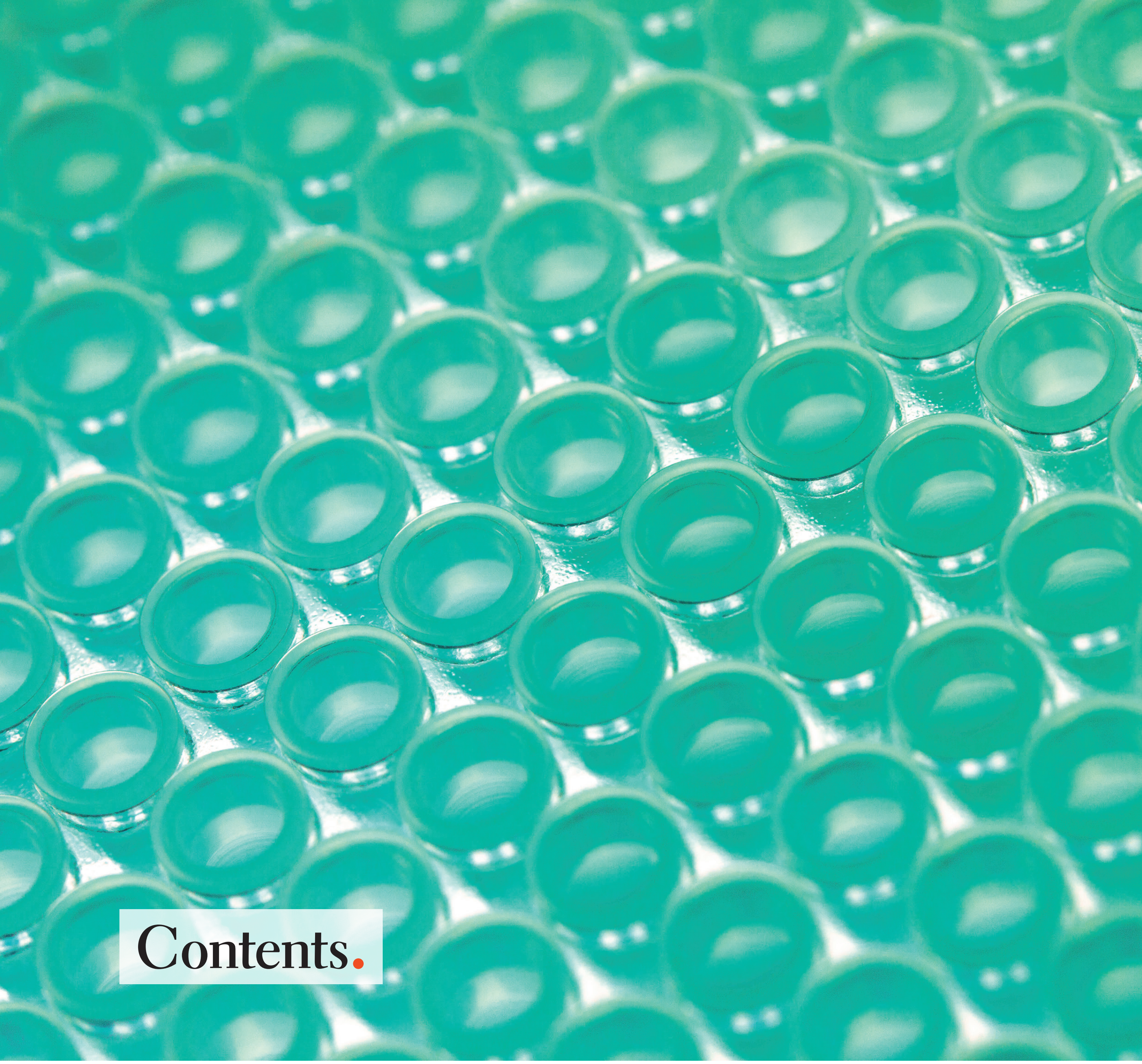
Tecan Interim Report 2018

In Focus.



Contents.

Dear Shareholders

Tecan's sales have developed well, once again, in the current financial year, and this has been achieved almost exclusively through organic growth. The performance of the Partnering Business has been particularly pleasing, with considerable demand for a broad range of instrument platforms and consumables. In the Life Sciences Business, we are delighted with the successful market launch of Fluent Gx which is ideal for customers in clinical diagnostics and other highly regulated markets. The newly launched platform variant with its specific functionalities enjoyed strong demand and contributed significantly to the sharp rise in order backlog in the Life Sciences Business, which will have a positive impact on sales in the second half of the year.

We are also delighted, that as a result of the substantial increase in sales in the first half of 2018, net profit for the period rose at a double-digit percentage rate.

FINANCIAL RESULTS FOR THE FIRST HALF OF 2018

Despite a high comparative basis, order entry increased by 2.8% to CHF 298.1 million in the first six months of the year (H1 2017: CHF 290.1 million), thus substantially exceeding sales. This equates to a rise of 1.3% in local currencies. As previously reported, order entry in the first half of 2017 was extraordinarily strong, influenced by the timing of several large orders in the Partnering Business.

Sales climbed by 6.9% in local currencies or 8.4% in Swiss francs to CHF 273.5 million in the first half of the year (H1 2017: CHF 252.2 million). This resulted almost exclusively from organic growth excluding acquisition effects. Growth at Group level was driven by a double-digit sales increase in the Partnering Business, while sales in the Life Sciences Business were virtually unchanged following growth of more than 18% in local currencies in the prior-year period. Recurring sales of services and consumables increased in the first half of 2018 by 6.8% in local currencies and 8.3% in Swiss francs, and therefore amounted to 44.8% of total sales (H1 2017: 44.9%).

The operating profit before depreciation and amortization (earnings before interest, taxes, depreciation and amortization; EBITDA) rose by 15.5% to CHF 48.1 million in the reporting period (H1 2017: CHF 41.6 million). The EBITDA margin improved to 17.6% of sales (H1 2017: 16.5%) including integration costs associated with acquisitions. The margin improvement of 110 basis points was mainly driven by positive volume effects, lower acquisition-related integration costs compared to the prior-year period and increased operational efficiency in procurement and production.

Net profit for the first half of 2018 increased by 12.1% to CHF 29.2 million (H1 2017: CHF 26.0 million). Alongside the higher operating result, contributing factors included the lower tax rate, primarily as a result of the tax reform in the US that came into effect in the reporting period. By contrast, the financial result had an inhibiting effect on net profit, falling by CHF 4.6 million year-on-year due to currency hedging losses. The net profit margin in the first half of 2018 thus increased to 10.7% of sales (H1 2017: 10.3%), while earnings per share rose to CHF 2.49 (H1 2017: CHF 2.25).

