Tecan Interim Report 2019

Empowering the Century of Biology.

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Dear Shareholders

Tecan once again posted a substantial increase in sales in the first half of 2019. The Life Sciences Business recorded a particularly pleasing performance with strong demand in the instrument business, driven by our leading Fluent automation solution. In the Partnering Business, sales of components also posted particularly strong growth.

Innovation will remain a key sales driver in the future. We launched ground-breaking product platforms in two of our core markets, genomics and cell biology, in the first half of the year. With NGS DreamPrep, we are able to offer our customers in life science research an integrated, fully automated sample preparation solution for next-generation sequencing (NGS), including the highly innovative reagents of Tecan Genomics. In our detection business, we launched the Spark Cyto reader platform. Its additional imaging capabilities enables laboratories to perform novel analyses of cells in real time. We are delighted with the high level of interest that the two products have generated since their introduction.

FINANCIAL RESULTS FOR THE FIRST HALF OF 2019

Order entry increased by 4.2% to CHF 310.6 million in the first six months of the year (H1 2018: CHF 298.1 million), again exceeding the sales realized during the reporting period. This equates to a rise of 4.5% in local currencies. On an organic basis, excluding the two most recent acquisitions, order entry rose by 2.7% in local currencies and 2.4% in Swiss francs.
The order backlog once again increased significantly as of June 30, 2019, with the double-digit growth rate driven by both business segments.

Sales climbed by 8.4% in local currencies or 8.3% in Swiss francs to CHF 296.1 million in the first half of the year (H1 2018: CHF 273.5 million). On an organic basis, sales grew by 6.3% in local currencies and 6.2% in Swiss francs. In contrast to the previous year, growth in this reporting period was driven by a double-digit sales increase in the Life Sciences Business. As expected, the Partnering Business recorded only a small rise in sales following growth of more than 16% in local currencies in the prior-year period.
Recurring sales of services and consumables increased in the first half of 2019 by 7.0% in local currencies and 7.3% in Swiss francs, and therefore amounted to 44.4% of total sales (H1 2018: 44.8%).

The reported operating profit before depreciation and amortization (earnings before interest, taxes, depreciation and amortization; EBITDA) rose to CHF 49.3 million in the reporting period (H1 2018: CHF 48.1 million) and the EBITDA margin reached 16.6% of sales (H1 2018: 17.6%), including acquisition-related costs totaling a mid-single-digit million Swiss franc amount. However, when calculated on a comparable basis with the prior-year period, the EBITDA margin for the first half of 2019 was at the same level as in the first half of 2018. The EBITDA margin as reported was adjusted for several influencing factors that reduced the overall margin: The acquisition-related costs of NuGEN and, to a lesser extent, the non-recurring additional costs of the CEO change both had a negative impact. By contrast, the adoption of the new IFRS 16 accounting standard (Leases) generated a recurring positive effect; also the recent acquisition of a supplier made a small positive contribution. Integration costs for completed acquisitions were comparable in both periods.

Thus reported net profit for the first half of 2019 was CHF 25.3 million (H1 2018: CHF 29.2 million), with acquisition-related costs reducing profits in particular. The net profit margin in the reporting period thus amounted to 8.6% of sales (H1 2018: 10.7%), and earnings per share were CHF 2.14 (H1 2018: CHF 2.49).

Cash flow from operating activities reached CHF 36.0 million (H1 2018: CHF 38.4 million), corresponding to 12.1% of sales in the first half of 2019 (H1 2018: 14.0%).

INFORMATION BY BUSINESS SEGMENT

LIFE SCIENCES BUSINESS (END-CUSTOMER BUSINESS)

Sales in the Life Sciences Business increased by 15.5% to CHF 162.4 million (H1 2018: CHF 140.5 million) in the first half of the year and were 15.7% above those of the prior-year period in local currencies. On an organic basis, i.e. excluding sales from NuGEN (now Tecan Genomics), half-year sales also increased significantly by 12.0% in local currencies. The instrument business, in particular sales of the Fluent automation workstation, recorded strong growth. Order entry in the Life Sciences Business also continued to increase. As a result, the order backlog again increased at a double-digit rate.

Despite acquisition-related costs, operating profit in this segment (earnings before interest and taxes; EBIT) rose to CHF 19.0 million (H1 2018: CHF 18.1 million). The operating profit margin was 11.2% of sales (H1 2018: 12.2%).

PARTNERING BUSINESS (OEM BUSINESS)

The Partnering Business generated sales of CHF 133.7 million in the period under review (H1 2018: CHF 133.0 million), which corresponds to a slight increase of 0.6% both in local currencies and Swiss francs. On an organic basis, sales grew by 0.2% in local currencies. After the segment generated particularly high growth of 16.1% in local currencies in the first six months of 2018, a smaller sales increase had been expected for the first half of 2019.

Thanks to solid growth in order entry, the order backlog in the Partnering Business also increased at a double-digit rate.

Operating profit in this segment (earnings before interest and taxes; EBIT) was CHF 25.0 million (H1 2018: CHF 25.6 million), while the operating profit margin was 18.6% of sales (H1 2018: 19.1%).

