TECAN.

Financial Report 2017.

Preprint

Financial Report 2017

FIVE-YEAR CONSOLIDATED DATA

CHF 1'000	2013	2014	2015	2016	**2017**
Statement of profit or loss					
Sales	388,292	399,518	440,295	506,227	548,399
EBITDA	65,059	67,542	83,401	89,031	105,310
Operating profit (EBIT)	54,800	57,203	66,949	68,137	80,481
Financial result	693	(8,059)	(942)	(2,709)	(804)
Income taxes	(9,822)	(8,928)	(8,860)	(10,886)	(13,130)
Profit for the period	45,671	40,216	57,147	54,542	66,547
Research and development, gross	(45,323)	(39,451)	(39,857)	(47,090)	(51,069)
Personnel expenses	(141,565)	(148,130)	(149,813)	(174,217)	(187,451)
Depreciation of property, plant and equipment	(6,454)	(6,271)	(6,213)	(6,750)	(6,969)
Amortization of intangible assets	(3,805)	(4,068)	(10,239)	(14,144)	(16,723)
Impairment losses	–	–	–	–	(1,137)
Balance sheet					
Current assets	387,571	423,833	492,353	534,290	601,091
Non-current assets	79,078	128,429	149,129	201,871	201,767
Total assets	466,649	552,262	641,482	736,161	802,858
Current liabilities	105,312	124,581	137,843	141,956	151,793
Non-current liabilities	25,135	66,483	62,966	107,120	100,724
Total liabilities	130,447	191,064	200,809	249,076	252,517
Shareholders' equity	336,202	361,198	440,673	487,085	550,341
Statement of cash flows					
Cash inflows from operating activities	27,909	48,191	99,128	118,801	99,428
Capital expenditure in property, plant and equipment and intangible assets	(19,777)	(22,629)	(14,723)	(14,322)	(19,641)
Acquisition of Pulssar Technologies S.A.S.[1]	–	–	–	–	(2,895)
Acquisition of SPEware Group[1]	–	–	–	(40,390)	–
Acquisition of SIAS-Xiril Group[1]	–	–	(18,899)	–	–
Acquisition of IBL International Group[1]	–	(31,835)	–	–	–
Change in treasury shares (net)	10,756	3,387	32,437	–	–
Dividends paid	(16,488)	(16,651)	(16,857)	(20,122)	(20,315)
Other information					
Number of employees (end of period)	1,184	1,261	1,368	1,447	1,482
Number of employees (average)	1,190	1,265	1,368	1,368	1,469
Research and development in % of sales	11.7%	9.9%	9.1%	9.3%	9.3%
Sales per employee	326	316	322	370	373
Information per share					
Basic earnings per share	4.16	3.63	5.05	4.74	5.73
Gross dividend (CHF)[2]	1.50	1.50	1.75	1.75	2.00 [3]
Payout from statutory capital contribution reserve (CHF)[2]	0.00	0.00	0.00	0.00	0.00 [3]
Total payout (CHF)[2]	1.50	1.50	1.75	1.75	2.00 [3]
Total payout ratio	36.1%	41.3%	34.7%	36.9%	34.9%

[1]Net of cash acquired

[2]Payment is made in following year

[3]Proposal to the Annual General Meeting of Shareholders on April 17, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

CHF 1,000	Notes	2016	2017
Sales	4	**506,227**	**548,399**
Cost of sales		(266,870)	(282,832)
Gross profit		**239,357**	**265,567**
Sales and marketing		(76,485)	(84,220)
Research and development	6	(47,090)	(51,069)
General and administration		(48,888)	(51,489)
Other operating income	7	1,243	3,324
Other operating expenses	7	–	(1,632)
Operating profit	4	**68,137**	**80'481**
Financial income		309	31
Finance cost		(785)	(671)
Net foreign exchange losses		(2,233)	(164)
Financial result	8	**(2,709)**	**(804)**
Profit before taxes		**65,428**	**79,677**
Income taxes	11	(10,886)	(13,130)
Profit for the period, attributable to owners of the parent		**54,542**	**66,547**
Earnings per share			
Basic earnings per share (CHF/share)	9	4.74	5.73
Diluted earnings per share (CHF/share)	9	4.66	5.64

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CHF 1,000	Notes	2016	2017
Profit for the period		**54,542**	**66,547**
Other comprehensive income			
Remeasurement of net defined benefit liability	10	(3,099)	(3,901)
Related income taxes		569	608
Items that will not be reclassified to profit or loss, net of income taxes		**(2,530)**	**(3,293)**
Translation differences		(64)	3,562
Related income taxes		37	(241)
Items that may be reclassified subsequently to profit or loss, net of income taxes		**(27)**	**3,321**
Other comprehensive (loss)/income, net of income taxes		*(2,557)*	*28*
Total comprehensive income for the period, attributable to owners of the parent		**51,985**	**66,575**

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

CONSOLIDATED BALANCE SHEET

ASSETS

CHF 1,000	Notes	31.12.2016	31.12.2017
Cash and cash equivalents	12	246,744	309,412
Current derivatives	13	3,038	1,017
Trade accounts receivable	14	97,045	113,075
Other accounts receivable		9,784	11,618
Inventories	15	168,409	158,724
Income tax receivables	11	1,633	732
Prepaid expenses		3,497	2,863
Assets held for sale	3.3	4,140	3,650
Current assets		**534,290**	**601,091**
Non-current financial assets	16	692	831
Property, plant and equipment	17	20,290	21,291
Intangible assets and goodwill	18	164,685	164,303
Deferred tax assets	11	16,204	15,342
Non-current assets		**201,871**	**201,767**
Assets		**736,161**	**802,858**

LIABILITIES AND EQUITY

CHF 1,000	Notes	31.12.2016	31.12.2017
Current financial liabilities	19	7,780	10,150
Trade accounts payable		10,057	13,948
Other accounts payable		14,155	16,666
Current deferred revenue	20	33,379	36,334
Income tax payables	11	13,046	12,923
Accrued expenses		40,294	45,176
Current provisions	21	21,596	15,056
Liabilities held for sale	3.3	1,649	1,540
Current liabilities		**141,956**	**151,793**
Non-current financial liabilities	19	11,078	8,330
Non-current deferred revenue	20	46,945	38,960
Liability for post-employment benefits	10	30,146	36,512
Non-current provisions	21	4,199	5,335
Deferred tax liabilities	11	14,752	11,587
Non-current liabilities		**107,120**	**100,724**
Total liabilities		**249,076**	**252,517**
Share capital		1,154	1,166
Capital reserve		33,061	36,418
Retained earnings		485,230	541,796
Translation differences		(32,360)	(29,039)
Shareholders' equity	22	**487,085**	**550,341**
Liabilities and equity		**736,161**	**802,858**

CONSOLIDATED STATEMENT OF CASH FLOWS

CHF 1,000	Notes	2016	2017
Profit for the period		**54,542**	**66,547**
Adjustments for			
Depreciation, amortization and impairment losses	17/18	20,894	24,829
Change in provisions and liability for post-employment benefits	10/21	2,690	(3,522)
Interest income	8	(309)	(31)
Interest expenses	8	336	471
Income taxes	11	10,886	13,130
Equity-settled share-based payment transactions	10	12,878	12,807
Other non-cash items		(1,377)	3,628
Change in working capital			
Trade accounts receivable	14	(4,529)	(15,608)
Inventories	15	9,375	10,327
Trade accounts payable		(1,776)	3,551
Other changes in working capital (net)		25,113	(3,134)
Income taxes paid		(9,922)	(13,567)
Cash inflows from operating activities		**118,801**	**99,428**
Interest received		265	29
Acquisition of Pulssar Technologies S.A.S., net of cash acquired	3.2	–	(2,895)
Acquisition of SPEware Group, net of cash acquired	3.2	(40,309)	–
Purchase of property, plant and equipment	17	(6,780)	(8,142)
Proceeds from sales of property, plant and equipment	17	76	98
Investment in intangible assets	18	(7,542)	(11,499)
Cash outflows from investing activities		**(54,290)**	**(22,409)**
Proceeds from employee participation plans	10.4	1,954	3,369
Dividends paid	22	(20,122)	(20,315)
Change in current bank liabilities	19	(1,475)	3,216
Increase in bank loans	19	716	437
Repayment of bank loans	19	(3,455)	(1,503)
Repayment of mortgage (held for sale)	3.3	(80)	(80)
Repayment of other loans	19	(3,543)	-
Interest paid		(209)	(282)
Cash outflows from financing activities		**(26,214)**	**(15,158)**
Effect of exchange rate fluctuations on cash held		13	807
Increase in cash and cash equivalents		**38,310**	**62,668**
Cash and cash equivalents, net of bank overdrafts at January 1		208,434	246,744
Cash and cash equivalents, net of bank overdrafts at December 31	12	**246,744**	**309,412**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHF 1,000	Notes	Share capital	Capital reserve	Retained earnings	Translation differences	Total share-holders' equity
Balance at January 1, 2016		**1,147**	**31,114**	**440,745**	**(32,333)**	**440,673**
Profit for the period		–	–	54,542	–	54,542
Other comprehensive loss, net of income taxes		–	–	(2,530)	(27)	(2,557)
Total comprehensive income for the period		**–**	**–**	**52,012**	**(27)**	**51,985**
Dividends paid	22	–	–	(20,122)	–	(20,122)
New shares issued based on employee participation plans	10/22	7	1,947	–	–	1,954
Share-based payments	10	–	–	12,595	–	12,595
Total contributions by and distributions to owners		**7**	**1,947**	**(7,527)**	**–**	**(5,573)**
Balance at December 31, 2016		**1,154**	**33,061**	**485,230**	**(32,360)**	**487,085**
Profit for the period		–	–	66,547	–	66,547
Other comprehensive gain, net of income taxes		–	–	(3,293)	3,321	28
Total comprehensive income for the period		**–**	**–**	**63,254**	**3,321**	**66,575**
Dividends paid	22	–	–	(20,315)	–	(20,315)
New shares issued based on employee participation plans	10/22	12	3,357	–	–	3,369
Share-based payments	10	–	–	13,627	–	13,627
Total contributions by and distributions to owners		**12**	**3,357**	**(6,688)**	**–**	**(3,319)**
Balance at December 31, 2017		**1,166**	**36,418**	**541,796**	**(29,039)**	**550,341**

Notes to the 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements are the consolidated financial statements of Tecan Group Ltd. and its subsidiaries (together referred to as the 'Group') for the year ended December 31, 2017. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand. They are prepared on the historical cost basis except for derivative financial instruments and the contingent consideration, which are stated at their fair value.

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2018. Final approval is subject to acceptance by the Annual General Meeting of Shareholders on April 17, 2018.

2.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these 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 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 year in which the circumstances change.

The valuation of the following material positions is based on critical accounting estimates and judgments:

2.2.1 Revenue recognition – percentage of completion method

The Group applies the percentage of completion method (POC) in accounting for construction contracts as outlined in the accounting and valuation principles (see note 2.7.10). The use of the POC method requires management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method). Based on the estimated stage of completion, a respective portion of the expected revenue is recognized. If circumstances arise that may change the original estimates of revenues, costs or extent of progress towards completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the statement of profit or loss in the period in which the circumstances that give rise to the revision become known to the management. See note 14 and 20 for more details.

2.2.2 Performance share matching plan (PSMP) – matching share factor

The Group established performance share matching plans. The number of matching shares is determined based on the following formula: number of shares from initial grant plus number of shares from mandatory and voluntary investments times the matching share factor. The matching share factor is dependent on the achievement of specific performance targets. In any case, the matching share factor will not be lower than 0.0 or higher than 2.5. A change in estimate of the matching share factors applied in the current period, will impact the results of future periods. See note 10 for more details.

2.2.3 Income taxes

At December 31, 2017, the net liability for current income taxes was CHF 12.2 million and the net asset for deferred taxes was CHF 3.8 million. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates (particularly in relation to the US tax reform), changing interpretations of existing tax laws or regulations (particularly in relation to the acceptance of intra-Group transfer prices), and changes in overall levels of pre-tax earnings. Such changes could impact the assets and liabilities recognized in the balance sheet in future periods.

2.2.4 Inventories – capitalized development costs

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 as of December 31, 2017 amounted to CHF 97.7 million.

At December 31, 2017, the net realizable value of the position was higher than the capitalized development costs. However, the assessment is highly dependent on the best estimate of the future sales quantity. A decrease in estimate could require write-downs in future periods.

2.2.5 Intangible assets – capitalized development costs

After the technical feasibility of in-house developed products has been demonstrated, the Group starts to capitalize the related development costs until the product is ready for market launch. However, there can be no guarantee that such products will complete the development phase or will be commercialized, or that market conditions will not change in the future, requiring a revision of management's assessment of future cash flows related to those products. Such changes could lead to additional amortization and impairment charges. At the end of 2017, the Group has capitalized development costs in the amount of CHF 24.8 million as disclosed in note 18.

2.2.6 Impairment test on goodwill

At December 31, 2017 total goodwill amounted to CHF 101.6 million. The Group performed the mandatory annual impairment tests at the end of June. Based on these tests, there was no need for the recognition of any impairment. However, the calculation of the recoverable amounts requires the use of estimates and assumptions. The key assumptions are disclosed in note 18.

2.3 INTRODUCTION OF NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

The accounting policies are consistent with those applied in the previous year, except for the introduction of the following new or revised/amended standards and interpretations, effective as from January 1, 2017:

Standard/interpretation[1]
IAS 7 amended 'Statement of Cash Flows' – Disclosure Initiative
IAS 12 amended 'Income taxes' – Recognition of Deferred Tax Assets on Unrealised Losses
Annual improvements to IFRSs 2014-2016 Cycle

[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 adoption of these new or revised/amended standards and interpretations did not result in substantial changes to the Group's accounting policies.

2.4 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 consolidated financial statements:

Standard/interpretation[1]	Effective date for the Group
IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	Reporting year 2018
IAS 40 amended 'Investment Properties' – Transfers of Investment Properties	Reporting year 2018
IFRS 2 amended 'Share-based Payment' – Classification and Measurement of Share-based Payment Transactions	Reporting year 2018
IFRS 9 'Financial Instruments'	Reporting year 2018
IFRS 15 'Revenue from Contracts with Customers'	Reporting year 2018
IFRIC 23 'Uncertainty over Income Tax Treatments'	Reporting year 2019
IFRS 16 'Leases'	Reporting year 2019
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:

2.4.1 IFRS 9 'Financial Instruments'

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. Trade accounts receivables meet the criteria of amortized cost measurement under IFRS 9 as well. In addition, the Group expects to continue measuring at fair value all financial instruments (derivatives and contingent consideration) currently held at fair value. Hedge accounting is not applied.

IFRS 9 requires the Group to record expected credit losses on its trade accounts receivable, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade accounts receivable. The expected change in the allowance for doubtful accounts is not material.

2.4.2 IFRS 15 'Revenue from Contracts with Customers'

During 2016, the Group performed a preliminary assessment of IFRS 15, which was further elaborated and supplemented with a more detailed analysis in 2017. The introduction of the standard does not change the timing of revenue recognition for most of the product sales and services due to their nature. With regard to product sales, the Group does not provide extended warranties in its contracts with customers and therefore will continue to account for its assurance-type warranties under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', consistent with its current practice.

However, the adoption of IFRS 15 reduces the possibility to use the percentage of completion method and changes the timing of the revenue recognition for development services. Further, it will modify the presentation in the balance sheet and increase the disclosures in the notes. Other than the aforementioned, the Group does not expect the adoption of IFRS 15 to have any significant impact on the balance sheet, results of operations and cash flows.