Cash flow from operating activities climbed 21.0% to CHF 38.4 million (H1 2017: CHF 31.7 million), thereby corresponding to 14.0% of sales in the first half of 2018 (H1 2017: 12.6%).

INFORMATION BY BUSINESS SEGMENT

LIFE SCIENCES BUSINESS (END-CUSTOMER BUSINESS)

Sales in the Life Sciences Business increased by 1.7% to CHF 140.5 million (H1 2017: CHF 138.2 million) in the first half of the year and were 0.6% below those of the prior-year period in local currencies. After the segment generated particularly high growth of 18.2% in local currencies in the first six months of 2017, a smaller sales increase had been expected. Despite a similarly high comparative basis from the prior-year period, order entry in the Life Sciences Business posted moderate growth in local currencies, however, with the order backlog growing at a double-digit rate on the back of orders for new instruments. The newly launched Fluent Gx platform variant enjoyed strong demand on the market and also led to numerous orders, which contributed significantly to this growth. In some cases, customers ordered several of these innovative instruments at once.

Operating profit in this segment (earnings before interest and taxes; EBIT) rose to CHF 18.1 million (H1 2017: CHF 17.8 million). The operating profit margin was comparable to the prior year period at 12.2% of sales (H1 2017: 12.4%).

PARTNERING BUSINESS (OEM BUSINESS)

The Partnering Business generated sales of CHF 133.0 million in the period under review (H1 2017: CHF 114.1 million), which corresponds to an increase of 16.1% in local currencies and 16.6% in Swiss francs. The segment posted continued strong growth from existing instrument platforms and the consumables business.

Operating profit in this segment (earnings before interest and taxes; EBIT) rose by 32.2% to CHF 25.6 million (H1 2017: CHF 19.3 million). This positive performance is primarily a result of sales growth as well as further efficiency gains. The operating profit margin improved by 230 basis points to 19.1% of sales (H1 2017: 16.8%).

ADDITIONAL INFORMATION

REGIONAL DEVELOPMENT

In Europe, Tecan's sales in the first six months of 2018 increased by 19.9% in local currencies and by 24.4% in Swiss francs, with the Partnering Business performing particularly well in this region. The Life Sciences Business benefited from a stronger euro, and was therefore able to post solid growth in Swiss francs. In local currencies, sales were stable against the high base of the prior-year period.

In North America, sales in the first six months of 2018 fell by 2.5% in local currencies and by 4.5% in Swiss francs compared to the same period of 2017. This development was mainly due to the high comparative basis of the prior-year period, when Tecan posted a sales increase of 31.7% in local currencies in this region, with both business segments contributing clear double-digit growth.

In Asia, Tecan generated an increase in sales of 5.4% in local currencies and 10.6% in Swiss francs. Both segments contributed to this result with good growth in all of the region's key national markets.

OPERATING PERFORMANCE IN THE FIRST HALF OF 2018

The Fluent Gx platform variant was launched in various regions in the first half of 2018, after successful registration as a Class I medical device also in the US. Fluent Gx was developed for the automation of laboratory workflows in regulated markets. The last remaining major market segment for Fluent – the market for clinical diagnostics and other regulated sub-markets – has now been developed. Its specific functionalities, which facilitate greater process security, traceability of samples and stricter user management, have met with a lot of interest. Within the space of a few months, prestigious customers in clinical diagnostics have already been acquired who will now be able to benefit from the high level of productivity and performance offered by the Fluent platform.

Overall R&D activities and gross expenses were higher compared to the prior-year period, however due to customer funding of projects and higher capitalized development costs, net R&D expenses were reported lower. Tecan made considerable progress with a number of development projects in the Partnering Business in the first half of 2018. More than five projects are currently in the development phase, the sales potential of which ranges from single-digit to clear double-digit million amounts in Swiss francs per year. The first market launches are expected within the next six months.

STRONG BALANCE SHEET – HIGH EQUITY RATIO

Tecan's equity ratio reached 71.1% as of June 30, 2018 (December 31, 2017: 68.4%). Net liquidity (cash and cash equivalents minus bank liabilities and loans) reached CHF 284.1 million (December 31, 2017: CHF 290.7 million). The company's share capital was CHF 1,175,926 as at the reporting date of June 30, 2018 (December 31, 2017: CHF 1,166,487), consisting of 11,759,259 registered shares with a nominal value of CHF 0.10.

At the Tecan Group Annual General Meeting on April 17, 2018, shareholders approved an increase in the dividend from CHF 1.75 to CHF 2.00 per share. The payout of dividends totaling CHF 23.5 million took place on April 23, 2018.

The Board of Directors and Management Board would like to thank all employees for their commitment and dedication. We also thank our customers for their loyalty, and our shareholders and business partners for their trust and continued support.

Männedorf, August 13, 2018

DR. LUKAS BRAUNSCHWEILER
Chairman of the Board

DR. DAVID MARTYR
Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

January to June, CHF 1,000	Notes	2017 (Restated)	2018
Sales	4,5	**252,238**	**273,481**
Cost of sales		(132,006)	(144,958)
Gross profit		**120,232**	**128,523**
Sales and marketing		(40,362)	(42,315)
Research and development		(23,524)	(22,037)
General and administration		(25,951)	(26,103)
Other operating income		24	42
Other operating expenses		(490)	(305)
Operating profit	5	**29,929**	**37,805**
Financial income		6	26
Finance cost		(437)	(370)
Net foreign exchange gains/(losses)		1,952	(2,691)
Financial result		**1,521**	**(3,035)**
Profit before taxes		**31,450**	**34,770**
Income taxes		(5,412)	(5,594)
Profit for the period, attributable to owners of the parent		**26,038**	**29,176**
Earnings per share			
Basic earnings per share (CHF/share)		2.25	2.49
Diluted earnings per share (CHF/share)		2.22	2.46

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

January to June, CHF 1,000	Notes	2017 (Restated)	2018
Profit for the period		**26,038**	**29,176**
Other comprehensive income			
Remeasurement of net defined benefit liability		2,363	6,616
Related income taxes		(423)	(1,092)
Items that will not be reclassified to profit or loss, net of income taxes		**1,940**	**5,524**
Translation differences	9	(1,885)	176
Related income taxes		(54)	34
Items that may be reclassified subsequently to profit or loss, net of income taxes		**(1,939)**	**210**
Other comprehensive income, net of income taxes		*1*	*5,734*
Total comprehensive income for the period, attributable to owners of the parent		**26,039**	**34,910**

There were no reclassification adjustments relating to translation differences for the periods presented.

