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GOUPE ACROTEC SA
DEVELIER

STATUTORY AUDITOR'S REPORT

Consolidated Financial Statements

December 31, 2018

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Report of the statutory auditor to the General Meeting of Groupe Acrotec SA, Develier

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Groupe Acrotec SA, Develier and its subsidiaries (the Group), which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for Opinion
We conducted our audit in accordance with Swiss law 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 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 (based on the circular 1/2015 of the Federal Audit Oversight Authority)

- Acquisition of companies
- Carrying value of goodwill
- Valuation of inventories

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.

Acquisition of companies

Areas of focus	Our audit response
The Group completed the acquisitions of three companies during the financial year 2018. The group acquired 51% of the share capital of Butech SA, which was previously owned at 49%, 100% of the share capital of Watchdec SA and of A.F.T Micromécanique SAS. The total purchase price for the acquisitions of these companies amounted to CHF 30.3 million. The acquisitions resulted in the recognition of a goodwill of CHF 21.7 million. The transactions required management to perform a purchase price allocation exercise to fair value the assets and liabilities of the acquired entities. This requires exercise of judgement over the accounting for these transactions.	We performed audit procedures to assess the Purchase Price Allocations (PPA) with regards to these acquisitions. We reviewed the sale and purchase agreement to understand the key terms and conditions, and confirming our understanding of the transactions with management. This included an analysis of the fair value of the assets acquired and of the liabilities assumed supporting the purchase price allocation at the acquisition date. As part of our procedures, we agreed the considerations paid back to the Sale and Purchase Agreements and to supporting evidences for the acquisition costs as well as the cash disbursements. We gained an understanding of the principles applied by the Board of Directors in determining their acquisition date fair value information. In respect of significant adjustments, we audited the Group's assumptions based on our knowledge and experience of the industry in which Groupe Acrotec SA operates. We agreed significant transactions to supporting documentation, such as underlying contracts, third party confirmations and valuation reports. To assess the valuation of production equipment, we used our own valuation expertise and experience to assess the underlying valuation methodology. We also considered the adequacy of the Group's disclosures in respect of the acquisitions and the related judgements.

For further information on Acquisition of companies, refer to the following:

- Note 27, « Business combinations »

Carrying value of goodwill

Areas of focus

Carrying value of goodwill was deemed a key audit matter as goodwill is significant to the consolidated financial statements, with a value of CHF 229.3 million representing 50% of total assets. The determination of the amortization period of acquired goodwill, the identification of impairment indicators and the performance of the impairment test give significant scope for judgement to the Board of Directors and management. In assessing the recoverable value of goodwill, the Board of Directors and management are required to estimate future cash flows and to make assumptions relating to future profitability, including revenue growth and operating margins. They are also required to determine an appropriate discount rate. The outcome of the impairment assessments and by the same way the carrying value of goodwill could vary significant if different judgements are applied.

Our audit response

Goodwill is amortized in accordance with group accounting policies over a 20 years period. The identification of impairment indicators and the performance of impairment testing of goodwill are based on a process defined by the Board of Directors. The identification of impairment indicators is done with the EBITDA multiple method. In case of impairment indicators, the recoverable value of the corresponding goodwill is determined based on management's estimation of the future cash flows.

We considered the controls implemented by management for the annual review of the goodwill useful lives, the identification of impairment indicators and in determining the recoverable value of goodwill presenting impairment indicators.

We assessed the factor used by management in applying the EBITDA multiple method based on reliable and independent data.

For goodwill presenting impairment indicators, we assessed the accuracy of the impairment test applied to significant amounts of goodwill, the appropriateness of the assumptions and of the methodology used by management to prepare its cash-flows forecasts. We challenged management as to the feasibility of reaching the expected cash flows. In addition, we assessed the main parameters used in the calculation of the weighted average cost of capital from which the discount rate is derived.

For further information on carrying value of goodwill, refer to the following:

- Note 2.k, “Summary of significant accounting policies” – “Intangible assets”
- Note 12, “Intangible assets”

Valuation of inventories

Areas of focus

Inventory of CHF 44.5 million is a material balance for the Group, which requires management judgement in determining an appropriate costing basis for each subsidiary depending on its activity and assessing if this is lower than the net realizable value of the inventory on hand at year-end.

There are also judgements required in determining inventory excess and obsolescence provisions as these are based on forecast inventory usage and assessing if the provision level is adequate.

As the Group is in growing phase, including through acquisition, the costing is improved progressively. In 2018, the costing was completely reviewed in various productions entities to be fully aligned with group requirements.

Our audit response

We performed the following audit procedures to assess the valuation of the inventories:

We compared the inventory excess and obsolescence provisions to the group's policy and audited management's judgement by performing a review of the level of provisions as well as understanding the levels of demand for significant items. We investigated manual adjustments made to the mechanical application of the inventory obsolescence provisioning policy, and assessed whether they were valid and in line with the final excess and obsolescence provision.

We verified that the costing methods implemented in several entities during the year, as well as the accounting treatment of the change and the corresponding disclosures were aligned with Swiss GAAP FER and Group accounting policies requirements.

For further information on Valuation of inventories, refer to the following:

- Note 2.h, "Summary of significant accounting policies" – "Inventories"
- Note 8, "Inventories"
- Note 26, "Extraordinary result"

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 Swiss GAAP FER 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 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.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements / consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's / the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements / the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity / the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements / the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1item 3 CO and 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.

MAZARS LTD

Michael Ackermann
Licensed Audit Expert
(Auditor in Charge)

Sébastien Gianelli
Licensed Audit Expert

Lausanne, April 18, 2019

Enclosure

- Consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements)

Consolidated Balance sheet

Assets (CHF)	Notes	31/12/2018	31/12/2017
Cash and cash equivalents		38 788 300	67 454 882
Financial assets	10	340 708	349 862
Receivables from goods and services	6	22 963 564	19 424 322
Other short-term receivables	7	2 111 910	2 621 880
Inventories	8	44 511 763	37 214 606
Prepayments and accrued income	9	2 036 474	2 351 375
Current assets		**110 752 719**	**129 416 927**
Financial assets	10	7 678 109	5 800 368
Property, plant and equipment	11	104 622 818	89 114 946
Intangible assets	12	232 256 373	221 525 649
Deferred tax assets	18	704 885	419 436
Non-current assets		**345 262 185**	**316 860 398**
Assets		**456 014 904**	**446 277 326**

Liabilities and equity (CHF)	Notes	31/12/2018	31/12/2017
Payables from goods and services	13	7 719 402	8 201 903
Financial liabilities	14	18 469 847	13 498 401
Other short-term liabilities	15	4 911 006	4 407 813
Accrued liabilities and deferred income	16	5 697 935	4 699 357
Short-term provisions	17	5 681 275	3 287 425
Current liabilities		**42 479 466**	**34 094 899**
Financial liabilities	14	206 859 465	212 856 963
Deferred tax liabilities	18	16 028 697	15 432 632
Other long-term liabilities	15	597 628	697 122
Long-term provisions	17	150 000	950 000
Non-current liabilities		**223 635 790**	**229 936 717**
Liabilities		**266 115 255**	**264 031 616**
Share capital	19	100 000	100 000
Capital reserves		160 210 894	160 210 894
Retained earnings		27 817 607	19 741 767
Translation differences		512 957	949 718
Equity attributable to owner of Acrotec Group		**188 641 458**	**181 002 379**
Non-controlling interests		**1 258 190**	**1 243 330**
Liabilities and equity		**456 014 904**	**446 277 326**

