MAZARS SA
World Trade Center
Avenue Gratta-Paille 2
1018 Lausanne

Phone +41 21 310 49 49
Fax +41 21 310 49 99
VAT N° CHE-116.331.176
www.mazars.ch

FINACROTEC SA
DEVELIER

STATUTORY AUDITOR'S REPORT
Consolidated Financial Statements
December 31, 2017

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World Trade Center
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1018 Lausanne

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Fax +41 21 310 49 99
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Report of the statutory auditor to the General Meeting of Finacrotec SA, Develier

Report on the Audit of the Consolidated Financial Statements

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

In our opinion the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and 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

The Group completed the acquisitions of four companies during the financial year 2017. The group acquired 100% of the share capital of H2i Sàrl, Gasser-Ravussin SA, Mimotec SA and Pierhor SA. The total purchase price for the acquisitions of these companies amounted to CHF 75 million. The acquisition resulted in the recognition of a goodwill of CHF 48.1 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.

Our audit response

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 transaction 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 Finacrotec SA operates. We agreed significant transactions to supporting documentation, such as underlying contracts, third party confirmations and valuation reports.

To assess the valuation of the real estates, we considered the competence and independence of the third party expert by reference to their qualifications and experience. We used our own valuation expertise and experience to assess the underlying valuation methodology. We compared the inputs to internal and external data.

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 »

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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 110.8 million representing 36% 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	Our audit response
Inventory of CHF 37.2 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 2017, the costing was completely reviewed in various productions entities to be fully aligned with Group requirements.	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 new 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”

Other matters
The consolidated financial statements of the Group for the year ended December 31, 2016 were audited by another auditor whose report, dated April 27, 2017, expressed an unqualified opinion on those financial statements.

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 SA

Michael Ackermann
Licensed Audit Expert
(Auditor in Charge)

Sébastien Gianelli
Licensed Audit Expert

Lausanne, April 20, 2018

Enclosure:

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

Consolidated Balance sheet

Assets (CHF)	Notes	31.12.2017	31.12.2016
Cash and cash equivalents		42 385 974	14 564 827
Financial assets	10	349 862	-
Receivables from goods and services	6	19 406 675	16 163 281
Other short-term receivables	7	3 179 150	2 787 825
Inventories	8	37 214 606	31 554 806
Prepayments and accrued income	9	2 173 090	1 349 338
Current assets		**104 709 358**	**66 420 078**
Financial assets	10	5 080 272	2 724 296
Property, plant and equipment	11	89 114 946	71 007 350
Intangible assets	12	112 316 202	68 736 947
Deferred tax assets	18	419 436	98 000
Non-current assets		**206 930 856**	**142 566 593**
Assets		**311 640 214**	**208 986 671**

Liabilities and equity (CHF)	Notes	31.12.2017	31.12.2016
Payables from goods and services	13	8 089 503	6 494 000
Financial liabilities	14	22 966 512	4 315 723
Other short-term liabilities	15	4 408 760	2 552 680
Accrued liabilities and deferred income	16	2 811 802	2 634 119
Short-term provisions	17	3 258 419	4 128 361
Current liabilities		**41 534 996**	**20 124 884**
Financial liabilities	14	147 478 963	101 366 120
Deferred tax liabilities	18	15 432 632	12 061 829
Other long-term liabilities	15	697 122	1 000 630
Long-term provisions	17	950 000	150 000
Non-current liabilities		**164 558 717**	**114 578 579**
Liabilities		**206 093 713**	**134 703 463**
Share capital	19	5 203 457	5 203 457
Share capital not realised		-30 000	-30 000
Capital reserves		30 619 847	30 619 847
Retained earnings		67 560 148	37 275 949
Translation differences		949 718	-2 134
Equity attributable to owner of the Groupe Acrotec SA Group		**104 303 170**	**73 067 119**
Non-controlling interests		**1 243 330**	**1 216 090**
Liabilities and equity		**311 640 214**	**208 986 671**