INTERIM CONSOLIDATED BALANCE SHEET

ASSETS

CHF 1,000	Notes	31.12.2017 (Restated)	30.06.2018
Cash and cash equivalents	10	309,412	301,064
Current derivatives	10	1,017	1,242
Trade accounts receivable	10	111,561	97,128
Other accounts receivable		11,618	13,550
Contract assets		1,123	3,188
Inventories	7	160,218	167,456
Income tax receivables		732	4,046
Prepaid expenses		2,863	5,811
Assets held for sale	3.2	3,650	3,650
Current assets		**602,194**	**597,135**
Non-current financial assets	10	831	4,801
Property, plant and equipment		21,291	22,723
Intangible assets and goodwill		164,303	165,378
Deferred tax assets		15,368	14,346
Non-current assets		**201,793**	**207,248**
Assets		**803,987**	**804,383**

LIABILITIES AND EQUITY

CHF 1,000	Notes	31.12.2017 (Restated)	30.06.2018
Current financial liabilities	10	10,150	11,798
Trade accounts payable		13,948	13,211
Other accounts payable	10	16,666	16,083
Current contract liabilities		37,683	39,467
Income tax payables		12,923	12,677
Accrued expenses	10	44,887	36,276
Current provisions		15,345	15,439
Liabilities held for sale	3.2	1,540	–
Current liabilities		**153,142**	**144,951**
Non-current financial liabilities	10	8,330	2,595
Non-current contract liabilities		38,960	36,872
Liability for post-employment benefits		36,512	31,152
Non-current provisions		5,335	5,339
Deferred tax liabilities		11,587	11,516
Non-current liabilities		**100,724**	**87,474**
Total liabilities		**253,866**	**232,425**
Share capital		1,166	1,176
Capital reserve		36,418	38,272
Retained earnings		541,576	561,339
Translation differences		(29,039)	(28,829)
Shareholders' equity	8	**550,121**	**571,958**
Liabilities and equity		**803,987**	**804,383**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

January to June, CHF 1,000	Notes	2017 (Restated)	2018
Profit for the period		**26,038**	**29,176**
Adjustments for			
Depreciation and amortization		11,713	10,301
Change in provisions and liability for post-employment benefits		498	1,290
Interest income		(6)	(26)
Interest expenses		327	230
Income taxes		5,412	5,594
Equity-settled share-based payment transactions		8,691	7,969
Fair value adjustment of contingent considerations		360	210
Other non-cash items		2,469	(723)
Change in working capital			
Trade accounts receivable		2,239	14,649
Inventories	7	(4,347)	(7,004)
Trade accounts payable		4,118	(715)
Contract liabilities		(1,161)	(298)
Other changes in working capital (net)		(14,699)	(13,364)
Settlement of contingent consideration	10.4	–	(290)
Income taxes paid		(9,940)	(8,637)
Cash inflows from operating activities		**31,712**	**38,362**
Acquisition of an unquoted equity investment		–	(4,000)
Interest received		7	26
Settlement of contingent consideration	10.4	–	(4,546)
Acquisition of Pulssar Technologies S.A.S., net of cash acquired	3.1	(2,895)	–
Purchase of property, plant and equipment		(3,350)	(5,077)
Proceeds from sale of property, plant and equipment		58	30
Investment in intangible assets		(6,174)	(7,221)
Cash outflows from investing activities		**(12,354)**	**(20,788)**
Proceeds from employee participation plans		1,992	1,863
Dividends paid	8.2	(20,315)	(23,462)
Change in current bank liabilities		2,090	(2,397)
Repayment of bank loans		(1,495)	–
Repayment of mortgage and settlement of interest derivative (held for sale)	3.2	–	(1,537)
Interest paid		(139)	(230)
Cash outflows from financing activities		**(17,867)**	**(25,763)**
Effect of exchange rate fluctuations on cash held		(363)	(159)
Increase/(decrease) in cash and cash equivalents		**1,128**	**(8,348)**
Cash and cash equivalents, net of bank overdrafts at January 1	10	246,744	309,412
Cash and cash equivalents, net of bank overdrafts at June 30	10	**247,872**	**301,064**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January to June, CHF 1,000	Notes	Share capital	Capital reserve	Retained earnings	Translation differences	Total share-holders' equity
Balance at January 1, 2017, as previously reported		**1,154**	**33,061**	**485,230**	**(32,360)**	**487,085**
Adjustment from adoption of IFRS 15, net of income taxes	2.2.1	–	–	397	–	397
Adjustment from adoption of IFRS 9, net of income taxes	2.2.2	–	–	p.m.	–	–
Restated balance at January 1, 2017		**1,154**	**33,061**	**485,627**	**(32,360)**	**487,482**
Profit for the period		–	–	26,038	–	26,038
Other comprehensive income, net of income taxes		–	–	1,940	(1,939)	1
Total comprehensive income for the period		**–**	**–**	**27,978**	**(1,939)**	**26,039**
Dividends paid		–	–	(20,315)	–	(20,315)
New shares issued based on employee participation plans		11	1,981	–	–	1,992
Share-based payments		–	–	8,992	–	8,992
Total contributions by and distributions to owners	8	**11**	**1,981**	**(11,323)**	**–**	**(9,331)**
Restated balance at June 30, 2017		**1,165**	**35,042**	**502,282**	**(34,299)**	**504,190**
Restated balance at January 1, 2018		**1,166**	**36,418**	**541,576**	**(29,039)**	**550,121**
Profit for the period		–	–	29,176	–	29,176
Other comprehensive income, net of income taxes		–	–	5,524	210	5,734
Total comprehensive income for the period		**–**	**–**	**34,700**	**210**	**34,910**
Dividends paid		–	–	(23,462)	–	(23,462)
New shares issued based on employee participation plans		10	1,854	–	–	1,864
Share-based payments		–	–	8,525	–	8,525
Total contributions by and distributions to owners	8	**10**	**1,854**	**(14,937)**	**–**	**(13,073)**
Balance at June 30, 2018		**1,176**	**38,272**	**561,339**	**(28,829)**	**571,958**

Notes to the interim condensed consolidated financial statements

1 REPORTING ENTITY

The Tecan Group is a global provider of laboratory instruments and solutions in biopharmaceuticals, forensics and clinical diagnostics. The Group specializes in the development, production and distribution of automation solutions for laboratories in the life sciences sector. Its clients include pharmaceutical and biotechnology companies, university research departments, forensic and diagnostic laboratories. As an original equipment manufacturer, the Group also develops and manufactures OEM instruments and components that are then distributed by partner companies. Founded in Switzerland in 1980, the Group has manufacturing, research and development sites in both Europe and North America and maintains a sales and service network in 52 countries.