Consolidated income statement

in CHF	Notes	2018	2017
Net sales from goods and services	3 / 20	179 620 123	154 311 697
Other operating income		4 227 560	4 730 949
Change in inventory of finished and unfinished goods	8	4 777 812	-2 434 960
Operating revenues		**188 625 495**	**156 607 686**
Material purchases	21	-58 841 404	-48 857 554
Personnel expenses	22	-66 117 312	-54 759 011
Other operating expenses	23	-15 762 653	-14 214 590
Operating expenses		**-140 721 369**	**-117 831 155**
Earnings before interest, tax and amortisation (EBITDA)		**47 904 126**	**38 776 530**
Depreciation and impairment on tangible fixed assets	11	-11 235 869	-9 775 361
Amortisation and impairment on intangible fixed assets	12	-13 142 055	-11 603 002
Total amortisation and depreciation		**-24 377 924**	**-21 378 363**
Earnings before interest and tax (EBIT)		**23 526 202**	**17 398 168**
Net financial result	24	-8 174 372	-6 794 693
Ordinary profit		**15 351 831**	**10 603 474**
Non-operating result	25	-1 682 206	-1 195 092
Extraordinary result	26	213 780	867 918
Profit before income taxes		**13 883 405**	**10 276 300**
Income taxes	18	-5 414 038	-6 349 617
Profit for the year		**8 469 367**	**3 926 682**
Attributable to shareholders of Groupe Acrotec SA		8 058 107	3 554 312
Attributable to non-controlling interests		411 260	372 370
Earnings per shares (EPS) - in CHF per share :			
Bearer shares			
Basic earnings per share	4	8 058	3 554
Diluted earnings per share	4	8 058	3 554

Consolidated statement of cash flows

in CHF	Notes	2018	2017
Profit for the year		**8 469 367**	**3 926 682**
Depreciation and impairment on tangible fixed assets	11	11 235 869	10 066 551
Amortisation and impairment on intangible fixed assets	11	13 142 055	11 603 002
Change in bad debt allowance	23	66 297	115 904
Result on the disposal of PPE	11	-104 641	289 229
Changes in deferred tax	18	-716 564	418 561
Finance costs		8 174 372	6 794 693
Other expense / income without cash impact		1 149 035	-
Changes in short term provisions	17	2 393 849	-858 936
Changes in long term provisions	17	-800 000	800 000
Changes in working capital		-7 897 526	665 850
Changes in other long-term liabilities		-93 665	-303 508
Cash flow from operating activities		**35 018 446**	**33 518 028**
Acquisition of financial assets		-3 360 000	-2 155 077
Proceeds from the disposal of financial assets		228 533	-
Proceeds from disposal of property, plant and equipment	11	232 696	391 519
Purchase of property, plant and equipment	11	-17 308 009	-15 726 002
Purchase of intangible assets	12	-1 969 258	-779 985
Acquisition of subsidiaries, net of cash acquired	27	-24 026 293	-44 327 459
Cash flow from investing activities		**-46 202 331**	**-62 597 003**
Inflows from capital increase (including agio)		-	17 218 875
Acquisition of non-controlling interests		-32 000	-
Dividends paid to non-controlling interests		-346 667	-333 333
Changes in short-term financial liabilities		3 555 528	9 182 678
Changes in long-term financial liabilities		-12 041 669	62 372 891
Interest paid		-8 174 372	-6 794 693
Cash from financing activities		**-17 039 179**	**81 646 417**
Change in cash and cash equivalents		**-28 223 064**	**52 567 442**
At beginning of year		67 454 882	14 599 220
Net foreign exchange difference		-443 517	288 220
At end of year		38 788 300	67 454 882
Change in cash and cash equivalents		**-28 223 064**	**52 567 442**

Consolidated statement of change in equity

In CHF	Attributable to the equity holders of the parent						
	Share capital	Capital reserves	Cumulative translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2017 (restated)	**100 000**	**160 210 894**	**-2 134**	**-3 043 217**	**157 265 543**	**1 216 090**	**158 481 633**
Capital contribution reserve **	-	-	-	19 218 875	**19 218 875**	-	**19 218 875**
Net income	-	-	-	3 554 312	**3 554 312**	372 370	**3 926 682**
Dividends paid	-	-	-	-	**-**	-333 333	**-333 333**
Changes in non-controlling interests	-	-	-	11 797	**11 797**	-11 797	**-**
Translation differences	-	-	951 852	-	**951 852**	-	**951 852**
Balance at 31 December 2017 (restated)	**100 000**	**160 210 894**	**949 718**	**19 741 767**	**181 002 379**	**1 243 330**	**182 245 709**
Capital contribution reserve	-	-	-	-	-	-	-
Net income	-	-	-	8 058 107	8 058 107	411 260	8 469 367
Dividends paid	-	-	-	-	-	-346 667	-346 667
Allocation to capital reserves	-	-	-	-	-	-	-
Changes in non-controlling interests *	-	-	-	17 733	17 733	-49 733	-32 000
Translation differences	-	-	-436 761	-	-436 761	-	-436 761
Balance at 31 December 2018	**100 000**	**160 210 894**	**512 957**	**27 817 607**	**188 641 458**	**1 258 190**	**189 899 648**

* Acquisition of 8 actions of KIF-Parechoc SA (compagny of Group Acrotec - fully consolidated - since 2006).
** Contribution from shareholder of ultimate parent to Acrotec SA for CHF 17'218'875 and loan conversion into equity for CHF 2'000'000.

Notes to the consolidated financial statements

1. Corporate information

Groupe Acrotec SA (the Company) and its subsidiaries (collectively the Group) is an independent Group active in micro-mechanical and watchmaking sectors.
The Group offers to the market high quality Swiss made products.
The Company is a limited company incorporated and domiciled in Switzerland. Its registered office is located at Rue des Romains 1, 2802 Develier.
These consolidated financial statements were approved for issue by the Board of Directors on 18 April 2019.

2. Summary of significant accounting policies

a. Basis of preparation

These consolidated financial statements provide a true and fair view of Groupe Acrotec's assets, financial position and earnings, and have been drawn up in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. The consolidated financial statements of the Group are based upon the financial statements of the Group companies as at 31 December and are established in accordance with the standardized reporting and accounting policies. The financial statements are based on the principle of historical acquisition costs and on the going concern principle. The statements are presented in Swiss francs (CHF) without cents which may create some not significant differences due to roudings.

Changes in comparative figures
Some comparative figures have been restated to improve the quality of the published data, without impact on consolidated profit for the year 2017. The financial assets and the equity attribuable to owner of Acrotec Group were increased by CHF 30'000.

b. Consolidation policies; business combinations and goodwill

The Group companies include all companies that are directly or indirectly controlled by Groupe Acrotec SA. Companies over which the Group exercises joint control are consolidated by the proportional method. In this respect, control is defined as the ability to control the financial and operating activities of the respective company, so as to obtain benefits from its operations. This control is normally evidenced by the holding of more than half of the voting rights of share capital of an entity. Group companies are consolidated from the date on which control is transferred to the Group. Subsidiaries intended for disposal are excluded from the consolidation from the date on which control ceases. Companies acquired over the course of the year are revalued and consolidated in accordance with Group principles upon the date of acquisition. The difference between the acquisition costs and the proportional revalued net assets is referred to as goodwill. The goodwill resulting from acquisitions is recognized in the non-current assets. The Notes to the consolidated financial statements disclose the effects of capitalization and amortization of the acquired goodwill (see Note 27). In the event that shares of the are sold, the difference between the proceeds from the sale and the proportional book value of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement.

Non-controlling interests in equity and in net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are recognized as equity transactions, provided that control continues. Intercompany transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated in full. Representation on the board of directors or access to the current financial information of a company are also indicators of significant influence.