ADDITIONAL INFORMATION

REGIONAL DEVELOPMENT

In Europe, Tecan's sales in the first six months of 2019 increased despite the high baseline in the prior-year period by 3.4% in local currencies and by 1.8% in Swiss francs. In the same period of 2018, particularly strong growth of 19.9% in local currencies was achieved. This was mainly attributable to the Partnering Business, which is why, as expected, segment sales in the reporting period did not quite reach the prior-year level. By contrast, the Life Sciences Business recorded considerable growth in Europe on the basis of the high order backlog from the prior year.

In North America, sales in the first six months of 2019 rose by 14.0% in local currencies and by 16.9% in Swiss francs. The Life Sciences Business performed particularly well, with sales growth of 23.5% in local currencies in this region.

In Asia, Tecan generated an increase in sales of 11.8% in local currencies and 9.2% in Swiss francs. Both segments contributed to the sales growth in the region with good performances. Sales growth in China outpaced growth in the Asia region as a whole.

OPERATING PERFORMANCE IN THE FIRST HALF OF 2019

Tecan made good progress in implementing its comprehensive genomics strategy in the first half of the year, launching NGS DreamPrep™ only a few months after the acquisition of NuGEN Technologies. NGS DreamPrep, an integrated, fully automated sample preparation solution for next-generation sequencing (NGS) in life science research, combines the high productivity and precision of the Fluent automation platform with the innovative reagents of Tecan Genomics (formerly NuGEN). The use of this innovative solution can help double the typical sample throughput in a laboratory.

In addition, the Spark® Cyto reader platform for cell biology applications was launched at a major trade fair in June. Thanks to its additional imaging capabilities, the Spark Cyto multimode microplate reader enables life science research laboratories to track the development of cells in real time over an extended period, with complete control of all environmental parameters. Another special feature of this innovative instrument is that measurements can be carried out automatically for predefined events. Further processes can also be automated on the basis of the evaluated image data, such as the addition of chemical substances, which influence cell behavior or survival.

In March, Tecan Group Ltd. and QIAGEN N.V. (NYSE: QGEN; Frankfurt Prime Standard: QIA) announced a collaboration to improve the sample processing of QIAGEN's QuantiFERON-TB Gold Plus (QFT-Plus) diagnostic test. QIAGEN is a leading global provider of Sample to Insight solutions for molecular diagnostics and life sciences. As part of this collaboration, Tecan's Fluent automation solution will be utilized to aliquot samples for the optional Lithium Heparin single-tube workflow. The Fluent instruments will be supplied directly to laboratories through Tecan's Life Sciences Business.

Tecan made good progress with a number of development projects in the Partnering Business in the first half of 2019, with various new instrument platforms set to be launched by partner companies in the second half of the year. In June, an ongoing development program with The Binding Site Group (Birmingham, UK) was announced for the first time. The two companies are jointly developing an automated solution for The Binding Site, based on Tecan's Fluent platform, using mass spectrometry to diagnose blood cancers.

In June, Tecan successfully completed the acquisition of a long-term supplier of key parts. The aim is to vertically integrate the manufacturing of critical precision-machined parts. With two manufacturing sites, one in California (USA) and another in Vietnam, Tecan will be able to benefit from the long-term supply of high quality precision-machined parts and realize cost savings by internalizing their supply. Tecan has been the largest customer of this supplier, making up a significant share of its revenues. From June 1, 2019, the supplier will be included in the consolidated financial statements of the Tecan Group as a part of the Partnering Business segment.

STRONG BALANCE SHEET – HIGH EQUITY RATIO

Tecan's equity ratio was 68.1% as of June 30, 2019 (December 31, 2018: 71.4%). Net liquidity (cash and cash equivalents minus bank liabilities and loans) reached CHF 264.5 million (June 30, 2018: CHF 284.1 million; December 31, 2018: CHF 289.6 million), despite having paid the purchase consideration for the acquisition of a supplier fully in cash in the first half of the year (net cash outflow of CHF 21.2 million).

At the Tecan Group Annual General Meeting on April 16, 2019, shareholders approved an increase in the dividend from CHF 2.00 to CHF 2.10 per share. The payout of dividends totaling CHF 24.8 million took place on April 24, 2019.

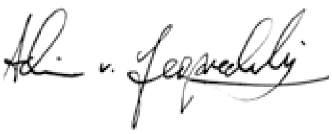
OUTLOOK FOR FULL-YEAR 2019 CONFIRMED

Tecan continues to forecast sales growth for the full-year 2019 to be in the mid- to high single-digit percentage range in local currencies. Sales to third parties are only expected to benefit from additional revenues in a low- to mid single-digit million Swiss franc amount from the recently completed acquisition of a supplier. This forecast does not take account of potential additional acquisitions during the remainder of the year.

Tecan expects that the reported EBITDA margin for the full-year 2019 will expand to around 19% of sales. The acquisition of the supplier should have an additional slightly positive impact on the EBITDA margin.

The expectations regarding profitability the full-year based on an average exchange rate forecast for the full-year 2019 of one euro equaling CHF 1.14 (2018: 1.15) and one US dollar equaling CHF 0.99 (2018: 0.96). Again, no contributions or costs linked to further acquisitions are taken into account.