The ultimate parent company is Tecan Group Ltd., a limited company incorporated in Switzerland, whose shares are publicly traded. Tecan Group Ltd.'s registered office is located at Seestrasse 103, 8708 Männedorf, Switzerland.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These unaudited financial statements are the interim condensed consolidated financial statements of Tecan Group Ltd. and its subsidiaries (together referred to as the 'Group') for the six-month period ending June 30, 2018. The financial statements are prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' and should be read in conjunction with the consolidated financial statements 2017 as they provide an update of previously reported information. The interim condensed consolidated financial statements were authorized for issue on August 13, 2018.

The preparation of these interim condensed 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 condensed consolidated 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.

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

2.2 INTRODUCTION OF NEW AND REVISED/AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements 2017, except for the adoption of the following new or revised/amended standards and interpretations, effective as from January 1, 2018:

Standard/interpretation[1]
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'
IAS 40 amended 'Investment Properties' – Transfers of Investment Properties
IFRS 2 amended 'Share-based Payment' – Classification and Measurement of Share-based Payment Transactions
IFRS 9 'Financial Instruments'
IFRS 15 'Revenue from Contracts with Customers'

[1] IAS = International Accounting Standards, IFRS = International Financial Reporting Standards, IFRIC = Interpretations as by the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee)

The impact of these changes on the consolidated financial statements is disclosed below:

2.2.1 IFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

a) Impact of adopting the new standard

IFRS 15 'Revenue from Contracts with Customers' supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations. The new standard applies to all revenue arising from contracts with customers and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the full retrospective method. The adoption had the following impact:

CHF 1,000	Reported	Adjustment	Restated
Consolidated balance sheet at December 31, 2017			
Trade accounts receivable (construction contracts in progress)	1,514	(1,514)	–
Contract assets	–	1,123	1,123
Inventories	158,724	1,494	160,218
Deferred tax assets	15,342	26	15,368
Current and non-current deferred revenue	(75,294)	75,294	–
Current and non-current contract liabilities	–	(76,643)	(76,643)
Accrued expenses	45,176	(289)	44,887
Current provisions	15,056	289	15,345
Shareholder's equity (retained earnings)	**550,341**	**(220)**	**550,121**

January to June, CHF 1,000	Reported	Adjustment	Restated
Interim consolidated statement of profit or loss 2017			
Sales	253,283	(1,045)	252,238
Cost of sales	(133,423)	1,417	(132,006)
Operating profit	**29,557**	**372**	**29,929**
Income taxes	(5,376)	(36)	(5,412)
Profit for the period	**25,702**	**336**	**26,038**
Earnings per share			
Basic earnings per share (CHF/share)	2.22	0.03	2.25
Diluted earnings per share (CHF/share)	2.19	0.03	2.22

There was no material impact on the other comprehensive income or the statement of cash flows.

The adoption of IFRS 15 reduced the possibility to use the percentage of completion method and changed the timing of the revenue recognition for engineering services. In addition, the presentation in the balance sheet and certain disclosures were modified.

b) New accounting policies

Accounting policies applied for revenue from contracts with customers:

Elements	Accounting policy applied
Sale of standard instruments and other goods such as spare parts, trade products, consumables or reagents	The sale of standard instruments and other goods is generally considered as one performance obligation. The Group recognizes revenue at the point in time, when control of the asset is transferred to the customer, generally upon delivery of the instrument.
Sale of complex instruments	The sale of complex instruments generally follows the same principles as the sale of standard instruments. However, as the sale of a complex instrument requires material installation and application work at the customer's site, control of the asset is only transferred and accordingly revenue recognized upon the written acceptance by the customer. For sales orders with multiple instruments and high integrations costs, the Group determines the number of performance obligations individually and assesses whether the performance obligation(s) is/are satisfied over time. For revenue to be recognized over time, the following criteria must be fulfilled cumulatively: The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.
Sale of customized instruments ('Partnering Business')	The sale of customized instruments comprises the development and supply of instruments with a customer-specific design. The development (adaption of existing Tecan-technology to the customer's specifications) and supply of the instruments is generally considered as one performance obligation due to the limited usability of and control over the pure development result for the customer. Therefore, the related customer-specific development costs are capitalized in the position inventories as part of the production costs. Once the development is completed, the customer requests the units with individual purchase orders. The Group recognizes the corresponding development costs in cost of sales upon fulfillment of the individual purchase orders.
Engineering services without delivery of instruments	Engineering services are generally considered as one performance obligation. Revenue is recognized upon finalization of the project (at a point in time). For larger engineering orders the Group assesses whether the performance obligation is satisfied over time. For revenue to be recognized over time, the following criteria must be fulfilled cumulatively: The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.
Performance obligations satisfied over time – method of revenue recognition and presentation (sale of complex instruments and engineering services)	The progress is generally measured by using a cost-to-cost approach: costs incurred for the work performed to date in proportion to the estimated total project costs. According to the progress, pro rata sales are recognized in the statement of profit or loss. In the balance sheet, projects in progress – netted against customers' advances – are recognized as net assets (included in the position 'contract assets') or net liabilities (included in the position 'contract liabilities'). When it is probable that the total costs will exceed contract revenue, the rules of IAS 37 – 'Onerous Contracts' are applied.
Service contracts	Revenue from service contracts is recognized over time based on the time elapsed.
Warranty obligations	The Group provides standard warranties for the repair of defects that existed at the time of sale, as required by law. These warranties qualify as assurance-type warranties under IFRS 15, which the Group accounts for under IAS 37 'Provisions'. In addition, the Group offers warranty extensions to its customers. Such warranty extensions are accounted for as service-type warranties according to IFRS 15, representing separate performance obligations to which the Group allocates a portion of the consideration based on the relative stand-alone selling price. For these service-type warranties, revenue is recognized over time based on the time elapsed.
Bundles of goods and services	Typically, instruments are sold together with other goods and services. The sale of other goods such as spare parts or consumables and services such as additional training or application work that are part of the same contract with a customer (bundles of goods and services), but qualify for the identification of separate performance obligations, are recognized separately from the sale of the instrument as revenues. The consideration (including any discounts) is allocated in proportion to the relative stand-alone selling prices of the identified performance obligations.