Notes to the consolidated financial statements

c. Scope of consolidation

At 31 December 2018, the Group's consolidation structure comprised 29 legal entities (2017: 27), 27 are fully consolidated and one is proportionally consolidated. Note 28 includes a complete list of Group companies. Vardeco Inc, an US company owned by the Group is not included in the scope. As this entity is dormant, it would have a minor impact on the consolidated result and has been assessed as not significant. In addition, the shares of Butech SA were consolidated according the equity method at 31.12.2017.

d. Accounting estimates and judgments

The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.

e. Foreign currency translation

Foreign currency translation

Transactions in foreign currencies are translated to Swiss francs at their respective spot rate at transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Swiss francs at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Swiss francs at foreign exchange rates ruling at the dates the values were determined.

Conversion of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated at rates of exchange ruling at the balance sheet date, while items of income statement are translated at average exchange rates of the year. The conversion of equity is carried out at historical rates. Foreign currency translation gains or losses due to the conversion of financial statements are offset against shareholders' equity, through a Cumulative Translation Adjustment Reserve.

The following exchange rates against Swiss Francs have been used to translate consolidated financial statements:

Currency	Unit	**Average rate**	**Prevailing**	Average rate	Prevailing
		2018	**31/12/2018**	2017	31/12/2017
		CHF	**CHF**	CHF	CHF
EUR	1.00	**1.1549**	**1.1373**	1.1113	1.1693

Notes to the consolidated financial statements

f. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at banks and short-term deposits with an original maturity of three months or less. They are recorded at their nominal value. In the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

g. Receivables from goods and services

Receivables from goods and services are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables. Impairment is charged for receivables which are either more than 12 months overdue or for which specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.

h. Inventories

Inventories are valued at the lower of acquisition or production cost and fair value less cost to sell. Any discounts received are treated as cost reductions. Manufacturing costs comprise all costs directly attributable to material and production, as well as overhead costs incurred in building up the inventory at its current location and/or to its current condition. Acquisition costs are determined according to the weighted average cost method, although some production companies value their own produced inventories using the standard cost method or the retail method depending on their activity. As these costs and the margin for the retail method are regularly reviewed and updated, this method approximates the result of the weighted average method.

i. Financial assets

Long term financial assets are recognized at nominal values. Any transaction income incurred is posted directly in the income statement. Financial assets are shown on the balance sheet as non-current assets. Financial assets which are convertible to cash at least 12 months after the balance sheet date are presented as current assets and are evaluated at current value.

j. Property, plant and equipment

Property, plant and equipment are recorded on the balance sheet at historical cost less accumulated depreciation and any impairments. Acquisition costs comprise the purchase price as well as the costs directly attributable to the utilization of the property, plant and equipment. Investments in existing property, plant and equipment are only capitalized if their value in use is sustainably increased or their useful life is extended considerably. Self-constructed assets are only capitalized if they are clearly identifiable and the costs can be reliably determined, and if the assets generate measurable benefits for the Group over a period of several years. Maintenance and repair costs that do not add value are charged directly to the profit and loss account for the period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

– Land	none
– Buildings	50 years
– Vehicles	4 years
– Machines and technical equipment	10, 15 and 20 years according to the type of machines
– Measuring instruments, tools and processing equipment	10 years
– Furniture	5 and 10 years according to the type of furniture
– IT equipment	3 years

The residual values and the remaining useful life of property, plant and equipment are reviewed yearly and adjusted where necessary. The Group does not capitalize any interest expenses incurred during the construction period.

Notes to the consolidated financial statements

k. Intangible assets

Goodwill
The difference between the acquisition costs and the actual value of the net identifiable assets of the acquired company at the time of the purchase represents goodwill from business combinations. The goodwill resulting from acquisitions is recognized in Group long term assets at the time of the acquisition and amortized over a 20 years period.

Capitalized development costs
Research costs are expensed when incurred. Development costs are only capitalized if they can be identified as intangible assets that will generate economic benefits in the future and the costs can be measured reliably. Other development costs are expensed when incurred. Once a product enters commercial production, the capitalized development costs are amortized on a straight-line basis over the estimated useful life that may vary from 2 to 5 years.

l. Impairment of assets

The recoverable value of non-current assets (including goodwill) is verified at every balance sheet date. If there are indications of a sustained impairment, the recoverable amount of the respective assets will be determined. The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the smallest group of assets to which the individual asset belongs. If the book value of an asset exceeds the recoverable amount, an impairment loss is recognized separately in the income statement. In the event that a Group company is sold, any goodwill acquired at an earlier point in time is taken into consideration when determining the gain or loss in the income statement.

m. Provisions

Provisions are recognized:

– when the Group has a present legal or constructive obligation as a result of past events,

– when it is probable that an outflow of resources will be required to settle the obligation, and

– when a reliable estimate of the amount of the obligation can be made.

The expense relating to any provision is presented in the income statement, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision in function of time is recognized as interest expense.

n. Financial liabilities

Financial debts are recognized as nominal values. Any transaction costs incurred are posted directly to the income statement, except for the cost of bonds that are capitalized as financial investment and recognized as a financial expense over the duration of the liability. Financial debts are shown on the balance sheet as current liabilities, unless the Group has an unconditional right to postpone the settlement of the debt until at least 12 months after the balance sheet date.

o. Income taxes

The tax expense for the period comprises current income taxes and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized directly in equity.

Current income tax
Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Notes to the consolidated financial statements

Deferred tax

Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply.
Deferred tax assets are recognized for all deductible temporary differences, carry forward tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is not intended that the temporary difference will reverse in the foreseeable future.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

p. Pensions and other post-employment benefits

Pension obligations

Group companies operate various pension schemes, which conform to the legal regulations and provisions in force. The actual economic effects of pension schemes on the Group are calculated at the balance sheet date. An economic obligation is recognized as a liability if the requirements for the recognition of a liability are met. An economic benefit is capitalized provided that this can be used for future Group pension contributions. Freely available employer contribution reserves are capitalized.
Employees of Acrotec Group companies are insured as part of separate legal entities and financed by contributions from both employers and employees. Surpluses or deficits are calculated based on the Pension Fund's financial statements, which have been drawn up in accordance with Swiss GAAP FER 26. The Group's pension costs include the employer contributions accrued in the period as well as any economic effects from the excess/shortfall and the change in employer contribution reserves.

q. Share capital and treasury shares

Shares issued by Acrotec Group are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 100. Each share carries one vote and confer equal entitlement to dividends.
Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

r. Sales and revenue recognition

Net sales include the inflow of economic benefits from the sale of goods and services within the scope of ordinary business during the period under review. Sales reductions such as discounts, rebates and other concessions as well as payments to third parties such as commissions, credit card fees and any value added tax have been deducted from net sales reported. All intercompany sales are eliminated during consolidation.

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectability of the related receivables is reasonably secured. Revenue from services is recognized in the accounting period in which the service is rendered. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract.

s. Dividends

Dividend payments to shareholders are recognized in the Group's financial statements in the period in which the Annual General Meeting of the holding company has given its approval.

Notes to the consolidated financial statements

t. Leases

Finance leases

A finance lease is where the lessor transfers to the lessee practically all of the risks and rewards associated with the ownership of the leased item. At the beginning of the term of the lease contract, the lower of the fair value of the leased item or net present value of the future lease payments is shown in the balance sheet as assets and liabilities. Each lease payment is apportioned between the finance charges and the reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recorded directly in the income statement as expenditure. Capitalized leased assets are depreciated over the lower of estimated economic useful life of the asset or contract period.