DR. LUKAS BRAUNSCHWEILER
Chairman of the Board



DR. ACHIM VON LEOPRECHTING
Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

January to June, CHF 1,000	Notes	2018	2019
Sales	4/5	**273,481**	**296,120**
Cost of sales		(144,958)	(155,145)
Gross profit		**128,523**	**140,975**
Sales and marketing		(42,315)	(46,891)
Research and development		(22,037)	(29,550)
General and administration		(26,103)	(31,544)
Other operating income		42	270
Other operating expenses		(305)	(275)
Operating profit	5	**37,805**	**32,985**
Financial income		26	14
Finance cost		(370)	(790)
Net foreign exchange losses		(2,691)	(2,106)
Financial result		**(3,035)**	**(2,882)**
Profit before taxes		**34,770**	**30,103**
Income taxes		(5,594)	(4,765)
Profit for the period, attributable to owners of the parent		**29,176**	**25,338**
Earnings per share			
Basic earnings per share (CHF/share)		2.49	2.14
Diluted earnings per share (CHF/share)		2.46	2.13

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

January to June, CHF 1,000	Notes	2018	2019
Profit for the period		**29,176**	**25,338**
Other comprehensive income			
Change in fair value of unquoted equity instrument	10.3	–	(1,000)
Related income taxes		–	78
Remeasurement of net defined benefit liability		6,616	(11,886)
Related income taxes		(1,092)	1,973
Items that will not be reclassified to profit or loss, net of income taxes		**5,524**	**(10,835)**
Translation differences	9	176	(2,058)
Related income taxes		34	31
Items that may be reclassified subsequently to profit or loss, net of income taxes		**210**	**(2,027)**
Other comprehensive income/(loss), net of income taxes		5,734	(12,862)
Total comprehensive income for the period, attributable to owners of the parent		**34,910**	**12,476**

INTERIM CONSOLIDATED BALANCE SHEET

ASSETS

CHF 1,000	Notes	31.12.2018	30.06.2019
Cash and cash equivalents		296,845	269,701
Current derivatives		977	768
Trade accounts receivable		105,443	100,920
Contract assets		2,405	2,066
Other accounts receivable		13,304	15,744
Inventories	7	171,709	174,641
Income tax receivables		1,467	3,387
Prepaid expenses		3,898	5,712
Current assets		**596,048**	**572,939**
Non-current financial assets	10	5,105	4,050
Investment property		3,650	3,539
Property, plant and equipment		25,053	30,107
Right-of-use assets	2.2	–	46,606
Intangible assets and goodwill		209,126	222,024
Deferred tax assets		18,689	20,816
Non-current assets		**261,623**	**327,142**
Assets		**857,671**	**900,081**

LIABILITIES AND EQUITY

CHF 1,000	Notes	31.12.2018	30.06.2019
Current financial liabilities	10	9,945	18,316
Trade accounts payable		14,385	10,535
Other accounts payable		15,130	20,172
Current contract liabilities		37,392	36,901
Income tax payables		15,474	16,910
Accrued expenses		51,833	40,605
Current provisions		19,311	17,306
Current liabilities		**163,470**	**160,745**
Non-current financial liabilities	10	1,588	37,431
Non-current contract liabilities		34,799	31,887
Liability for post-employment benefits		34,091	46,716
Non-current provisions		4,721	4,606
Deferred tax liabilities		6,593	6,048
Non-current liabilities		**81,792**	**126,688**
Total liabilities		**245,262**	**287,433**
Share capital		1,177	1,185
Capital reserve		38,861	40,023
Retained earnings		602,820	603,916
Translation differences		(30,449)	(32,476)
Shareholders' equity	8	**612,409**	**612,648**
Liabilities and equity		**857,671**	**900,081**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

January to June, CHF 1,000	Notes	2018	2019
Profit for the period		**29,176**	**25,338**
Adjustments for			
Depreciation and amortization		10,301	16,314
Change in provisions and liability for post-employment benefits		1,290	(2,100)
Interest income		(26)	(14)
Interest expenses		230	587
Income taxes		5,594	4,765
Equity-settled share-based payment transactions		7,969	10,762
Fair value adjustment of contingent considerations		210	–
Other non-cash items		(723)	(180)
Change in working capital			
Trade accounts receivable		14,649	5,592
Inventories	7	(7,004)	(112)
Trade accounts payable		(715)	(3,963)
Contract liabilities		(298)	(3,116)
Other changes in working capital (net)		(13,364)	(11,798)
Settlement of contingent consideration	3.2	(290)	(800)
Income taxes paid		(8,637)	(5,306)
Cash inflows from operating activities		**38,362**	**35,969**
Acquisition of an unquoted equity investment	10.3	(4,000)	–
Interest received		26	14
Acquisition of DCPM/PMAS, net of cash acquired	3.1	–	(21,226)
Settlement of contingent consideration	3.2	(4,546)	(4,200)
Purchase of property, plant and equipment		(5,077)	(4,712)
Proceeds from sale of property, plant and equipment		30	38
Investment in intangible assets		(7,221)	(6,635)
Cash outflows from investing activities		**(20,788)**	**(36,721)**
Proceeds from employee participation plans		1,863	1,170
Dividends paid	8.2	(23,462)	(24,835)
Payment of lease liabilities		–	(4,860)
Increase in/repayment of short-term credit facilities		(2,397)	2,299
Increase in bank loans		–	568
Repayment of mortgage and settlement of interest derivative (held for sale)		(1,537)	–
Interest paid		(230)	(430)
Cash outflows from financing activities		**(25,763)**	**(26,088)**
Effect of exchange rate fluctuations on cash held		(159)	(303)
Decrease in cash and cash equivalents		**(8,348)**	**(27,143)**
Cash and cash equivalents, net of bank overdrafts at January 1		309,412	296,836
Cash and cash equivalents, net of bank overdrafts at June 30		**301,064**	**269,693**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

