Half Year Report
2013/14

At the heart of power electronics

LEM

Business Report

Dear Shareholders,

We have recorded an excellent first half year of 2013/14. While delivering sales growth in most businesses, we consistently did our homework by continuing on our path to increase the efficiency and flexibility of our operations. As a result of our efforts we have increased our margins to record levels.
The trend of the past years has remained unchanged. Customers kept low levels of stock, issued orders with very short lead times and in so doing required high flexibility from us. Economic uncertainty remains widespread these days and we keep receiving cautious outlooks from our customers.
Our sales in the first half year of 2013/14 increased by 2.2% to CHF 126.9 million. At constant exchange rates, sales increased by 4.0%. Bookings for the first six months of 2013/14 amounted to CHF 124.3 million, an increase of 3.2% compared with the same period 2012/13. The book-to-bill ratio in Q2 of 2013/14 was at 0.91, pointing to a slowing of activity. In Q1 of 2013/14 our book-to-bill ratio reached 1.05.
The gross margin increased from 42.9% in the first half year of 2012/13 to 46.5% in the first half year of 2013/14. The EBIT for the first half year of 2013/14 reached CHF 30.2 million, an increase of 27.4% compared with the same period of 2012/13. The EBIT margin for the first half year of 2013/14 was 23.8%, a clear improvement compared with the already strong 19.1% in the first half year of 2012/13.
Net profit for the first six months of 2013/14 was CHF 24.5 million, an increase of 20.2% compared with the same period in the financial year 2012/13.
Our balance sheet remains strong. As of 30 September 2013, total assets reached CHF 125.8 million. Shareholders' equity stayed high, at CHF 72.1 million (CHF 84 million as of 31 March 2013), representing an equity ratio of 57.3% (62.0% as of 31 March 2013).

Industry segment: strong growth in China

Sales in the Industry segment reached CHF 109.8 million in the first half year of 2013/14, representing an increase of 3.6% compared with the same period in 2012/13. At constant exchange rates, sales increased by 5.2%. Market share gains in the drives & welding and high-precision businesses and strong support from wind applications supported our performance. In addition, we recorded a faster than expected ramp-up of the recently launched HLSR product for solar applications, a product launched in the second half year of 2012/13. The EBIT increased from CHF 20.9 million for the first half year 2012/13 by 32.7% to CHF 27.7 million for the first half of 2013/14. We recorded the strongest sales growth in China (+33%). Sales in Europe and North America declined each by 5%, while sales in Asia excluding China grew by 5%. Still, Europe remained LEM's biggest market, accounting for 43% of sales, followed by Asia with 42% of sales.

- Sales in the drives & welding business increased by 9%, driven by strong market growth in China. The other major regions delivered stable sales performance. LEM won market share on certain applications.
- The renewables & power supplies business recorded strong performance of solar applications in Asia. This was an effect of continued relocation of solar production from Europe and North America to China. The increasing activity in off-shore wind parks in China, India and Europe provided tailwind for our wind applications. Overall sales increased by 1%.
- Sales in the traction business weakened by 7%. While we won new orders for our new energy meter (EM4TII), we continued to be adversely affected by stagnating rail investments in Europe.
- On the back of a strengthened market share our high-precision business delivered sales growth of 14%. We were particularly successful with new medical projects in Europe and North America as well as with HVDC (high-voltage direct current) projects in China.

Automotive segment: strong conventional cars business – pickup in the green cars business

Sales in the Automotive segment reached CHF 17.1 million in the first half year of 2013/14, a decrease of 6.1% compared with the same period in 2012/13. At constant exchange rates, sales decreased by 3.3%. Sales in the Automotive segment picked up in the second quarter of 2013/14 with sales growing by 5.5% compared with the first quarter; a growth that can be attributed to increased activity in the green cars business mainly in Europe and our reinforced sales and marketing organization in Asia. In the first six months of 2013/14, EBIT reached CHF 2.5 million, a decrease of 11.9% compared with the first half year of 2012/13.

- In the conventional cars business, our sales grew by 3% compared with the first half of 2012/13. We achieved this result thanks to the consistent demand for our battery management solution. The Japanese market remained at a constant level, while we recorded solid growth in North America.