Operating leases

An operating lease is where a significant portion of the risks and rewards of ownership are retained by the lessor. Operating lease payments are recognized as expenses in the income statement on a straight-line basis over the lease term.

u. Non-operating activities

Non-operating result is expense and income which arise from events or transactions that clearly differ from the usual business activities of the organisation. Expense and income from non-operating tangible fixed assets also form part of the non-operating result.

v. Extraordinary

Expense and income which arise extremely rarely in the context of the ordinary operations and which are not predictable are considered as extraordinary.

Notes to the consolidated financial statements

3. Segment information

a. Operating segment information

Operating segments are reported consistently with the internal reporting provided to the Management Board. Although the Group operates in different sectors, its various activities are aggregated in two reportable operating segments that are:

Watchmaking industry	Shock absorbers, spring barrels, oscillating weights, manufacturing jewels, microengineering, precise and adapted tools for Swiss horology manufacturers and various other mission-critical components
Non-watch industry	High-value add connectors for various end-markets such as automotive, aerospace and medtech, jewellery and metal cut parts that go into turbochargers

The reportable operating segments mainly generate their revenues from the manufacture and the sale of products to third parties. Corporate services do not qualify as a segment but are shown separately. They include the activities of the Group's holding, finance and other administrative services. Elimination of intercompany transactions such as sales and expenses are shown under the column "Elimination".

2018 in CHF	**Watchmaking industry**	**Other industry**	**Corporate Services**	**Elimination**	**Total**
- Third parties	103 023 634	75 940 844	-	-	178 964 477
- Group	7 675 669	3 770 130	6 056 672	-16 846 826	655 646
Net Sales	**110 699 303**	**79 710 974**	**6 056 672**	**-16 846 826**	**179 620 123**
Operating result	**29 121 453**	**18 183 884**	**598 789**	**-**	**47 904 126**
In % of net sales	26.3%	22.8%	9.9%	0.0%	26.7%
2017 in CHF	**Watchmaking industry**	**Other industry**	**Corporate Services**	**Elimination**	**Total**
- Third parties	83 073 778	71 114 378	-	-	154 188 156
- Group	7 694 609	312 608	5 345 737	-13 229 412	123 541
Net Sales	**90 768 386**	**71 426 986**	**5 345 737**	**-13 229 412**	**154 311 697**
Operating result	**22 769 823**	**17 977 921**	**-1 971 213**	**-**	**38 776 530**
In % of net sales	25.1%	25.2%	-36.9%	0.0%	25.1%

b. Information on geographical regions

	2018		**2017**	
in CHF	**Net Sales**	**Operating result ***	**Net Sales**	**Operating result**
- Switzerland	112 846 468	32 336 292	92 675 799	23 254 766
- Other Europe	54 059 130	12 611 833	51 673 468	13 022 626
Total Europe	**166 905 597**	**44 948 125**	**144 349 268**	**36 277 392**
Total America	**9 270 790**	**2 230 220**	**7 173 968**	**1 799 635**
Total Asia	**3 443 736**	**725 781**	**2 788 462**	**699 503**
Total:	**179 620 123**	**47 904 126**	**154 311 697**	**38 776 530**

* Operating result is calculated on the basis of the percentage of EBITDA of individual companies .

Notes to the consolidated financial statements

4. Earnings per share

a) Basic

	2018	2017
Net income attributable to shareholders of Groupe Acrotec SA (in CHF)	8 058 107	3 554 312
Percentage of registered shares outstanding in comparison with the share capital outstanding	100%	100%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	0%	0%
Registered shares		
Net income attributable to registered shareholders	8 058 107	3 554 312
Average number of shares outstanding	1 000	1 000
Basic earnings per shares (in CHF)	**8 058**	**3 554**
Bearer shares		
Net income attributable to bearer shareholders	-	-
Average number of shares outstanding	-	-
Basic earnings per shares (in CHF)	**-**	**-**

b) Diluted

Registered shares	2018	2017
Net income attributable to registered shareholders	8 058 107	3 554 312
Average number of shares outstanding (basic)	1 000	1 000
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	1 000	1 000
Diluted earnings per shares (in CHF)	**8 058**	**3 554**
Bearer shares		
Net income attributable to bearer shareholders	-	-
Average number of shares outstanding (basic)	-	-
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	-	-
Diluted earnings per shares (in CHF)	**-**	**-**

5. Dividends paid and proposed

The Annual General Meeting approved that no dividends be paid during 2018.

Notes to the consolidated financial statements

6. Receivables from goods and services	31/12/2018	31/12/2017
Trade receivables from third parties - gross	24 237 061	20 793 139
Trade receivables from group company	82 897	15 270
Allowance for impaired receivables	-1 356 394	-1 384 087
	22 963 564	**19 424 322**

7. Other short-term receivables	31/12/2018	31/12/2017
Other receivables from third parties	2 079 076	2 500 613
Other receivables from shareholders	32 834	121 267
	2 111 910	**2 621 880**

8. Inventories	31/12/2018	31/12/2017
Raw materials, auxiliary material and supplies	15 949 122	13 807 871
Goods in progress	18 472 246	13 601 435
Advanced payment related to goods in progress	-3 155 433	-1 518 362
Finished goods	22 522 727	19 897 821
Allowance for impaired inventories	-9 276 900	-8 574 159
	44 511 763	**37 214 606**
Change in inventory of finished and unfinished goods as well as unbilled goods and services	**4 777 812**	**-2 434 960**
Change in inventory of raw material expense	1 574 000	1 872 016
Net change in estimate for inventories valuation (Note 26)	34 027	337 568
	6 385 839	**-225 376**

9. Prepayments and accrued income	31/12/2018	31/12/2017
Prepayment and accrued income from third parties	2 036 474	2 351 375
	2 036 474	**2 351 375**

10. Financial assets	31/12/2018	*Restated* 31/12/2017
Investment portfolio	340 708	349 862
Equity investment	-	49 000
Financial assets to third parties	3 386 608	936 583
Allowance for impaired financial assets	-267 102	-
Financial assets to parent entities	-	211 533
Capitalized financial expenses	523 624	690 096
Asset from the employer contribution reserve to pension institution (refer to note 29)	4 034 979	3 913 156
	8 018 817	**6 150 230**
Current	**340 708**	**349 862**
Non-current	**7 678 109**	**5 800 368**

Notes to the consolidated financial statements

11. Property, plant and equipment

	Undeveloped Land	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	In progress	Total
Historical cost, 31 December 2017	**2 079 936**	**44 609 975**	**118 480 219**	**17 170 302**	**1 117 371**	**183 457 803**
Acquisition of subsidiaries (Note 27)	-	-	16 061 057	2 622 113	-	18 683 170
Additions	-	249 166	13 627 624	2 970 988	890 448	17 738 226
Disposals	-4 560	-	-1 553 525	-453 410	-	-2 011 495
Transfers	-	845 003	-		-845 003	-
Exchange rate impact	-	-111 529	-217 403	-237 913	-	-566 845
Historical cost, 31 December 2018	**2 075 376**	**45 592 614**	**146 397 972**	**22 072 080**	**1 162 815**	**217 300 858**
Accumulated depreciation, 31 December 2017	**-**	**-16 910 087**	**-65 150 324**	**-12 282 446**	**-**	**-94 342 857**
Acquisition of subsidiaries (Note 27)	-	-	-7 742 349	-1 426 252	-	-9 168 601
Additions	-	-	-	-134 092	-	-134 092
Annual depreciation	-	-803 206	-8 574 844	-1 822 109	-	-11 200 159
Impairment	-	-	-35 710	-	-	-35 710
Depreciation on disposals	-	-	1 547 675	340 422	-	1 888 097
Exchange rate impact	-	17 346	90 789	207 148	-	315 283
Accumulated depreciation, 31 December 2018	**-**	**-17 695 948**	**-79 864 763**	**-15 117 329**	**-**	**-112 678 039**
Net book values :						
Balance at 31 December 2017	**2 079 936**	**27 699 887**	**53 329 896**	**4 887 856**	**1 117 371**	**89 114 946**
Balance at 31 December 2018	**2 075 376**	**27 896 666**	**66 533 209**	**6 954 751**	**1 162 815**	**104 622 818**

In 2018, impairment is related to technical equipment that was no longer used.