2.2.2 IFRS 9 'FINANCIAL INSTRUMENTS'

a) Impact of adopting the new standard

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' for all periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting of financial instruments: classification and measurement, impairment and hedge accounting.

The Group applied IFRS 9 retrospectively, with the initial application date of January 1, 2018 and adjusting the comparative information for the period beginning January 1, 2017.

The introduction of IFRS 9 had no impact, neither on the balance sheet as at December 31, 2017 nor on the interim statement of profit or loss and other comprehensive income for the six months ended June 30, 2017. The following table compares the original measurement categories under IAS 39 with the new measurement categories under IFRS 9 for each class of the Group's financial assets and liabilities as at January 1, 2018.

CHF 1,000	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial asset classes				
Cash and cash equivalents	Loans and receivables	Amortized cost	309,412	309,412
Receivables	Loans and receivables	Amortized cost	112,382	112,382
Rent and other deposits	Loans and receivables	Amortized cost	1,107	1,107
Currency forwards	Derivatives	Mandatorily FVTPL	1,174	1,174
Balance at January 1, 2018			**424,075**	**424,075**
Financial liability classes				
Current bank liabilities	Other financial liabilities	Amortized cost	4,329	4,329
Payables and accrued expenses	Other financial liabilities	Amortized cost	58,904	58,904
Currency forwards	Derivatives	Mandatorily FVTPL	1,283	1,283
Bank loans	Other financial liabilities	Amortized cost	1,229	1,229
Contingent considerations	Fair value (IFRS 3)	FVTPL (IFRS 3)	11,639	11,639
Balance at January 1, 2018			**77,384**	**77,384**

b) New accounting policies

Accounting policies applied for financial instruments:

Measurement categories	Accounting policy applied
Financial assets at amortized cost without significant financing component – Cash and cash equivalents – Receivables	These financial assets are initially measured at the transaction price (nominal value). Subsequently the transaction price is reduced by impairment losses (see below). Foreign exchange gains/losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss. Accounting for impairment losses on receivables: The Group recognizes an allowance for impairment that represents its estimate of lifetime expected credit losses (previously: estimate of incurred losses), applying the simplified approach according to IFRS 9. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the economic environment.
Financial assets at amortized cost with significant financing component – Rent and other deposits	These financial assets are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently the financial instrument is measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains/losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Financial assets and liabilities at fair value through profit or loss (FVTPL) – Derivatives – Contingent considerations	These financial assets and liabilities are initially measured at fair value without any transaction costs, the latter being directly expensed. Subsequently these financial instruments continue to be measured at fair value. Net gains and losses are recognized in profit or loss. The Group uses derivative financial instruments to economically hedge certain exposures to foreign exchange rate risks. Hedge accounting is not applied.
Financial assets at fair value through other comprehensive income (FVOCI) – Unquoted equity instrument	This category only includes equity instruments which the Group intends to hold for the foreseeable future. The classification is determined upon initial recognition on an investment-by-investment basis and is irrevocable. The financial asset is initially measured at fair value plus transaction costs that are directly attributable to its acquisition. Subsequently the financial instrument continues to be measured at fair value. Net gains and losses are recognized in other comprehensive income and are not recycled to profit or loss on de-recognition. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.
Financial liabilities at amortized cost without significant financing component – Current bank liabilities – Payables and accrued expenses	These financial liabilities are initially measured at the transaction price (nominal value). Subsequently these financial instruments continue to be measured at the transaction price. Foreign exchange gains/losses are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Financial liabilities at amortized cost with significant financing component – Bank loans	These financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently these financial instruments are measured at amortized cost using the effective interest method. Interest expenses and foreign exchange gains/losses are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

2.2.3 OTHER CHANGES

The adoption of the new interpretation and amended standards did not result in substantial changes to the Group's accounting policies.

2.3 NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The following new and revised/amended standards and interpretations have been issued, but are not yet effective and are not applied early in these interim condensed consolidated financial statements:

Standard/interpretation[1]	Effective date for the Group
IFRIC 23 'Uncertainty over Income Tax Treatments'	Reporting year 2019
IAS 19 amended 'Employee benefits' – Curtailment or Settlement	Reporting year 2019
IAS 28 amended 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures	Reporting year 2019
IFRS 9 amended 'Financial Instruments' – Prepayment Features with Negative Compensation	Reporting year 2019
IFRS 16 'Leases'	Reporting year 2019
Annual Improvements to IFRSs 2015 – 2017	Reporting year 2019
Conceptual Framework for Financial Reporting	Reporting year 2020
IFRS 17 'Insurance Contracts'	Reporting year 2021
IFRS 10 amended 'Consolidated Financial Statements' and IAS 28 amended 'Investments in Associates and Joint Ventures' – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be defined

[1]IAS = International Accounting Standards, IFRS = International Financial Reporting Standards, IFRIC = Interpretations as by the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee)

The Group intends to adopt these standards, if applicable, when they become effective. The impact of these changes on the consolidated financial statements is disclosed below:

2.3.1 IFRS 16 'LEASES'

IFRS 16 addresses the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (lease liability) and an asset representing the right of use of the underlying asset during the lease term (right-of-use asset). Lessees will be required to separately recognise the interest expense related to the lease liability and the depreciation expense related to the right-of-use asset.

In accordance with IAS 17, all operating lease arrangements are currently reported off-balance. The Group will continue to analyse in detail the impact of IFRS 16 on its consolidated financial statements.

The Group will introduce the new standard on January 1, 2019, applying the modified retrospective method.

2.3.2 OTHER CHANGES

Other changes, individually and in the aggregate, are not expected to have a significant impact on the balance sheet, results of operations and cash flows of the Group upon adoption.

3 SCOPE OF CONSOLIDATION

3.1 CHANGE IN SCOPE OF CONSOLIDATION: INFORMATION ON PRIOR YEAR ACQUISITION

The Group acquired 100% of the voting rights of Pulssar Technologies S.A.S. (Paris, France) to increase the technology portfolio of its 'Partnering Business' on February 28, 2017. The consideration included a contingent consideration.

3.2 DISPOSAL GROUP HELD FOR SALE

In the second half of 2016 management committed to a plan to sell its Hombrechtikon manufacturing facility after having transferred all business activities to Männedorf. Accordingly, the facility and the related mortgage were presented as a disposal group held for sale. In the first half of 2018, the mortgage was repaid and the interest derivative settled. Efforts to sell the facility continue.