Consolidated income statement

in CHF	Notes	2017	2016
Net sales from goods and services	3 / 20	154 311 697	119 036 197
Other operating income		4 730 949	3 368 574
Change in inventory of finished and unfinished goods	8	-2 434 960	1 527 108
Operating revenues		**156 607 686**	**123 931 879**
Material purchases	21	-48 857 554	-38 270 810
Personnel expenses	22	-54 759 011	-42 982 705
Other operating expenses	23	-14 189 443	-10 898 758
Operating expenses		**-117 806 008**	**-92 152 274**
Earnings before interest, tax and amortisation (EBITDA)		**38 801 677**	**31 779 605**
Depreciation and impairment on tangible fixed assets	11	-9 775 361	-7 161 184
Amortisation and impairment on intangible fixed assets	12	-5 699 789	-3 498 233
Total amortisation and depreciation		**-15 475 149**	**-10 659 417**
Earnings before interest and tax (EBIT)		**23 326 528**	**21 120 188**
Net financial result	24	-5 032 218	-3 649 087
Ordinary profit		**18 294 310**	**17 471 101**
Non-operating result	25	-1 428 879	-413 569
Extraordinary result	26	873 068	2 446 330
Profit before income taxes		**17 738 499**	**19 503 862**
Income taxes	18	-6 312 601	-6 289 192
Profit for the year		**11 425 898**	**13 214 670**
Attributable to shareholders of Groupe Acrotec SA		11 053 528	12 734 600
Attributable to non-controlling interests		372 370	480 070
Earnings per shares (EPS) - in CHF per share :			
Bearer shares			
Basic earnings per share	4	2.12	2.71
Diluted earnings per share	4	2.12	2.71

Consolidated statement of cash flows

in CHF	Notes	2017	2016
Profit of the year		**11 425 898**	**13 214 670**
Depreciation and impairment on tangible fixed assets	11	10 066 551	7 161 184
Amortisation and impairment on intangible fixed assets	12	5 699 789	3 498 233
Change in bad debt allowance	23	115 904	186 174
Result on the disposal of PPE	11	289 229	-
Changes in deferred tax	18	418 561	-31 075
Finance costs		5 032 218	3 649 087
Changes in short term provisions	17	-869 942	-20 000
Changes in long term provisions	17	800 000	-
Changes in working capital		-636 021	-8 785 275
Changes in other long-term liabilities		-303 508	577 442
Cash flow from operating activities		**32 038 677**	**19 450 440**
Acquisition of financial assets		-1 562 827	-676 548
Proceeds from disposal of property, plant and equipment	11	391 519	383 389
Purchase of property, plant and equipment	11	-15 726 002	-11 786 299
Purchase of intangible assets	12	-779 985	-245 000
Acquisition of subsidiaries, net of cash acquired	27	-44 327 459	-29 538 932
Cash flow from investing activities		**-62 004 753**	**-41 863 391**
Inflows from capital increase (including agio)		17 218 875	27 523 000
Acquisition of non-controlling interests		-	-122 435
Dividends paid to non-controlling interests		-333 333	-555 556
Changes in short-term financial liabilities		18 650 789	-31 872 540
Changes in long-term financial liabilities		26 994 891	37 238 651
Interest paid		-5 032 218	-3 168 284
Cash from financing activities		**57 499 004**	**29 042 837**
Change in cash and cash equivalents		**27 532 928**	**6 629 886**
At beginning of year		14 564 827	7 937 075
Net foreign exchange difference		288 220	-2 134
At end of year		42 385 974	14 564 827
Change in cash and cash equivalents		**27 532 927**	**6 629 886**

Consolidated statement of change in equity

	Attributable to the equity holders of the parent							
In CHF	Share capital	Share capital not realised	Capital reserves	Cumulative Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 Jannuary 2016	**4 203 457**	**-**	**4 096 847**	**-**	**24 663 784**	**32 964 088**	**1 169 140**	**34 133 228**
Capital increase	1 000 000	-	26 523 000	-	-	**27 523 000**	-	**27 523 000**
Acquisition of subsidiaries (Note 27)	-	-30 000	-	-	-	**-30 000**	-	**-30 000**
Net income	-	-	-	-	12 734 600	**12 734 600**	480 070	**13 214 670**
Dividends paid	-	-	-	-	-	**-**	-555 556	**-555 556**
Changes in non-controlling interests	-	-	-	-	-122 435	**-122 435**	122 436	**-**
Translation differences	-	-	-	-2 134	-	**-2 134**	-	**-2 134**
Balance at 31 December 2016	**5 203 457**	**-30 000**	**30 619 847**	**-2 134**	**37 275 949**	**73 067 119**	**1 216 090**	**74 283 209**
Capital contribution reserve *	-	-	-	-	19 218 875	**19 218 875**		**19 218 875**
Net income	-	-	-	-	11 053 528	**11 053 528**	372 370	**11 425 898**
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	**5 203 457**	**-30 000**	**30 619 847**	**949 718**	**67 560 148**	**104 303 170**	**1 243 330**	**105 546 500**