The Group plans to adopt the new standard using the full retrospective method in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. If the new standard was introduced already as of January 1, 2017, the impact on the consolidated financial statements would have been as follows:

CHF 1,000	Reported	Adjustment	Restated
Consolidated balance sheet at January 1, 2017			
Trade accounts receivable (construction contracts in progress)	2,058	(2,058)	–
Contract assets	–	1,885	1,885
Inventories	168,409	2,339	170,748
Deferred revenue	(80,324)	80,324	–
Contract liabilities	–	(82,051)	(82,051)
Deferred tax liabilities	(14,752)	(42)	(14,794)
Shareholder's equity (retained earnings)	**487,085**	**397**	**487,482**
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	1,493	160,217
Deferred tax assets	15,342	26	15,368
Deferred revenue	(75,294)	75,294	–
Contract liabilities	–	(76,644)	(76,644)
Shareholder's equity (retained earnings)	**550,341**	**(222)**	**550,119**

CHF 1,000	Reported	Adjustment	Restated
Consolidated statement of profit or loss 2017			
Sales	548,399	160	548,559
Cost of sales	(282,832)	(847)	(283,679)
Operating profit	**80,481**	**(687)**	**79,794**
Income taxes	(13,130)	68	(13,062)
Profit for the period	**66,547**	**(619)**	**65,928**

2.4.3 IFRS 16 'Leases'

IFRS 16 sets out 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 (see note 26.2). In 2018 the Group will continue to analyse in details 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.

2.4.4 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.

2.5 CONSOLIDATION PRINCIPLES

2.5.1 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any resulting gain or loss is recognized in profit or loss.

When control is transferred in the event of a business combination, the Group is applying the acquisition method at the acquisition date.

2.5.2 Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealized profits arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

2.6 FOREIGN CURRENCY TRANSLATION

Generally, all Group companies have identified their local currency as their functional currency. Transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions, as well as gains and losses on translation of monetary assets and liabilities denominated in other currencies, are included in net profit.

Translation differences arising on intra-Group loans that, in substance, are part of the net investment in a foreign operation, are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the foreign operation.

Upon consolidation, assets and liabilities of Group companies using functional currencies other than Swiss francs (foreign entities) are translated into Swiss francs (presentation currency) using year-end exchange rates. Revenues, expenses and cash flows are translated at the average exchange rates for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net profits translated at the average and year-end exchange rates are recognized in other comprehensive income. On the disposal of a foreign operation, the identified cumulative currency translation differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, are reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognized.

2.7 ACCOUNTING AND VALUATION PRINCIPLES

2.7.1 Segment reporting

Segment information is presented in the same manner as in the internal reporting to the chief operating decision maker. The chief operating decision maker, responsible for strategic decisions, for the assessment of the segments' performance and for the allocation of resources to the segments, is the Board of Directors of Tecan Group Ltd.

The following reportable segments were identified:

- *Life Sciences Business (end-customer business):* The business segment 'Life Sciences Business' supplies end users with automated workflow solutions directly. These solutions include laboratory instruments, software packages, application knowhow, services, consumables and spare parts.
- *Partnering Business (OEM business):* The business segment 'Partnering Business' develops and manufactures OEM instruments and components that are distributed by partner companies under their own names.

The operating segments are equivalent to the reportable segments. No operating segments have been aggregated. Segment assets, purchases of property, plant and equipment and intangible assets as well as segment liabilities are not reported to the chief operating decision maker.

2.7.2 Sales – revenue recognition

Goods sold and services rendered – Sales are recorded net of sales taxes and discounts, at the time the risks and benefits of ownership are substantially transferred to customers. Revenue recognition from products with material application and installation work requires a written acceptance by the customer. Revenue from service contracts is recognized in the statement of profit or loss according to the proportion of the full contract period that has already elapsed at the balance sheet date.

Construction contracts – As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the statement of profit or loss in proportion to the stage of completion of the contract (see note 2.7.10 'Construction contracts').

2.7.3 Government research subsidies

The Group receives government grants for research activities, which are unconditional. They are recognized as income when earned.

2.7.4 Employee benefits – retirement and long-service leave benefit plans (IAS 19)

The Group has both defined contribution and defined benefit retirement benefit plans. Defined contribution plans are retirement benefit plans under which the Group pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. All other retirement benefit plans are defined benefit plans.

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

The liability recognized in the balance sheet in regard to defined benefit retirement benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets for funded plans. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method, considering possible risk sharing arrangements.

When the calculation results in a benefit to the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

The components of defined benefit costs are as follows:

- Service costs, which are recognized in the statement of profit or loss within operating result
- Interest expense or income on net liability or asset, which is recognized in the statement of profit or loss within financial result
- Remeasurements, which are recognized in other comprehensive income

Service costs include current service costs, past service costs and gains or losses on plan curtailments and settlements. When the benefits of a plan are changed, or when a plan is curtailed or settled, the portion of the changed benefits related to employee service in prior periods (past service costs), or the gains or losses on curtailments and settlements, are recognized immediately in profit or loss when the plan amendments or curtailments and settlements occur.

Interest expense or income is calculated by applying the discount rate to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contribution and benefit payments.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest income) and the effect of the asset ceiling (if applicable). Remeasurements are recognized in other comprehensive income and cannot be reclassified to profit or loss.

Long-service leave benefits: The method of accounting for liabilities concerning long-service leave benefits is similar to the one used for defined benefit retirement plans.

2.7.5 Employee benefits – termination benefits (IAS 19)

Termination benefits result from either the Group's decision to terminate the employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The event that gives rise to an obligation is the termination of employment rather than employee service. A liability for termination benefits is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefits and when the Group recognizes any related restructuring costs.

2.7.6 Employee benefits – share-based payment (IFRS 2)

The Group has introduced several equity-settled share-based compensation plans, for which the fair value of shares or share options granted is recognized within operating result and a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or share options (vesting period). The amount recognized as an expense is adjusted by an expected forfeiture rate to reflect the expected number of shares or share options that will vest.

The fair value of the shares granted represents the market value of one Tecan share adjusted for expected dividend payments during the vesting period. The fair value of the share options granted is measured using a trinomial model, taking into account the terms and conditions upon which the share options were granted.

2.7.7 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of profit or loss except to the extent that it relates to items recognized in other comprehensive income or directly in equity (transactions with owners), in which case it is recognized in other comprehensive income or equity.

Deferred taxes are provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affects neither accounting profit nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets resulting from temporary differences and tax loss carry-forwards are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In addition, deferred taxes are provided on expected dividend distributions in the foreseeable future from subsidiary companies (non-recoverable withholding taxes).

2.7.8 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and time deposits with a term of three months or less from the date of acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.7.9 Trade and other accounts receivable

Trade and other accounts receivable are stated at their amortized cost less impairment losses. For short-term receivables, nominal value equals amortized cost.

The allowance account in respect of accounts receivable is used to record impairment losses unless the Group decides that no recovery of the amount owed is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar assets.

2.7.10 Construction contracts

Some sales categories of the operating segments 'Life Sciences Business' (sale of instruments with exceptionally high portion of installation and application work) and 'Partnering Business' (sale of development services) are accounted for using the 'percentage of completion' method of IAS 11. The respective stage of completion is determined by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs (cost-to-cost method).

According to the stage of completion, 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 'trade accounts receivable') or net liabilities (included in the position 'deferred revenue') from construction contracts. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

2.7.11 Borrowing costs

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are expensed. During the reporting period, no asset qualified for capitalization of borrowing costs (2016: none).

2.7.12 Inventories

Inventories are stated at the lower of purchase or production cost and net realizable value. Production costs include raw materials, components and semi-finished products, direct production costs (internal labor and external services) and production overheads. The Group applies the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provisions are made for slow-moving items and obsolete items are written off.

2.7.13 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see separate accounting policy). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads and borrowing costs, if they are directly attributable to a qualifying asset.

Assets acquired under lease contracts, which provide the Group with substantially all benefits and risks of ownership are classified as finance leases and capitalized at amounts equivalent to their fair value or, if lower, the estimated present value of the underlying minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. Leased assets are depreciated over their estimated useful lives. There were no items of property, plant and equipment under finance lease as per the balance sheet date (2016: none). Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment from the date they are available for use. The estimated useful lives are as follows:

Land	indefinite useful life
Buildings	25 years
Leasehold improvements	shorter of useful life or lease term
Furniture and fittings	4–8 years
Machines and motor vehicles	2–8 years
Tools in connection with OEM contracts	units of production method
EDP equipment	3–5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment (component approach).

Costs for repair and maintenance are recognized as an expense as incurred.

2.7.14 Intangible assets

Software – Expenditure on the implementation of software, including licenses and external consulting fees, is capitalized.

Research costs – Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development costs – Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, external services, personnel, temporary employees, overhead and borrowing costs, if they are directly attributable to a qualifying asset. Other development expenditure is recognized in profit or loss as incurred.

Intangible assets acquired in a business combination – All identifiable intangible assets that are recognized applying the acquisition method are stated initially at fair value. The following valuation methods are used in order to determine the fair values at the acquisition date: multi-period excess earnings method, relief from royalty method and replacement cost approach.

Intangible assets are measured at cost less accumulated amortization (see below) and impairment losses (see separate accounting policy). Amortization is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortized from the date they are available for use.

The estimated useful lives are as follows:

Software	3–5 years
Development costs	3–5 years
Patents	3–5 years
Acquired brand	2–10 years
Acquired technology	10 years
Acquired client relationships	7–17 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

2.7.15 Goodwill

Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not capable of being individually identified and separately recognized.

For acquisitions, the Group measures goodwill at the acquisition date as

- the fair value of the consideration transferred, plus
- the recognized amount of any non-controlling interests in the acquiree, plus
- if the business combination is achieved in stages, the fair value of existing equity interest in the acquiree, less
- the net recognized amount of the identifiable net assets acquired.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

After initial recognition, the Group measures goodwill at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the intangible asset might be impaired.

2.7.16 Impairment

The carrying amount of the Group's non-financial assets other than inventories, assets arising from construction contracts and deferred tax assets, is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount, being the higher of its fair value less costs of disposal and its value in use, is estimated. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually. An impairment loss is recognized in the statement of profit or loss whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reviewed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

2.7.17 Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the statement of profit or loss over the period of the borrowings on an effective interest basis.

2.7.18 Trade and other accounts payable

Trade and other accounts payable are stated at their amortized cost, which equals the nominal amount for short-term payables.

2.7.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical data.

2.7.20 Derivatives

The Group uses derivative financial instruments to economically hedge certain exposures to foreign exchange rate risks. Hedge accounting is not applied. Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are also stated at fair value. Any resulting gain or loss is recognized directly in the statement of profit or loss.

2.7.21 Treasury shares

In case the Group purchases own shares, the consideration paid is recognized as treasury shares and presented as a deduction from equity until these shares are cancelled or sold. Any consideration received from the sale of these shares is recognized in equity.

3 SCOPE OF CONSOLIDATION

3.1 DISCLOSURE OF INTERESTS IN OTHER ENTITIES

The scope of the consolidation does not include an interest in any of the following:

- Subsidiaries with non-controlling interests
- Associates
- Joint arrangements

The companies which are included in the consolidated financial statements are listed in the notes to the statutory financial statements of Tecan Group Ltd.

3.2 CHANGE IN SCOPE OF CONSOLIDATION: ACQUISITION THROUGH BUSINESS COMBINATION

3.2.1 Assets and liabilities arising from acquisitions

The fair value of the identifiable assets and liabilities and the net cash outflow at the date of acquisition were:

CHF 1,000	30.09.2016 SPEware Group	**28.02.2017 Pulssar**
Cash and cash equivalents	374	6
Trade accounts receivable	3,180	–
Inventories	2,481	221
Other current assets	43	255
Property, plant and equipment	2,058	37
Intangible assets	19,704	2,187
Deferred tax assets	677	–
Assets	**28,517**	**2,706**
Current financial liabilities	(2,556)	(500)
Trade and other accounts payable	(2,013)	(273)
Deferred revenue	(32)	–
Accrued expenses	(2,475)	(63)
Provisions	(2,623)	-
Liability for post-employment benefits	(647)	(38)
Deferred tax liabilities	(7,724)	(209)
Liabilities	**(18,070)**	**(1,083)**
Total identifiable net assets at fair value	**10,447**	**1,623**
Goodwill arising on acquisition	39,004	3,021
Consideration transferred for the business combination	**49,451**	**4,644**
Cash acquired	(374)	(6)
Contingent consideration (earn-out)	(8,768)	(1,743)
Net cash outflow	**40,309**	**2,895**

Trade accounts receivable comprise gross contractual amounts due of CHF 0 million (2016: CHF 3.5 million), of which CHF 0 million (2016: CHF 0.3 million) was expected to be uncollectable at the acquisition date.

The acquisitions were accounted for using the acquisition method. The resulting goodwill includes expected synergies from the acquisition, the work force and potentially other intangible assets that could not be valued separately. Goodwill arising from these acquisitions is not expected to be tax deductible.

3.2.2 Acquisition on February 28, 2017: Pulssar Technologies S.A.S.

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

At the acquisition date, the fair value of the contingent consideration was estimated to be CHF 1.7 million. The fair value was determined using the discounted cash flow method with a discount rate of 11%. One earn-out payment in the amount of EUR 2.0 million was agreed with the seller upon the achievement of a sales-defined milestone in 2019. The underlying business plan indicated that the entire amount will be payable. There is no change to this assessment at year-end 2017.

3.2.3 Acquisition on September 30, 2016: SPEware Group

The Group acquired 100% of the voting rights of SPEware Group on September 30, 2016 consisting of the following companies:

Company	Domicile	Participation in %	Activities
SPEware Corp.	Baldwin Park/Los Angeles, CA (US)	100%	S/D
• Cera Inc.	Baldwin Park/Los Angeles, CA (US)	100%	R/P/D

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

The SPEware Group is a provider for mass spectrometry sample preparation solutions, with a focus on the North American market. The acquired Group is part of the business segment ‘Life Sciences Business’.

At the acquisition date, the fair value of the contingent consideration was estimated to be CHF 8.8 million. The fair value was determined using the discounted cash flow method with a discount rate of 10%. Two payments in the amount of USD 5.0 million each were agreed with the seller upon the achievement of sales-defined milestones in 2017 and 2018. The underlying business plan indicated that the entire amount will be payable. There is no change to this assessment at year-end 2017.

3.2.4 Contribution of acquired companies in the year of acquisition and consolidated numbers (unaudited)

CHF 1,000	2016	**2017**
Contribution of acquired companies from the date of acquisition		
Months	3	10
Sales	4,910	1,085
Operating profit	734	(570)
Consolidated numbers, if the acquisition occurred at the beginning of the reporting period		
Sales	520,134	548,724
Operating profit[1]	70,721	80,492
Acquisition-related legal fees and due diligence costs, included in 'general and administration'	762	188

[1] In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same as if the acquisition had occurred on January 1, 2016 and 2017, respectively.

3.3 DISPOSAL GROUP HELD FOR SALE

In the second half of 2016, management committed to a plan to sell its manufacturing facility after having transferred all business activities to Männedorf. Accordingly, the facility and the related mortgage are presented as a disposal group held for sale. Efforts to sell the disposal group continue.

At the end of December, the disposal group comprised the following assets and liabilities:

CHF 1,000	Notes	2016	2017
Land and buildings in Hombrechtikon, Zurich (CH)	17	4,140	3,650
Assets held for sale		**4,140**	**3,650**
Mortgage	19	1,575	1,495
Interest derivative	19	74	45
Liabilities held for sale		**1,649**	**1,540**

Land and buildings are valued at the lower of their carrying amount and fair value less costs to sell. At year-end 2017, the Group recognized an impairment charge on buildings in the amount of CHF 0.5 million in accordance with IFRS 5.