The disposal group comprised the following assets and liabilities:

CHF 1,000	31.12.2017	**30.06.2018**
Land and buildings in Hombrechtikon, Zurich (CH)	3,650	3,650
Assets held for sale	**3,650**	**3,650**
Mortgage	1,495	–
Interest derivative	45	–
Liabilities held for sale	**1,540**	**–**

Land and buildings are valued at the lower of their carrying amount and fair value less costs to sell.

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

4.1 DISAGGREGATION OF REVENUE AND RECONCILIATION TO SEGMENT INFORMATION

	Life Sciences Business			Partnering Business			Total 2017		
January to June, CHF 1,000	Revenue contracts with customers	Leases	Sales segment	Revenue contracts with customers (Restated)	Leases	Sales segment (Restated)	Revenue contracts with customers (Restated)	Leases	Total sales (Restated)
By regions (location of customer)									
Europe	45,295	327	45,622	50,403	–	50,403	95,698	327	96,025
America	63,016	–	63,016	47,726	–	47,726	110,742	–	110,742
Asia	24,193	–	24,193	14,250	–	14,250	38,443	–	38,443
Others	5,354	–	5,354	1,674	–	1,674	7,028	–	7,028
Total	**137,858**	**327**	**138,185**	**114,053**	**–**	**114,053**	**251,911**	**327**	**252,238**
By products and services									
Products	111,261	–	111,261	111,924	–	111,924	223,185	–	223,185
Services	26,597	–	26,597	2,129	–	2,129	28,726	–	28,726
Leases	–	327	327	–	–	–	–	327	327
Total	**137,858**	**327**	**138,185**	**114,053**	**–**	**114,053**	**251,911**	**327**	**252,238**
By timing of revenue recognition									
Transferred at a point in time	114,993	–	114,993	110,170	–	110,170	225,163	–	225,163
Transferred over time	22,865	–	22,865	3,883	–	3,883	26,748	–	26,748
Leases	–	327	327	–	–	–	–	327	327
Total	**137,858**	**327**	**138,185**	**114,053**	**–**	**114,053**	**251,911**	**327**	**252,238**

	Life Sciences Business			Partnering Business			**Total 2018**		
January to June, CHF 1,000	Revenue contracts with customers	Leases	Sales segment	Revenue contracts with customers	Leases	Sales segment	**Revenue contracts with customers**	**Leases**	**Total sales**
By regions (location of customer)									
Europe	48,153	386	48,539	70,932	–	70,932	119,085	386	119,471
America	61,334	–	61,334	44,477	–	44,477	105,811	–	105,811
Asia	26,301	–	26,301	16,212	–	16,212	42,513	–	42,513
Others	4,348	–	4,348	1,338	–	1,338	5,686	–	5,686
Total	**140,136**	**386**	**140,522**	**132,959**	**–**	**132,959**	**273,095**	**386**	**273,481**
By products and services									
Products	110,305	–	110,305	130,481	–	130,481	240,786	–	240,786
Services	29,831	–	29,831	2,478	–	2,478	32,309	–	32,309
Leases	–	386	386	–	–	–	–	386	386
Total	**140,136**	**386**	**140,522**	**132,959**	**–**	**132,959**	**273,095**	**386**	**273,481**
By timing of revenue recognition									
Transferred at a point in time	116,411	–	116,411	125,811	–	125,811	242,222	–	242,222
Transferred over time	23,725	–	23,725	7,148	–	7,148	30,873	–	30,873
Leases	–	386	386	–	–	–	–	386	386
Total	**140,136**	**386**	**140,522**	**132,959**	**–**	**132,959**	**273,095**	**386**	**273,481**

5 SEGMENT INFORMATION

5.1 SEGMENT INFORMATION BY BUSINESS SEGMENTS

January to June, CHF 1,000	Life Sciences Business 2017	Life Sciences Business 2018	Partnering Business 2017 (Restated)	Partnering Business 2018	Corporate/ consolidation 2017	Corporate/ consolidation 2018	Group 2017 (Restated)	Group 2018
Third parties	138,185	140,522	114,053	132,959	–	–	252,238	273,481
Intersegment	5,174	8,144	762	721	(5,936)	(8,865)	–	–
Total sales	**143,359**	**148,666**	**114,815**	**133,680**	**(5,936)**	**(8,865)**	**252,238**	**273,481**
Operating profit	**17,837**	**18,144**	**19,344**	**25,573**	**(7,252)**	**(5,912)**	**29,929**	**37,805**
Depreciation and amortization	(7,354)	(6,581)	(4,359)	(3,720)	–	–	(11,713)	(10,301)

January to June, CHF 1,000	2017	2018
Reconciliation of reportable segment sales		
Total sales for reportable segments	258,174	282,346
Elimination of intersegment	(5,936)	(8,865)
Total consolidated sales	**252,238**	**273,481**
Reconciliation of reportable segment profit		
Total operating profit for reportable segments	37,181	43,717
Unallocated costs (business development, investor relations and other corporate costs) and consolidation entries	(7,252)	(5,912)
Financial result	1,521	(3,035)
Total consolidated profit before taxes	**31,450**	**34,770**

5.2 ENTITY-WIDE DISCLOSURES

Non-current assets by regions (by location of assets)

CHF 1,000	Property, plant and equipment 31.12.2017	Property, plant and equipment 30.06.2018	Intangible assets 31.12.2017	Intangible assets 30.06.2018
Switzerland	10,906	12,175	96,821	98,487
Other Europe	4,942	5,321	10,455	9,814
North America	5,053	4,799	56,945	57,038
Asia	390	428	82	39
Balance	**21,291**	**22,723**	**164,303**	**165,378**

Information about major customers

There are sales to one individual customer (CHF 34.2 million) relating to the business segment 'Partnering Business' that in aggregate exceeded 10% of total sales in the first half of 2018 (first half of 2017: one individual customer [CHF 34.9 million] relating to the business segment 'Partnering Business' that in aggregate exceeded 10% of total sales).