January to June, CHF 1,000	Notes	Share capital	Capital reserve	Retained earnings	Translation differences	Total share-holders' equity
Balance at January 1, 2018		**1,166**	**36,418**	**541,576**	**(29,039)**	**550,121**
Profit for the period		–	–	29,176	–	29,176
Other comprehensive income, net of income taxes		–	–	5,524	210	5,734
Total comprehensive income for the period		**–**	**–**	**34,700**	**210**	**34,910**
Dividends paid		–	–	(23,462)	–	(23,462)
New shares issued based on employee participation plans		10	1,854	–	–	1,864
Share-based payments, net of income taxes		–	–	8,525	–	8,525
Total contributions by and distributions to owners	8	**10**	**1,854**	**(14,937)**	**–**	**(13,073)**
Balance at June 30, 2018		**1,176**	**38,272**	**561,339**	**(28,829)**	**571,958**
Balance at December 31, 2018, as previously reported		**1,177**	**38,861**	**602,820**	**(30,449)**	**612,409**
Adjustment from adoption of IFRS 16, net of income taxes	2.2.1	–	–	p.m.	–	–
Adjusted balance at January 1, 2019		**1,177**	**38,861**	**602,820**	**(30,449)**	**612,409**
Profit for the period		–	–	25,338	–	25,338
Other comprehensive loss, net of income taxes		–	–	(10,835)	(2,027)	(12,862)
Total comprehensive income for the period		**–**	**–**	**14,503**	**(2,027)**	**12,476**
Dividends paid		–	–	(24,835)	–	(24,835)
New shares issued based on employee participation plans		8	1,162	-	–	1,170
Share-based payments, net of income taxes		–	–	11,428	–	11,428
Total contributions by and distributions to owners	8	**8**	**1,162**	**(13,407)**	**–**	**(12,237)**
Balance at June 30, 2019		**1,185**	**40,023**	**603,916**	**(32,476)**	**612,648**

Notes to the interim condensed consolidated financial statements

1 REPORTING ENTITY

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These unaudited financial statements are the interim condensed consolidated financial statements of Tecan Group Ltd. and its subsidiaries (together referred to as the 'Group') for the six-month period ending June 30, 2019. The financial statements are prepared in accordance with International Accounting Standard (IAS) 34 'Interim Financial Reporting' and should be read in conjunction with the consolidated financial statements 2018 as they provide an update of previously reported information. The interim condensed consolidated financial statements were authorized for issue on August 8, 2019.

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

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

Income tax expense is recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year. Switzerland is implementing the corporate tax reform on federal level, which becomes effective as from January 1, 2020. In addition, in the Canton of Zurich the tax laws are in the process of being adjusted as well with a public vote in fall in order to take account of and compensate for the changes on federal level. The consequences of the Swiss tax reform on the Group's situation are not reflected in these interim financial statements because the cantonal tax law change is not yet substantively enacted.

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

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements 2018, except for the adoption of the following new or revised/amended standards and interpretations, effective as from January 1, 2019:

Standard/interpretation[1]
IAS 19 amended 'Employee benefits' – Curtailment or Settlement
IAS 28 amended 'Investments in Associates and Joint Ventures' – Long-term Interests in Associates and Joint Ventures
IFRS 9 amended 'Financial Instruments' – Prepayment Features with Negative Compensation
IFRS 16 'Leases'
IFRIC 23 'Uncertainty over Income Tax Treatments'
Annual Improvements to IFRSs 2015–2017

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

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

2.2.1 IFRS 16 'Leases'

a) Impact of adopting the new standard

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 'Leases' and related interpretations. The details of changes in accounting policies are disclosed below.