4 SEGMENT INFORMATION

4.1 INFORMATION BY BUSINESS SEGMENTS

	Life Sciences Business		Partnering Business		Corporate/ consolidation		Group	
CHF 1,000	2016	2017	2016	2017	2016	2017	2016	2017
Sales third	280,224	306,851	226,003	241,548	–		506,227	548,399
Intersegment sales	12,620	11,738	1,661	1,772	(14,281)	(13,510)	–	–
Total sales	**292,844**	**318,589**	**227,664**	**243,320**	**(14,281)**	**(13,510)**	**506,227**	**548,399**
Operating profit	**45,685**	**50,528**	**33,781**	**42,638**	**(11,329)**	**(12,685)**	**68,137**	**80,481**
Depreciation and amortization	(11,839)	(14,886)	(9,055)	(8,806)	–	–	(20,894)	(23,692)
Impairment losses	–	(647)	–	(490)	–	–	–	(1,137)

CHF 1,000	2016	2017
Reconciliation of reportable segment sales		
Total sales for reportable segments	520,508	561,909
Elimination of intersegment sales	(14,281)	(13,510)
Total consolidated sales	**506,227**	**548,399**
Reconciliation of reportable segment profit		
Total operating profit for reportable segments	79,466	93,166
Unallocated costs (business development, investor relations and other corporate costs) and consolidation entries	(11,329)	(12,685)
Financial result	(2,709)	(804)
Total consolidated profit before taxes	**65,428**	**79,677**

4.2 ENTITY-WIDE DISCLOSURES

Products and services

CHF 1,000	2016	2017
Products	343,111	357,407
Services	162,716	190,270
Leases	400	722
Total sales third	**506,227**	**548,399**

Sales by regions (by location of customers)

CHF 1,000	2016	2017
Switzerland	10,160	10,679
Other Europe	205,605	198,593
North America	197,235	235,809
Asia	78,490	88,355
Others	14,737	14,963
Total sales third	**506,227**	**548,399**

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

	Property, plant and equipment		Intangible assets	
CHF 1,000	2016	2017	2016	2017
Switzerland	9,658	10,906	93,003	96,821
Other Europe	4,713	4,942	10,537	10,455
North America	5,554	5,053	60,986	56,945
Asia	365	390	159	82
Balance at December 31	**20,290**	**21,291**	**164,685**	**164,303**

Information about major customers

There are sales to one individual customer (CHF 71.4 million) relating to the business segment ‘Partnering Business’ that in aggregate exceeded 10% of total sales in 2017 (2016: one individual customer (CHF 73.1 million) relating to the business segment ‘Partnering Business’).

5 OPERATING EXPENSES BY NATURE

CHF 1,000	2016	2017
Material costs	181,143	188,610
Personnel costs	174,217	187,451
Depreciation of property, plant and equipment	6,750	6,969
Impairment loss on assets held-for-sale	–	490
Amortization of intangible assets	14,144	16,723
Impairment loss on capitalized development costs	–	647
Other operating costs	71,480	81,640
Total operating costs incurred (gross)	**447,734**	**482,530**
Capitalization of development costs in position inventories (see note 15)	(1,759)	(1,214)
Capitalization of development costs in position intangible assets (see note 18)	(6,642)	(10,074)
Other operating income	(1,243)	(3,324)
Total operating expenses, according to statement of profit or loss	**438,090**	**467,918**

6 RESEARCH AND DEVELOPMENT

CHF 1,000	2016	2017
Gross research and development costs incurred[1]	51,853	59,166
Reclassification of development costs related to engineering services to cost of sales	(7,955)	(10,766)
Capitalization of development costs in position inventories (see note 15)	(1,759)	(1,214)
Capitalization of development costs in position intangible assets (see note 18)	(6,642)	(10,074)
Amortization of development costs and acquired technology	11,593	13,310
Impairment loss on capitalized development costs	–	647
Total research and development (gross), according to statement of profit or loss	**47,090**	**51,069**
Government research subsidies	(1,098)	(1,073)
Total research and development (net)	45,992	49,996

[1] The amount includes the cost of materials, external services, personnel, temporary employees and overhead.

Costs for research and the development of new products (gross) amounted to 9.3% of sales (2016: 9.3%).

7 OTHER OPERATING RESULT

CHF 1,000	2016	2017
Government research subsidies	1,098	1,073
Replacement value of damaged inventory (in excess of manufacturing costs)	–	2,117
Rent income property Hombrechtikon	–	51
Other operating income (miscellaneous)	145	83
Total other operating income	**1,243**	**3,324**

CHF 1,000	2016	2017
Change in fair value of contingent consideration	–	(856)
Maintenance cost property Hombrechtikon	–	(130)
Impairment loss on property Hombrechtikon	–	(490)
Other operating expenses (miscellaneous)	–	(156)
Total other operating expenses	**–**	**(1'632)**

8 FINANCIAL RESULT

CHF 1,000	2016	2017
Financial income		
Interest income	288	31
Other	21	17
Subtotal financial income	**309**	**48**
Finance cost		
Interest expenses	(336)	(471)
Net interest cost on liability for post-employment benefits	(243)	(217)
Other	(206)	–
Subtotal finance cost	**(785)**	**(688)**
Net foreign exchange gains/(losses)		
Result from derivatives (net)	(3,578)	1,582
Other net foreign exchange gains/(losses)	1,345	(1,746)
Subtotal net foreign exchange losses	**(2,233)**	**(164)**
Total financial result	**(2,709)**	**(804)**

9 EARNINGS PER SHARE

The earnings per share are based on the consolidated profit for the period and the average number of shares outstanding, excluding treasury shares.

	2016		2017	
Average number of shares outstanding		**11,502,948**		**11,622,365**
Basic earnings per share (CHF/share)		**4.74**		**5.73**
Employee share option plans				
Average number of shares under option total	106,745		93,108	
Average number of shares under option dilutive	100,768		87,590	
Average adjusted exercise price	99.93		122.48	
Number of shares that would have been issued at market price	(63,373)		(52,925)	
Adjustment for dilutive share options		37,395		34,665
Employee share plans				
Adjustment for not vested shares (PSMP/initial grant and other share plans)		16,397		5,396
Adjustment for contingently issuable shares (PSMP/matching shares)		144,909		141,049
Average number of shares outstanding after dilution		**11,701,649**		**11,803,475**
Diluted earnings per share (CHF/share)		**4.66**		**5.64**

10 EMPLOYEE BENEFITS

10.1 NUMBER OF EMPLOYEES

FTE (full-time equivalent)	2016	2017
Employees – year-end	1,447	1,482
Employees – average	1,368	1,469

10.2 PERSONNEL EXPENSES

Personnel expenses include the following:

CHF 1,000	Notes	2016	2017
Salaries and wages		133,761	141,856
Social security		16,710	18,461
Post-employment benefits			
Defined contribution plans		1,516	1,695
Defined benefit plans	10.3	6,066	7,644
Share-based payment	10.4	12,878	12,807
Termination benefits		–	–
Other personnel expenses		3,286	4,988
Total personnel expenses		**174,217**	**187,451**

10.3 LIABILITY FOR POST-EMPLOYMENT BENEFITS: DEFINED BENEFIT PLANS (IAS 19)

10.3.1 Characteristics of defined benefit plans and risks associated with them

	2016			2017		
	Swiss plans	International plans	Total	Swiss plans	International plans	Total
Number of plans	5	3	8	5	3	8
Actives						
Number	500	99	599	493	96	589
Defined benefit obligation (CHF 1,000)	112,608	4,483	117,091	119,533	4,541	124,074
Weighted average duration in years	21.5	9.3	21.0	21.0	9.8	20.6
Retirees						
Number	29	–	29	31	–	31
Defined benefit obligation (CHF 1,000)	–	–	–	6,523	–	6,523
Weighted average duration in years	–	–	–	18.4	–	18.4
Total						
Number	529	99	628	524	96	620

Within the Group, various defined benefit plans exist, which differ in their purpose and financing according to local needs:

Country	Benefits	Funded/ Unfunded	Description and risks
Switzerland (Swiss plans)	Retirement, death-in-service and disability benefits	Funded	**Nature of the benefits provided** The pension plans of Tecan Group Ltd., Tecan Schweiz AG, Tecan Sales Switzerland AG and Tecan Trading AG are plans with guarantee of a minimum interest credit on the savings and fixed conversion rates at retirement. Disability and death benefits are defined as percentage of the insured salary. **Regulatory framework** The plan provides benefits based on the LPP/BVG law, which stipulates the minimum requirements of the mandatory employer-sponsored pension plan in Switzerland. In particular, annual salary up to CHF 84,600 (amount in 2016) must be insured and the financing is age-dependent with contribution rates in per cent of the insured salary ranging from 7% to 18%. The conversion rate to calculate the annuity based on the accrued savings capital is 6.8% at normal retirement age (65 for men and 64 for women). Under LPP/BVG law, the plan must be fully funded on a static basis at all times. In case of underfunding, recovery measures must be taken, such as additional financing from the employer or from the employer and employees, or reduction of benefits or a combination of both. **Specific plan rules** The saving credits for the retirement benefits are defined in percentage of the insured salary. The saving credits for the part of the annual salary between CHF 24,675 and CHF 84,600 are age-dependent and range from 8% to 19%. The saving credits for the part of the annual salary above CHF 84,600 amount to 14% for the employees and to 18% or 19% for the members of the management. The conversion rate for the mandatory part of the savings capital is 6.8% at normal retirement age. For the exceeding part of the savings capital, the conversion rate is defined by the board of trustees. The annual disability pension amounts to 70% of the insured salary, the annual partner's pension to 50% of the insured salary or to 60% of the current retirement pension. In case of death before retirement an additional lump-sum of 200% of the insured salary is paid. **Governance of the plan** The companies are affiliated to the collective foundation Swiss Life Collective BVG Foundation. The collective foundation is a separate legal entity. The foundation is responsible for the governance of the plan; the foundation's board of trustees is composed of an equal number of representatives from the employers and employees chosen from all affiliated companies. The foundation has set up investment guidelines, defining in particular the strategic allocation with ranges. Additionally, there are pension committees for each affiliated company composed of an equal number of representatives from the company and the employees. The pension committee is responsible for the set-up of the plan benefits. **Risks to which the plan exposes the Group** The plan provider Swiss Life Collective BVG Foundation has reinsured the risks disability, death, longevity and the investment risk with Swiss Life Ltd. Therefore, the only risks for the Group are that the Swiss Life Collective BVG Foundation terminates the affiliation contract or increases the premiums. **Plan amendments, settlements or curtailments** Sias AG and Xiril AG, acquired through business combination in 2015, were affiliated with the collective foundation Nest Sammelstiftung. Due to the legal integration of these subsidiaries in 2016, the acquired retirement benefit plans were transferred into the existing solution at Swiss Life. The resulting curtailment amounting to CHF 1.4 million was recognized in profit or loss of 2016.

Country	Benefits	Funded/ Unfunded	Description and risks
Austria (International plans)	Long-service leave benefits	Unfunded	**Nature of the benefits provided** The severance-payments plan of Tecan Austria GmbH and Tecan Sales Austria GmbH guarantees a one-time lump sum payment, once the employee leaves the company. The plan was closed for new members at December 31, 2002. Plan participants are all employees with at least 3 years of service and an entry-date before January 1, 2003. The membership to this plan is mandatory. **Regulatory framework** The plan provides benefits according to Austrian law (AngG 23 and 23a) which stipulates benefits in case of retirement, death (50%), disability or termination of employment. Vesting is after 3 years of service, whereas all rights forfeit in the case of voluntary termination. The level of the benefits depends on the period of service in the company and amounts to a lump-sum payment of 2 monthly salaries after 3 years of service up to 12 monthly salaries after 25 years of service. The monthly salary is defined as twelfth part of the total annual salary of the last 12 months. **Governance of the plan** Only the company (employer) is responsible for the governance of the plan. **Risks to which the plan exposes the Group** The plan is exposed to an inflation risk as well as to the risk of salary increases. There is no longevity risk because the payments are due latest at retirement. **Plan amendments, settlements or curtailments** There were no major plan amendments, settlements or curtailments during the financial years 2016 and 2017.
Other (International plans)	Retirement benefits	Unfunded	There are two minor retirement benefit plans in Tecan Japan Co., Ltd. and Tecan Italia S.r.l. for only a limited number of participants.
Other (International plans)	Retirement benefits	Funded	The Group acquired the SPEware Group in 2016. Immediately before the closing of the transaction, the associated retirement benefit plan was frozen and all contributions to the plan were stopped. The plan was settled in 2017.

10.3.2 Amounts recognized in the financial statements

The amounts recognized in the balance sheet are as follows:

CHF 1,000	2016	**2017**
Swiss plans		
Present value of obligations arising from retirement benefit plans (funded)	112,608	126,056
Related fair value of plan assets	(86,947)	(94,085)
Deficit Swiss plans	**25,661**	**31,971**
International plans		
Present value of obligations arising from long-service leave benefit plans (unfunded)	3,429	3,409
Present value of obligations arising from retirement benefit plans (unfunded)	1,056	1,132
Present value of obligations arising from retirement benefit plans (funded)	2,569	–
Related fair value of plans assets	(2,569)	–
Deficit International plans	**4,485**	**4,541**
Net liability at December 31	**30,146**	**36,512**

The components of defined benefit cost are as follows:

CHF 1,000	2016 Swiss plans	2016 International plans	2016 Total	2017 Swiss plans	2017 International plans	2017 Total
Current service cost	7,169	294	7,463	7,350	294	7,644
Past service cost (plan amendment)	–	24	24	–	–	–
Past service cost (curtailment)	(1,421)	–	(1,421)	–	–	–
Defined benefit cost included in operating profit	**5,748**	**318**	**6,066**	**7,350**	**294**	**7,644**
Net interest cost on liability for post-employment benefits	163	80	243	153	64	217
Defined benefit cost included in finance cost	**163**	**80**	**243**	**153**	**64**	**217**
Total defined benefit cost included in profit or loss	**5,911**	**398**	**6,309**	**7,503**	**358**	**7,861**
Actuarial (gains)/losses on obligations						
Changes in demographic assumptions	(40)	(26)	(66)	(994)	(3)	(997)
Changes in financial assumptions	2,809	17	2,826	–	28	28
Experience adjustments	545	45	590	5,191	(458)	4,733
Return on plan assets (excluding interest income)	(251)	–	(251)	137	–	137
Remeasurement loss, included in other comprehensive income	**3,063**	**36**	**3,099**	**4,334**	**(433)**	**3,901**
Translation differences, included in other comprehensive income	–	(25)	(25)	–	331	331
Total defined benefit cost recognized	**8,974**	**409**	**9,383**	**11,837**	**256**	**12,093**

The Group expects to contribute CHF 5.4 million to its defined benefit plans in 2018.