6 OPERATING EXPENSES BY NATURE

January to June, CHF 1,000	2017 (Restated)	2018
Material costs	87,951	95,621
Personnel costs	92,143	97,004
Depreciation of property, plant and equipment	3,403	3,570
Amortization of intangible assets	8,310	6,731
Other operating costs	38,049	41,606
Total operating cost incurred (gross)	**229,856**	**244,532**
Capitalization of development costs in position inventories	(2,084)	(2,078)
Capitalization of development costs in position intangible assets	(5,439)	(6,736)
Other operating income	(24)	(42)
Total operating expenses, according to statement of profit or loss	**222,309**	**235,676**

7 INVENTORIES

In 2010, the Group entered into an OEM agreement with a global diagnostics company. The agreement comprises the development and supply of a dedicated diagnostic instrument. The related customer-specific development costs were capitalized in the position inventories as part of the production costs. The delivery of the instruments, which takes place over a period of more than 10 years, started in October 2014. The customer requests the units with individual purchase orders. The Group recognizes the corresponding development costs in cost of sales upon fulfillment of the individual purchase orders. The remaining balance of capitalized development costs amounted to CHF 90.5 million at the end of June 2018 (December 31, 2017: CHF 97.7 million).

Further information regarding this critical accounting estimate and judgment can be found in note 2.2.4 of the consolidated financial statements 2017.

8 SHAREHOLDERS' EQUITY AND EMPLOYEE PARTICIPATION PLANS

8.1 MOVEMENTS IN SHARES OUTSTANDING

Shares (each share has a nominal value of CHF 0.10)	Shares issued	Treasury shares	Shares outstanding
Balance at January 1, 2017	11,541,371	–	11,541,371
New shares issued based on employee participation plans	106,406	–	106,406
Balance at June 30, 2017	**11,647,777**	**–**	**11,647,777**
Balance at January 1, 2018	11,664,872	–	11,664,872
New shares issued based on employee participation plans	94,387	–	94,387
Balance at June 30, 2018	**11,759,259**	**–**	**11,759,259**

8.2 DIVIDENDS PAID

	2017	2018
Number of shares eligible for dividend	11,608,657	11,731,033
Dividends paid (CHF/share)	1.75	2.00

8.3 CONDITIONAL SHARE CAPITAL RESERVED FOR THE EMPLOYEE PARTICIPATION PLANS

Shares (each share has a nominal value of CHF 0.10)	2017	2018
Balance at January 1	761,841	638,340
New shares issued based on employee participation plans	(106,406)	(94,387)
Balance at June 30	**655,435**	**543,953**
Employee share options and employee shares, not yet delivered	255,992	224,690

8.4 CONDITIONAL AND AUTHORIZED SHARE CAPITAL FOR THE PURPOSE OF FUTURE BUSINESS DEVELOPMENT

	2017	2018
Conditional share capital		
Shares (with a nominal value of CHF 0.10 each)	1,800,000	1,800,000
CHF	180,000	180,000
Authorized share capital		
Expiry date	13.04.2018	17.04.2020
Shares (with a nominal value of CHF 0.10 each)	2,200,000	2,200,000
CHF	220,000	220,000

8.5 EMPLOYEE SHARE OPTION PLANS

(See note 10.4.1 of the consolidated financial statements 2017 for the terms and principal conditions.)

Movements in employee share options:

Employee share options	2017	2018
Balance at January 1	113,893	94,984
Exercised	(22,088)	(17,374)
Forfeited or expired	(1,334)	(2,850)
Balance at June 30	**90,471**	**74,760**
Thereof exercisable at period-end	40,827	27,910

8.6 EMPLOYEE SHARE PLANS (PERFORMANCE SHARE MATCHING PLANS [PSMP] AND OTHER SHARE PLANS)

(See note 10.4.2 of the consolidated financial statements 2017 for the terms and principal conditions.)

Movements in employee shares:

Employee shares	2017	2018
Balance at January 1	226,130	213,735
PSMP 2014 and 2015 - matching shares vested and transferred	(55,876)	(57,917)
PSMP 2014 and 2015 - matching shares forfeited	(7,927)	(133)
PSMP - initial shares transferred (blocked)	26,630	17,089
PSMP - maximum of matching shares granted	52,076	42,724
PSMP - initial shares forfeited and retransferred	(439)	–
PSMP - initial shares de-blocked and available to the participants	(3,659)	–
Share plan 2016 and 2017 - Board of Directors - shares vested and transferred	(2,251)	(2,064)
Share plan 2017 and 2018 - Board of Directors - shares granted	2,064	1,619
Balance at June 30	**236,748**	**215,053**
Thereof vested, but blocked until the end of the performance period	68,116	65,123

9 PRINCIPAL EXCHANGE RATES

		Closing exchange rates		Average exchange rates January to June	
CHF		31.12.2017	**30.06.2018**	2017	**2018**
EUR	1	1.17	1.16	1.08	1.17
USD	1	0.97	0.99	0.99	0.97

10 FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

Cash and cash equivalents as per cash flow statement comprise cash and cash equivalents as per balance sheet and bank overdrafts (December 31, 2017: CHF 0.0 million; June 30, 2018: CHF 0.0 million) that are included in the position 'Current financial liabilities'.

10.1 CLASSES OF FINANCIAL INSTRUMENTS

CHF 1,000	Carrying amount									Fair value
	Cash and cash equivalents	Current derivatives	Trade and other receivables (Restated)	Non-current financial assets	**Total assets**	Current financial liabilities	Trade and other payables/ accrued expenses	Non-current financial liabilities	**Total liabilities**	
Financial instruments measured at a fair value through P&L (FVTPL)										
Currency forwards	-	1,017	-	157	**1,174**	(949)	-	(334)	**(1,283)**	
Contingent considerations	-	-	-	-	**-**	(4,872)	-	(6,767)	**(11,639)**	
Financial instruments measured at amortized costs[1]										
Cash and cash equivalents	309,412	-	-	-	**309,412**	-	-	-	**-**	
Receivables	-	-	112,382	-	**112,382**	-	-	-	**-**	
Rent and other deposits	-	-	433	674	**1,107**	-	-	-	**-**	
Current bank liabilities	-	-	-	-	**-**	(4,329)	-	-	**(4,329)**	
Bank loans	-	-	-	-	**-**	-	-	(1,229)	**(1,229)**	(1,235)
Payables and accrued expenses	-	-	-	-	**-**	-	(58,904)	-	**(58,904)**	
Total financial instruments	**309,412**	**1,017**	**112,815**	**831**	**424,075**	**(10,150)**	**(58,904)**	**(8,330)**	**(77,384)**	
Reconciling items[2]	-	-	10,364	-	**10,364**	-	(16,597)	-	**(16,597)**	
Balance at December 31, 2017	**309,412**	**1,017**	**123,179**	**831**	**434,439**	**(10,150)**	**(75,501)**	**(8,330)**	**(93,981)**	

[1] The carrying amount of financial instruments measured at amortized costs is a reasonable approximation of their fair value due to their short-term nature. Bank loans are the only exception due to their long-term nature.

