Interim report for the first half year 2006

TECAN.

Interim report for the first half of 2006

Dear Shareholders

During the first half of 2006, we are happy to report that Tecan achieved both, a significant increase in sales as well as an exceptional growth in operating and net profitability compared to the same period last year. This result was achieved through the confluence of a number of factors, namely our customers' continued trust in Tecan's innovative and high quality product, a strengthened distribution network and the ongoing initiatives for the improvement of our operational efficiency. Consequently, we believe that Tecan is now well-positioned for further growth, while maintaining its considerable earnings strength.

In the first half of 2006, Tecan continued the positive business momentum gathered in 2005. We have worked hard on the priorities established at the beginning of the year. In order to ensure our continued ability to meet our customers' delivery expectations in terms of volume and timeline and furthering our efficiency targets, we have undertaken additional efforts at optimizing our supply chain and operational processes. Based on the latest industry reports, we were also able to increase our global market share in all product categories. In addition, our market presence in key strategic markets such as China and the US was further strengthened .

During the period under review, we also successfully launched a range of new products to generally excellent market reception. These include a Freedom-Evo workstation with a new multi-channel pipetting head, which we were able to develop and launch within a remarkably short timeframe.

As previously discussed, one of our key objectives is to make Tecan a client focused and -driven organization. Towards that end, we initiated the implementation of a new organizational structure. We believe that this structure will further support our objective of strengthening the transparency, efficiency and market orientation of your company.

Strong growth in sales and earnings

In the first half of 2006, Tecan's sales rose year-on-year by 39.0%, to CHF 200.7 million. A major project for the South African Police Service, which we accounted for in Q1 2006, contributed CHF 11.6 million to this positive development. This groundbreaking effort, in which Tecan, in close collaboration with our customer, set a new standard in the forensics market is explained in more detail on page 11 of this report. A further CHF 19.4 million in sales can be attributed to the REMP Group, which was acquired in June 2005. Without taking these effects into account, Tecan would have achieved organic growth of 14.5% (in local currency) in the first six months of 2006, which still represents an above-market growth rate given our estimates of 5% – 8% overall market growth. Our performance was driven by all Tecan product categories with particularly strong performances delivered by Diagnostics and Detection products., The volume of new orders was up in the first half of 2006 by 28.2% year-on-year, to CHF 192.4 million. Exchange rates had a positive impact on sales and new orders, contributing 3.5 and 3.1 percentage points respectively.

In addition to the strong sales development, we were able to realize an exceptional improvement in earnings strength during the period under review with earnings before interest and taxes (EBIT) rising of 262.9%. EBIT totalled CHF 23.1 million, representing 11.5% of sales, which also represents an improved ratio compared to the H1 2005 figure of 6.1%. Net profit saw an even more substantial increase, rising 388.1% to CHF 17.2 million, or 8.8% of sales compared to 3.1% in 2005. This strong performance is the result of our higher operating profit, the ongoing cost discipline measures and a significantly improved financial result.

Outlook

In the second half of 2006, we will continue to strive to meet our targets. We intend to further expand both our market presence and marketing activities and to drive forward our innovation and operational efficiency initiatives. The measures to increase operating efficiency will continue. We anticipate that sales and operating profit for financial year 2006 will exceed figures for the previous year.

Mike Baronian
Chairman of the Board of Directors

Thomas Bachmann
Chief Executive Officer

Key Figures at a glance

6 Month 2006 key figures (excluding unusual items)

CHF m	2004	2005	2006	Δ05/06
Sales	140.3	144.4	200.7	+39.0%
Gross profit*	69.9	70.4	94.0	+33.5%
in % of sales	49.8%	48.7%	46.8%	
R&D**	16.8	18.7	18.6	-0.1%
in % of sales	12.0%	12.9%	9.3%	
OPEX*	56.3	61.6	70.8	+14.9%
in % of sales	40.1%	42.6%	35.3%	
Operating profit*/EBIT*	13.5	8.8	23.1	+262.9%
in % of sales	9.6%	6.1%	11.5%	
Net profit*	9.9	4.5	17.6	+388.1%
in % of sales	7.0%	3.1%	8.8%	
Earnings per Share*(EPS*)	0.93	0.42	1.54	+366.7%