Changes in the present value of the defined benefit obligation are as follows:

CHF 1,000	2016 Swiss plans	2016 International plans	2016 Total	2017 Swiss plans	2017 International plans	2017 Total
Balance at January 1	106,054	4,439	110,493	112,608	7,054	119,662
Acquisition through business combination	–	2,484	2,484	–	40	40
Current service cost	7,169	294	7,463	7,350	294	7,644
Past service cost	(1,421)	24	(1,397)	–	–	–
Employee contributions	3,598	–	3,598	3,595	–	3,595
Insurance premiums	(1,771)	–	(1,771)	(1,804)	–	(1,804)
Benefits paid	(2,955)	(363)	(3,318)	(7,202)	(239)	(7,441)
Settlement payments from plan assets	(2,333)	–	(2,333)	–	(2,482)	(2,482)
Interest expense	953	80	1,033	788	64	852
Actuarial losses	3,314	36	3,350	4,198	(434)	3,764
Gross presentation disability benefits	–	–	–	6,523	–	6,523
Translation differences	–	60	60	–	244	244
Balance at December 31	**112,608**	**7,054**	**119,662**	**126,056**	**4,541**	**130,597**

Changes in the fair value of plan assets are as follows:

CHF 1,000	2016 Swiss plans	2016 International plans	2016 Total	2017 Swiss plans	2017 International plans	2017 Total
Balance at January 1	84,031	–	84,031	86,947	2,569	89,516
Acquisition through business combination	–	1,837	1,837	–	–	–
Employer contributions	5,336	647	5,983	5,528	–	5,528
Employee contributions	3,598	–	3,598	3,595	–	3,595
Insurance premiums	(1,771)	–	(1,771)	(1,804)	–	(1,804)
Benefits paid	(2,955)	–	(2,955)	(7,202)	–	(7,202)
Settlement payments from plan assets	(2,333)	–	(2,333)	–	(2,482)	(2,482)
Interest income	790	–	790	635	–	635
Return on plan assets (excluding interest income)	251	–	251	(137)	–	(137)
Gross presentation disability benefits	–	–	–	6,523	–	6,523
Translation differences	–	85	85	–	(87)	(87)
Balance at December 31	**86,947**	**2,569**	**89,516**	**94,085**	**–**	**94,085**

The investment risk for the Swiss plans is reinsured. Therefore the plan assets represent a receivable from the life insurance company.

10.3.3 Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2016 Swiss plans	2016 International plans[1]	2017 Swiss plans	2017 International plans[1]
Discount rates	0.70%	1.67%	0.70%	1.39%
Rate of future salary increases	1.75%	2.69%	1.75%	2.51%
Rate of future pension increases	0.00%	0.00%	0.00%	0.00%
Rates for the projection of savings capital[2]	1.00%	0.00%	1.00%	0.00%
Mortality tables[3]	BVG2015G	various	BVG2015GT	various

[1]Excluding plan SPEw are due to settlement
[2]Swiss plans: the rate is only applied to the mandatory part
[3]Calculation models used:
2016: Model 'Menthonnex'
2017: Model 'Continuous Mortality Investigation (CMI)'

Sensitivities of significant actuarial assumptions

The discount rate, the rate of future salary increase and the life expectancy were identified as significant actuarial assumptions. The following impacts on the defined benefit obligation are to be expected:

CHF 1,000	Change in actuarial assumptions	2016 Swiss plans	2016 International plans[1]	2016 Total	2017 Swiss plans	2017 International plans[1]	2017 Total
Discount rates	- 25 basis points	4,707	104	4,811	5,359	107	5,466
	+ 25 basis points	(4,482)	(104)	(4,586)	(4,900)	(110)	(5,010)
Rate of future salary increases	- 25 basis points	(853)	(99)	(952)	(821)	(106)	(927)
	+ 25 basis points	629	98	727	826	99	925
Life expectancy	- 1 year	(2,641)	(19)	(2,660)	(1,788)	(21)	(1,809)
	+ 1 year	2,401	13	2,414	1,820	10	1,830

(positive = increase in obligation/negative = decrease in obligation)
[1]Excluding plan SPEw are due to settlement

The sensitivity analysis is based on realistically possible changes at the end of the reporting period. Each change in significant assumption was analyzed separately as part of the test. Interdependencies were not taken into account.

10.4 EMPLOYEE PARTICIPATION PLANS – SHARE-BASED PAYMENT (IFRS 2)

10.4.1 Employee share option plans

The terms and conditions of the outstanding grants are as follows:

Plan	Plan terms				2016		2017	
	Grant date	Expiry date	Number granted	Exercise price	Remaining contractual life (years)	Number outstanding	Remaining contractual life (years)	Number outstanding
Plan 2010	02.11.2009	02.11.2016	63,492	70.0	–	1,854	–	–
Plan 2011	02.11.2010	02.11.2017	52,950	69.0	0.8	6,436	–	–
Plan 2012	02.11.2011	02.11.2018	59,998	57.2	1.8	5,853	0.8	3'691
Plan 2013	02.11.2012	02.11.2019	40,953	69.6	2.8	9,483	1.8	5'320
Plan 2014	02.11.2013	02.11.2020	35,112	95.0	3.8	16,856	2.8	7'492
Plan 2015	02.11.2014	02.11.2021	34,260	100.4	4.8	25,858	3.8	15'563
Plan 2016	02.11.2015	02.11.2022	23,569	135.0	5.8	23,646	4.8	17'831
Plan 2017	02.11.2016	02.11.2023	23,907	162.8	6.8	23,907	5.8	23'016
Plan 2018	02.11.2017	02.11.2024	22,071	212.1	–	–	6.8	22'071
Balance at December 31					**4.7**	**113,893**	**4.9**	**94'984**
Thereof exercisable at December 31						63,090		23'452

All plans are granted to members of the management level 3 and 4 and have a contractual life of 7 years. The vesting conditions are one/two/three years of service for 33%/33%/34% of options. One option grants the right to purchase one Tecan share with settlement by physical delivery (equity-settled). All outstanding options are fully covered by the conditional share capital.

The number and weighted average exercise price of the share options are as follows:

	2016 Weighted average exercise price (CHF)	Number	2017 Weighted average exercise price (CHF)	Number
Balance at January 1	95.87	117,167	112.83	113,893
Granted	162.80	23,907	212.10	22,071
Exercised	84.82	(23,319)	92.99	(39,053)
Forfeited	82.28	(2,009)	125.63	(1,342)
Expired	70.73	(1,853)	69.18	(585)
Balance at December 31	**112.83**	**113,893**	**144.14**	**94,984**

The weighted average share price at the date of exercise was CHF 152.45 in 2016 and CHF 181.19 in 2017.

The expenses, recognized in profit or loss, are calculated as follows:

The fair value of services received in return for the share options granted is measured by reference to the share options vested multiplied by their fair value at grant date (measurement date). The estimate of the fair value is based on a trinomial model. Changes in the fair value of the option after the grant date do not change the fair value of the services received.

Fair value of share options and key assumptions (not yet vested share option plans):

Grant	Share price	Exercise price	Expected volatility[1]	Option life	Expected dividends	Risk-free interest rate	Fair value
Plan 2015	CHF 100.40	CHF 100.40	22.54%	7.0 years	2.42%	0.45%	**CHF 18.54**
Plan 2016	CHF 135.00	CHF 135.00	26.41%	7.0 years	2.10%	(0.20%)	**CHF 29.24**
Plan 2017	CHF 162.80	CHF 162.80	29.42%	7.0 years	1.75%	(0.31%)	**CHF 40.47**
Plan 2018	CHF 212.10	CHF 212.10	22.73%	7.0 years	1.30%	(0.01%)	**CHF 42.37**

[1] Historic volatility with an underlying period that depends on the option life

Data source: Bloomberg

10.4.2 Employee share plans

10.4.2.1 Performance share matching plans (PSMP)

The terms and conditions of the outstanding grants are as follows, whereby all shares are delivered physically and free of charge (except for mandatory investment):

Plan	Employees entitled/grant date	Number of shares granted	Fair value at grant	Vesting period	Vesting conditions
Performance share matching plan (PSMP) 2015					
Initial grant	Extended Management Board and other management on April 16, 2015	20,727 shares	CHF 130.70	Graded vesting from January 1, 2015 to December 31, 2017[1]	Three years of service
Mandatory investment Up to 50% of the target cash bonus 2014	Extended Management Board on April 16, 2015	4,847 shares	CHF 130.70	Immediate vesting[1]	None
Matching shares	Extended Management Board and other management on April 16, 2015	63,935 shares (maximum of potential shares granted)	CHF 126.20	January 1, 2015 to December 31, 2017	Three years of service and performance target
Performance share matching plan (PSMP) 2016					
Initial grant	Extended Management Board on March 10, 2016	20,981 shares	CHF 146.95	Immediate vesting[1]	None
	Other management on May 23, 2016	2,335 shares	CHF 142.25		
Matching shares	Extended Management Board on March 10, 2016	52,453 shares (maximum of potential shares granted)	CHF 143.45	January 1, 2016 to December 31, 2018	Three years of service and performance target
	Other management on May 23, 2016	5,838 shares (maximum of potential shares granted)	CHF 138.75		
Performance share matching plan (PSMP) 2017					
Initial grant	Extended Management Board on March 9, 2017	17,859 shares	CHF 164.25	Immediate vesting[1]	None
	Additional grant CEO on April 11, 2017	7,000 shares	CHF 156.55		
	Other management on May 2, 2017	1,901 shares	CHF 169.55		
Matching shares	Extended Management Board on March 9, 2017	44,648 shares (maximum of potential shares granted)	CHF 160.75	January 1, 2017 to December 31, 2019	Three years of service and performance target
	Additional grant CEO on April 11, 2017	3,000 shares (maximum of potential shares granted)[2]	CHF 153.05		
	Other management on May 2, 2017	4,753 shares (maximum of potential shares granted)	CHF 166.05		

[1] Vested shares are blocked until the end of the performance period.

[2] Matching share factor capped at 0.43 instead of 2.5

Number of shares outstanding at December 31:

Employee shares	2016	2017
Balance at January 1	232,232	223,879
Granted	81,607	79,161
Deblocked and available to the participants	(47,290)	(82,858)
Forfeited	(42,670)	(8,511)
Balance at December 31	**223,879**	**211,671**
Thereof vested, but blocked until the end of the performance period	41,884	48,034

The expenses, recognized in profit or loss, are calculated as follows:

The fair value of services received in return for the shares granted is measured by reference to the shares vested multiplied by their fair value at grant date (measurement date). The fair value at grant represents the market value of one Tecan share adjusted for expected dividend payments during the vesting period. Changes in the fair value of the shares after the grant date do not change the fair value of the services received.

The number of matching shares is determined based on the following formula: number of shares from initial grant plus number of shares from mandatory (if applicable) times the matching share factor. The matching share factor is dependent on the achievement of specific economic profit targets. In any case, the matching share factor will not be lower than 0.0 and not higher than 2.5.

Number of matching shares expected to vest at December 31, 2017:

Plan	Initial grant[1]	Mandatory investment[1]	Total base shares	Matching share factor applied	Matching shares expected to vest[2]
PSMP 2015	18,671	4,549	23,220	2.50	58,050
PSMP 2016	21,274	n/a	21,274	2.50	53,185
PSMP 2017	19,760	n/a	19,760	2.50	49,400
PSMP 2017/CEO	7,000	n/a	7,000	0.43	3,000

[1] Only shares that qualify for matching shares

[2] Not adjusted for expected fluctuation

10.4.2.2 Other share plans

The terms and conditions of the outstanding grants are as follows, whereby all shares are delivered physically and free of charge:

Plan	Employees entitled/grant date	Number of shares granted	Fair value at grant	Vesting period	Vesting conditions
Share plan 2017 – Board of Directors (BoD)					
Annual grant	Board of Directors on April 11, 2017	2,064 shares	CHF 156.55	Graded vesting from May 1, 2017 to April 30, 2018	One year of service

10.4.3 Total expenses recognized

CHF 1,000	2016	2017
Expenses arising from equity-settled share option plans	639	805
Expenses arising from performance share matching plans	11,920	11,679
Expenses arising from other share plans	319	323
Total expenses recognized	**12,878**	**12,807**

11 INCOME TAXES

11.1 INCOME TAXES IN STATEMENT OF PROFIT OR LOSS AND RECONCILIATION

CHF 1,000	2016	2017
Current income taxes	10,748	14,763
Deferred income taxes	138	(1,633)
Total income taxes	**10,886**	**13,130**

The income tax expense can be analyzed as follows:

CHF 1,000	2016	2017
Profit before taxes	65,428	79,677
Tax expense based on the Group's weighted average rate of 21.98% (2016: 19.95%)	**13,050**	**17,510**
Non-deductible expenses and additional taxable income	2,115	260
Tax-free income and tax reductions	(5,229)	(5,444)
Potential tax assets not recognized	–	194
Tax-deductible impairments of investments in subsidiaries (including reversal)	(96)	(114)
Changes in the structure of the Group	–	794
Effect of US tax reform[1]	–	4
Effect of tax rate change on opening deferred taxes (excluding US)	210	25
Changes in recognition of tax losses	166	(40)
Unrecoverable withholding tax	(84)	(91)
Underprovided in prior years	754	32
Tax expense reported	**10,886**	**13,130**

[1]Effect of adjusting the existing deferred taxes on the enactment date (December 22, 2017) and applying the new (lower) tax rate on changes in temporary differences after that date

The tax rate of the Group is the weighted average tax rate obtained by applying the currently effective rate for each individual jurisdiction to its respective profit before taxes. As a result of changes in the country mix of the profit before taxes, the Group's expected tax rate for 2017 increased to 21.81%.

The US tax reform will reduce the weighted average tax rate as from January 1, 2018.

11.2 DEFERRED INCOME TAXES

11.2.1 Overview

Deferred taxes are included in the balance sheet as follows:

CHF 1,000	2016	2017
Deferred tax assets	16,204	15,342
Deferred tax liabilities	(14,752)	(11,587)
Net deferred tax asset at December 31	**1,452**	**3,755**

Deferred tax assets and liabilities are attributable to the following:

CHF 1,000	2016	Change 2017	2017
Net deferred tax assets arising from temporary differences			
Receivables	(275)	97	(178)
Inventories	4,906	(341)	4,565
Property, plant and equipment	(1,098)	645	(453)
Intangible assets	(11,337)	3,760	(7,577)
Liabilities and accrued expenses	8,293	661	8,954
Provisions	2,987	(1,928)	1,059
Other	(590)	(483)	(1,073)
Subtotal net deferred tax assets arising from temporary differences	**2,886**	**2,411**	**5,297**
Deferred taxes provided on expected dividends from subsidiaries	(1,754)	91	(1,663)
Potential tax benefits from tax loss carry-forwards	320	(199)	121
Net deferred tax asset at December 31	**1,452**	**2,303**	**3,755**
Deferred taxes recognized in profit or loss	(138)		1,633
Deferred taxes recognized in other comprehensive income	569		608
Deferred taxes recognized in equity	(283)		259
Acquisition through business combination	(7,049)		(218)
Translation differences	(124)		21
Total change compared with previous year	**(7,025)**		**2,303**

Temporary differences on intangible assets primarily relate to assets recognized during the purchase price allocation process for business combinations.

11.2.2 Potential tax benefits from tax loss-carry forwards

Tax loss carry-forwards:

	Gross value of tax loss carry forwards not capitalized		Potential tax benefits	
CHF 1,000	2016	2017	2016	2017
Expiring in				
1st – 5th year			–	–
6th year or beyond			–	–
Unlimited			320	121
Tax loss carry-forwards capitalized at December 31			**320**	**121**
Expiring in				
1st – 5th year	977	–	244	–
6th year or beyond	–	–	–	–
Unlimited	–	–	–	–
Tax loss carry-forwards not capitalized	**977**	**–**	**244**	**–**
Total tax loss carry-forwards	**977**	**–**	**564**	**121**

11.2.3 Unrecognized deferred tax liabilities

At December 31, 2017, there were temporary differences of CHF 258.6 million related to investments in subsidiaries for which no deferred tax liabilities were recognized since the Group controls the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The corresponding unrecognized amount is not material.

12 CASH AND CASH EQUIVALENTS

CHF 1,000	2016	2017
Bank balances		
Denominated in CHF	206,736	270,969
Denominated in EUR	20,623	22,027
Denominated in GBP	1,342	318
Denominated in USD	12,242	8,122
Denominated in JPY	973	1,011
Denominated in other currencies	4,828	6,965
Balance at December 31	**246,744**	**309,412**
Effective interest rate	0.02%	(0.07%)

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; December 31, 2016: CHF 0.0 million) that are included in the position 'current financial liabilities'.

13 CURRENT DERIVATIVES

CHF 1,000	2016	2017
Current derivatives	3,038	1,017
Balance at December 31	**3,038**	**1,017**

The derivatives comprise foreign currency forwards and options with positive fair values. For detailed disclosures see note 24.