The total amount of advanced payments recorded in 2018 as PPE is CHF 1'162'815.

These figures included leased machinery for CHF 21'164'078 (CHF 26'408'097 less accumulated depreciation of CHF 5'244'019), leased equipments for CHF 2'447'453 (CHF 2'987'739 less accumulated depreciation of CHF 540'286), leased vehicules for CHF 1'522'223 (CHF 2'756'112 less accumulated depreciation of CHF 1'226'119) and leased IT for CHF 336'621 (CHF 687'730 less accumulated depreciation of CHF 351'109).

	Undeveloped Land	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	In progress	Total
Historical cost, 31 December 2016	**266 936**	**39 519 497**	**93 788 828**	**15 482 365**	**391 551**	**149 449 176**
Acquisition of subsidiaries (Note 27)	1 813 000	4 803 529	13 703 080	718 924	-	21 038 534
Additions	-	10 110	12 835 524	2 154 547	725 820	15 726 001
Disposals	-	-	-2 285 452	-1 843 076	-	-4 128 528
Exchange rate impact	-	276 838	438 240	657 542	-	1 372 620
Historical cost, 31 December 2017	**2 079 936**	**44 609 975**	**118 480 219**	**17 170 302**	**1 117 371**	**183 457 803**
Accumulated depreciation, 31 December 2016	**-**	**-15 414 317**	**-52 095 758**	**-10 931 751**	**-**	**-78 441 826**
Acquisition of subsidiaries (Note 27)	-	-720 529	-7 119 427	-650 104	-	-8 490 060
Annual depreciation	-	-738 691	-7 378 853	-1 657 817	-	-9 775 361
Impairment	-	-	-401 283	110 093	-	-291 190
Depreciation on disposals	-	-	2 028 087	1 419 693	-	3 447 780
Exchange rate impact	-	-36 550	-183 090	-572 560	-	-792 200
Accumulated depreciation, 31 December 2017	**-**	**-16 910 087**	**-65 150 324**	**-12 282 446**	**-**	**-94 342 857**
Net book values :						
Balance at 31 December 2016	**266 936**	**24 105 180**	**41 693 069**	**4 550 614**	**391 551**	**71 007 350**
Balance at 31 December 2017	**2 079 936**	**27 699 887**	**53 329 896**	**4 887 856**	**1 117 371**	**89 114 946**

In 2017, impairment was related to restructuring expenses and is recorded as non-operating result (note 25).

The total amount of advanced payments recorded in 2017 as PPE is CHF 1'117'371.

These figures included leased machinery for CHF 15'708'722 (CHF 19'426'998 less accumulated depreciation of CHF 3'718'275), leased equipments for CHF 2'330'986 (CHF 2'539'408 less accumulated depreciation of CHF 208'439) and leased vehicules for CHF 1'565'080 (CHF 2'384'429 less accumulated depreciation of CHF 819'349).

Notes to the consolidated financial statements

12. Intangible assets

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2017	**247 208 770**	**2 109 874**	**249 318 644**
Acquisition of subsidiaries (Note 27)	21 663 721	315 384	21 979 105
Additions *		1 969 258	1 969 258
Historical cost, 31 December 2018	**268 872 491**	**4 394 516**	**273 267 008**
Accumulated amortisation 31 December 2017	**-27 175 621**	**-617 373**	**-27 792 994**
Acquisition of subsidiaries (Note 27)	-	-75 585	-75 585
Annual amortisation	-12 397 679	-744 376	-13 142 055
Accumulated amortisation, 31 December 2018	**-39 573 300**	**-1 437 334**	**-41 010 634**
Net book values :			
Balance at 31 December 2017	**220 033 148**	**1 492 501**	**221 525 649**
Balance at 31 December 2018	**229 299 190**	**2 957 182**	**232 256 373**

* included CHF 760'187 aquired from third parties in 2018.

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2016	**199 073 844**	**888 644**	**199 962 488**
Acquisition of subsidiaries (Note 27)	48 134 926	441 245	48 576 171
Additions *		779 985	779 985
Historical cost, 31 December 2017	**247 208 770**	**2 109 874**	**249 318 644**
Accumulated amortisation 31 December 2016	**-15 950 635**	**-162 246**	**-16 112 881**
Acquisition of subsidiaries (Note 27)	-	-77 111	-77 111
Annual amortisation	-11 224 986	-206 474	-11 431 461
Impairment	-	-171 542	-171 542
Accumulated amortisation, 31 December 2017	**-27 175 621**	**-617 373**	**-27 792 994**
Net book values :			
Balance at 31 December 2016	**183 123 209**	**726 398**	**183 849 608**
Balance at 31 December 2017	**220 033 148**	**1 492 501**	**221 525 649**

* included CHF 44'000 aquired from third parties in 2017.

Notes to the consolidated financial statements

13. Payables from goods and services	31/12/2018	31/12/2017
Payables to third parties	7 716 035	8 201 903
Payables to parent entities	3 367	-
	7 719 402	**8 201 903**

14. Financial liabilities	31/12/2018	31/12/2017
Liabilities to third parties	3 765 135	5 778 572
Liabilities to shareholders	7 837 034	12 571 429
Bank debts	4 429 838	1 927 770
Mortgages	14 065 131	15 486 151
Leases	19 232 174	14 591 443
Bonds	176 000 000	176 000 000
	225 329 312	**226 355 364**
Current	**18 469 847**	**13 498 401**
Non-current	**206 859 465**	**212 856 963**

On 14 June 2017 bonds were issued on the SIX Swiss Exchange with a principal amount of CHF 70'000'000.-, an interest rate of 3.75% and at a issue price of 100.00%. The maturity date is 14 June 2023 (*Duration: 6 years*).

On 22 September 2016 bonds were issued on the SIX Swiss Exchange with a principal amount of CHF 106'000'000.-, an interest rate of 4% and at a issue price of 100.00%. The maturity date is 22 November 2021 (*Duration: 5 years and 2 months*).

Collateral:

Mortgages and Leases : Fixed assets financed by leases or mortgages are pledged. Refer to note 31.

Bonds: The Bonds have the benefit of unconditional and irrevocable guarantees from certain subsidiaries of the Group.

15. Other liabilities	31/12/2018	31/12/2017
Third parties	4 171 727	4 299 781
Patronage fund	975 831	790 906
Other liabilities to shareholders	361 076	14 249
	5 508 634	**5 104 935**
Other short-term liabilities	**4 911 006**	**4 407 813**
Other long-term liabilities	**597 628**	**697 122**

16. Accrued liabilities and deferred income	31/12/2018	31/12/2017
Other accrued liabilities due to third parties	5 620 257	4 489 833
Other accrued liabilities due to shareholders	77 679	209 524
	5 697 935	**4 699 357**

Notes to the consolidated financial statements

17. Provisions

	Restructuring provision	Tax provision	Other provisions	Total
At 1 January 2018	**94 846**	**3 192 579**	**950 000**	**4 237 425**
Acquisition of subsidiaries	-	234 019	20 388	254 407
Creation	-	6 360 173	1 569 866	7 930 040
Utilisation	-82 186	-5 478 840	-	-5 561 026
Released	-	-229 571	-800 000	-1 029 571
At 31 December 2018	**12 660**	**4 078 361**	**1 740 254**	**5 831 275**
Current	**12 660**	**4 078 361**	**1 590 254**	**5 681 275**
Non-current	**-**	**-**	**150 000**	**150 000**

	Restructuring provision	Tax provision	Other provisions	Total
At 1 January 2017	**-**	**4 146 361**	**150 000**	**4 296 361**
Creation	94 846	6 531 174	800 000	7 426 020
Utilisation	-	-6 884 839	-	-6 884 839
Released	-	-600 117	-	-600 117
At 31 December 2017	**94 846**	**3 192 579**	**950 000**	**4 237 425**
Current	**94 846**	**3 192 579**	**-**	**3 287 425**
Non-current	**-**	**-**	**950 000**	**950 000**

Restructuring

Following the acquisition of Pierhor SA and Gasser-Ravussin SA in 2017, the Group created the Pierhor-Gasser Jewels Division. The cost of restructuration generated by the combination of the two manufacturing plants and the change of organisation was CHF 969'796 (See note 25) in 2017. This amount contains a provision of CHF 12'660 for the costs not yet incurred in 2018 (CHF 94'846 in 2017).