- In the second quarter of 2013/14 we started to see a recovery in the green cars business. Sales in the second quarter of 2013/14 increased by 53% compared with the first quarter of 2013/14. Still, in the first half of 2013/14 sales were 35% lower than in the first half year of 2012/13. Volumes for the new CAB, which measures the state of the battery, strongly increased since many customers wanted to use the product in their new hybrid vehicle projects.

Executing our strategy

- **Increase technology leadership**

  We continue to renew our product portfolio to offer increased performance, new functionalities and reduced cost for our customers. At the same time we design products for most efficient assembly. In the first half of 2013/14 we have launched three new products, two of them targeted for smart grid applications: the TOP 90-S, a split-core current sensor for easy mounting, and the RT 50, a product using Rogowski coil measurement technology with high external field immunity. The RT 50 will provide accurate measurement for e.g. billing services while the TOP 90-S is targeted to be used in industrial smart grid management applications. The new ITL1200 is a high-precision transducer for a new generation of MRI (Magnetic Resonance Imaging) devices, measuring higher currents at constant performance.

  Based on a worldwide technology survey conducted during the past six months we have identified and validated interesting new technologies for the next innovation cycle. We have defined our R&D priorities and will plan our resources based on our findings.

  Driving innovation and being ahead of our competitors remains our distinct priority. In the first half year of 2013/14 we kept a high level of investment in R&D of CHF 7.3 million, representing 5.8% of sales.
- **Increase efficiency**

  The formation of our new site in Sofia, Bulgaria, is on schedule and budget. We have transferred the first line of production, and since 1 October 2013 we have been ramping up production. In the next months we will be making additional transfers to the new site where we plan to employ up to 50 people by the end of the financial year 2013/14. The new site in Sofia will help us to diversify our low cost production and increase the efficiency of our operations.

  We are also constantly searching for new and better processes. As a result of a lean manufacturing project in China, we have reorganized the layout of the production lines and thereby further increased productivity. In Switzerland we ramped up the highly automated production of the new HLSR product.
- **Increase production flexibility**

  Our clients' preference for short term orders remained a key challenge. We have achieved a high level of flexibility as evidenced by our high and stable service level to customers. Our goal is to maintain these high levels by further optimizing our supply chain and forecasting methods.

Outlook

In the second half year of 2013/14 we expect business activity in the Industry segment to ease, given the signals we are currently receiving from market participants. We expect sales growth in the Automotive segment to resume thanks to our strong battery management applications and a recovery in the green cars business. Managing the economic uncertainty in most regions and ramping up production at our new site in Sofia, Bulgaria, will be our main operational challenges for the remainder of the financial year.

For the full financial year 2013/14 we expect sales of CHF 240 to 250 million, compared with CHF 235 million in the financial year 2012/13. Given the excellent start into the financial year 2013/14, we expect full year EBIT margin to be above 20%.

Again, LEM has demonstrated its competitive strengths. Continuously improving the efficiency and flexibility of our operations as well as extending our technological edge have become the DNA of the organization.

We thank you for your continued trust in LEM.