* 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

Finacrotec SA (the Company) and its subsidiaries (collectively the Group) is an independent Group active in micro-mechanical and watchmaking sectors. The compay is fully owned by Groue Acrotec SA.
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 in Rue des Romains 1, 2802 Develier.
These consolidated financial statements were approved for issue by the Board of Directors on 20 April 2018.

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.

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 power 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 on 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 have (see Note 27). In the event that shares of Group 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 2017, the Group’s consolidation structure comprised 26 legal entities (2016: 19), 24 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 are consolidated according the equity method.

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
		2017	**31.12.2016**	2016	31.12.2016
		CHF	**CHF**	CHF	CHF
EUR	1.00	**1.1113**	**1.1693**	1.0736	1.0898

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. 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 Finacrotec 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 Finacrotec 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 1. 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 is shown under the column "Elimination".

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
- Related parties	-	-	-	-	-
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**	**-1 946 066**	**-**	**38 801 677**
In % of net sales	25.1%	25.2%	-36.4%	0.0%	25.1%

2016 in CHF	**Watchmaking industry**	**Other industry**	**Corporate Services**	**Elimination**	**Total**
- Third parties	64 321 158	54 702 352	-	-	119 023 510
- Group	3 377 190	474 164	2 595 949	-6 447 303	-
- Related parties	-	-	12 687	-	12 687
Net Sales	**67 698 348**	**55 176 516**	**2 608 636**	**-6 447 303**	**119 036 197**
Operating result	**19 561 376**	**13 349 856**	**-1 131 627**	**-**	**31 779 605**
In % of net sales	28.9%	24.2%	-43.4%	0.0%	26.7%

b. Information on geographical regions

	2017		**2016**	
in CHF	**Net Sales**	**Operating result ***	**Net Sales**	**Operating result**
- Switzerland	92 675 799	23 279 913	72 912 355	18 798 262
- Other Europe	51 673 468	13 022 626	36 609 265	10 405 332
Total Europe	**144 349 268**	**36 302 539**	**109 521 620**	**29 203 594**
Total America	**7 173 968**	**1 799 635**	**6 605 973**	**1 713 076**
Total Asia	**2 788 462**	**699 503**	**2 891 209**	**859 161**
Total Rest of the world	**-**	**-**	**17 394**	**3 774**
Total:	**154 311 697**	**38 801 677**	**119 036 197**	**31 779 605**

* 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

	2017	2016
Net income attributable to shareholders of Finacrotec SA (in CHF)	11 053 528	12 734 600
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	11 053 528	12 734 600
Average number of shares outstanding	5 203 457	4 703 457
Basic earnings per shares (in CHF)	**2.12**	**2.71**

Bearer shares		
Net income attributable to bearer shareholders	-	-
Average number of shares outstanding	-	-
Basic earnings per shares (in CHF)	**-**	**-**

b) Diluted

Registered shares	**2017**	**2016**
Net income attributable to registered shareholders	11 053 528	12 734 600
Average number of shares outstanding (basic)	5 203 457	4 703 457
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	5 203 457	4 703 457
Diluted earnings per shares (in CHF)	**2.12**	**2.71**

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 2017.