*Excluding unusual items
**Excluding unusual items and regulatory cost

Condensed consolidated balance sheet

In CHF 1,000	30. 6. 2006	31. 12. 2005
Assets		
Cash and cash equivalents	49,978	42,645
Trade accounts receivable	75,293	93,193
Inventories	52,075	55,881
Other current assets	20,010	14,689
Current assets	**197,356**	**206,408**
Property, plant and equipment	21,462	23,091
Intangible assets	89,782	92,375
Other non-current assets	15,690	16,134
Non-current assets	**126,934**	**131,600**
Assets	**324,290**	**338,008**
Liabilities and equity		
Current bank liabilities	7,705	14,744
Trade accounts payable	10,376	14,121
Deferred revenue	22,431	30,880
Current provisions	10,931	10,652
Other current liabilities	43,146	41,361
Current liabilities	**94,589**	**111,758**
Non-current bank loans	49,857	60,988
Non-current provisions	11,105	11,833
Other non-current liabilities	10,054	10,096
Non-current liabilities	**71,016**	**82,917**
Shareholders' equity	**158,685**	**143,333**
Liabilities and equity	**324,290**	**338,008**

Condensed consolidated income statement

In CHF 1,000	Notes	1st half 2006	1st half 2005
Sales	**6**	**200,689**	**144,378**
Cost of sales		(106,723)	(74,015)
Gross profit		**93,966**	**70,363**
Sales and marketing		(32,293)	(25,712)
Research and development		(19,738)	(20,229)
General and administration		(19,287)	(15,940)
Other operating income		478	314
Operating profit		**23,126**	**8,796**
Financial result		694	(2,214)
Profit before taxes		**23,820**	**6,582**
Income taxes		(6,193)	(2,040)
Net profit		**17,627**	**4,542**
Basic earnings per share (CHF/share)		1.54	0.42
Diluted earnings per share (CHF/share)		1.53	0.42

Condensed consolidated statement of changes in shareholders’ equity

In CHF 1,000	Notes	1st half 2006	1st half 2005
Shareholders’ equity at January 1		**143,333**	**94,257**
Net profit		17,627	4,542
Translation differences		(1,970)	5,599
Total recognized income and expense 1st half		***15,657***	***10,141***
Dividends paid [1]		(5,172)	(4,815)
New shares issued upon exercise of employee stock options	4	4,859	–
Share-based payments to employees		8	360
Sale of treasury shares	4	–	1,249
Shareholders’ equity at June 30		**158,685**	**101,192**

[1] 2006: CHF 0.45 per share on 11,492,460 shares with right to dividend

Condensed consolidated cash flow statement

In CHF 1,000	1st half 2006	1st half 2005
Operating profit	23,126	8,796
Depreciation and amortization	5,981	4,554
Change in provisions	(288)	132
Other non-cash items	2,701	351
Changes in net working capital (net)	123	(12,582)
Income taxes paid	(3,355)	(3,356)
Cash in(out)flows from operating activities	**28,288**	**(2,105)**
Purchase of property, plant and equipment	(2,295)	(1,558)
Proceeds from sales of property, plant and equipment	174	101
Purchase of intangible assets	(142)	(1,025)
Other cash in(out)flows from investing activities	1,079	(1,012)
Cash outflows from investing activities	**(1,184)**	**(3,494)**
Dividends paid	(5,172)	(4,815)
New shares issued upon exercise of employee stock options	4,859	–
Purchase of treasury shares	–	(10,000)
Proceeds from sale of treasury shares	–	1,249
Interests paid	(1,104)	(184)
Change in current bank liabilities	(14)	368
Increase in bank loans	365	–
Repayment of bank loans	(18,000)	(380)
Cash outflows from financing activities	**(19,066)**	**(13,762)**
Translation differences	(292)	(2,795)
Increase/(decrease) in cash and cash equivalents	**7,746**	**(22,156)**
Cash and cash equivalents at January 1	39,939	35,946
Cash and cash equivalents at June 30	**47,685**	**13,790**
Cash and cash equivalents as per cash flow statement comprise:		
Cash and cash equivalents as per balance sheet	49,978	30,386
./. Bank overdrafts under bank pooling arrangements	(2,293)	(16,596)
= Cash and cash equivalents as per cash flow statement	**47,685**	**13,790**

Notes to the condensed interim consolidated financial statements

1. Accounting policies

Basis of preparation
These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting'. They should be read in conjunction with the annual financial statements as they provide an update of previously reported information. The condensed interim consolidated financial statements were authorised for issuance on July 28, 2006 and are unaudited.