A. Hürlimann

Andreas Hürlimann
Chairman of the Board of Directors

François Gabella
Chief Executive Officer

Key Figures, Financial Calendar, Contacts

Key figures

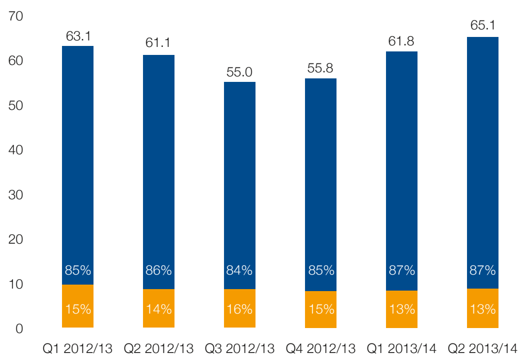
	First half vs. first half			Second quarter vs. first quarter		
	2013/14 In CHF million	2012/13* In CHF million	Change In %	Q2 2013/14 In CHF million	Q1 2013/14 In CHF million	Change In %
Orders received	124.3	120.5	+ 3.2	59.3	65.1	– 8.9
Book-to-bill ratio	0.91	0.98	– 7.1	0.91	1.05	
Sales	126.9	124.2	+ 2.2	65.1	61.8	+ 5.3
Gross profit	59.0	53.3	+ 10.7	30.9	28.1	+ 10.1
In % of sales	*46.5%*	*42.9%*	*+ 3.6pt*	*47.5%*	*45.4%*	*+ 2.1pt*
EBIT	30.2	23.7	+ 27.4	17.0	13.3	+ 27.9
In % of sales	*23.8%*	*19.1%*	*+ 4.7pt*	*26.1%*	*21.5%*	*+ 4.6pt*
Net profit for the period	24.5	20.4	+ 20.2	14.8	9.8	+ 51.2
EPS basic	21.56	17.97	+ 20.0			
Operating cash flow	15.5	23.0	– 32.5			
Investing cash flow	– 4.6	– 7.4	– 38.3			

* Restatement following IAS19R application (pensions).

	30.9.13	31.3.13	Change In %
Net financial assets/ (liabilities)	3.8	27.6	– 86.2
Shareholders' equity	72.1	84.0	– 14.2
Equity ratio (in % of total assets)	57.3	62.0	– 7.5
Market capitalization	723.9	671.5	+ 7.8
Employees (FTEs)	1'222	1'137	+ 7.5

Sales per segment

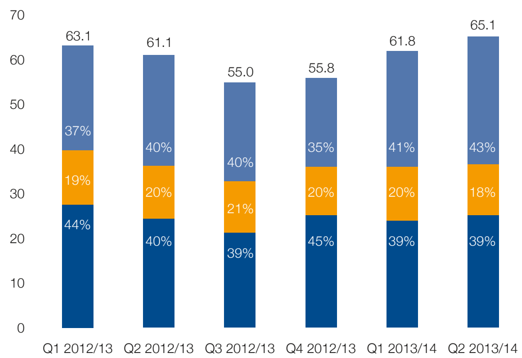
In CHF millions



- 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

18 February 2014	Third quarter results 2013/14
4 June 2014	Year-end results 2013/14
26 June 2014	Ordinary shareholders' meeting for the year 2013/14
1 July 2014	Dividend ex-date
4 July 2014	Dividend payment date

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Interim Consolidated Financial Statements

Consolidated Statement of Financial Position

Assets

In CHF thousands	Notes	30.9.2013	31.3.2013*	1.4.2012*
Current assets				
Cash and cash equivalents		12'804	27'629	21'121
Accounts receivable		47'734	43'080	42'140
Inventories		26'421	23'619	26'605
Income tax receivable		588	1'264	2'009
Other current assets	4	2'723	3'250	2'956
Total current assets		**90'271**	**98'841**	**94'831**
Non-current assets				
Deferred tax assets		3'470	3'828	3'696
Property, plant and equipment		25'878	25'373	24'173
Intangible assets		5'386	5'900	6'657
Other non-current assets	4	799	1'669	495
Total non-current assets		**35'533**	**36'771**	**35'021**
Total assets		**125'804**	**135'613**	**129'852**

Liabilities and equity

In CHF thousands		30.9.2013	31.3.2013*	1.4.2012*
Current liabilities				
Accounts payable		16'484	16'766	17'863
Accrued expenses		14'373	14'900	14'855
Current income tax payable		5'076	11'319	8'244
Current provisions	5	4'528	3'668	3'043
Current financial liabilities	6	9'000		3'000
Other current liabilities	7	390	1'377	632
Total current liabilities		**49'851**	**48'030**	**47'637**
Non-current liabilities				
Non-current provisions	5	960	1'250	457
Deferred tax liabilities		2'412	1'671	3'614
Other non-current liabilities		473	613	1'644
Total non-current liabilities		**3'845**	**3'534**	**5'715**
Total liabilities		**53'696**	**51'564**	**53'352**
Equity				
Share capital	8	570	570	570
Treasury shares	8	(904)	(765)	(1'984)
Reserves		10'710	12'250	11'425
Retained earnings		61'732	71'993	66'489
Equity attributable to shareholders		**72'108**	**84'049**	**76'500**
Non-controlling interests				
Total equity		**72'108**	**84'049**	**76'500**
Total liabilities and equity		**125'804**	**135'613**	**129'852**

* Restatement following IAS19R application (pensions).