Notes to the consolidated financial statements

6. Receivables from goods and services	31.12.2017	31.12.2016
Trade receivables from third parties - gross	20 630 493	17 450 352
Trade receivables from group company	15 270	-
Allowance for impaired receivables	-1 239 087	-1 287 071
	19 406 675	**16 163 281**

7. Other short-term receivables	31.12.2017	31.12.2016
Other receivables from third parties	2 498 495	2 072 257
Other receivables from shareholders	680 655	715 569
	3 179 150	**2 787 825**

8. Inventories	31.12.2017	31.12.2016
Raw materials, auxiliary material and supplies	13 807 871	9 516 268
Goods in progress	13 601 435	11 507 121
Advanced payment related to goods in progress	-1 518 362	-889 188
Finished goods	16 445 332	15 127 421
Allowance for impaired inventories	-5 121 670	-3 706 816
	37 214 606	**31 554 806**
Change in inventory of finished and unfinished goods as well as unbilled goods and services	**-2 434 960**	**1 527 108**
Change in inventory of raw material expense	1 872 016	1 017 162
Change in estimate for inventories valuation (Note 26)	337 568	2 800 629
	-225 376	**5 344 899**

9. Prepayments and accrued income	31.12.2017	31.12.2016
Prepayment and accrued income from third parties	2 173 090	1 349 338
	2 173 090	**1 349 338**

10. Financial assets	31.12.2017	31.12.2016
Investment portfolio	349 862	-
Equity investment	49 000	-
Financial assets to third parties	1 031 583	321 416
Financial assets to parent entities	211 533	205 802
Asset from the employer contribution reserve to pension institution	3 788 156	2 197 079
	5 430 134	**2 724 296**
Current	**349 862**	**-**
Non-current	**5 080 272**	**2 724 296**

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 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 (restructuring expenses: note 25)	-	-	-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**

Impairment is 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 (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).

	Undeveloped Land	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	In progress	Total
Historical cost, 31 December 2015	**147 382**	**27 420 587**	**67 437 504**	**3 999 961**	**-**	**99 005 434**
Acquisition of subsidiaries	-	11 948 846	16 308 521	10 301 405	1 264 464	39 823 237
Additions	119 554	164 288	9 366 761	1 506 394	629 302	11 786 299
Disposals	-	-	-808 459	-291 414	-	-1 099 873
Transfers	-	-	1 502 216	-	-1 502 216	-
Exchange rate impact	-	-14 224	-17 716	-33 982	-	-65 922
Historical cost, 31 December 2016	**266 936**	**39 519 497**	**93 788 828**	**15 482 365**	**391 551**	**149 449 176**
Accumulated depreciation, 31 December 2015	**-**	**-12 360 555**	**-39 776 706**	**-1 922 569**	**-**	**-54 059 830**
Depreciation on divestments of businesses	-	-2 502 709	-7 545 298	-7 955 211	-	-18 003 218
Annual depreciation	-	-574 342	-5 306 597	-1 280 246	-	-7 161 184
Depreciation on disposals	-	-	547 700	198 141	-	745 841
Transfers	-	-	-	-	-	-
Exchange rate impact	-	23 289	-14 858	28 134	-	36 565
Accumulated depreciation, 31 December 2016	**-**	**-15 414 317**	**-52 095 758**	**-10 931 751**	**-**	**-78 441 826**
Net book values :						
Balance at 31 December 2015	**147 382**	**15 060 032**	**27 660 798**	**2 077 392**	**-**	**44 945 604**
Balance at 31 December 2016	**266 936**	**24 105 180**	**41 693 069**	**4 550 614**	**391 551**	**71 007 350**

The total amount of advanced payments recorded in 2016 as PPE is CHF 391'551.

These figures included leased machinery for CHF 14'133'846 (CHF 18'652'277 less accumulated depreciation of CHF 4'518'432), leased equipments for CHF 270'538 (297'926 less accumulated depreciation of CHF 27'388), leased IT for CHF 3'952 (CHF 35'566 less accumulated depreciation of CHF 31'614) and leased vehicules for CHF 1'450'096 (CHF 2'064'885 less accumulated depreciation of CHF 614'789).