14 TRADE ACCOUNTS RECEIVABLE

CHF 1,000	2016	2017
Trade accounts receivable		
Denominated in CHF	27,456	32,120
Denominated in EUR	19,533	23,256
Denominated in GBP	1,996	2,914
Denominated in USD	40,856	45,091
Denominated in JPY	2,369	4,012
Denominated in other currencies	4,988	7,734
Subtotal trade accounts receivable	**97,198**	**115,127**
Allowance for doubtful accounts		
Individual impairment allowance account	(1,851)	(3,033)
Collective impairment allowance account	(360)	(533)
Subtotal allowance for doubtful accounts	**(2,211)**	**(3,566)**
Construction contracts in progress		
Aggregate amount of cost incurred and recognized profits	15,915	6,883
Allowance	(1,247)	–
Amounts of advances received	(12,610)	(5,369)
Subtotal construction contracts in progress	**2,058**	**1,514**
Balance at December 31	**97,045**	**113,075**
Increase	4,529	15,608
Acquisition through business combination	3,180	-
Translation differences	46	422
Total change compared with previous year	**7,755**	**16,030**
Amount of contract revenue recognized as sales in the statement of profit or loss relating to construction contracts	7,074	10,077

The maximum exposure to credit risk for trade accounts receivable at the reporting date by geographic region was:

CHF 1,000	2016	2017
Switzerland (domestic)	3,329	2,297
Euro-zone countries	20,744	33,908
Other European countries	7,509	5,540
North America	55,089	60,225
Asia	9,153	11,524
Other	1,374	1,633
Balance at December 31	**97,198**	**115,127**

The Group's most significant customer accounts for 13.6% of the trade accounts receivable carrying amount at December 31, 2017 (December 31, 2016: 11.3%).

The movement in the allowance for impairment in respect of trade accounts receivable during the year was as follows:

CHF 1,000	2016	2017
Individual impairment allowance account		
Balance at January 1	(1,831)	(1,851)
Change in impairment losses	(74)	(1,464)
Write-offs	73	288
Translation differences	(19)	(6)
Balance at December 31	**(1,851)**	**(3,033)**
Amount of trade accounts receivable with individual impairment (gross)	1,936	3,107
Collective impairment allowance account		
Balance at January 1	(199)	(360)
Change in impairment losses	(163)	(150)
Translation differences	2	(23)
Balance at December 31	**(360)**	**(533)**

The due dates of trade accounts receivable that are not individually impaired were:

	2016		2017	
CHF 1,000	Gross	Impairment	Gross	Impairment
Not past due	82,298	(38)	84,538	–
Past due 1–30 days	11,137	–	21,284	–
Past due 31–90 days	2,327	–	5,392	–
Past due 91–360 days	(350)	(321)	842	(523)
Past due more than one year	(150)	(1)	(36)	(10)
Balance at December 31	**95,262**	**(360)**	**112,020**	**(533)**

The Group did not experience any severe financial difficulties with its debtors in the past. The sum of all recognized final write-offs of trade accounts receivable in 2016 and 2017 represents less than 1% of sales.

15 INVENTORIES

CHF 1,000	2016	2017
Raw materials, semi-finished and finished goods	63,477	69,340
Allowance for slow-moving inventories	(10,458)	(11,505)
Work in progress	2,340	2,966
Capitalized customer-specific development costs	113,050	97,923
Balance at December 31	**168,409**	**158,724**
Decrease	(9,375)	(10,327)
Acquisition through business combination	2,481	221
Translation differences	1	421
Total change compared with previous year	**(6,893)**	**(9,685)**
Amount of write-offs due to slow-moving inventories charged to the statement of profit or loss	2,564	2,141

16 NON-CURRENT FINANCIAL ASSETS

CHF 1,000	2016	2017
Non-current derivatives	36	157
Rent deposits	656	674
Balance at December 31	**692**	**831**

The derivatives comprise foreign currency forwards and options with positive fair values. For detailed disclosures see note 24.

17 PROPERTY, PLANT AND EQUIPMENT

CHF 1,000	Land and buildings	Leasehold improvements	Furniture and fittings	Machines and motor vehicles	EDP equipment	Equipment leased to customers[1]	Total 2016
At cost							
Balance at January 1, 2016	4,370	9,869	13,952	35,224	19,655	–	83,070
Acquisition through business combination	–	129	4	1,727	3	195	2,058
Additions	–	666	452	4,368	1,183	111	6,780
Disposals	–	(123)	(419)	(822)	(2,282)	–	(3,646)
Reclassification between the classes of PPE and from/to inventories	–	–	–	(959)	(2)	1'056	95
Reclassification to assets held-for-sale	(4,370)	–	–	–	–	–	(4,370)
Translation differences	–	41	(72)	57	(19)	(24)	(17)
Balance at December 31, 2016	**–**	**10,582**	**13,917**	**39,595**	**18,538**	**1,338**	**83,970**
Accumulated depreciation and impairment losses							
Balance at January 1, 2016	19	8,206	11,033	24,061	17,015	–	60,334
Annual depreciation	211	547	956	3,371	1,555	110	6,750
Disposals	–	(112)	(338)	(586)	(2,120)	–	(3,156)
Reclassification between the classes of PPE and from/to inventories	–	–	–	(227)	(3)	261	31
Reclassification to assets held for sale	(230)	–	–	–	–	–	(230)
Translation differences	–	29	(64)	3	(11)	(6)	(49)
Balance at December 31, 2016	**–**	**8,670**	**11,587**	**26,622**	**16,436**	**365**	**63,680**
Net book value	**–**	**1,912**	**2,330**	**12,973**	**2,102**	**973**	**20,290**

[1]See note 26.1

CHF 1,000	Land and buildings	Leasehold improvements	Furniture and fittings	Machines and motor vehicles	EDP equipment	Equipment leased to customers[1]	**Total 2017**
At cost							
Balance at January 1, 2017	–	10,582	13,917	39,595	18,538	1,338	83,970
Acquisition through business combination	–	23	7	–	7	–	37
Additions	–	467	211	4,637	2,605	222	8,142
Disposals	–	(235)	(410)	(886)	(1,648)	–	(3,179)
Reclassification between the classes of PPE and from/to inventories	–	71	89	(432)	44	192	(36)
Translation differences	–	(47)	223	592	253	187	1,208
Balance at December 31, 2017	**–**	**10,861**	**14,037**	**43,506**	**19,799**	**1,939**	**90,142**
Accumulated depreciation and impairment losses							
Balance at January 1, 2017	–	8,670	11,587	26,622	16,436	365	63,680
Annual depreciation	–	606	717	3,881	1,486	279	6,969
Disposals	–	(236)	(398)	(651)	(1,443)	–	(2,728)
Reclassification between the classes of PPE and from/to inventories	–	71	52	(223)	30	50	(20)
Translation differences	–	(41)	184	538	213	56	950
Balance at December 31, 2017	**–**	**9,070**	**12,142**	**30,167**	**16,722**	**750**	**68,851**
Net book value	**–**	**1,791**	**1,895**	**13,339**	**3,077**	**1,189**	**21,291**

[1]See note 26.1

There were no material purchase commitments at year-end 2016 and 2017.

18 INTANGIBLE ASSETS AND GOODWILL

18.1 OVERVIEW

CHF 1,000	Software	Development costs	Patents	Acquired brand	Acquired technology	Acquired client relationships	Goodwill	Total 2016
At cost								
Balance at January 1, 2016	27,432	49,387	64	1,312	6,354	10,172	58,171	152,892
Acquisition through business combination	–	–	–	395	4,630	14,679	39,004	58,708
Additions	–	–	116	–	–	–	–	116
Internally developed	784	6,642	–	–	–	–	–	7,426
Disposal	(1)	(136)	–	–	–			(137)
Translation differences	(8)	(6)	–	1	102	443	1,055	1,587
Balance at December 31, 2016	**28,207**	**55,887**	**180**	**1,708**	**11,086**	**25,294**	**98,230**	**220,592**
Accumulated amortization and impairment losses								
Balance at January 1, 2016	22,250	18,034	2	145	607	869	–	41,907
Annual amortization	1,222	10,780	60	315	753	1,014	–	14,144
Disposal	–	(132)	–	–	–	–		(132)
Translation differences	(2)	1	–	(2)	(11)	2	–	(12)
Balance at December 31, 2016	**23,470**	**28,683**	**62**	**458**	**1,349**	**1,885**	**–**	**55,907**
Net book value	**4,737**	**27,204**	**118**	**1,250**	**9,737**	**23,409**	**98,230**	**164,685**

CHF 1,000	Software	Development costs	Patents	Acquired brand	Acquired technology	Acquired client relationships	Goodwill	**Total 2017**
At cost								
Balance at January 1, 2017	28,207	55,887	180	1,708	11,086	25,294	98,230	220,592
Acquisition through business combination	–	–	–	–	2,187	–	3,021	5,208
Additions	–	–	148	–	–	–	–	148
Internally developed	1,277	10,074	–	–	–	–	–	11,351
Disposal	(336)	(586)						(922)
Translation differences	39	44	(2)	63	165	(182)	363	490
Balance at December 31, 2017	**29,187**	**65,419**	**326**	**1,771**	**13,438**	**25,112**	**101,614**	**236,867**
Accumulated amortization and impairment losses								
Balance at January 1, 2017	23,470	28,683	62	458	1,349	1,885	–	55,907
Annual amortization	1,246	11,916	99	358	1,294	1,810	–	16,723
Impairment loss	–	647	–	–	–	–	–	647
Disposal	(336)	(586)	–	–	–	–	–	(922)
Translation differences	10	5	–	23	96	75	–	209
Balance at December 31, 2017	**24,390**	**40,665**	**161**	**839**	**2,739**	**3,770**	**–**	**72,564**
Net book value	**4,797**	**24,754**	**165**	**932**	**10,699**	**21,342**	**101,614**	**164,303**

The amortization charge is recognized in the following line items of the statement of profit or loss:

CHF 1,000	2016	2017
Cost of sales	–	–
Sales and marketing	1,329	2'168
Research and development		
Annual amortization	11,593	13'310
Impairment	–	647
General and administration	1,222	1'245
Total amortization	**14,144**	**17'370**

18.2 IMPAIRMENT TESTS

For the purpose of impairment testing, goodwill is allocated to a cash-generating unit or to a group of cash-generating units that are expected to benefit from the synergies of the corresponding business combination. Subsequently, the recoverable amount of the cash-generating unit (higher of fair value less costs of disposal and value in use) is compared to its carrying amount. An impairment loss is only recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Value in use is normally assumed to be higher than the fair value less costs of disposal; therefore, fair value less costs of disposal is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

Value in use is calculated according to the discounted cash flow method. The cash flow projections are based on a five-year financial planning period. Cash flows beyond the five-year period are extrapolated applying the estimated long-term growth rates stated below. The expected growth in sales is based on external market studies and internal assessments prepared by management. Future cash flows are discounted using the weighted average cost of capital (WACC). The discount rates applied are pre-tax.

18.2.1 Financial year 2017

The Group performed impairment tests on cash-generating units containing goodwill in June 2017, using the following key assumptions:

Goodwill Cash-generating unit	Method	Carrying amount (CHF 1,000)	Test date	Basis for recoverable amount	Pre-tax discount rate	Projection period	Long-term growth rate
Goodwill Life Sciences Business Life Sciences Business	DCF-method	85,897	June 2017	Value in use	10.2%	5 years	0.0%
Goodwill Partnering Business Partnering Business	DCF-method	15,717	June 2017	Value in use	10.2%	5 years	0.0%

In addition, the Group prepared mandatory impairment tests for capitalized development costs relating to products that are not yet launched on the market, on August 31, 2017.

Based on the impairment tests 2017, there was no need for the recognition of any impairment. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the cash-generating unit to materially exceed its recoverable amount.

However, one development project of the business segment 'Life Science Business' was abandoned and the related capitalized development costs fully impaired during the second half of 2017.

18.2.2 Financial year 2016

The Group performed impairment tests on cash-generating units containing goodwill in June and December 2016 respectively, using the following key assumptions:

Goodwill Cash-generating unit	Method	Carrying amount (CHF 1,000)	Test date	Basis for recoverable amount	Pre-tax discount rate	Projection period	Long-term growth rate
Goodwill Life Sciences Business Life Sciences Business	DCF-method	85,826	December 2016	Value in use	10.3%	5 years	0.0%
Goodwill Partnering Business Partnering Business	DCF-method	12,404	June 2016	Value in use	9.5%	5 years	0.0%

In addition, the Group prepared mandatory impairment tests for capitalized development costs relating to products that are not yet launched on the market, on August 31, 2016.

Based on the impairment tests 2016, there was no need for the recognition of any impairment.

19 CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

CHF 1,000	Current bank liabilities	Current maturities of non-current bank liabilities	Other loans	Current derivatives[1]	**Total current**	Bank loans	Mortgages	Other loans (subordinated)	Non-current derivatives[1]	Contingent consideration[2]	**Total non-current**
Balance at January 1, 2016	2,578	2,597	–	4,824	**9,999**	970	1,575	1,919	1,057	–	**5,521**
Cash flows											
Change	(1,475)	–	–	–	**(1,475)**	–	–	–	–	–	**–**
Increase in loans	–	–	–	–	**–**	716	–	–	–	–	**716**
Repayment of loans	–	(3,535)	(1,624)	–	**(5,159)**	–	–	(1,919)	–	–	**(1,919)**
Non-cash changes											
Acquisition through business combination	–	932	1,624	–	**2,556**	–	–	–	–	8,768	**8,768**
Change in fair value	–	–	–	897	**897**	–	–	–	118	197	**315**
Transfer to current	–	1,052	–	–	**1,052**	(972)	(80)	–	–	–	**(1,052)**
Reclassification to liabilities held for sale		(80)	–	–	**(80)**	–	(1,495)	–	(74)	–	**(1,569)**
Translation differences	–	(10)	–	–	**(10)**	(10)	–	–	–	308	**298**
Balance at December 31, 2016	**1,103**	**956**	**–**	**5,721**	**7,780**	**704**	**–**	**–**	**1,101**	**9,273**	**11,078**
Analysis by currency											
Denominated in EUR					956						704
Denominated in USD					5,696						10,374
Denominated in JPY					441						–
Denominated in AUD					662						–
Denominated in other					25						–
Total					**7,780**						**11,078**
Analysis by interest rate											
Interest-free					5,721						1,101
Variable interest rates depending on LIBOR					–						–
Fixed interest rate											
0% – 2%					2,059						704
2% – 4%					–						–
4% – 6%					–						–
6% - 8%					–						–
WACC					–						9,273
Total					**7,780**						**11,078**

[1] See note 24

[2] See note 3.2

CHF 1,000	Current bank liabilities	Current maturities of non-current bank liabilities	Current derivatives[1]	Current contingent considera-tion[2]	**Total current**	Bank loans	Mort-gages	Non-current derivatives[1]	Non-current contingent considera-tion[2]	**Total non-current**
Balance at January 1, 2017	1,103	956	5,721	–	**7,780**	704	–	1,101	9,273	**11,078**
Cash flows										
Change	3,216	–	–	–	**3,216**	–	–	–	–	**–**
Increase in loans	–	–	–	–	**–**	437	–	–	–	**437**
Repayment of loans	–	(1,503)	–	–	**(1,503)**	–	–	–	–	**–**
Non-cash changes										
Acquisition through business combination	–	500	–	–	**500**	–	–	–	1,743	**1,743**
Change in fair value	–	–	(4,772)		**(4,772)**	–	–	(767)	856	**89**
Transfer to current	–	–	–	4,923	**4,923**	–	–	–	(4,923)	**(4,923)**
Translation differences	10	47	–	(51)	**6**	88	–	–	(182)	**(94)**
Balance at December 31, 2017	**4,329**	**–**	**949**	**4,872**	**10,150**	**1,229**	**–**	**334**	**6,767**	**8,330**
Analysis by currency										
Denominated in EUR					7					3,319
Denominated in USD					5,789					5,012
Denominated in JPY					2,724					–
Denominated in AUD					1,598					–
Denominated in other					32					–
Total					10,150					8,331
Analysis by interest rate										
Interest-free					949					335
Variable interest rates depending on LIBOR					–					–
Fixed interest rate										
0% – 2%					4,329					1,229
2% – 4%					–					–
4% – 6%					–					–
6% - 8%					–					–
WACC					4,872					6,767
Total					10,150					8,331

[1]See note 24

[2]See note 3.2

In 2017, the average interest rate paid on bank loans was 0.8% (2016: 0.8%).