The preparation of these interim consolidated financial statements requires management to make assumptions and estimates that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of these interim financial statements. If in the future such assumptions and estimates deviate from the actual circumstances, the original assumptions and estimates will be modified as appropriate in the period in which the circumstances change.

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for 2006 is 26.0% (the estimated tax rate used for the first half of 2005 was 31.0%).

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year. Nevertheless the first half of 2006 benefited from the completion of a large project for the South African Police Service, which contributed CHF 11.6 million to total sales.

Changes in accounting policies
The accounting policies used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2005 except for the introduction of new and amended standards and interpretations, effective as of January 1, 2006.

The Group adopted the following amended International Accounting Standards (IAS) and new interpretation:
- IAS 19 'Employee Benefits'
- IAS 39 'Financial Instruments: Recognition and Measurement'
- IAS 21 (technical correction) 'The Effects of Changes in Foreign Exchange Rates'
- IFRIC 4: 'Determining whether an Arrangement contains a Lease'

The business of the Group is not within the scope of International Financial Reporting Standard (IFRS) 6 'Exploration and Evaluation of Mineral Resources', IFRIC 5 'Rights to Interests arising form Decommissioning, Restoration and Environmental Rehabilitation Funds' and IFRIC 6 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'.

The principal impacts on the consolidated financial statements are disclosed below:

IAS 19 'Employee Benefits'
The Group does not apply the alternative recognition option, which allows the posting of actuarial gains and losses directly to the equity. The additional disclosure requirements will be reported in the annual report 2006.

Other changes
The adoption of all other changes did not result in substantial changes to the Group's accounting policies.

New standards and interpretations not yet applied
There are no new or revised standards and interpretations that are effective for financial periods beginning after January 1, 2006 which are expected to have a significant impact on the consolidated financial statements.

Reclassifications
Some minor reclassifications have been introduced to the cash flow statement at the end of 2005. Prior-year figures have been adjusted accordingly.

2. Changes in Group companies

There has been no change in the scope of the consolidation since December 31, 2005.

In prior year Tecan purchased 100% of REMP Group as of July 1, consisting of the following companies:

Company	Domicile	Currency	Share capital LC 1,000	Activities
REMP AG	Oberdiessbach/Bern (CH)	CHF	4,000	S/R/P/D
– REMP Deutschland GmbH	Waldems (D)	EUR	25	D
– REMP (USA), Inc.	Holliston, MA (US)	USD	0	D
– REMP Nippon AG (incl. branch office Tokyo)	Oberdiessbach/Bern (CH)	CHF	100	D

S = services, holding functions R = research and development P = production D = distribution

As the change of control happened after June 30, 2005 the newly acquired business had no impact on the reported numbers of the first half of 2005. If the acquisition had occurred on January 1, 2005 Group sales for the 1st half of 2005 would have been CHF 163.7 million and net profit would have been CHF 3.9 million.

3. Principal exchange rates

In CHF		Balance sheet		Income statement	
		30. 6. 2006	31. 12. 2005	1st half 2006	1st half 2005
EUR	1	1.57	1.56	1.56	1.55
USD	1	1.22	1.31	1.27	1.20

4. Shares outstanding and employee stock options

Movements in shares outstanding:

Number (each share has a nominal value of CHF 1.–)	Shares issued	Treasury Shares	Shares outstanding
Balance at January 1, 2005	12,340,606	(1,576,030)	10,764,576
Purchase of treasury shares	–	(100,000)	(100,000)
Sale of treasury shares	–	35,000	35,000
Balance at June 30, 2005	**12,340,606**	**(1,641,030)**	**10,699,576**
Balance at January 1, 2006	11,891,823	(461,730)	11,430,093
Issue of new shares from conditional share capital (employee participation plan)	84,279	–	84,279
Balance at June 30, 2006	**11,976,102**	**(461,730)**	**11,514,372**

The number of outstanding employee stock options at the end of June was 294'434 options (June 30, 2005: 518,094 options). 84,279 options have been exercised during the first half of 2006, which resulted in a share capital increase of CHF 0.1 million and a cash inflow of CHF 4.9 million (no options had been exercised during the first half of 2005).

5. Contingent liabilities

As at June 30, 2006 and 2005, the Group had no contingent liabilities to third parties.