Other provisions

One company of the Group is involved in litigation arising from a past event with a patronage fund. Management estimated the outcome of this lawsuit on the basis of currently available information and recorded adequate provisions in 2015 (CHF 150'000). No change occurred in 2017 and 2018.

Following the acquisition of Gasser-Ravussin SA, a provision for depollution of the site (Lucens - VD) of CHF 800'000 was recorded in 2017. CHF 300'000 was recorded as non-operating expense and as according to the contract, CHF 500'000 will be assumed by the former shareholder, a financial asset of CHF 500'000 has therefore been recognized.
In 2018, the provision of CHF 500'000 was released against the financial asset. The balance of the provision was also released and a debt of CHF 475'000 was created, in the form of a retrocession of the selling price of the Gasser-Ravussin building (to Gasser Holding SA); there results from this operation a non-operating expense of CHF 175'000 (see note 25). According to the terms of the contract, the debt of CHF 475'000 was reduced by costs paid by Group Acrotec related to the depollution of the site (Lucens - VD); as at 31.12.2018 the debt amounts to CHF 364'246.10 (see note 14 - Financial liabilities to third parties).

Notes to the consolidated financial statements

18. Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

a) Income tax expense

	2018	2017
Current income taxes		
Current year income taxes	-6 360 173	-6 531 174
Adjustments in respect of prior years	229 571	600 117
	-6 130 602	**-5 931 057**
Deferred taxes		
Relating to origination and reversal of temporary differences	-1 354 265	-1 328 126
Relating to adjustment of tax rates on prior year deferred taxes	1 785 380	490 130
Relating to capitalization and use of taxes carried forward	285 449	419 436
	716 564	**-418 561**
	-5 414 038	**-6 349 617**

b) Group's effective tax rate

In 2018, the expected tax rate is lower than 2017 but remains high. The situation of this high expected tax rate is due to negative results on the holding companies which have reduced tax rates. The reconciliation between the theoretical and effective rate is presented below:

	2018	2017
Expected tax rate at weighted average applicable tax rate	**47.36%**	**50.65%**
Unrecognised deferred tax assets	2.08%	1.93%
Changes in tax rates on deferred tax *	-12.86%	4.77%
Prior years' taxes	-1.65%	-5.84%
Tax effect of non-tax deductible items	6.99%	8.62%
Other	-2.92%	1.66%
Effective tax rate	**39.00%**	**61.79%**

* Mainly due to the announcement of the reduction of the taxe rate in one canton (Switzerland).

The effective tax rate based on the ordinary result in the year under review was 39.00% (previous year 61.79%).

c) Deferred tax

Deferred tax assets and liabilities relate to the following balance sheet items:

	31/12/2018	31/12/2017
Receivables from goods and services	-198 296	-248 767
Inventories	-2 423 501	-2 841 495
Prepayments and accrued income	-8 258	-10 524
Property, plant and equipment	-11 287 683	-10 379 822
Intangible assets	-463 972	-248 841
Long-term provisions	-1 646 986	-1 703 183
Loss carried forward	704 885	419 436
	-15 323 812	**-15 013 196**
Deferred tax assets	704 885	419 436
Deferred tax liabilities	-16 028 697	-15 432 632
	-15 323 811	**-15 013 196**
Tax (expense)/income from the change in deferred tax from temporary differences	**-310 615**	**-3 049 367**
Variation due to acquired subsidiaries (Note 27)	-1 082 077	-2 500 657
Change in exchange rate	54 897	-130 150
Tax (expense)/income from the change in deferred tax from temporary differences	**716 564**	**-418 561**

Deferred tax assets resulting from deductible temporary differences, tax credits or losses carried forward are recognized only to the extent that realization of the related tax benefit is probable.

Notes to the consolidated financial statements

19. Share capital and reserves

Share capital
Over the past three years, the share capital of Group Acrotec SA has developed as follows:
Share capital is fully composed of ordinary shares.

Balance sheet date	Registered shares	Share capital in CHF
31/12/2016	1'000 at CHF 100.00	100 000
31/12/2017	1'000 at CHF 100.00	100 000
31/12/2018	1'000 at CHF 100.00	100 000

Capital reserves
Capital reserves include non-distributable, statutory or legal reserves amounting to CHF 12'954'870 (2017: CHF 11'141'095).

20. Net sales from goods and services	2018	2017
Net sales from goods and services from third parties	178 964 477	154 188 156
Net sales from goods and services from group entities / parent entities	655 646	123 541
	179 620 123	**154 311 697**

Net sales by industry	2018	2017
Net sales watchmaking industry (including net sales from group entities)	103 679 279	83 197 319
Net sales other industries	75 940 844	71 114 378
	179 620 123	**154 311 697**

Net sales by country	2018	2017
Net sales in Switzerland	112 846 468	92 675 799
Net sales in foreign countries	66 773 656	61 635 898
	179 620 123	**154 311 697**

21. Material purchases	2018	2017
Material costs	-37 806 764	-35 735 883
Tools and supplies	-3 713 512	-1 558 166
Cost of external services	-15 367 188	-11 226 044
Energy	-833 843	-167 171
Others raw material expenses	-1 120 098	-170 290
	-58 841 404	**-48 857 554**

22. Personnel expenses	2018	2017
Wages and salaries	-53 251 991	-44 888 466
Social security costs	-9 480 480	-7 746 386
Others personnel expenses	-3 384 841	-2 124 159
	-66 117 312	**-54 759 011**

23. Other operating expenses	2018	2017
Maintenance, rents and energy	-9 237 420	-8 158 777
Leasing	-8 233	-29 824
Vehicle	-535 597	-255 745
Administration and IT	-4 110 638	-3 615 550
Insurance	-544 160	-575 989
Marketing and sales	-1 260 308	-1 462 801
Change in bad debt allowance	-66 297	-115 904
	-15 762 653	**-14 214 590**
Other operating expenses related to third parties	-14 006 153	-12 813 886
Other operating expenses related to related parties	-1 756 500	-1 400 704
	-15 762 653	**-14 214 590**

Notes to the consolidated financial statements

24. Net financial result	2018	2017
Financial income	37 415	139 684
Financial income to shareholders	1 652	5 731
	39 067	**145 415**
Financial expense	-7 968 141	-6 730 584
Financial expense to shareholders	-245 298	-209 524
	-8 213 438	**-6 940 108**
	-8 174 372	**-6 794 693**

Financial income generated in 2018 relates to mainly remunerative interest on investments. Financial income generated in 2017 relates to mainly remunerative interest on investments and exchange rate gain.
Financial income to shareholders generated in 2018 and in 2017 relates to remunerative interest on currents accounts.