CHF 1,000	31.12.2018 Disclosed in note 27.2 of annual report 2018	01.01.2019 Recognized in balance sheet
Total operating lease commitments disclosed under IAS 17	**32,686**	32,686
Explanation of difference between disclosed and recognized:		
Discounting using the incremental borrowing rate at January 1, 2019		(1,655)
Less recognition exemption for short-term leases		(26)
Adjustments as a result of a different treatment of extension and termination options		17,622
Total lease liabilities recognized according to IFRS 16		**48,627**
Thereof included in position:		
Current financial liabilities		9,496
Non-current financial liabilities		39,130
Right-of-use assets		
Property		45,313
Office equipment		61
Motor vehicles		3,253
Total right-of-use assets recognized according to IFRS 16		**48,627**

At the initial application date of IFRS 16 the lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.1%. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

b) New accounting policies

Accounting policies applied for leases after the initial application of IFRS 16:

Accounting element	Accounting policy applied
Commencement date of the lease	The Group recognizes a right-of-use asset and a lease liability at the date the underlying asset is available for use (lease commencement date).
Lease term, extension and termination options	The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain no to be exercised. For this purpose, the non-cancellable lease term is compared with an internal benchmark lease term. An optional term that begins after this benchmark lease term is generally not considered. For option events that take place earlier, management assesses the circumstances on a case-by-case basis.
Right-of-use assets	Right-of-use assets are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability. The cost of right-of-use assets includes the amount of lease liabilities recognized, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs incurred, and restoration costs. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.
Lease liabilities	At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of the lease payments (excluding any non-lease components) to be made over the lease term. The lease payments include fixed payments less any incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.
Discount rate	In calculating the present value of the lease liability the Group is using the interest rate implicit in the lease or, if that rate cannot be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.
Short-term leases	The Group applies the short-term lease recognition exemption to its short-term leases of property. These leases have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

c) Amounts recognized in the balance sheet and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets				Lease liabilities
CHF 1,000	Property	Office equipment	Motor vehicles	**Total**	
Balance at January 1, 2019	45,313	61	3,253	**48,627**	(48,627)
Acquisition through business combination	2,961	–	–	**2,961**	(2,961)
Additions	43	–	300	**343**	(343)
Depreciation	(4,281)	(13)	(854)	**(5,148)**	–
Interest expense (presented in financial result)	–	–	–	**–**	(299)
Payments to lessors	–	–	–	**–**	5,159
Translation differences	(157)	–	(20)	**(177)**	181
Balance at June 30, 2019	**43,879**	**48**	**2,679**	**46,606**	**(46,890)**

2.2.2 Other changes

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

2.3 NEW STANDARDS AND INTERPRETATIONS NOT YET APPLIED

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

Standard/interpretation[1]	Effective date for the Group
Conceptual Framework for Financial Reporting	Reporting year 2020
IAS 1 'Presentation of Financial Statements' amended and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' amended – Definition of Material	Reporting year 2020
IFRS 3 'Business Combinations' – Definition of a Business	Reporting year 2020
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 changes, individually and in the aggregate, are not expected to have a significant impact on the balance sheet, results of operations and cash flows of the Group upon adoption.

3 SCOPE OF CONSOLIDATION

3.1 CHANGE IN SCOPE OF CONSOLIDATION: ACQUISITION THROUGH BUSINESS COMBINATION

The Group acquired 100% of the voting rights of a long-term supplier to vertically integrate the manufacturing of critical precision-machined parts of its liquid handling pump portfolio. The acquisition comprises two manufacturing sites:

Company	Domicile	Participation in %	Activities
Valvex Enterprises, Inc., - doing business as DC Precision Machining (DCPM)	Morgan Hill, CA (US)	100%	P/D
PMAS Co., Ltd	Ben Cat Town, Binh Duong Province (VN)	100%	P

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

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

CHF 1,000	31.05.2019 DCPM/PMAS
Cash and cash equivalents	297
Trade accounts receivable (gross contractual value)	1,106
Inventories	3,225
Other current assets	427
Property, plant and equipment	4,670
Right-of-use assets	2,961
Intangible assets	5,599
Deferred tax assets	53
Assets	**18,338**
Current financial liabilities	(448)
Trade and other accounts payable	(2,799)
Income tax payable	(10)
Accrued expenses and current provisions	(850)
Non-current financial liabilities	(2,513)
Liabilities	**(6,620)**
Total identifiable net assets at fair value	**11,718**
Goodwill arising on acquisition	8,805
Consideration transferred for the business combination	**20,523**
Cash acquired	(297)
Estimated closing adjustment (receivable)	1,000
Net cash outflow (including holdback)	**21,226**

The acquisition was accounted for using the acquisition method. The resulting goodwill includes expected synergies from the acquisition, the work force and potentially other intangible assets that were not separately identifiable. It is expected that the goodwill for the US company will be partly tax-deductible due to the intended election pursuant to section 338(h)(10) of the US tax law, under which a legal share deal is treated as an asset deal for tax purposes. However, this process is not entirely under control of the Group and requires the mutual co-ordination with the seller. Since the closing of the acquisition occurred shortly before June 30, 2019, the initial accounting for the acquisition is provisional and subject to adjustments.

The consideration transferred for the business combination includes a holdback of USD 3.0 million. The holdback was paid into an escrow bank account and is triggered upon the achievement of a sales-defined milestone in 2020. The business plan underlying the acquisition indicates that the entire holdback will be payable.