20 DEFERRED REVENUE

CHF 1,000	2016 Current	2016 Non-current	2017 Current	2017 Non-current
Advance payments received related to product sales to be recognized upon delivery or customer's acceptance	12,119	46,945	12,686	38,960
Deferred income related to service contracts	21,235	–	22,451	–
Construction contracts in progress				
Aggregate amount of cost incurred and recognized profits	(1,009)	–	(4,119)	–
Amounts of advances received	1,034	–	5,316	–
Subtotal construction contracts in progress	**25**	**–**	**1,197**	**–**
Balance at December 31	**33,379**	**46,945**	**36,334**	**38,960**
Increase/(decrease)		28,571		(5,311)
Acquisition through business combination		32		–
Translation differences		(276)		281
Total change (current and non-current) compared with previous year		**28,327**		**(5,030)**

21 PROVISIONS

CHF 1,000	Warranties and returns	WEEE[1]	Legal cases	Other	Total 2016
Balance at January 1, 2016	9,470	1,001	326	9,637	20,434
Acquisition through business combination	286	–	–	2,337	2,623
Provisions made	8,996	60	–	1,859	10,915
Provisions used	(6,548)	–	–	(1,112)	(7,660)
Provisions reversed	(273)	(49)	(164)	(45)	(531)
Translation differences	(8)	(34)	(1)	57	14
Balance at December 31, 2016	**11,923**	**978**	**161**	**12,733**	**25,795**
Thereof current	11,923	–	161	9,512	21,596
Thereof non-current	–	978	–	3,221	4,199

[1] WEEE = waste electrical and electronic equipment (directive 2002/96/EC)

CHF 1,000	Warranties and returns	WEEE[1]	Legal cases	Other	**Total 2017**
Balance at January 1, 2017	11,923	978	161	12,733	25,795
Acquisition through business combination	–	–	–	–	–
Provisions made	13,031	77	74	2,257	15,439
Provisions used	(12,388)	(2)	–	(3,927)	(16,317)
Provisions reversed	(961)	1	–	(3,845)	(4,805)
Reclassification	–	–	–	73	73
Translation differences	101	85	19	1	206
Balance at December 31, 2017	**11,706**	**1,139**	**254**	**7,292**	**20,391**
Thereof current	11,706	–	254	3,096	15,056
Thereof non-current	–	1,139	–	4,196	5,335

[1] WEEE = waste electrical and electronic equipment (directive 2002/96/EC)

The provision for legal cases (2017: CHF 0.3 million and 2016: CHF 0.2 million) relates to several legal cases with former customers and employees in different subsidiaries, for which the timing of settlement was uncertain at year-end.

The position 'other' contains provisions to cover commitments relating to other non-current employee benefits (2017: CHF 3.7 million and 2016: CHF 3.1 million), to parts and material for discontinued products (2017: CHF 1.7 million and 2016: CHF 4.9 million), to regulatory issues (2017: CHF 0.0 million and 2016: CHF 0.3 million), to controversial transactional tax positions (2017: CHF 1.3 million and 2016: CHF 4.1 million) and to several minor items (2017: CHF 0.6 million and 2016: CHF 0.3 million).

22 SHAREHOLDERS' EQUITY

22.1 SHARE CAPITAL AND CAPITAL RESERVE

Holders of ordinary shares are entitled to dividends and to one vote per share at the General Meetings of Shareholders. All payments of the shareholders in excess of the nominal value of the share (CHF 0.10 / share) are classified to capital reserve (share premium).

22.2 NATURE AND PURPOSE OF THE EQUITY RESERVES

22.2.1 Treasury shares

The Position 'Treasury shares' comprises the acquisition cost of the treasury shares held by the Group. All rights attached to treasury shares are suspended until those shares are resold.

22.2.2 Translation differences

The translation differences comprise all foreign currency differences arising from the translation of the financial statements of foreign operations from their functional currency into the reporting currency (CHF).

22.3 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, 2016	11,467,577	–	11,467,577
New shares issued based on employee participation plans	73,794	–	73,794
Balance at December 31, 2016	**11,541,371**	**–**	**11,541,371**
New shares issued based on employee participation plans	123,501	–	123,501
Balance at December 31, 2017	**11,664,872**	**–**	**11,664,872**

22.4 DIVIDENDS PAID

	2016	**2017**	2018 Proposed
Number of shares eligible for dividend	11,498,012	11,608,657	11,664,872
Dividends paid (CHF/share)	1.75	1.75	2.00

22.5 CONDITIONAL SHARE CAPITAL RESERVED FOR THE EMPLOYEE PARTICIPATION PLANS

Shares (each share has a nominal value of CHF 0.10)	2016	2017
Balance at January 1	835,635	761,841
New shares issued based on employee participation plans	(73,794)	(123,501)
Balance at December 31	**761,841**	**638,340**
Employee share options and employee shares, not yet delivered	291,328	260,685

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

	2016	2017
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	13.04.2018
Shares (with a nominal value of CHF 0.10 each)	2,200,000	2,200,000
CHF	220,000	220,000

The Articles of Incorporation of Tecan Group Ltd. (the ultimate holding company) require that the existing conditional share capital for future business development shall be reduced if and to the extent authorized capital is used and that the authorized capital shall be reduced if and to the extent new shares are created under the respective conditional capital. However, the conditional share capital for employee participation plans is not affected by this rule.

22.7 CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base in order to ensure investor, creditor and market confidence and to sustain future development of business. It is the Group's target to keep a minimum equity ratio of 30% (reported in 2017: 68.5% and 2016: 66.2%), which limits the level of borrowings. Changes to this target are subject to the Board of Directors' approval. In addition, all covenants relating to bank liabilities must be satisfied at any time.

The Board of Directors monitors both the earnings per share and the ability of the Group to undertake future business development. Amongst others it may initiate share buyback programs in order to rebalance the position of the Group in relation to these targets.

The level of dividend payments to shareholders shall be kept on a constant and ongoing level.

There were no changes in the Group's approach to capital management during the year.

23 FOREIGN EXCHANGE RATES

The following foreign exchange rates were used for the preparation of the consolidated financial statements:

CHF		Closing exchange rates 31.12.2016	31.12.2017	Average exchange rates January to December 2016	2017
EUR	1	1.07	1.17	1.09	1.11
GBP	1	1.26	1.32	1.33	1.27
SEK	100	11.19	11.90	11.52	11.54
USD	1	1.02	0.97	0.99	0.98
SGD	1	0.70	0.73	0.71	0.71
CNY	1	0.15	0.15	0.15	0.15
JPY	100	0.88	0.86	0.91	0.88
AUD	1	0.73	0.76	0.73	0.75

24 FINANCIAL RISK MANAGEMENT (IFRS 7)

24.1 INTRODUCTION

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including interest rate risk and foreign currency risk) and liquidity risk. The Group's risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to economically hedge certain risk exposures.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors (Treasury Policy). Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The 'Treasury Policy' provides principles for specific areas, such as credit risk, interest rate risk, foreign currency risk, use of derivative financial instruments and investment of excess liquidity.

This note presents information about the Group's exposure to each of the risks arising from financial instruments and the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

24.2 CLASSES OF FINANCIAL INSTRUMENTS

CHF 1,000	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									
Currency forwards and options	–	3,038	–	36	**3,074**	(5,721)	–	(1,101)	**(6,822)**
Contingent consideration[2]	–	–	–	–	**–**	–	–	(9,273)	**(9,273)**
Financial instruments measured at amortized costs									
Cash and cash equivalents	246,744	–	–	–	**246,744**	–	–	–	**–**
Receivables	–	–	95,763	–	**95,763**	–	–	–	**–**
Rent and other deposits	–	–	341	656	**997**	–	–	–	**–**
Current bank liabilities	–	–	–	–	**–**	(1,103)	–	–	**(1,103)**
Bank loans	–	–	–	–	**–**	(956)	–	(704)	**(1,660)**
Payables and accrued expenses	–	–	–	–	**–**	–	(50,329)	–	**(50,329)**
Total financial instruments	**246,744**	**3,038**	**96,104**	**692**	**346,578**	**(7,780)**	**(50,329)**	**(11,078)**	**(69,187)**
Reconciling items[1]	–	–	10,725	–	**10,725**	–	(14,177)	–	**(14,177)**
Balance at December 31, 2016	**246,744**	**3,038**	**106,829**	**692**	**357,303**	**(7,780)**	**(64,506)**	**(11,078)**	**(83,364)**

[1] Receivables/payables arising from POC, VAT/other non-income taxes and social security

[2] See note 3.2

CHF 1,000	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									
Currency forwards	–	1,017	–	157	**1,174**	(949)	–	(334)	**(1,283)**
Contingent consideration[2]	–	–	–	–	**–**	(4,872)	–	(6,767)	**(11,639)**
Financial instruments measured at amortized costs									
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)**
Payables and accrued expenses	–	–	–	–	**–**	–	(59,193)	–	**(59,193)**
Total financial instruments	**309,412**	**1,017**	**112,815**	**831**	**424,075**	**(10,150)**	**(59,193)**	**(8,330)**	**(77,673)**
Reconciling items[1]	–	–	11,878	–	**11,878**	–	(16,597)	–	**(16,597)**
Balance at December 31, 2017	**309,412**	**1,017**	**124,693**	**831**	**435,953**	**(10,150)**	**(75,790)**	**(8,330)**	**(94,270)**

[1] Receivables/payables arising from POC, VAT/other non-income taxes and social security

[2] See note 3.2

24.3 CREDIT RISKS

Credit risk is the risk of financial loss to the Group if a customer or counterparty to financial instruments fails to meet its contractual obligations, and arises principally from cash and cash equivalents, time deposits, derivatives and trade accounts receivable.

All domestic and international bank relationships are selected by the CFO and Group Treasury. Only banks and financial institutions that are ranked in the top class of the respective country are accepted.

The credit risk with trade accounts receivable (see note 14) is limited, as the Group has numerous clients located in various geographical regions. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. For the purpose of risk control, the customers are grouped as follows (risk groups): governmental organizations, listed public limited companies, and other customers. Credit limits are established for each customer, whereby the credit limit represents the maximum open amount without requiring payments in advance or letters of credit; these limits are reviewed regularly (credit check).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. There are no commitments that could increase this exposure to more than the carrying amounts.

24.4 MARKET RISKS

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and other prices will affect the Group's result or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

24.4.1 Interest rate risks

At the reporting date the Group had the following interest-bearing financial instruments: cash and cash equivalents, time deposits, rent deposits and bank liabilities. All cash and cash equivalents mature or reprise in the short-term, no longer than three months.

Borrowings mainly bear interest at fixed rates. Cash and cash equivalents and borrowings issued at variable rates expose the Group to cash flow interest rate risk. For the interest rate profile of the Group's interest-bearing financial liabilities refer to note 19.

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The Group Treasury manages the interest rate risk in order to reduce the volatility of the financial result as a consequence of interest rate movements. For the decision whether new borrowings shall be arranged at a variable or fixed interest rate, the Group Treasury focuses on an internal long-term benchmark interest rate and considers the amount of cash and cash equivalents held at a variable interest rate. Currently the interest rate exposure is not hedged.

At December 31, 2017, if interest rates had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been CHF 1.2 million (2016: CHF 0.9 million) higher/lower, mainly as a result of cash positions held at variable rates.

24.4.2 Foreign currency risks

The Group incurs foreign currency risks on sales, purchases and borrowings denominated in a currency other than the functional currency of the respective Group companies. On a consolidated basis, the Group is also exposed to currency fluctuations between the Swiss franc (CHF) and the functional currencies of its Group companies. The two major currencies giving rise to currency risks are the Euro (EUR) and the US dollar (USD).

The Group centralizes its foreign currency exposure in a few locations only. The hedging policy of the Group is to cover the foreign currency exposure to a certain percentage of the operating activities (forecast sales and purchases). The Group uses forward exchange contracts, currency options and swaps to hedge its foreign currency risk on specific future foreign currency cash flows. These contracts have maturities of up to 18 months.

The Group does not hedge its net investment in foreign entities and the related foreign currency translation of local earnings.

The Group's exposure to foreign currency risk arising on financial instruments denominated in a currency different from the functional currency of the entity holding the instruments was as follows:

	2016				2017			
CHF 1,000	CHF	EUR	USD	Other	CHF	EUR	USD	Other
Derivatives	–	–	(3,831)	83	–	–	(79)	(30)
Contingent consideration	–	–	–	–	–	(2,090)	–	–
Cash and cash equivalents	674	12,811	1,048	2,364	568	9,336	2,009	687
Receivables	12	2,076	1,452	950	717	1,670	2,411	2,584
Rent and other deposits	–	42	–	–	–	42	–	–
Current bank liabilities	–	–	–	(1,103)	–	–	–	(4,322)
Bank loans	–	–	–	–	–	–	–	–
Payables and accrued expenses	11	(3,035)	(861)	(496)	(115)	(3,849)	(1,278)	(231)
Net exposure to currency at December 31	**697**	**11,894**	**(2,192)**	**1,798**	**1,170**	**5,109**	**3,063**	**(1,312)**

At December 31, if the CHF had moved against the USD and EUR with all other variables held constant, post-tax profit for the year would have been:

CHF 1,000	2016 higher/(lower)	**2017 higher/(lower)**
If CHF had weakened against EUR by 10%	945	373
If CHF had strengthened against EUR by 10%	(945)	(373)
If CHF had weakened against USD by 10%	(8,067)	(8,131)
If CHF had strengthened against USD by 10%	8,078	8,194

Foreign currency risks from financial instruments primarily relate to CHF/EUR and CHF/USD forwards and options.

The derivative financial instruments used as economic hedges of foreign currencies are summarized in the table below:

	Fair value		Contract value			
	Positive	Negative	Total	Due within		
CHF 1,000				1 and 90 days	91 and 360 days	1 and 2 years
Foreign currency forwards						
Sell USD	212	(5,175)	130,433	40,760	52,479	37,194
Buy USD	1,174	(42)	(37,194)	(21,399)	(15,795)	–
Sell CNY	108	–	7,164	7,164	–	–
Buy CNY	–	(25)	(7,164)	(7,164)	–	–
Foreign currency options						
Sell USD	–	(1,580)	35,665	35,665	–	–
Buy USD	1,580	–	(35,665)	(35,665)	–	–
Balance at December 31, 2016	**3,074**	**(6,822)**	**93,239**	**19,361**	**36,684**	**37,194**

	Fair value		Contract value			
	Positive	Negative	Total	Due within		
CHF 1,000				1 and 90 days	91 and 360 days	1 and 2 years
Foreign currency forwards						
Sell USD	760	(1'099)	134'941	49'202	50'177	35'562
Buy USD	413	(152)	(35'562)	(20'460)	(15'102)	-
Sell CNY	-	(32)	7'315	7'315	-	-
Buy CNY	1	-	(3'112)	(3'112)	-	-
Balance at December 31, 2017	**1'174**	**(1'283)**	**103'582**	**32'945**	**35'075**	**35'562**

24.5 LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Group Treasury manages the Group's liquidity to ensure sufficient liquidity to meet all liabilities when due, under both normal and stressed conditions, without facing unacceptable losses or risking damage to the Group's reputation.