Notes to the consolidated financial statements

12. Intangible assets

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2016	**81 009 577**	**888 644**	**81 898 221**
Acquisition of subsidiaries (Note 27)	-	441 245	441 245
Additions *	48 134 926	779 985	48 914 911
Historical cost, 31 December 2017	**129 144 503**	**2 109 874**	**131 254 377**
Accumulated amortisation 31 December 2016	**-12 999 028**	**-162 246**	**-13 161 274**
Acquisition of subsidiaries (Note 27)	-	-77 111	-77 111
Annual amortisation	-5 321 773	-206 474	-5 528 247
Impairment	-	-171 542	-171 542
Accumulated amortisation, 31 December 2017	**-18 320 801**	**-617 373**	**-18 938 174**
Net book values :			
Balance at 31 December 2016	**68 010 549**	**726 398**	**68 736 947**
Balance at 31 December 2017	**110 823 702**	**1 492 501**	**112 316 202**

* included CHF 44'000 of aquired from third parties in 2017 (0 in 2016).

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2015	**39 824 877**	**178 644**	**40 003 521**
Acquisition of subsidiaries	-	465 000	465 000
Additions	41 184 700	245 000	41 429 700
Historical cost, 31 December 2016	**81 009 577**	**888 644**	**81 898 221**
Accumulated amortisation, 31 December 2015	**-9 614 383**	**-48 658**	**-9 663 041**
Annual amortisation	-3 384 645	-113 588	-3 498 233
Accumulated amortisation, 31 December 2016	**-12 999 028**	**-162 246**	**-13 161 274**
Net book values :			
Balance at 31 December 2015	**30 210 494**	**129 986**	**30 340 480**
Balance at 31 December 2016	**68 010 549**	**726 398**	**68 736 947**

13. Payables from goods and services	**31.12.2017**	**31.12.2016**
Payables to third parties	8 089 503	6 494 000
	8 089 503	**6 494 000**

14. Financial liabilities	**31.12.2017**	**31.12.2016**
Liabilities to third parties	5 778 572	-
Liabilities to shareholders	132 661 540	76 000 000
Bank debts	1 927 770	902 997
Mortgages	15 486 151	17 209 925
Leases	14 591 443	11 568 922
	170 445 476	**105 681 844**
Current	**22 966 512**	**4 315 723**
Non-current	**147 478 963**	**101 366 120**

Liabilities to shareholders concern a long-term loan bearing interest from Groupe Acrotec SA. Following the issuance of bonds in September 2016 and in June 2017, Groupe Acrotec SA lent MCHF 106 to Finacrotec SA and MCHF 5 to Vardeco SA in order to restructure its debt. Therefore, certain subsidiaries are unconditional and irrevocable guarantors to the bonds.
Moreover, in 2017 a vendor loan from the seller of CHF 12'571'429 was generated after the acquisition of a company. Finally, a loan for CHF 9'468'111 are owed to shareholder.

First bonds were issued on the SIX Swiss Exchange on 22 September 2016 with a principal amount of CHF 106'000'000.- and an interest rate of 4%. The maturity date is 22 November 2021.
Second bons were issued on the SIX Swiss Exchange on 14 June 2017 with a principal amount of CHF 70'000'000.- and an interest rate of 3.75%. The maturity date is 14 June 2023.

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.

Notes to the consolidated financial statements

15. Other liabilities	31.12.2017	31.12.2016
Third parties	4 300 728	2 322 908
Patronage fund	790 906	1 031 608
Other liabilities to shareholders	14 249	198 794
	5 105 882	**3 553 310**
Other short-term liabilities	4 408 760	2 552 680
Other long-term liabilities	697 122	1 000 630
	5 105 882	**3 553 310**

16. Accrued liabilities and deferred income	31.12.2017	31.12.2016
Other accrued liabilities due to third parties	2 767 457	2 310 712
Other accrued liabilities due to shareholders	44 345	323 407
	2 811 802	**2 634 119**

17. Provisions

	Restructuring provision	Tax provision	Other provisions	Total
At 1 January 2017	**-**	**4 128 361**	**150 000**	**4 278 361**
Creation	94 846	6 494 158	800 000	7 389 004
Utilisation	-	-6 858 829	-	-6 858 829
Released	-	-600 117	-	-600 117
At 31 December 2017	**94 846**	**3 163 573**	**950 000**	**4 208 419**
Current	**94 846**	**3 163 573**	**-**	**3 258 419**
Non-current	**-**	**-**	**950 000**	**950 000**