From the date of acquisition, DCPM/PMAS contributed sales to third parties of CHF 0.6 million and operating profit of CHF 0.3 million to the Group's results. If the acquisition had occurred on January 1, 2019, management estimates that the consolidated sales would have been CHF 299.7 million and the consolidated operating profit would have been CHF 34.0 million for the first half of 2019. The Group incurred acquisition-related costs of CHF 1.1 million for legal advice and due diligence costs. These costs have been included in 'general and administration'.

3.2 INFORMATION ON ACQUISITIONS IN PREVIOUS YEARS

3.2.1 Acquisition on August 31, 2018: NuGEN Technologies, Inc. (renamed to Tecan Genomics, Inc.)

The purchase price allocation process for the acquisition of NuGEN Technologies, Inc., which was considered provisional at year-end 2018 for the valuation of trade accounts receivable and capitalized tax-loss carry-forwards, has been completed without any adjustments.

3.2.2 Acquisition on September 30, 2016: SPEware Group (renamed to Tecan SP, Inc.)

The second and final instalment of the contingent consideration in the amount of USD 5.0 million was paid at the beginning of 2019.

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

4.1 DISAGGREGATION OF REVENUE AND RECONCILIATION TO SEGMENT INFORMATION

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

	Life Sciences Business			Partnering Business			**Total 2019**		
January to June, CHF 1,000	Revenue contracts with customers	Leases	Sales segment	Revenue contracts with customers	Leases	Sales segment	Revenue contracts with customers	Leases	Total sales
By regions (location of customer)									
Europe	50,942	452	51,394	70,174	–	70,174	121,116	452	121,568
Americas	78,319	–	78,319	45,380	–	45,380	123,699	–	123,699
Asia	29,334	–	29,334	17,097	–	17,097	46,431	–	46,431
Others	3,324	–	3,324	1,098	–	1,098	4,422	–	4,422
Total	**161,919**	**452**	**162,371**	**133,749**	**–**	**133,749**	**295,668**	**452**	**296,120**
By products and services									
Products	125,944	–	125,944	106,203	–	106,203	232,147	–	232,147
Services	35,975	–	35,975	27,546	–	27,546	63,521	–	63,521
Leases	–	452	452	–	–	–	–	452	452
Total	**161,919**	**452**	**162,371**	**133,749**	**–**	**133,749**	**295,668**	**452**	**296,120**
By timing of revenue recognition									
Point in time	137,215	–	137,215	126,646	–	126,646	263,861	–	263,861
Over time	24,704	–	24,704	7,103	–	7,103	31,807	–	31,807
Leases	–	452	452	–	–	–	–	452	452
Total	**161,919**	**452**	**162,371**	**133,749**	**–**	**133,749**	**295,668**	**452**	**296,120**

5 SEGMENT INFORMATION

5.1 SEGMENT INFORMATION BY BUSINESS SEGMENTS

	Life Sciences Business		Partnering Business		Corporate/ consolidation		Group	
January to June, CHF 1,000	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**
Sales to third parties	140,522	162,371	132,959	133,749	–	–	273,481	296,120
Intersegment sales	8,144	6,971	721	718	(8,865)	(7,689)	–	–
Total sales	**148,666**	**169,342**	**133,680**	**134,467**	**(8,865)**	**(7,689)**	**273,481**	**296,120**
Operating profit	**18,144**	**18,960**	**25,573**	**25,036**	**(5,912)**	**(11,011)**	**37,805**	**32,985**
Depreciation and amortization	(6,581)	(11,397)	(3,720)	(4,917)	–	–	(10,301)	(16,314)

January to June, CHF 1,000	2018	**2019**
Reconciliation of reportable segment sales		
Total sales for reportable segments	282,346	303,809
Elimination of intersegment sales	(8,865)	(7,689)
Total consolidated sales	**273,481**	**296,120**
Reconciliation of reportable segment profit		
Total operating profit for reportable segments	43,717	43,996
Unallocated costs (business development, investor relations and other corporate costs) and consolidation entries	(5,912)	(11,011)
Financial result	(3,035)	(2,882)
Total consolidated profit before taxes	**34,770**	**30,103**

5.2 ENTITY-WIDE DISCLOSURES

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

	Property, plant and equipment		Right-of-use assets		Intangible assets	
CHF 1,000	31.12.2018	**30.06.2019**	31.12.2018	**30.06.2019**	31.12.2018	**30.06.2019**
Switzerland	13,692	14,172	–	21,173	99,620	103,853
Other Europe	5,810	5,773	–	7,966	8,994	8,366
North America	4,909	7,714	–	14,800	100,512	109,805
Asia	642	2,448	–	2,667	–	–
Total	**25,053**	**30,107**	**–**	**46,606**	**209,126**	**222,024**

Information about major customers

There are sales to one individual customer (CHF 37.0 million) relating to the business segment 'Partnering Business' that in aggregate exceeded 10% of total sales in the first half of 2019 (first half of 2018: one individual customer [CHF 34.2 million] relating to the business segment 'Partnering Business' that in aggregate exceeded 10% of total sales).