Financial expense generated in 2018 and in 2017 relates mainly to interest on bonds of CHF 6'866'238 (2017: CHF 5'678'356).
Financial expense to shareholders generated in 2018 and in 2017 relates to interest on vendor loans.

25. Non-operating result	2018	2017
Non-operating income	262 746	357 521
Non-operating expense	-2 027 138	-582 817
Restructuring utilisation / expense (Note 17)	82 186	-969 796
	-1 682 206	**-1 195 092**

Non-operating income generated in 2018 and in 2017 relates mainly to sales of fixed assets, refund of non-operating tax and refund of an insurance.

Non-operating expense generated in 2018 relates to consulting fees (for mergers and aquisitions) and relates to the constitution of a non-operating debt of CHF 175'000.
Non-operating expense generated in 2017 relates to consulting fees for mergers and aquisitions and accounting services.

26. Extraordinary result	2018	2017
Non-recurring income	488 524	1 183 370
Net change in estimate of inventory	34 027	337 568
	522 550	**1 520 938**
Non-recurrent expense	-142 926	-653 021
Non-recurrent expense related to related parties	-165 844	-
	-308 770	**-653 021**
	213 780	**867 918**

According to group policies, all items relating to previous exercices are systematically recorded as extraordinary result.

In 2018 non-recurring income is due to a prior year income adjustment of CHF 488'524 (CHF 1'183'370 in 2017) and a change in inventory valuation of CHF 34'027 (CHF 337'568 in 2017). Some companies adapted their costing methodologies with the policy of Group Acrotec. The impact of the change in estimate was recorded as an extraordinary item.

In 2018 and in 2017, non-recurring expense is due to prior years expense adjustments.

Notes to the consolidated financial statements

27. Business combinations

a) In 2018, three companies, which are presented below, were acquired by the Group:

I. On February 28th 2018, the Group acquired 51% of the voting shares of Butech SA (previous acquisition of 49% on 30 June 2017). This is an unlisted company based in Tavannes and specialising in production in diamond coated wire. The Group acquired Butech SA as it is a strategic supplier to Gasser Ravussin SA and Pierhor SA.

II. On November 23rd 2018, the Group acquired 100% of the voting shares of Watchdec SA, an unlisted company based in Develier and specialising in production of bar turned parts.

II. On December 28th 2018, the Group acquired 100% of the voting shares of A.F.T Micromécanique SAS, an unlisted company based in Fillinges (France) and specialising in production of implantable devices, orphopedics and instrumentation.

The Group acquired 100% of the voting shares of Butech SA, Watchdec SA and A.F.T Micromécanique SAS and therefore it took control of these subsidiaries. Concerning the consolidation details, Butech SA has been fully consolidated since 28 February 2018, Watchdec SA has been fully consolidated since 30 November 2018. A.F.T. Micromécanique SAS has been fully consolidated since 31 December 2018. The following consideration was paid to acquire these companies:

Cash paid to vendors	26 514 280	The Group paid CHF 26'514'280 in cash as part of the consideration in accordance with the share purchase agreements.
Vendor loan	3 316 320	The Group financed a part of its acquisitions through vendor loans.
Acquisition costs	457 928	Acquisition costs correspond to consulting and legal expenses disbursed during the due diligence process.
Total	**30 288 528**	

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date, as well as the consideration paid and the goodwill arising on acquisition:

Acquisitions of subsidiaries	2018	2017
Purchase consideration paid (incl. acquisition-related costs)	30 288 528	75 028 884
	Acquired values	**Acquired values**
Current assets	6 448 338	18 807 154
Property, plant and equipment	9 514 569	12 548 474
Intangible assets	239 799	364 134
Financial assets	31 155	1 075 540
Current liabilities	-3 751 722	-2 684 456
Deferred tax liabilities	-1 082 077	-2 500 657
Long term liabilities	-2 775 255	-716 231
Net assets acquired	**8 624 807**	**26 893 958**
Goodwill	**21 663 721**	**48 134 926**
Cash and cash equivalents acquired	-2 945 915	-10 351 425
Capital contribution reserve	-	-2 000 000
Vendor loans	-3 316 320	-18 350 000
Cash outflow on acquisition	**24 026 293**	**44 327 459**

Current assets **:** Current assets: The total amount is composed of cash and cash equivalents (CHF 2'945'915), receivables from goods and services (CHF 1'978'005), other receivables (CHF298'109), inventories (CHF 1'039'583) and prepaid expenses (CHF 186'726). Currents assets have been recorded in accordance with group accounting policies.

Property, plant and equipment: mostly relate to the production equipment of the acquired companies revalued at acquisition in accordance with Group accounting policies.

Current liabilities: The total amount is composed of payables from goods and services (CHF 1'033'377), financial liabilities (CHF 1'415'918), other payables (CHF 535'802) and accrued liabilities and deferred income (CHF 766'625). They have been recorded in accordance with group accounting policies.

Deferred tax liabilities : mainly comprises the tax effect of the accelerated depreciation for tax purposes of tangible and intangible assets.

Long term liabilities : mostly relate to the debt of the acquired companies such as mortgage, short and long term bank debt, leasings and liabilities to shareholders.

Goodwill: The surplus of acquisition cost over the newly valued net assets is designated as goodwill and is capitalised as an intangible asset. In accordance with Group accounting policies, the amortisation period of acquired goodwill is 20 years, which is sustainable as the industry in which the acquired entity operates is not changing very quickly and therefore the Group expect to able to benefits from the synergies generated by the acquisition during at least 20 years.

Notes to the consolidated financial statements

28. Groupe Acrotec Companies - as at 31.12.2018

	Country	Field of Activity	Capital	Groupe Acrotec SA Share-holdings		Consolidation
Suisse CHF				% voting	% rights	
Acrotec SA, Develier	Switzerland	Holding	4 043 417	100%	100%	Fully consolidated
Butech SA, Tavannes ***	Switzerland	Watch	200 000	100%	100%	Fully consolidated
~~Décovi Holding SA, Val Terbi **~~	~~Switzerland~~	~~Holding~~	~~250 000~~	~~100%~~	~~100%~~	~~Fully consolidated~~
Décovi SA, Val Terbi	Switzerland	Industrial-Watch	150 000	100%	100%	Fully consolidated
Finacrotec SA, Develier	Switzerland	Holding	5 203 457	100%	100%	Fully consolidated
FX & Associés Holding SA, Le Chaux-de-Fonds	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Gasser-Ravussin SA, Lucens	Switzerland	Watch-Industrial	200 000	100%	100%	Fully consolidated
Générale Ressorts SA, Bienne	Switzerland	Watch-Industrial	2 425 000	100%	100%	Fully consolidated
Groupe Acrotec SA, Develier	Switzerland	Holding	100 000	100%	100%	Fully consolidated
H2i Sàrl, Savigny	Switzerland	Watch	20 000	100%	100%	Fully consolidated
J2X Holding SA, La Chaux-de-Fonds	Switzerland	Holding	100 000	100%	100%	Fully consolidated
K2A Sàrl, Le Chenit	Switzerland	Watch	20 000	100%	100%	Fully consolidated
Kif Parechoc SA, Le Chenit	Switzerland	Watch	720 000	95%	95%	Fully consolidated
Mimotec SA, Sion	Switzerland	Watch	364 000	100%	100%	Fully consolidated
mu-DEC SA, Develier	Switzerland	Watch	100 000	100%	100%	Fully consolidated
Petitpierre Holding SA, Cortaillod	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Petitpierre SA, Cortaillod	Switzerland	Watch-Industrial	140 000	100%	100%	Fully consolidated
Pierhor SA, Ecublens	Switzerland	Watch-Industrial	100 000	100%	100%	Fully consolidated
Precipro SA, La Chaux-de-Fonds	Switzerland	Watch-Industrial	411 000	100%	100%	Fully consolidated
Sigatec SA, Sion	Switzerland	Watch	400 000	50%	50%	Proportionally consolidation
SMTS Holding SA, Le Chenit	Switzerland	Holding	120 000	100%	100%	Fully consolidated
STS Develier SA, Develier	Switzerland	Watch	200 000	100%	100%	Fully consolidated
STS La Chaux-de-Fonds SA, La Chaux-de-Fonds	Switzerland	Watch	100 000	100%	100%	Fully consolidated
STS Meyrin SA, Meyrin	Switzerland	Watch	100 000	100%	100%	Fully consolidated
STS Vallée de Joux SA, Le Chenit	Switzerland	Watch	100 000	100%	100%	Fully consolidated
Vardeco Inc, US	United States	Dormant	-	0%	0%	None
Vardeco SA, Develier	Switzerland	Industrial	300 000	100%	100%	Fully consolidated
Watchdec SA, Develier *	Switzerland	Industrial	100 000	100%	100%	Fully consolidated
Europe EUR						
A.F.T Micromécanique SAS, Fillinges *	France	Industrial	125 000	100%	100%	Fully consolidated
D.J.C Décolletage Jean Cordier SAS, Thyez	France	Industrial	7 724 680	100%	100%	Fully consolidated

