 9.1%	1.338	1.467	– 8.8%
JPY	0.0096	0.0086	+ 11.6%	0.0093	0.0078	+ 19.2%
RUB	0.015	0.014	+ 7.1%	0.015	0.017	– 11.8%
USD	0.969	0.963	+ 0.6%	0.973	0.952	+ 2.2%

3 Segment information

April to September 2016 In CHF thousands	Industry	Automotive	LEM Group
Sales	107'007	25'613	**132'620**
Operating profit	21'010	6'494	**27'503**

April to September 2015 In CHF thousands	Industry	Automotive	LEM Group
Sales	110'295	21'273	**131'567**
Operating profit	21'213	3'658	**24'871**

4 Current and noncurrent provisions

Warranty and customer claims

Provisions for warranty and customer claims have been estimated based on past experience and the risk assessment of management. The warranty provision is expected to be used over the next five years.

Litigations and consumption taxes

Despite the care that LEM applies in the separation process with personnel, such separation may result in legal conflicts. The Group will defend its case and management estimates the reasonable risk to be provided for.

The Group operates in multiple jurisdictions with complex legal and tax regulatory environments. In the frame of the continuous improvement of its processes and systems, LEM has reviewed the consumption taxes in several countries. It has appeared that some LEM's subsidiaries may not have been fully compliant with their local consumption tax regulations. As a consequence, LEM has estimated consumption tax provisions according to management best judgment. Some of these positions are inherently uncertain and include the interpretation of local regulations applied to complex transactions.

Transfer of activity

In order to reflect the transfer of activity costs, a restructuring provision of CHF 445 thousand was set up per 31 March 2016, of which CHF 198 thousand were utilized per 30 September 2016. This represents the main fluctuation of the provisions at half year.

5 Current financial liabilities

LEM Group increased financial short-term liabilities to CHF 28.0 million (CHF 0.0 million at 31 March 2016) via short-term credit lines in order to finance the CHF 39.9 million dividend payment of July 2016.

6 Other noncurrent liabilities

The half-year 2016/17 was impacted by the reduction of the post-employment benefit discount rate going from 0.5% to 0.3%, which increased other noncurrent liabilities by CHF – 2.1 million.

7 Equity

At the shareholders' meeting held in Fribourg on 30 June 2016, the shareholders approved the distribution of an ordinary dividend of CHF 35.00 per share resulting in an estimated payout of CHF 39'877 thousand. The gross dividend effectively paid on 7 July 2016 amounted to CHF 39'879 thousand (prior year: ordinary dividend of CHF 40.00; total CHF 45'547 thousand).
In the frame of its market-making contract, LEM holds own shares. At 30 September 2016, the Group held 677 shares (31 March 2016: 662).

8 Operating profit

Our sales increased by 0.8% to CHF 132.6 million in the first half of 2016/17; at constant exchange rates, this represents a sales decrease of 0.8%.

Our gross margin stood at 46.3%, up from 45.5% in the first half of 2015/16, while EBIT reached CHF 27.5 million, an increase of 10.6% on the first half of 2015/16. Our EBIT margin for the first six months of 2016/17 was 20.7%, compared with 18.9% a year earlier. Favorable currency effects and lower operating expenses (no ERP implementation cost as last year) supported the margin improvement.

9 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 Group operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Group has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions. The Company periodically reassesses its tax positions. Changes to the financial statement recognition, measurement, and disclosure of tax positions are based on management's best judgment given any changes in the facts, circumstances, information available and applicable tax laws. Considering all available information and the history of resolving income tax uncertainties, the Group believes that the ultimate resolution of such matters will not have a material effect on its financial statements.

Differences between the final tax outcome and the amounts that were initially recorded impact the income and deferred taxes in the period in which such determinations are made. The Group calculates its expected average tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates.

The decrease in tax rate is linked to a different breakdown of our revenue.

10 Consolidated cash flow statement

The adjustment for noncash items decreases by CHF +3.1 million compared to the same period 2015/16 and is mostly due to the decrease of taxes paid and increase of derivative financial instrument revaluation.

The cash flow from changes in net working capital evolution is mainly linked to the decrease of accounts receivable.

In order to finance the CHF 39.9 million dividend payment the financial liabilities were increased by CHF – 28.0 million via our bank credit lines.

11 Contingent liabilities

There is no change in the contingent liabilities presented in the Group Financial Statements as of 31 March 2016.

12 Financial assets and liabilities

The Group classifies its financial assets and liabilities into the following categories as per IFRS 7:

Financial assets

In CHF thousands	30.9.2016 Fair value	31.3.2016 Fair value	Loans and receivables	At fair value through profit and loss
Cash and cash equivalents	20'072	13'629	X	
Accounts receivable	58'997	55'896	X	
Derivative financial instruments – current	349	0		X
Other current financial assets	54	24	X	
Other noncurrent financial assets	948	979	X	
Total	**80'420**	**70'528**		

Financial liabilities

In CHF thousands	30.9.2016 Fair value	31.3.2016 Fair value	Loans and receivables	At fair value through profit and loss
Accounts payable	24'508	21'301	X	
Accrued expenses	17'430	18'230	X	
Derivative financial instruments – current	0	94		X
Other current financial liabilities	12	65	X	
Bank loans	28'000	0	X	
Other noncurrent financial liabilities	24	40	X	
Total	**69'973**	**39'731**		

The management assessed that fair value level of cash and cash equivalents, accounts receivables, other current and noncurrent assets, accounts payables, accrued expenses and other current and noncurrent liabilities that are not measured at fair value approximate their carrying amounts in view of their short-term nature and are consequently not separately disclosed.

The Group enters into derivative transactions such as currency risk reversal and forward contracts to hedge the USD and EUR risks.

The purpose of these currency hedges is to manage the currency risks arising from the Group's operations.
The Group's policy is not to enter into derivative contracts for speculative purposes.

The main risks arising from the Group's financial instruments are foreign currency risks and credit risks, whereas the others are of minor or no impact.

The Board of Directors reviews and agrees policies for managing each of those risks.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: techniques, which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The Group's financial assets at fair value amount to CHF 349 thousand per 30 September 2016 (financial liabilities of CHF 4 thousand per 31 March 2016), all classified under level 2.

During the two last reporting periods, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

13 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 interim consolidated financial statements on 3 November 2016 that would require an adjustment in carrying amounts of the Group's assets and liabilities.

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