	Warranties	Restructuring provision	Tax provision	Other provisions	Total
At 1 January 2016	**20 000**	**-**	**1 634 419**	**150 000**	**1 804 419**
Creation	-	-	6 218 718	-	6 218 718
Utilisation	-	-	-3 826 324	-	-3 826 324
Released	-20 000	-	101 548	-	81 548
At 31 December 2016	**-**	**-**	**4 128 361**	**150 000**	**4 278 361**
Current	**-**	**-**	**4 128 361**	**-**	**4 128 362**
Non-current	**-**	**-**	**-**	**150 000**	**150 000**

Restructuring

Following the acquisition of Pierhor SA and Gasser-Ravussin SA (see note 27), the Group created the 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 94'846 for the costs not yet incurred.

Warranties

A provision is recognized for expected warranty claims on products sold based on a specific analysis made at each closing date. In 2016, short-term provisions were released as all claims were cancelled.

Other provisions

One company of the Group is involved in litigation arising from a past event with a pension fund. Management estimated the outcome of this lawsuit on the basis of currently available information and recorded adequate provisions in 2015. No change occurred in 2016 and 2017.

Following the acquisition of Gasser-Ravussin SA, a provision for depollution of the site (Lucens - VD) was recorded in 2017 as non-operating expense. 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 at 31.12.2017.

Notes to the consolidated financial statements

18. Income tax

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

a) Income tax expense

	2017	2016
Current income taxes		
Current year income taxes	-6 494 158	-6 218 718
Adjustments in respect of prior years	600 117	-101 548
	-5 894 040	**-6 320 267**
Deferred taxes		
Relating to origination and reversal of temporary differences	-1 328 126	-188 973
Relating to adjustment of tax rates on prior year deferred taxes	490 130	122 048
Relating to capitalization and use of taxes carried forward	419 436	98 000
	-418 561	**31 075**
	-6 312 601	**-6 289 192**

b) Group's effective tax rate

In 2017, the expected tax rate is high compared to 2016. This situation 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:

	2017	2016
Expected tax rate at weighted average applicable tax rate	**32.63%**	**29.81%**
Unrecognised deferred tax assets	0.41%	0.00%
Changes in tax rates on deferred tax	2.76%	-0.63%
Prior years' taxes	-3.38%	0.52%
Tax effect of non-taxable items	2.39%	1.36%
Other	0.78%	1.18%
Effective tax rate	**35.59%**	**32.25%**

The effective tax rate based on the ordinary result in the year under review was 35.59% (previous year 32.25%).

c) Deferred tax

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

	31.12.2017	31.12.2016
Receivables from goods and services	-248 767	-182 775
Inventories	-2 841 495	-2 285 040
Prepayments and accrued income	-10 524	-9 030
Property, plant and equipment	-10 379 822	-8 150 865
Intangible assets	-248 841	-92 914
Long-term provisions	-1 703 183	-1 341 205
Loss carried forward	419 436	98 000
	-15 013 196	**-11 963 829**
Deferred tax assets	419 436	98 000
Deferred tax liabilities	-15 432 632	-12 061 829
	-15 013 196	**-11 963 829**
Tax (expense)/income from the change in deferred tax from temporary differences	**-3 049 367**	**-3 671 939**
Variation due to acquired subsidiaries (Note 27)	-2 500 657	-3 703 014
Change in exchange rate	-130 150	-
Tax (expense)/income from the change in deferred tax from temporary differences	**-418 561**	**31 075**

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 Finacrotec SA has developed as follows:

Share capital is fully composed of ordinary shares.

Balance sheet date	Registered shares	Share capital in CHF
31.12.2015	4'203'457 at CHF 1.00	4 203 457
31.12.2016	5'203'457 at CHF 1.00	5 203 457
31.12.2017	5'203'457 at CHF 1.00	5 203 457

In 2016, the share capital of Finacrotec SA increased of 1'000'000 shares in order to finance acquisitions.

Capital reserves

Capital reserves include non-distributable, statutory or legal reserves amounting to CHF 8'735'571 (2016: CHF 4'529'343).