Consolidated Income Statement

In CHF thousands		April to September 2013/14	2012/13*
Sales		126'897	124'195
Cost of goods sold	10	(67'927)	(70'935)
Gross margin		**58'969**	**53'259**
Sales expense	10	(11'565)	(11'553)
Administration expense	10	(9'909)	(11'058)
Research & development expense	10	(7'338)	(6'946)
Other expense		(57)	(150)
Other income		125	173
Operating profit		**30'224**	**23'725**
Financial expense		(81)	(71)
Financial income		46	51
Exchange effect	11	(710)	722
Profit before taxes		**29'480**	**24'428**
Income taxes	12	(4'937)	(4'007)
Net profit for the period		**24'542**	**20'421**
Attributable to:			
Shareholders		24'542	20'421
Non-controlling interests		0	0
Net profit for the period		**24'542**	**20'421**

* Restatement following IAS19R application (pensions).

Earnings per share, in CHF		
Basic and diluted earnings per share	21.56	17.97

Consolidated Statement of Comprehensive Income

In CHF thousands	April to September 2013/14	2012/13*
Net profit for the period recognized in the income statement	**24'542**	**20'421**
Currency translation difference	(1'680)	1'264
Remeasurement of defined benefit obligations, net of tax	(527)	(1)
Total comprehensive income for the period	**22'336**	**21'684**
Attributable to shareholders	22'336	21'684

* Restatement following IAS19R application (pensions).

Consolidated Statement of Changes in Equity

Attributable to equity shareholders						
In CHF thousands	Share capital	Treasury shares	Capital reserve	Translation reserve	Retained earnings	**Total equity**
1 April 2012	**570**	**(1'984)**	**13'927**	**(2'502)**	**69'550**	**79'561**
IAS 19R adj.					(3'061)	(3'061)
1 April 2012 restated and unaudited	**570**	**(1'984)**	**13'927**	**(2'502)**	**66'489**	**76'500**
Net profit for the period					20'421	20'421
Other comprehensive income/loss				1'264	(1)	1'263
Total comprehensive income				*1'264*	*20'420*	*21'684*
Dividends paid					(28'374)	(28'374)
Movement in treasury shares		1'106	(1'106)		1'276	1'276
30 September 2012 restated and unaudited	**570**	**(878)**	**12'821**	**(1'238)**	**59'811**	**71'086**
1 April 2013 restated and unaudited	**570**	**(765)**	**12'708**	**(457)**	**71'993**	**84'049**
Net profit for the period					24'542	24'542
Other comprehensive income/loss				(1'680)	(527)	(2'206)
Total comprehensive income				*(1'680)*	*24'015*	*22'336*
Dividends paid					(34'157)	(34'157)
Movement in treasury shares		(139)	139		(120)	(120)
30 September 2013	**570**	**(904)**	**12'847**	**(2'137)**	**61'732**	**72'108**

Consolidated Cash Flow Statement

In CHF thousands	Notes	April to September 2013/14	2012/13*
Cash flow from operating activities			
Profit before taxes		29'480	24'428
Adjustment for non-cash items and taxes paid	13	(5'387)	241
Cash flow before changes in net working capital		24'093	24'669
Cash flow from changes in net working capital	13	(8'553)	(1'630)
Cash flow from operating activities		**15'540**	**23'039**
Cash flow from investing activities			
Investment in fixed assets		(4'101)	(3'172)
Investment in intangible assets		(520)	(163)
(Increase) / decrease in other assets	13	24	(4'110)
Cash flow from investing activities		**(4'597)**	**(7'445)**
Cash flow from financing activities			
Treasury shares acquired (-) /divested (+)	13	(120)	1'276
Dividends paid to the shareholders of LEM Holding SA	8	(34'157)	(28'374)
Increase / (decrease) in financial liabilities	13	9'000	2'000
Cash flow from financing activities		**(25'277)**	**(25'098)**
Change in cash and cash equivalents		**(14'334)**	**(9'504)**
Cash and cash equivalents at the beginning of the period		**27'629**	**21'121**
Exchange effect on cash and cash equivalents	13	(491)	771
Cash and cash equivalents at the end of the period		**12'804**	**12'388**

* Restatement following IAS19R application (pensions).