6. Segment reporting first half

Segment reporting (by location of assets)

In CHF 1,000	America 2006	America 2005	Europe 2006	Europe 2005	Asia 2006	Asia 2005	Corporate/ consolidation 2006	Corporate/ consolidation 2005	Group 2006	Group 2005
Sales to third parties	66,769	61,411	128,662	78,266	5,258	4,701	–	–	200,689	144,378
Intersegment sales	20,112	17,196	45,626	50,181	–	–	(65,738)	(67,377)	–	–
Total sales	86,881	78,607	174,288	128,447	5,258	4,701	(65,738)	(67,377)	200,689	144,378
Operating profit	2,314	1,383	20,822	13,567	(640)	(1,394)	630	(4,760)	23,126	8,796

Sales by regions (by location of customers)

In CHF 1,000	North America 2006	North America 2005	Europe 2006	Europe 2005	Asia 2006	Asia 2005	Others 2006	Others 2005	Total 2006	Total 2005
Sales to third parties	85,843	66,224	83,287	63,976	17,691	10,977	13,868	3,201	200,689	144,378

Sales by markets

In CHF 1,000	Genomics/ Proteomics 2006	Genomics/ Proteomics 2005	Drug Discovery 2006	Drug Discovery 2005	Diagnostics 2006	Diagnostics 2005	Total 2006	Total 2005
Sales to third parties	66,996	53,539	65,204	31,373	68,489	59,466	200,689	144,378

7. Operating expenses by nature

In CHF 1,000	1st half 2006	1st half 2005
Material costs	70,283	46,583
Personnel expenses	65,969	53,873
Depreciation of property, plant and equipment	3,234	3,119
Amortization of intangible assets	2,747	1,435
Other operating income and expenses (net)	35,330	30,572
Total operating expenses	**177,563**	**135,582**

8. Subsequent events

No events have occurred subsequent to the balance sheet date which would require adjustments to or disclosures in these condensed interim consolidated financial statements.

Tecan system sets new benchmark in forensics

Construction of the world's first fully automated system for high volume DNA analysis & profiling

In February 2006, Tecan supplied South Africa's Police Service with the world's first fully automated system for the high volume creation of DNA profiles from forensic evidence. The system, installed in the city of Pretoria, is distinguished by its capacity and high reliability and was conceived, developed and installed by Tecan in close collaboration with the South African Police Service.

The total installation is 37 metres long, but only 4 meters wide. It is controlled by 27 PCs and incorporates eight of Tecan's EVO pipetting robots. The project team required almost 24 person years to prepare the system for use. During this time, the team members journeyed over a million kilometers and spent a total of four and a half years away from home. The preparations by the client spanned several years.

These impressive figures do not, of course, relate to the installation of a typical piece of laboratory equipment, but to the world's first fully automated system, by which blood or other biological samples can be processed for DNA analysis. The results from this analysis are then used in supporting the work of the police services or the legal system in ascertaining guilt or innocence of a suspect. This project was realized in close cooperation with the customer as a special project for the forensics laboratory of the South African Police Service in Pretoria.

High capacity and reliability
The South African Police Service only has two laboratories for DNA analysis in the whole country and, until now, was chronically backlogged. In the future, the Tecan system will be able to handle up to 800 samples per day for DNA extraction and further processing. It therefore functions at a considerably higher speed than the manual analysis process. The system can operate 23 hours a day, 365 days a year.

It is notable not only for its capacity, but also for the reliability and the high quality of the data delivered through the fully automated process. When these various analyses are carried out manually, they have to be broken down into individual stages, for which a number of different people are often responsible. This is not only labor- and time-intensive, it also results in delays between the individual stages and the risks of errors. This is becoming an increasingly critical area for many criminal investigations. In order to ensure the data security necessary for a court case, the chain of possession of the individual exhibits, i.e. the samples, must be fully documented.

Tecan developed all of the software for the central process monitoring from the ground up. The software acts as a link between the Police Service's Laboratory Information Management System (LIMS) and Tecan's EVO pipetting robot software – in numbers, this means 241,791 lines of software code in addition to the existing software.

Market with significant growth potential
Tecan is a leading provider of automation for forensics applications. The company considers the market to have significant growth potential: Worldwide, considerable crime control efforts are underway and large sums are accordingly being invested in the area of security.

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