It is the Group's target to have a cash reserve or committed credit lines in the amount of 10% of its annual sales budget centralized at Tecan Group Ltd. and Tecan Trading AG. Changes to this target are subject to the Board of Directors' approval. All cash in Tecan Group Ltd. and Tecan Trading AG, which does not count against such a cash reserve, is considered as excess liquidity. Excess liquidity can be invested in instruments such as time deposits, government and corporate bonds, shares of publicly listed companies and capital protected instruments.

The following are the contractual maturities of financial liabilities, including interest payments:

CHF 1,000	Carrying amount	Contractual cash flows	Between 1 and 90 days	Between 91 and 360 days	Between 1 and 2 years	Over 2 years
Derivative financial liabilities						
Foreign currency forwards	**5,242**					
Outflow		104,423	18,826	52,479	33,118	–
Inflow		(97,365)	(17,081)	(49,269)	(31,015)	–
Foreign currency options	**1,580**					
Outflow		35,665	35,665	–	–	–
Inflow		(34,076)	(34,076)	–	–	–
Non-derivative financial liabilities						
Current bank liabilities	1,103	1,104	1,104	–	–	–
Payables and accrued expenses[1]	50,329	50,330	31,768	18,524	–	38
Bank loans	1,660	1,679	957	6	5	711
Contingent consideration	9,273	10,190	–	–	5,095	5,095
Balance at December 31, 2016	**69,187**	**71,950**	**37,163**	**21,740**	**7,203**	**5,844**

[1] Excluding reconciling items (see note 24.2)

CHF 1,000	Carrying amount	Contractual cash flows	Between 1 and 90 days	Between 91 and 360 days	Between 1 and 2 years	Over 2 years
Derivative financial liabilities						
Foreign currency forwards	**1,283**					
Outflow		77,465	27,776	29,229	20,460	–
Inflow		(74,939)	(27,108)	(28,386)	(19,445)	–
Non-derivative financial liabilities						
Current bank liabilities	4,329	4,329	4,329	–	–	–
Payables and accrued expenses[1]	59,193	59,193	36,546	22,647	–	–
Bank loans	1,229	1,275	3	19	22	1,231
Contingent consideration	11,639	11,639	4,872	–	6,767	–
Balance at December 31, 2017	**77,673**	**78,962**	**46,418**	**23,509**	**7,804**	**1,231**

[1] Excluding reconciling items (see note 24.2)

Unused lines of credit amounting to CHF 140.7 million were available to the Group at December 31, 2017 (2016: CHF 44.8 million). In addition, the Group had uncommitted lines of credit amounting to CHF 90.0 million for the purpose of financing possible future business combinations.

25 FAIR VALUE MEASUREMENT AND DISCLOSURES

25.1 FAIR VALUE HIERARCHY

To increase consistency and comparability in fair value measurements and related disclosures, IFRS 13 established a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure their value.

Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets and liabilities that the Group can access at the measurement date.
Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs: Unobservable inputs for the asset or liability.

There have been no transfers between the levels in 2016 and 2017.

25.2 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS AFTER INITIAL RECOGNITION

The following table shows the valuation techniques used in the determination of fair values for assets and liabilities measured at fair value on a recurring basis after initial recognition:

Position	Net carrying amount in balance sheet measured at fair value (CHF 1,000)		Level	Data source	Model	Change in fair value recognized in position
	2016	**2017**				
Currency forwards	(3,748)	(109)	Level 2	Bloomberg	(forward rate – [spot rate +/- forward points]) * amount in foreign currency	Financial result
Currency options	p.m.	–	Level 2	Bloomberg	Black-Scholes model	Financial result
Contingent consideration	(9,273)	(11,639)	Level 3	n/a	See note 3.2	Other operating result

Contingent considerations – level 3 inputs: Beside of 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 7.1 million considering the sales-defined milestones.

25.3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS AFTER INITIAL RECOGNITION (IFRS 5)

Position	Net carrying amount in balance sheet measured according to IFRS 5 (CHF 1'000)		Fair value less costs to sell (CHF 1'000)		Level	Data source	Model	Impairment recognized in position
	2016	**2017**	2016	**2017**				
Land and buildings in Hombrechtikon (held for sale)	4'140	3'650	n.a.	3'650	Level 3	n/a	Net rental method See note 3.3	Other operating result

Land and buildings Hombrechtikon – level 3 inputs: Beside of the discount rate, the expected future rental income is the most significant unobservable input. It is based on the highest and best use of the property that differs from the current use due to its change in purpose.

25.4 FAIR VALUE DISCLOSURES OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

The carrying amount of financial instruments measured at amortized costs (see note 24.2) 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. Their fair values are disclosed in the following table:

Position	Net carrying amount in balance sheet measured at amortized cost (CHF 1'000)		Fair value disclosure (CHF 1'000)		Level	Data source	Model
	2016	**2017**	2016	**2017**			
Bank loans	(1'660)	(1'229)	(1'644)	(1'235)	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.

26 FUTURE PAYMENTS UNDER OPERATING LEASE ARRANGEMENTS

The Group did not enter into any finance lease contracts.

26.1 THE GROUP AS A LESSOR IN OPERATING LEASE ARRANGEMENTS

The operating leases relate to arrangements in which the Group provides instruments free of charge in return for a minimum commitment of the customer for consumables or reagents.

The future minimum lease payments (receivables) under non-cancellable operating leases are:

CHF 1,000	2016	**2017**
Due date		
Within one year	442	714
In 1 to 3 years	761	1,061
In 3 to 5 years	229	395
After 5 years	–	-
Balance at December 31	**1,432**	**2,170**

In financial year 2017, CHF 0.7 million (2016: CHF 0.4 million) were recognized as revenue from leases in the consolidated statement of profit or loss.

26.2 THE GROUP AS A LESSEE IN OPERATING LEASE ARRANGEMENTS

The commitments arising from operating leases are largely rental payments for buildings.

The future minimum lease payments (payables) under non-cancellable operating leases are:

CHF 1,000	2016	**2017**
Due date		
Within one year	7,818	8,296
In 1 to 3 years	12,803	13,208
In 3 to 5 years	7,325	7,319
After 5 years	2,809	1,388
Balance at December 31	**30,755**	**30,211**

In financial year 2017, CHF 8.9 million (2016: CHF 8.3 million) were recognized as expenses for leases in the consolidated statement of profit or loss.

27 CONTINGENT LIABILITIES, ENCUMBRANCE OF ASSETS AND OTHER COMMITMENTS

At December 31, 2016 and 2017, the Group had no significant contingent liabilities to third parties, and none of the Group's assets were pledged, assigned or subject to retention of title, except for the following positions:

CHF 1,000	2016	2017
Pledged assets		
Land and buildings (classified as held for sale)	4,140	3,650

Purchase commitments: In the ordinary course of business, the Group regularly enters into relationships with suppliers whereby the Group commits itself to purchase certain minimum quantities of raw materials for the manufacturing of its products in order to benefit from better pricing conditions and a stable supply. Such commitments reflect normal business operations, are in line with the Group's manufacturing plans and product life cycles and are not in excess of current market prices. The Group recognizes a provision for onerous contracts if and to the extent such commitments exceed the Group's expected purchase quantities.

28 RELATED PARTIES

The Group has a related party relationship with its subsidiaries and with key management personnel (members of the Board of Directors and the Management Board).

The total compensation paid to the key management personnel was:

CHF 1,000	2016	2017
Short-term employee benefits	5,515	5,950
Post-employment benefits	477	455
Share-based payment[1]	10,584	9,985
Total compensation	**16,576**	**16,390**

[1] See note 10.4 for more details

For further details concerning compensation, please refer to the compensation report. The information reported in this note and the information provided in other parts of the annual report may differ due to different recognition and valuation principles.

29 SUBSEQUENT EVENTS

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

30 GROUP RISK MANAGEMENT

30.1 INTRODUCTION

Group risk management is a systematic assessment that addresses all kind of risks posing a potential threat to the business activities of the Group. It is the umbrella process for all other risk management activities throughout the Group. The risk assessment process is coordinated by the CFO; however, the ultimate responsibility is with the Board of Directors.

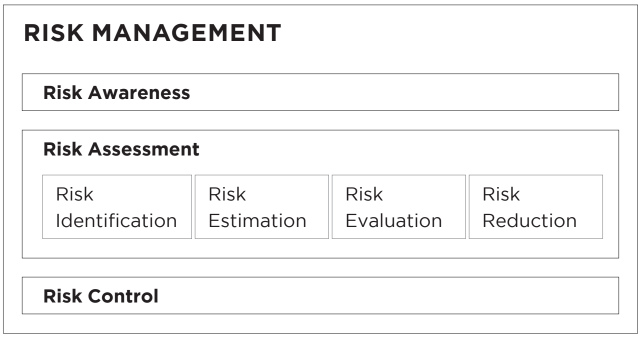
30.2 RISK ASSESSMENT CYCLE

30.2.1 Initiation of risk assessment

The Group risk assessment cycle takes place every two years unless otherwise mandated by the Board of Directors or by a triggering event. A review during the intermediate year assesses the need for action.

In a first step, the Board of Directors determines the risk acceptance and appoints the risk assessment team. The risk acceptance defines which combinations of risk characteristics (probability and severity of damage) are acceptable and which are not acceptable for the Group. This definition is the basis for the risk classification (see below). The risk assessment team includes representatives from various functions and disciplines such as Finance, Quality & Regulatory, Advisory & Support, Operations and Internal Audit.

The risk assessment team follows the process that is presented below:



30.2.2 Risk identification

The risk assessment team conducts periodic workshops to identify potential risks in the following categories:

- Hazard risk
- Financial risk
- Operational risk
- Strategic risk

Furthermore, the risk assessment team considers the results of all other risk management activities within the Group:

- Product-related risk management
- IT risk management
- Business risk management for significant business units and market units
- Strategy
- Mid-term plan
- Budget

30.2.3 Risk estimation and evaluation

Each of the identified risks is estimated and evaluated and finally classified to the following risk categories:

- *Acceptable risk:* No further risk mitigation actions required.
- *Elevated risk:* Further risk mitigation actions recommended. Requires justification and approval by the CFO if no further measures are taken.
- *Unacceptable risk:* Further risk mitigation actions are strongly recommended. Requires justification and approval by the Board of Directors if no further measures are taken.

30.2.4 Risk reduction, risk report and approval

Risk reduction measures must be investigated and implemented for risks that are elevated or unacceptable, unless the risks are explicitly accepted by the risk assessment team.

As a result, the risk assessment team prepares a risk summary report containing all significant risks and measures taken. The final status of the risk assessment is reported to the Executive Management. The Board of Directors finalizes the risk assessment cycle with its approval. Risks remaining unacceptable must each be approved individually.

30.2.5 Risk control

Risk management is a dynamic process and forms a part of all planning and other activities of the Group. Within the process of ongoing risk control, members of the risk assessment team continuously collect information about risk factors and risk-related information. If any new potential elevated or unacceptable risk arises, it is brought immediately to the attention of the CFO.

Building a better working world

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To the General Meeting of
Tecan Group Ltd., Männedorf

Zurich, 8 March 2018

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Tecan Group Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated statement of profit and loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 5 to 55) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements (pages 5 to 55).

Revenue recognition

Area of focus	For goods sold and services rendered, sales are recorded at the time the risk and benefits of ownership are substantially transferred to customers. Revenue recognition from products with material application and installation work requires a written acceptance by the customer. Revenue from service contracts is recognized pro-rata based on the full contract period. Refer to note 2.7.2 (Accounting and valuation principles: Sales – revenue recognition) in the consolidated financial statements for further details. Revenue recognition is significant to our audit as the Group generates revenues from different streams (goods sold and services rendered) and due to the risks that transactions may be recorded in the incorrect period.
Our audit response	Our audit procedures included assessing the application of the Group's revenue recognition policies. We tested a sample of transactions near the year-end and agreed the details of these transactions to underlying documentation, such as the contractual terms, to ensure that revenue has been recognized in the appropriate period and in the appropriate amount. For sales transactions where material application and installation work was required, we evaluated whether written customer acceptance had been received before revenue was recognized.

Goodwill impairment test

Area of focus	As at 31 December 2017, the Group reported CHF 101.6 million in goodwill as a result of previous acquisitions. For purposes of the annual impairment test, goodwill is allocated to a cash-generating unit or to a group of cash-generating units that are expected to benefit from the synergies of the corresponding business combination. The recoverable amount (higher of fair value less costs of disposal and value in use) of the cash-generating unit is compared to its carrying amount. An impairment loss is recognized if the carrying amount of the cash-generating unit exceeds its recoverable amount. Refer to notes 2.7.15 (Accounting and valuation principles: Goodwill) and 18 (Intangible assets and goodwill) in the consolidated financial statements for further details. The goodwill impairment test is significant to our audit due to the complexity and judgment involved in the Group's impairment test.
Our audit response	Our audit procedures included understanding the Group's goodwill impairment testing process and the determination of key assumptions. We evaluated the Group's impairment testing model and key assumptions involving valuation specialists. We further corroborated the

Company's key assumptions applied based on internally and externally available evidence and underlying data.

Income taxes – Accounting for uncertain tax positions

Area of focus	The Group operates in multiple tax jurisdictions that are regulated by various tax laws and is subject to periodic tax audits by local tax authorities. The Group is required to use significant judgment in estimating the appropriate amount to record in respect to uncertain income tax positions. Refer to note 2.2.3 (Critical accounting estimates and judgments: Income taxes) in the consolidated financial statements for further details. The accounting for uncertain income tax positions is significant to our audit due to the complexity and judgment involved in the Group's identification and determination of uncertain income tax positions.
Our audit response	Our audit procedures included evaluating the Group's judgments used in the determination of uncertain income tax positions, involving local and group tax specialists. Our procedures focused on considering the status of past and current tax audits in relevant jurisdictions, analyzing the Group's correspondence with the relevant tax authorities and corroborating the assumptions utilized with supporting evidence.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Andreas Bodenmann Licensed audit expert (Auditor in charge)	Siro Bonetti Licensed audit expert

BALANCE SHEET OF TECAN GROUP LTD. AT DECEMBER 31

ASSETS

CHF 1,000	Notes	31.12.2016	31.12.2017
Cash and cash equivalents		143,735	145,873
Current loans to subsidiaries	4	52,052	57,000
Other accounts receivable from third parties		20	9
Other accounts receivable from subsidiaries		5,097	1,969
Prepaid expenses		12	12
Current assets		**200,916**	**204,863**
Investments in subsidiaries	3	63,479	63,479
Non-current loans to subsidiaries		32,000	32,000
Property, plant and equipment		1	2
Non-current assets		**95,480**	**95,481**
Assets		**296,396**	**300,344**

LIABILITIES AND EQUITY

CHF 1,000	Notes	31.12.2016	31.12.2017
Other accounts payable to third parties		112	86
Other accounts payable to subsidiaries		17	9
Income tax payables		169	–
Accrued expenses		876	1,168
Current liabilities		**1,174**	**1,263**
Provision for general business risks	5	30,000	30,000
Other non-current provisions		112	124
Non-current liabilities		**30,112**	**30,124**
Total liabilities		**31,286**	**31,387**
Share capital		1,154	1,166
Legal capital reserve (capital contribution reserve)		15,552	35,386
General legal retained earnings		1,000	1,000
Voluntary retained earnings		247,404	231,405
Shareholders' equity	6	**265,110**	**268,957**
Liabilities and equity		**296,396**	**300,344**

INCOME STATEMENT OF TECAN GROUP LTD.