Notes to the Interim Consolidated Financial Statements

1 General information

LEM Group is a market leader in providing innovative and high quality solutions for measuring electrical parameters. Its core products – current and voltage transducers – are used in a broad range of applications in drives & welding, renewable energies & power supplies, traction, high precision, conventional and green cars businesses.

2 Significant accounting principles

These unaudited consolidated financial statements for the six months ended on September 30, 2013 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 2013.

The accounting and valuation policies are consistent with those applied in preparing the annual consolidated financial statements for the year 2012/13, except where noted below.

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 2013/14, LEM Group introduced the following revised standards and interpretations:

Standard or Interpretation	Title	Impact	Effective date
IAS 1	Presentation of items of Other Comprehensive Income – Amendments	None	1 July 2012
IAS 19	Employee benefits – Revised	Refer to note 9	1 January 2013
IAS 27	Separate Financial Statements – Revised	None	1 January 2013
IAS 28	Investments in associates and joint ventures – Revised	None	1 January 2013
IFRS 7	Disclosures – Offsetting Financial assets and Financial liabilities – Amendments	None	1 January 2013
IFRS 10	Consolidated Financial Statements	None	1 January 2013
IFRS 11	Joint arrangements	None	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	None	1 January 2013
IFRS 10, IFRS 11, IFRS 12	Amendments to Consolidated Financial Statements, Joint arrangements and Disclosure of interests in other entities: transition guidance	None	1 January 2013
IFRS 13	Fair Value Measurement	None	1 January 2013
IFRIC 20	Stripping costs in the Production Phase of a Surface Mine	None	1 January 2013
Amendments	Annual improvements to IFRS	None	1 January 2013

The new and revised standards do not have a material effect on the consolidated financial statements of LEM Group except IAS 19 Revised as disclosed in the note 9 – Application of IAS 19 (as revised in June 2011) – Impact.

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

	Period-end rate for balance sheet			Period average rate for income statement		
	30.9.13	31.3.13	Var. in %	2013/14	2012/13	Var. in %
BGN	0.625	0.621	+ 0.6%	0.63	N/A	
CNY	0.147	0.151	– 2.7%	0.152	0.15	+ 1.3%
DKK	0.164	0.163	+ 0.6%	0.165	0.162	+ 1.9%
EUR	1.223	1.216	+ 0.6%	1.233	1.202	+ 2.6%
GBP	1.463	1.442	+ 1.5%	1.446	1.5	– 3.6%
JPY	0.0092	0.0101	– 8.9%	0.0095	0.012	– 20.8%
RUB	0.028	0.031	– 9.7%	0.029	0.03	– 3.3%
USD	0.905	0.949	– 4.6%	0.938	0.949	– 1.2%

3 Segment information

April to September 2012			
In CHF thousands	Industry	Automotive	LEM Group
Sales	105'992	18'203	**124'195**
Operating profit	20'885	2'840	**23'725**

April to September 2013			
In CHF thousands	Industry	Automotive	LEM Group
Sales	109'804	17'092	**126'897**
Operating profit	27'723	2'501	**30'224**

4 Other current and non-current assets

The decrease of the other current and non-current assets is linked to the reduction of the pension assets between 31.3.2013 as restated per IAS 19 Revised and 30.9.2013 and as detailed in note 9.

5 Current and non-current provisions

Per 30 September 2013, provisions increase compared to 31 March 2013 is mainly due to warranty provisions.

Transfer of activity follow-up

On 8 February 2013, LEM had announced the launch of a new production plant in Sofia, Bulgaria. As a continuation of a strategy initiated in 2004, LEM will continue to relocate production lines from the plants in Machida, Japan, and Geneva, Switzerland, to low-cost countries. Over the next years, the operations in Japan will be significantly reduced and concentrate on the local Japanese market. In Switzerland, the operations will be progressively reduced and focused on high-complexity / high-precision products for worldwide markets. In parallel, LEM's site in Switzerland will be reinforced with continued investment in R&D and marketing.