6 OPERATING EXPENSES BY NATURE

January to June, CHF 1,000	2018	2019
Material costs	95,621	100,398
Personnel costs	97,004	112,873
Depreciation of property, plant and equipment	3,570	4,072
Depreciation of right-of-use assets	–	5,148
Amortization of intangible assets	6,731	7,094
Other operating costs	41,606	41,177
Total operating costs incurred (gross)	**244,532**	**270,762**
Capitalization of development costs in position inventories	(2,078)	(2,179)
Capitalization of development costs in position intangible assets	(6,736)	(5,178)
Other operating income	(42)	(270)
Total operating expenses, according to statement of profit or loss	**235,676**	**263,135**

7 INVENTORIES

In 2010, the Group entered into an OEM agreement with a global diagnostics company. The agreement comprises the development and supply of a dedicated diagnostic instrument. The related customer-specific development costs were capitalized in the position inventories as part of the production costs. The delivery of the instruments, which takes place over a period of more than 10 years, started in October 2014. The customer requests the units with individual purchase orders. The Group recognizes the corresponding development costs in cost of sales upon fulfillment of the individual purchase orders. The remaining balance of capitalized development costs amounted to CHF 75.5 million at the end of June 2019 (December 31, 2018: CHF 83.3 million).

Further information regarding this critical accounting estimate and judgment can be found in note 2.2.4 of the consolidated financial statements 2018.

8 SHAREHOLDERS' EQUITY AND EMPLOYEE PARTICIPATION PLANS

8.1 MOVEMENTS IN SHARES OUTSTANDING

Shares (each share has a nominal value of CHF 0.10)	Shares issued	Treasury shares	Shares outstanding
Balance at January 1, 2018	11,664,872	–	11,664,872
New shares issued based on employee participation plans	94,387	–	94,387
Balance at June 30, 2018	**11,759,259**	**–**	**11,759,259**
Balance at January 1, 2019	11,766,372	–	11,766,372
New shares issued based on employee participation plans	82,109	–	82,109
Balance at June 30, 2019	**11,848,481**	**–**	**11,848,481**

8.2 DIVIDENDS PAID

	2018	2019
Number of shares eligible for dividend	11'731'033	11'826'232
Dividends paid (CHF/share)	2.00	2.10

8.3 CONDITIONAL SHARE CAPITAL RESERVED FOR THE EMPLOYEE PARTICIPATION PLANS

Shares (each share has a nominal value of CHF 0.10)	2018	2019
Balance at January 1	638,340	536,840
New shares issued based on employee participation plans	(94,387)	(82,109)
Balance at June 30	**543'953**	**454'731**
Employee share options and employee shares, not yet delivered	224,690	228,080

8.4 EMPLOYEE SHARE OPTION PLANS

(See note 11.4.1 of the consolidated financial statements 2018 for the terms and principal conditions)

Movements in employee share options:

Employee share options	2018	2019
Balance at January 1	94,984	90,040
Granted	–	12,900
Exercised	(17,374)	(9,834)
Forfeited or expired	(2,850)	(1,364)
Balance at June 30	**74,760**	**91,742**
Thereof exercisable at period-end	27,910	31,276

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

(See note 11.4.2 of the consolidated financial statements 2018 for the terms and principal conditions)

Movements in employee shares:

Employee shares	2018	2019
Balance at January 1	213,735	192,314
PSMP 2015 and 2016 – matching shares vested and transferred	(57,917)	(52,382)
PSMP 2015 and 2016 – matching shares forfeited and rounding	(133)	6
PSMP – initial shares transferred (blocked)	17,089	18,176
PSMP – maximum of matching shares granted	42,724	40,095
Share plan 2017 and 2018 – Board of Directors – shares vested and transferred	(2,064)	(1,717)
Share plan 2018 and 2019 – Board of Directors – shares granted	1,619	1,684
Balance at June 30	**215,053**	**198,176**
Thereof vested, but blocked until the end of the performance period	65,123	61,838

9 PRINCIPAL EXCHANGE RATES

		Closing exchange rates		Average exchange rates January to June	
CHF		31.12.2018	**30.06.2019**	2018	**2019**
EUR	1	1.13	1.11	1.17	1.13
USD	1	0.98	0.98	0.97	1.00

10 FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

10.1 CLASSES OF FINANCIAL INSTRUMENTS

CHF 1,000	Cash and cash equivalents	Current derivatives	Trade and other receivables	Non-current financial assets	**Total assets 2018**	Current financial liabilities	Trade and other payables/ accrued expenses	Non-current financial liabilities	**Total liabilities 2018**
Financial instruments measured at fair value through P&L (FVTPL)									
Currency forwards and options	–	977	–	90	**1,067**	(3,900)	–	(406)	**(4,306)**
Contingent consideration	–	–	–	–	**–**	(4,916)	–	–	**(4,916)**
Financial instruments measured at fair value through OCI (FVOCI)									
Unquoted equity investment	–	–	–	4,000	**4,000**	–	–	–	**–**
Financial instruments measured at amortized costs[1]									
Cash and cash equivalents	296,845	–	–	–	**296,845**	–	–	–	**–**
Receivables	–	–	105,811	–	**105,811**	–	–	–	**–**
Rent and other deposits	–	–	473	1,015	**1,488**	–	–	–	**–**
Current bank liabilities	–	–	–	–	**–**	(1,129)	–	–	**(1,129)**
Bank loans	–	–	–	–	**–**	–	–	(1,182)	**(1,182)**
Payables and accrued expenses	–	–	–	–	**–**	–	(66,700)	–	**(66,700)**
Total financial instruments	**296,845**	**977**	**106,284**	**5,105**	**409,211**	**(9,945)**	**(66,700)**	**(1,588)**	**(78,233)**
Reconciling items[2]	–	–	12,463	–	**12,463**	–	(14,648)	–	**(14,648)**
Balance at December 31, 2018	**296,845**	**977**	**118,747**	**5,105**	**421,674**	**(9,945)**	**(81,348)**	**(1,588)**	**(92,881)**