[2] Receivables/payables arising from VAT/other non-income taxes and social security.

CHF 1,000	Carrying amount									Fair value
	Cash and cash equivalents	Current derivatives	Trade and other receivables	Non-current financial assets	**Total assets**	Current financial liabilities	Trade and other payables/ accrued expenses	Non-current financial liabilities	**Total liabilities**	
Financial instruments measured at fair value through P&L (FVTPL)										
Currency forwards and options	–	1,242	–	134	**1,376**	(2,836)	–	(1,380)	**(4,216)**	
Contingent considerations	–	–	–	–	**–**	(7,030)	–	–	**(7,030)**	
Financial instruments measured at fair value through OCI (FVOCI)										
Unquoted equity investment	–	–	–	4,000	**4,000**	–	–	–	**–**	
Financial instruments measured at amortized costs[1]										
Cash and cash equivalents	301,064	–	–	–	**301,064**	–	–	–	**–**	
Receivables	–	–	98,005	–	**98,005**	–	–	–	**–**	
Rent and other deposits	–	–	412	667	**1,079**	–	–	–	**–**	
Current bank liabilities	–	–	–	–	**–**	(1,932)	–	–	**(1,932)**	
Bank loans	–	–	–	–	**–**	–	–	(1,215)	**(1,215)**	(1,207)
Payables and accrued expenses	–	–	–	–	**–**	–	(49,583)	–	**(49,583)**	
Total financial instruments	**301,064**	**1,242**	**98,417**	**4,801**	**405,524**	**(11,798)**	**(49,583)**	**(2,595)**	**(63,976)**	
Reconciling items[2]	–	–	12,261	–	**12,261**	–	(15,988)	–	**(15,988)**	
Balance at June 30, 2018	**301,064**	**1,242**	**110,678**	**4,801**	**417,785**	**(11,798)**	**(65,571)**	**(2,595)**	**(79,964)**	

[1] The carrying amount of financial instruments measured at amortized costs is a reasonable approximation of their fair value due to their short-term nature. Bank loans are the only exception due to their long-term nature.

[2] Receivables/payables arising from VAT/other non-income taxes and social security.

10.2 FAIR VALUE HIERARCHY (LEVEL) AND VALUATION TECHNIQUES USED

Position	Level	Data source	Model
Currency forwards	Level 2	Bloomberg	(Forward rate – [spot rate +/– forward points]) * amount in foreign currency
Currency options	Level 2	Bloomberg	Black-Scholes model
Bank loans	Level 2	Bloomberg	The fair value is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.
Unquoted equity investment	Level 3	n/a	Discounted cash flow model (see note 10.3)
Contingent considerations	Level 3	n/a	Discounted cash flow model (see note 10.4)

There have been no transfers between the levels in 2017 and 2018.

10.3 UNQUOTED EQUITY INVESTMENT (LEVEL 3)

The Group acquired an unquoted equity instrument for CHF 4.0 million in the first half of 2018. The shares have a preferred status in the case of a potential liquidation. Therefore, a decrease in the forecasted cash flows of 10% would not adversely impact the fair value of the investment. Total changes in fair value recognized during the period in other comprehensive income amount to CHF 0.0 million.

10.4 CONTINGENT CONSIDERATIONS (LEVEL 3)

CHF 1,000	2017	**2018**
Balance at January 1	9,273	11,639
Cash flows		
Settlement	–	(4,836)
Non-cash changes		
Acquisition through business combination	1,743	–
Change in fair value recognized in 'other operating expenses'	360	210
Translation differences	(515)	17
Balance at June 30	**10,861**	**7,030**

Besides the WACCs that were used for discounting the expected payments, the underlying business plans are the most significant unobservable inputs. A decrease in the forecasted net sales of 10% would result in a fair value of the contingent considerations of CHF 3.3 million considering the sales-defined milestones.

11 CONTINGENCIES AND COMMITMENTS

There have been no significant changes for contingencies and commitments.

12 SUBSEQUENT EVENTS

There were no events subsequent to the balance sheet date which would require adjustments to or disclosures in these interim condensed consolidated financial statements.

Global.

TECAN GROUP

Corporate Headquarters
Tecan Group Ltd.
Seestrasse 103
CH-8708 Männedorf
Switzerland
T +41 44 922 88 88
F +41 44 922 88 89

SALES AND SERVICE LOCATIONS

Australia +61 7 3897 1616
Austria +43 62 46 89 330
Belgium +32 15 42 13 19
China +86 21 2898 6333
France +33 4 72 76 04 80
Germany +49 79 51 94 170
Italy +39 02 92 44 790
Japan +81 44 556 73 11

Netherlands +31 18 34 48 17 4
Singapore +65 644 41 886
Spain +34 93 490 01 74
Sweden +46 31 75 44 000
Switzerland +41 44 922 81 11
UK +44 118 9300 300
USA +1 919 361 5200
ROW +41 44 922 81 25

MANUFACTURING AND DEVELOPMENT SITES

Tecan Switzerland Ltd.
Seestrasse 103
CH-8708 Männedorf
Switzerland
T +41 44 922 81 11
F +41 44 922 81 12

Tecan Austria GmbH
Untersbergstrasse 1a
A-5082 Grödig/Salzburg
Austria
T +43 62 46 89 33
F +43 62 46 72 770

Tecan Systems, Inc.
2450 Zanker Road
San Jose
CA 95131, USA
T +1 408 953 3100
F +1 408 953 3101

IBL International GmbH
Flughafenstr. 52a
D-22335 Hamburg
Germany
T +49 40 532 891 0
F +49 40 532 891 11

Tecan SP, Inc.
PO Box 1608
Baldwin Park
CA 91706, USA
T +1 626 962 0010
F +1 626 962 5574

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Publisher
Tecan Group Ltd.
Seestrasse 103
CH-8708 Männedorf
Switzerland
T +41 44 922 84 30
F +41 44 922 88 89
investor(at)tecan.com
www.tecan.com

Project Lead/Editorial Team
Tecan Group Ltd., Männedorf
Martin Brändle
Vice President, Communications
& Investor Relations

Design Concept and Realization
W4 Marketing AG, Switzerland
UP THERE, EVERYWHERE, Sweden

Translation
CLS Communication AG, Switzerland

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This Interim Report is available in English and German and can also be found at the website www.tecan.com. For the Financial Report, the English report is the authoritative version.

Tecan Group Ltd.
Seestrasse 103
CH-8708 Männedorf
Switzerland
www.tecan.com