In 2012/13, LEM had announced the relocations to the concerned employees in LEM Switzerland and LEM Japan following the press release. A CHF 1'930 thousand provision had been charged to the income statement at 31.3.2013 in relation with the above-mentioned relocations of activity. After foreign exchange effect, the provision position amounted to CHF 1'830 thousand at 31.3.2013.

On 28 August 2013, LEM individually informed its employees that the headcount at its Geneva site will be reduced through 13 layoffs. LEM has agreed with the employee representatives on a social plan and support for the affected employees. The expected cost of the restructuring plan is in line with provisions recorded and will not lead to additional cost in financial year 2013/14.

6 Current financial liabilities

LEM Group increased financial short-term liabilities to CHF 9.0 million (CHF 0.0 million at 31 March 2013) via short-term credit lines in order to finance the CHF 34.2 million dividend.

7 Other current liabilities

Other current liabilities decreased primarily due to the change in the fair value of the derivatives in relation with foreign exchange hedging.

8 Equity

At the shareholders' meeting held in Fribourg on 27 June 2013, the shareholders approved the distribution of an ordinary dividend of CHF 30.00 per share. The gross dividend paid on 5 July 2013 amounted to CHF 34'157 thousand (prior year: ordinary dividend of CHF 25.00; total CHF 28'374 thousand).

In the frame of its market-making contract, LEM has acquired a net of 191 shares for a total amount of CHF 139 thousand. At 30 September 2013, LEM owns 1'507 treasury shares.

9 Application of IAS 19 (as revised in June 2011) – Impact

The adoption of IAS 19R – Employee benefits (revised) had significant impacts on LEM Group consolidated financial statements:

- Elimination of the corridor approach: the recognition of actuarial gains and losses must be recognized immediately in other comprehensive income.
- Calculation of pension costs: the net interest on the net defined benefit liability (asset) replaces the actual return on plan assets from one side and the calculation of the interest expense on defined benefit obligation on the other side. It is now presented in the financial result instead of included in the operating profit.
- Risk sharing: the increased employee contributions based on the age of the employees are now taken into account in the defined benefit obligation calculation.

This adoption led to the restatement of prior periods according to IAS 8.

The impacts on the set of consolidated financial statements are the following:

Consolidated Income Statement for the six months ended 30 September 2012

In CHF thousands	HY 2012/13 Recorded	Pension adjustments	HY 2012/13 Restated
Cost of goods sold	(70'892)	(43)	(70'935)
Sales expense	(11'536)	(17)	(11'553)
Administration expense	(11'037)	(21)	(11'058)
Research and development expense	(6'923)	(23)	(6'946)
Operating profit	**23'829**	**(104)**	**23'725**
Financial expenses	(58)	(13)	(71)
Profit before taxes	**24'544**	**(116)**	**24'428**
Income taxes	(4'015)	8	(4'007)
Net profit for the period	**20'529**	**(108)**	**20'421**
Basic and diluted earnings per share	18.06	(0.09)	17.97

Consolidated Statement of Comprehensive Income for the six months ended 30 September 2012

In CHF thousands	HY 2012/13 Recorded	Pension adjustments	HY 2012/13 Restated
Net profit for the period	**20'529**	**(108)**	**20'421**
Remeasurements employee benefits	0	(74)	(74)
Taxes on other comprehensive income	0	72	72
Currency translation difference	1'264	0	1'264
Total comprehensive income for the period	21'793	(109)	21'684

Consolidated Statement of Financial Position as at 1 April 2012

In CHF thousands	31.3.2012 Published	Pension adjustments	1.4.2012 Restated
Assets			
Other non-current assets \ Pension assets – Non-current	3'368	(2'873)	495
Deferred tax assets	3'485	211	3'696
Liabilities			
Other non-current liabilities \ Pension liabilities	642	1'002	1'644
Deferred tax liabilities	4'217	(603)	3'614
Equity			
Retained earnings	69'550	(3'061)	66'489