[1] The carrying amount of financial instruments measured at amortized costs is a reasonable approximation of their fair value due to their short-term nature. Bank loans are the only exception due to their long-term nature (fair value of TCHF 1,182).

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

CHF 1,000	Cash and cash equiv-alents	Current derivatives	Trade and other receivables	Non-current financial assets	**Total assets 2019**	Current financial liabilities	Trade and other payables/ accrued expenses	Non-current financial liabilities	**Total liabilities 2019**
Financial instruments measured at fair value through P&L (FVTPL)									
Currency forwards and options	–	768	–	12	**780**	(3,697)	–	(6)	**(3,703)**
Financial instruments measured at fair value through OCI (FVOCI)									
Unquoted equity investment	–	–	–	3,000	**3,000**	–	–	–	**–**
Financial instruments measured at amortized costs[1]									
Cash and cash equivalents	269,701	–	–	–	**269,701**	–	–	–	**–**
Receivables	–	–	101,417	-	**101,417**	–	–	–	**–**
Rent and other deposits	–	–	795	1,038	**1,833**	–	–	–	**–**
Current bank liabilities	–	–	–	–	**–**	(3,426)	–	–	**(3,426)**
Bank loans	–	–	–	–	**–**	(1,461)	–	(267)	**(1,728)**
Payables and accrued expenses	–	–	–	–	**–**	–	(51,271)	–	**(51,271)**
Other									
Lease liabilities	–	–	–	–	**–**	(9,732)	–	(37,158)	**(46,890)**
Total financial instruments	**269,701**	**768**	**102,212**	**4,050**	**376,731**	**(18,316)**	**(51,271)**	**(37,431)**	**(107,018)**
Reconciling items[2]	–	–	14,452	–	**14,452**	–	(20,041)	–	**(20,041)**
Balance at June 30, 2019	**269,701**	**768**	**116,664**	**4,050**	**391,183**	**(18,316)**	**(71,312)**	**(37,431)**	**(127,059)**

[1] The carrying amount of financial instruments measured at amortized costs is a reasonable approximation of their fair value due to their short-term nature. Bank loans are the only exception due to their long-term nature (fair value of TCHF 1,716).

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

10.2 FAIR VALUE HIERARCHY (LEVEL) AND VALUATION TECHNIQUES USED

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

There have been no transfers between the levels in 2018 and 2019.

10.3 UNQUOTED EQUITY INVESTMENT (LEVEL 3)

The Group acquired an unquoted equity instrument for CHF 4.0 million in the first half of 2018. The shares have a preferred status in the case of a potential liquidation. Total changes in fair value recognized during the period in other comprehensive income amount to CHF 1.0 million. A further decrease in the forecasted cash flows of 10% would adversely impact the fair value by estimated CHF 1.0 million.

10.4 CONTINGENT CONSIDERATIONS (LEVEL 3)

CHF 1,000	2018	**2019**
Balance at January 1	11,639	4,916
Cash flows		
Settlement	(4,836)	(5,000)
Non-cash changes		
Change in fair value recognized in 'other operating expenses'	210	–
Translation differences	17	84
Balance at June 30	**7,030**	**0**

11 CONTINGENCIES AND COMMITMENTS

There have been no significant changes for contingencies and commitments.

12 SUBSEQUENT EVENTS

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

Global.

TECAN GROUP

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

SALES AND SERVICE LOCATIONS

Australia +61 7 3897 1616
Austria +43 62 46 89 330
Belgium +32 15 42 13 19
China +86 21 2898 6333
France +33 4 72 76 04 80
Germany +49 79 51 94 170
Italy +39 02 92 44 790
Japan +81 44 556 73 11
Netherlands +31 18 34 48 17 4
Singapore +65 644 41 886
Spain +34 93 490 01 74
Sweden +46 31 75 44 000
Switzerland +41 44 922 81 11
UK +44 118 9300 300
USA +1 919 361 5200
ROW +41 44 922 81 25

MANUFACTURING AND DEVELOPMENT SITES

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

Tecan Austria GmbH
Untersbergstrasse 1a
A-5082 Grödig/
Salzburg, Austria
T +43 62 46 89 330
F +43 62 46 72 770

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

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

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

Tecan Genomics, Inc.
900 Chesapeake Drive
Redwood City
CA 94063, USA
T +1 888 654 6544

IMPRINT

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

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

Design Concept and Realization
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UP THERE, EVERYWHERE, Sweden

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

TECAN.

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