CHF 1,000	2016	2017
Royalties from subsidiaries	4,597	660
Dividend income from subsidiaries	67,387	5,000
Interest income from third parties	–	3
Interest income from subsidiaries	659	920
Foreign exchange gains, net	–	21
Operating income	**72,643**	**6,604**
Personnel expenses	(1,166)	(1,175)
Change in provision relating to employee participation plans	1,266	–
Other operating expenses	(1,177)	(1,085)
Depreciation of property, plant and equipment	(1)	(1)
Interest expense to third parties	(16)	(26)
Foreign exchange losses, net	(16)	–
Operating expenses	**(1,110)**	**(2,287)**
Operating profit	**71,533**	**4,317**
Impairment on investments in and loans to subsidiaries	(2,132)	–
Extraordinary, non-recurring or prior-period income and expenses	**(2,132)**	**–**
Profit before taxes	**69,401**	**4,317**
Income taxes	(166)	(1)
Profit for the period	**69,235**	**4,316**

Notes to the financial statements of Tecan Group Ltd.

1 REPORTING ENTITY

Tecan Group Ltd. is 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of Tecan Group Ltd. (the 'Company') have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations (32nd title) introduced on January 1, 2013. They are a supplement to the consolidated financial statements (pages 5 through 55) prepared in accordance with International Financial Reporting Standards (IFRS). While the consolidated financial statements reflect the economic situation of the Group as a whole, the information reported in the Company's financial statements (pages 60 through 68) relates to the ultimate parent company alone. The retained earnings disclosed in these financial statements provide the basis for the decision regarding the distribution of earnings to be made during the Annual General Meeting of Shareholders.

Subsidiaries include all legal entities which are directly or indirectly owned and controlled by the Company.

As consolidated financial statements are provided, the Company is exempt from the disclosure of a management report, a cash flow statement and extended information in the notes.

2.2 ACCOUNTING AND VALUATION PRINCIPLES

2.2.1 Loans

Loans are valued at historical costs adjusted for foreign currency translation differences and less any impairment of value.

2.2.2 Investments in subsidiaries

Investments are valued at historical costs less any impairment of value, applying the single-asset-valuation principle.

2.2.3 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that the outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

3 INVESTMENTS IN SUBSIDIARIES

3.1 OVERVIEW (DIRECT AND INDIRECT INVESTMENTS)

The investments in directly and indirectly held subsidiaries are the same for the years ended December 31, 2016 and December 31, 2017, except as noted below in note 3.2.

Company	Registered office	Participation in % (capital and votes)	Share capital (LC 1,000)	Currency	Activities
Tecan Schweiz AG	Männedorf/Zurich (CH)	100%	5,000	CHF	R/P/D
Tecan Trading AG	Männedorf/Zurich (CH)	100%	300	CHF	S/D
• Pulssar Technologies S.A.S	Paris (FR)	100%	400	EUR	inactive
Tecan Sales Switzerland AG	Männedorf/Zurich (CH)	100%	250	CHF	D
Tecan Austria GmbH	Grödig/Salzburg (AT)	100%	1,460	EUR	R/P
Tecan Sales Austria GmbH	Grödig/Salzburg (AT)	100%	35	EUR	D
Tecan Sales International GmbH	Grödig/Salzburg (AT)	100%	35	EUR	D
Tecan Landesholding GmbH	Crailsheim/Stuttgart (DE)	100%	25	EUR	S
• Tecan Deutschland GmbH	Crailsheim/Stuttgart (DE)	100%	51	EUR	D
• Tecan Software Competence Center GmbH	Mainz-Kastel (DE)	100%	103	EUR	R
• IBL International GmbH	Hamburg (DE)	100%	25	EUR	R/P/D
Tecan Benelux B.V.B.A.	Mechelen (BE)	100%	137	EUR	D
Tecan France S.A.S.	Lyon (FR)	100%	2,760	EUR	D
Tecan Iberica Instrumentacion S.L.	Barcelona (ES)	100%	30	EUR	D
Tecan Italia S.r.l.	Milano (IT)	100%	77	EUR	D
Tecan UK Ltd.	Reading (UK)	100%	500	GBP	D
Tecan Nordic AB	Stockholm (SE)	100%	100	SEK	D
Tecan US Group, Inc.	Morrisville, NC (US)	100%	1,500	USD	S
• Tecan US, Inc.	Morrisville, NC (US)	100%	400	USD	D
• Tecan Systems, Inc.	San Jose, CA (US)	100%	26	USD	R/P
• Tecan SP, Inc.	Baldwin Park/Los Angeles, CA (US)	100%	472	USD	R/S/D
IBL International Corp.	Toronto (CA)	100%	0	USD	inactive
Tecan Asia (Pte.) Ltd.	Singapore (SG)	100%	800	SGD	S
Tecan (Shanghai) Trading Co., Ltd.	Shanghai (CN)	100%	3,417	CNY	D
Tecan Japan Co., Ltd.	Kawasaki(JP)	100%	125,000	JPY	D
Tecan Australia Pty Ltd	Melbourne (AU)	100%	0	AUD	D

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

3.2 CHANGE IN INVESTMENTS

The Company acquired 100% of the voting rights of SPEware Corp. (including Cera Inc.) on September 30, 2016 and 100% of the voting rights of Pulssar Technologies S.A.S. on February 28, 2017. Cera Inc was merged into SPEware Corp. (renamed to Tecan SP, Inc.) and IBL International B.V. was liquidated and closed in 2017.

4 CURRENT LOANS TO SUBSIDIARIES

CHF 1,000	2016	2017
Current loans to subsidiaries	52,488	57,000
Allowance	(436)	–
Balance at December 31	**52,052**	**57,000**

5 PROVISION FOR GENERAL BUSINESS RISKS

The provision for general business risks relates to investments in subsidiaries.

6 SHAREHOLDERS' EQUITY

6.1 CHANGES IN SHAREHOLDERS' EQUITY

CHF 1,000	Share capital	Legal capital reserve (capital contribution reserve)	General legal retained earnings	Voluntary retained earnings	Total share-holders' equity
Balance at January 1, 2016	**1,147**	**5,717**	**1,000**	**198,291**	**206,155**
Net profit	–	–	–	69,235	69,235
Dividend paid	–	–	–	(20,122)	(20,122)
New shares issued based on employee participation plans	7	9,835	–	–	9,842
Balance at December 31, 2016	**1,154**	**15,552**	**1,000**	**247,404**	**265,110**
Net profit	–	–	–	4,316	4,316
Dividend paid	–	–	–	(20,315)	(20,315)
New shares issued based on employee participation plans	12	19,834	–	–	19,846
Balance at December 31, 2017	**1,166**	**35,386**	**1,000**	**231,405**	**268,957**

The Company's share capital is CHF 1,166,487, consisting of 11,664,872 registered shares with a nominal value of CHF 0.10 each (2016: share capital of CHF 1,154,137 consisting of 11,541,371 registered shares with a nominal value of CHF 0.10 each).

The amount of the legal capital reserve (capital contribution reserve) is subject to review and confirmation by the Swiss federal tax authorities.

6.2 CONDITIONAL AND AUTHORIZED SHARE CAPITAL

In 1997, a conditional share capital of CHF 130,000 reserved for employee participation plans was approved. The conditional share capital consisted of 1,300,000 registered shares with a nominal value of CHF 0.10 each. Since 1999, several employee participation plans have been introduced based on this conditional share capital. Between February 2011 and June 2015 the employee participation plans were funded with treasury shares. In 2017 a total of 39,053 options (share option plans) were exercised and 84,448 shares transferred (share plans), increasing the Company's share capital by CHF 12,350 and decreasing the Company's conditional share capital by 123,501 shares (2016: a total of 23,319 options were exercised and 50,475 shares transferred, increasing the share capital by CHF 7,379 and decreasing the conditional share capital by 73,794 shares).

On April 26, 2006 and on April 13, 2016, the Annual General Meeting of Shareholders approved the creation of additional conditional and authorized share capital for the purpose of future business development.

	2016	2017
Conditional share capital		
Reserved for employee participation plans		
Shares (with a nominal value of CHF 0.10 each)	761,841	638,340
CHF	76,184	63,834
Employee share options and employee shares, not yet delivered	291,328	260,685
Reserved for future business development		
Shares (with a nominal value of CHF 0.10 each)	1,800,000	1,800,000
CHF	180,000	180,000
Authorized share capital		
Reserved for future business development		
Expiry date	13.04.2018	13.04.2018
Shares (with a nominal value of CHF 0.10 each)	2,200,000	2,200,000
CHF	220,000	220,000

The Articles of Incorporation of Tecan Group Ltd. require that the existing conditional share capital for future business development shall be reduced if and to the extent authorized capital is used and that the authorized capital shall be reduced if and to the extent new shares are created under the respective conditional capital. However, the conditional share capital for employee participation plans is not affected by this rule.

7 NUMBER OF EMPLOYEES

FTE (full-time equivalent)	2016	2017
Employees – average	1.0	1.0

8 NUMBER OF SHARES AND SHARE OPTIONS

During the year the following number and value of shares were granted:

	2016		2017	
	Number	Value (CHF 1,000)	Number	Value (CHF 1,000)
Board of Directors				
Shares	2,251	313	2,064	323
Employees				
Shares	3,315	479	3,045	493
Total	**5,566**	**792**	**5,109**	**816**

The numbers and values disclosed include the maximum amount of matching shares granted. The final amount of matching shares that will vest is not only subject to a service period of three years, but also to the achievement of specific performance targets on the Group level.

9 GUARANTEES IN FAVOR OF THIRD PARTIES

The total amount of guarantees in favor of its subsidiaries was CHF 91.4 million at December 31, 2017 (2016: CHF 89.9 million). In addition the Company is member of the VAT-group of Tecan Schweiz AG.

10 LIABILITIES FROM LEASE ARRANGEMENTS NOT INCLUDED IN THE BALANCE SHEET

The future minimum lease payments under non-cancellable leases are:

CHF 1,000	2016	2017
Liabilites from lease arrangements	–	**45**

11 INFORMATION ACCORDING TO ARTICLE 663C OF THE SWISS CODE OF OBLIGATIONS

11.1 SIGNIFICANT SHAREHOLDERS

The Company has knowledge of the following significant shareholders with shareholdings in excess of 3% of the issued share capital at December 31: [1]

	2016	2017
Chase Nominees Ltd., London (UK)	13.4%	13.3%
NN Group N.V., Amsterdam (NL)	7.4%	7.3%
BlackRock Inc., New York (US)	5.0%	6.4%
Massachusetts Mutual Life Insurance Company, Springfield MA (US)	4.9%	4.9%
UBS Fund Management (Switzerland) AG, Basel (CH)	5.0%	4.9%
APG Algemene Pensioen Groep N.V., Amsterdam (NL)	5.0%	4.9%
Norges Bank (the Central Bank of Norway), Oslo (NO)	3.0%	3.0%
Pictet Funds SA, Geneva (CH)	3.0%	3.0%
Wellington Management Group LLP, Boston (US)	<3%	3.0%
Credit Suisse Funds AG, Zürich (CH)	3.3%	<3%

[1]Percentages are based on the most recent shareholder notifications to SIX, adjusted to the actual share capital at the end of the reporting period.

11.2 SHARE AND OPTION OWNERSHIP OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

For details of the employee participation plans please refer to note 10.4 of the consolidated financial statements.

11.2.1 Share and option ownership of the Board of Directors

Number	Year	Employee share option plans[1] 2010	2011	**Total options**	**Total shares**
Strike price in CHF		70.00	69.00		
Expiring in		2016[2]	2017		
Rolf Classon (Chairman)	2016	1,700	2,442	**4,142**	**6,748**
	2017	–	–	**–**	**7,293**
Heinrich Fischer (Vice Chairman)	2016	–	–	**–**	**15,896**
	2017	–	–	**–**	**16,237**
Dr. Oliver S. Fetzer	2016	–	–	**–**	**1,975**
	2017	–	–	**–**	**2,248**
Lars Holmqvist	2016	–	–	**–**	**352**
	2017	–	–	**–**	**625**
Dr. Karen Hübscher	2016	–	–	**–**	**1,571**
	2017	–	–	**–**	**625**
Dr. Christa Kreuzburg	2016	–	–	**–**	**1,201**
	2017	–	–	**–**	**1,474**
Gérard Vaillant	2016	–	–	–	**1,975**
	2017	–	–	**–**	**2,248**
Balance at December 31, 2016		1,700	2,442	**4,142**	**29,718**
Balance at December 31, 2017		–	–	**–**	**30,750**

[1]All options are vested and exercisable.
[2]Extended due to insider trading restrictions in 2016

11.2.2 Share and option ownership of the Management Board

Number	Year	Total options	Total shares
Dr. David Martyr (CEO)	2016	–	**16,037**
	2017	–	**21,930**
Dr. Rudolf Eugster (CFO)	2016	–	**9,088**
	2017	–	**7,776**
Ulrich Kanter	2016	–	**4,878**
	2017	–	**5,825**
Dr. Achim von Leoprechting	2016	–	**5,974**
	2017	–	**5,943**
Dr. Klaus Lun	2016	–	**5,728**
	2017	–	**5,512**
Erik Norström	2016	–	**–**
(since December 2017)[1]	2017	–	**130**
Markus Schmid	2016	–	**5,703**
	2017	–	**5,199**
Dr. Stefan Traeger	2016	–	**6,389**
(until March 2017)[2]	2017	–	**–**
Andreas Wilhelm	2016	–	**5,256**
	2017	–	**5,199**
Balance at December 31, 2016		–	**59,053**
Balance at December 31, 2017		–	**57,514**

[1] Shares and share options in 2016 are not disclosed, because the member of the Board joined after year-end 2016.

[2] Shares and share options in 2017 are not disclosed, because the member of the Board stepped down before year-end 2017.

APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to the Annual General Meeting of Shareholders on April 17, 2018 to allocate the voluntary retained earnings as follows:

CHF 1,000	2016 Approved	**2017 Proposed**
Carried forward from previous year	178,169	227,089
Net profit	69,235	4,316
Available retained earnings	**247,404**	**231,405**
Dividend paid as approved by the annual general meeting of shareholders on April 13, 2016: CHF 1.75 per share with a nominal value of CHF 0.10 each (total 11,608,657 shares eligible for dividend)	(20,315)	
Dividend proposed: CHF 2.00 per share with a nominal value of CHF 0.10 each (total 11,664,872 shares eligible for dividend)[1]		(23,330)
Balance to be carried forward	**227,089**	**208,075**

[1]These numbers are based on the outstanding share capital at December 31, 2017. The number of shares eligible for dividend may change due to the repurchase or sale of treasury shares and the issuance of up to 81,502 new shares from the conditional share capital reserved for employee participation plans.

Building a better working world

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To the General Meeting of
Tecan Group Ltd., Männedorf

Zurich, 8 March 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Tecan Group Ltd. (the "Company"), which comprise the balance sheet, income statement and notes (pages 60 to 67), for the year ended 31 December 2017.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the Company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each

matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements (pages 60 to 67).

Valuation of investments in subsidiaries

Area of focus	As at 31 December 2017, investments in subsidiaries of the Company amounted to CHF 63.5 million and represent 21% of total assets. Investments in subsidiaries are valued at historical cost less any impairment of value. The Company values investments in subsidiaries individually (single-asset-valuation principle). Refer to note 2.2.2 (Investments in subsidiaries) in the financial statements for further details. Investments in subsidiaries are significant to our audit due to the complexity and judgment involved in the Company's impairment test.
Our audit response	Our audit procedures included understanding the Company's investment in subsidiaries impairment testing process and the determination of key assumptions. We evaluated the Company's impairment testing model and key assumptions. We further corroborated the Company's key assumptions applied based on internally and externally available evidence and underlying data.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Andreas Bodenmann	Siro Bonetti
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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