Consolidated Statement of Financial Position as at 31 March 2013

In CHF thousands	31.3.2013 Published	Pension adjustments 2012/13	31.3.2013 Restated
Assets			
Other non-current assets \ Pension assets – Non-current	5'924	(4'255)	1'669
Liabilities			
Deferred tax liabilities	2'647	(976)	1'671
Equity			
Retained earnings	75'272	(3'279)	71'993

Consolidated Statement of Changes in Equity for the six months ended 30 September 2012

In CHF thousands	HY 2012/13 Recorded	Pension adjustments	HY 2012/13 Restated
01 April 2012	**79'561**	**(3'061)**	**76'500**
Net profit of the period	20'529	(108)	20'421
Other comprehensive income	1'264	(1)	1'263
Total comprehensive income	21'793	(109)	21'684
30 September 2012	**74'255**	**(3'170)**	**71'086**

Consolidated Cash Flow Statement for the six months ended 30 September 2012

In CHF thousands	HY 2012/13 Recorded	Pension adjustments	HY 2012/13 Restated
Profit before taxes	24'544	(116)	24'428
Adjustment for non-cash items and taxes paid	125	116	241
Cash flow from operating activities	**23'039**	**0**	**23'039**

10 Operating profit

The gross margin increase of CHF 5.7 million can be explained by the positive impacts of price and mix, lower costs, favorable foreign exchange rate evolution and increased volumes.
The decrease in operating expenses contributed to the increase in the operating profit of CHF 6.5 million. The decrease in administration expense of CHF 1.1 million is the main driver of the operating expenses and can mainly be explained by the liquidation of LEM Danfysik on 8 April 2013 and by lower recruitment costs than last year.

The business report further details these evolutions.

11 Exchange effect

The foreign exchange effect is driven by the currencies' parity versus Swiss franc.
In the first half of last year, JPY, CNY and USD were revaluating compared to CHF versus previous period. In the first half 2013/14, JPY was devaluating compared to CHF whereas CNY and USD remained fairly stable.

12 Income taxes

Income tax expense is calculated based on the best estimate of the applicable annual income tax rate expected for the full year.

Following its qualification as High/New Technology Enterprise (HNTE) in China, LEM China enjoys reduced income tax rates from 2011 to 2013. The status will need to be confirmed for 2012 and 2013. Depending on the legal situation in the People's Republic of China, this status can possibly be renewed for 2014 to 2016. As per 30.9.2013, the confirmation for 2012 and 2013 is still under consideration by the Chinese tax authorities. On the basis of the existing documentation, management considers that the chance of obtaining the confirmation for 2012 and 2013 is significantly higher than the risk of losing the HNTE status. LEM China has therefore been reported with a 15% income tax rate.

Given the stable expected tax rate, the effective tax rate at 30 September 2013 is in line with the one at 30 September 2012.

13 Consolidated cash flow statement

The adjustment for non-cash items has reduced by CHF – 5.6 million compared to 30 September 2012 mostly due to taxes paid.
The cash flow from changes in net working capital evolution is linked to the increase of the business volumes during the first half year 2013/14 which leads to net working capital positions increase.
Last year increase in other assets was due to an additional contribution to the pensions plan assets of CHF 4.0 million.
In the first half year 2012/13, treasury shares movements were linked to the sale of the remaining treasury shares on LEM's own account for a total amount of CHF 1.6 million net of the acquisitions done in the frame of the market-making. This year movements only rely on the shares acquired through the market-making.
The financial liabilities increase is linked to the CHF 34.2 million dividend financing.
The exchange effect on cash and cash equivalent is driven by the currencies' parity versus Swiss franc, as explained in note 11. Exchange effect.

14 Changes in scope of consolidation

On 8 April 2013, the company incorporated as LEM Danfysik A/S was liquidated without any impact on the consolidated equity. LEM is currently in the process of simplifying the structure of its European agencies. At 30 September 2013, this has not generated any changes in the scope of consolidation.

15 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 6 November 2013 that would require an adjustment in carrying amounts of the Group's assets and liabilities.

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