* Acquired companies in 2018

** Merger in 2018 with Acrotec SA

*** Aquisition of the rest of the voting shares in 2018 (51%)

Notes to the consolidated financial statements

29. Retirement benefit obligations

Employer contribution reserves (ECR) in CHF:

2018	Nominal value 31.12.2018	Waiver of use 31.12.2018	Balance sheet 31.12.2018	Accumulation 2018*	Balance sheet 31.12.2017	Result from ECR in personnel expenses	
						2018	2017
Patronage funds/ patronage pension plans	306'122	-	306 122	-178 177	484 299	-	-
Pension institutions	3'603'857	-	3 728 857	300 000	3 428 857	-	-
	4 034 979	**-**	**4 034 979**	**121 823**	**3 913 156**	**-**	**-**

* In 2018 a company of the group paid the capital due to an employee.

2017	Nominal value 31.12.2017	Waiver of use 31.12.2017	Balance sheet 31.12.2017	Accumulation 2017	Balance sheet 31.12.2016	Result from ECR in personnel expenses	
						2017	2016
Patronage funds/ patronage pension plans	484'299	-	484 299	121 077	363 222	-	-
Pension institutions	3'428'857	-	3 428 857	1 625 000	1 803 857	-	-
	3 913 156	**-**	**3 913 156**	**1 500 000**	**2 197 079**	**-**	**-**

Economic benefit / economic obligation and pension benefit expenses

			Change from previous year			
2018	Surplus/ deficit	Group's economic share	no income statement impact	income statement impact	Contributions for the business period **	Pension costs within personnel expense
Patronage funds / patronage pension plans	7 084 661	-	-	-	-	-
Pension plans without surplus / deficit	-	-	-	-	-1 753 623	-1 753 623
Pension plans with surplus*	-	-	-	-	-855 915	-855 915
	7 084 661	**-**	**-**	**-**	**-2 609 537**	**-2 609 537**

* It concerns collective pension funds and amounts of surplus relating to the companies in the group are not known. There is no economic advantage for Groupe Acrotec.

** The pension funds of several group companies are 100% reinsured in terms of risk and investments; in 2018 the amount of relevant contributions is CHF 2'367'756 (2017: CHF 2'019'690).

			Change from previous year			
2017	Surplus/ deficit	Group's economic share	no income statement impact	income statement impact	Contributions for the business period **	Pension costs within personnel expense
Patronage funds / patronage pension plans	6 545 335	-	-	-	-	-
Pension plans without surplus / deficit	-	-	-	-	-1 769 594	-1 769 594
Pension plans with surplus*	-	-	-	-	-579 071	-579 071
	6 545 335	**-**	**-**	**-**	**-2 348 665**	**-2 348 665**

Notes to the consolidated financial statements

30. Related party transactions

Terms and conditions of transactions with related parties

Unless specified below, the transactions with related parties are made at terms equivalent to those that prevail in arm's length. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: CHF Nil).

The following table provides the total amount of transactions that have been entered into and the outstanding balances with related parties for the relevant fiscal year:

		Sales and interest charged to related parties	Purchase and interest from/due to related parties	Other transactions with related parties	Amounts owed by related parties	Amounts owed to related parties
Parent companies	2018	655 646	-	45 660	82 897	-3 367
	2017	123 541	-	-	15 270	-
Shareholders of the ultimate parent company						
	2018	1 652	-1 324 283	-843 359	32 834	-8 275 789
	2017	5 731	-1 085 498	-524 730	332 800	-12 795 202

Transaction with shareholders in their capacity as shareholders

In 2018, there was no such transactions.

In 2017, Groupe Acrotec received a contribution of CHF 19'218'875 from a parent company owed by shareholders (refer to consolidated statement of change in equity).

Parent companies

In 2018, revenues from related parties were mainly generated from raw materials and goods sold to parent companies (similar to 2017).

Shareholders of the ultimate parent

Concerning the expenses in relation to the related parties, service fees were paid to shareholders of the ultimate parent for CHF 1'078'985 and CHF 875'974 in 2018 and in 2017, respectively. The aim of these fees is mainly to cover the management services provided to the Group.
In addition, financial expenses were charged to the Group for CHF 245'298 (2017: CHF 209'524) in relation to the borrowings made by the shareholders of the ultimate parent.
In 2018, rents for CHF 843'359 were collected by companies owned by shareholders of ultimate parent company (in 2017: CHF 524'730).

The amount owed by related parties corresponds to the current account with two shareholders of the ultimate parent for CHF 32'834 (2017: CHF 121'267). Moreover, as at 31.12.2017 there was a loan to a company owned by a shareholder's relative of the ultimate parent for CHF 211'533; this loan as been paid during 2018.

In 2018, the other liabilities of CHF 7'914'713 (2017: CHF 12'571'429) are owed to shareholders in the relation to vendor loans (bearing interest for CHF 77'679 in 2018 and for CHF 209'524 in 2017) underwritten during the acquisition of subsidiaries. Moreover, CHF 361'076 were owed to shareholders (current acount).

Notes to the consolidated financial statements

31. Commitments and contingencies

a. Contingent assets and liabilities	31/12/2018	31/12/2017
Guarantee for credit line	33 000 000	33 000 000
	33 000 000	**33 000 000**

If H2i sells its patent in the 5 years following the acquisition of the company, the Groupe Acrotec must pay half of the amount of the sale of the patent to the former shareholder.

b. Pledged assets	31/12/2018	31/12/2017
Building	27 896 666	27 699 887
Machine under lease	21 164 078	15 708 723
Vehicle under lease	1 529 993	1 565 081
Equipment under lease	2 447 453	2 330 968
IT under lease	336 621	-
Cash and cash equivalents	-	289 597
	53 374 810	**47 594 256**

c. Leasing

All financial leases were activated.

The Group's fixed operating leasing commitments that cannot be cancelled within 12 months and which are not recognized in the balance-sheet are due as follows:

	31/12/2018	31/12/2017
Between 1 and 5 years	9 026 855	6 453 408
Overs 5 years	9 253 297	6 035 670
	18 280 152	**12 489 078**

32. Subsequent events after the year-end closing

In March 2019, the Group acquired 100% of the voting shares of Roch Mécanique de précision SAS based in Reignier-Esery (France). The company manufactures technical parts using a variety of raw materials such as aluminium, stainless steel, titanium and copper and serves mainly aeronautic and manufacturing industries.