20. Net sales from goods and services	2017	2016
Net sales from goods and services from third parties	154 188 156	119 023 510
Net sales from goods and services from group entities / parent entities	123 541	12 687
	154 311 697	**119 036 197**

Net sales by industry	2017	2016
Net sales watchmaking industry	83 073 778	64 321 158
Net sales other industries	71 114 378	54 702 352
Net sales corporate	123 541	12 687
	154 311 697	**119 036 197**

Net sales by country	2017	2016
Net sales in Switzerland	92 675 799	72 912 355
Net sales in foreign countries	61 635 898	46 123 841
	154 311 697	**119 036 197**

21. Material purchases	2017	2016
Material costs	-35 735 883	-25 975 197
Tools and supplies	-1 558 166	-977 486
Cost of external services	-11 226 044	-11 124 729
Energy	-167 171	-128 341
Others raw material expenses	-170 290	-65 057
	-48 857 554	**-38 270 810**

22. Personnel expenses	2017	2016
Wages and salaries	-44 888 466	-35 970 312
Social security costs	-7 746 386	-6 078 267
Others personnel expenses	-2 124 159	-934 126
	-54 759 011	**-42 982 705**

23. Other operating expenses	2017	2016
Maintenance, rents and energy	-8 158 777	-6 241 895
Leasing	-29 824	-16 052
Vehicle	-255 745	-250 345
Administration and IT	-3 593 516	-2 825 426
Insurance	-572 876	-395 139
Marketing and sales	-1 462 801	-983 726
Change in bad debt allowance	-115 904	-186 174
	-14 189 443	**-10 898 758**
Other operating expenses related to third parties	-12 788 739	-10 292 590
Other operating expenses related to related parties	-1 400 705	-606 169
	-14 189 443	**-10 898 758**

Notes to the consolidated financial statements

24. Net financial result	2017	2016
Financial income	145 415	32 925
Financial income to shareholders	25 941	14 119
	171 356	**47 044**
Financial expense	-1 153 401	-1 876 937
Financial expense to shareholders	-4 050 172	-1 819 194
	-5 203 574	**-3 696 131**
	-5 032 218	**-3 649 087**

25. Non-operating result	2017	2016
Non-operating income	-81 722	93 802
Non-operating expense	-377 361	-507 371
Restructuring expenses (Note 17)	-969 796	-
	-1 428 879	**-413 569**

Non-operating income generated in 2017 relates to mainly fixed assets sales, refund of non-operating tax and refund of an insurance. In 2016, the corresponding amount was mostly related to a refund of non-operating tax and a refund of an insurance

Non-operating expense generated in 2017 relates to consulting fees for mergers and aquisitions and accounting services.
Non-operating expense generated in 2016 relates to consulting fees for debt restructuring and accounting services and non recoverable VAT.

26. Extraordinary result	2017	2016
Non-recurring income	1 183 370	286 846
Change in estimate of inventory	337 568	2 800 629
	1 520 938	**3 087 475**
Non-recurrent expense	-647 871	-641 145
	-647 871	**-641 145**
	873 068	**2 446 330**

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

In 2017 non-recurring income is due to a prior year income adjustment of CHF 1'183'370 (CHF 286'846 in 2016) and a change in inventory valuation of CHF 337'568 (CHF 2'800'629 in 2016). Indeed, until 2016, some companies valued their inventories based on the retail method whereas in 2016, these inventories were valued at the manufacturing costs which is a more appropriate method to their activities. The impact of the change in estimate was recorded as an extraordinary item.

Notes to the consolidated financial statements

27. Business combinations

a) In 2017, four companies, which are presented below, were acquired by the Group:

I. On 24 February 2017, the Group acquired 100% of the voting shares of H2i Sàrl which is an unlisted company based in Savigny and specialising in conception, development and production of a large range of tools used for precision measurements used in the watch industry. The Group acquired H2i Sàrl because of its complementarity addition to Petitpierre.

II. On March 31st 2017, the Group acquired 100% of the voting shares of Gasser Ravussin SA, an unlisted company based in Lucens and specialising in the manufacture of jewels for the watch and non-watch industry.

III. On June 30th 2017, the Group acquired 100% of the voting shares of Mimotec SA, and its stake in Sigatec SA which are both unlisted companies based in Sion and specialising in the production of pieces for the watch industry, including key movement components, such as escapement wheels in nickel phosphorus, which is not magnetic (compared to other metals). The Group acquired Mimotec SA because of its technological know-how and its further potential for development of Mimotec in the new non-watch markets.

IV. On June 30th, 2017, the Group acquired 100% of the voting shares of Pierhor SA, an unlisted company based in Ecublens and specialising in jewels for the watch and non-watch industry. The Group acquired Pierhor SA because of its complementarity to Gasser.

The Group acquired 100% of the voting shares of H2i Sàrl, Gasser Ravussin SA, Mimotec SA and Pierhor SA and therefore it took control over these subsidiaries. In addition, the Group acquired 50% of the voting shares of Sigatec SA through the acquisition of Mimotec SA and 49% of the voting shares of Butech SA through the acquisition of Pierhor SA. Concerning the consolidation details, H2i Sàrl has been fully consolidated since 28 February 2017, Gasser Ravussin SA has been fully consolidated since 31 March 2017. Mimotec SA and Pierhor SA have been fully consolidated since 30 June 2017. Finally, as the Group owns 50% of Sigatec SA, this company was proportionally consolidated. The following consideration was paid to acquire these companies:

Cash paid to vendor	52 900 000	The Group paid CHF 52'900'000 in cash as part of the consideration in accordance with the share purchase agreements.
Capital contribution reserve	2 000 000	Shareholders made an equity contribution for the amount of CHF 2'000'000 into the capital contribution reserves of the Group without any issuance of additional shares.
Vendor loans	18 350 000	The Group financed a part of its acquisitions through vendor loans.
Acquisition costs	1 778 884	Acquisition costs correspond to consulting and legal expenses disbursed during the due diligence process.
Total	**75 028 884**	

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	**2017**	**2016**
Purchase consideration paid (incl. acquisition-related costs)	75 028 884	69 445 310
	Acquired values	**Acquired values**
Current assets	18 807 154	26 138 868
Property, plant and equipment	12 548 474	21 820 019
Intangible assets	364 134	465 000
Financial assets	1 075 540	1 177 748
Current liabilities	-2 684 456	-5 475 504
Deferred tax liabilities	-2 500 657	-3 703 014
Long term liabilities	-716 231	-12 162 507
Net assets acquired	**26 893 958**	**28 260 610**
Goodwill	**48 134 926**	**41 184 700**
Cash and cash equivalents acquired	-10 351 425	-12 383 379
Capital contribution reserve	-2 000 000	-
Vendor loans	-18 350 000	-
Consideration paid in shares of the parent	-	-27 523 000
Cash outflow on acquisition	**44 327 459**	**29 538 932**

Current assets **:** Current assets: The total amount is composed of cash and cash equivalents (CHF 10'351'425), receivables from goods and services (CHF 2'341'887), other receivables (CHF250'054), inventories (CHF 5'456'300) and prepaid expenses (CHF 407'488). Currents assets have been recorded in accordance with group accounting policies.

Property, plant and equipment: mostly relate to the production plants of the acquired companies and one building located in Sion was revalued at acquisition in accordance with Group accounting policies. The plant has been revalued to its actual value based on an appraisal made by an independent real estate expert.

Current liabilities: The total amount is composed of payables from goods and services (CHF 1'096'958), other payables (CHF 1'152'221) and accrued liabilities and deferred income (CHF 435'278). 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. Finacrotec Companies - as at 31.12.2017

	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	49%	49%	Equity method 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	100 000	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
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	94%	94%	Fully consolidated
Mimotec SA, Sion **	Switzerland	Watch	364 000	100%	100%	Fully consolidated
mu-DEC SA, La Chaux-de-Fonds	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
Europe EUR						
D.J.C SAS, Thyez	France	Industrial	7 724 680	100%	100%	Fully consolidated

* Created companies in 2017

** Acquired companies in 2017

*** Changed the corporate name in 2017

Notes to the consolidated financial statements

29. Retirement benefit obligations

Employer contribution reserves (ECR) in CHF:

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	-	393 222	121 077	-
Pension institutions	3'303'857	-	3 303 857	1 500 000	1 803 857	-	-
	3 788 156	**-**	**3 788 156**	**1 500 000**	**2 197 079**	**121 077**	**-**

2016	Nominal value 31.12.2016	Waiver of use 31.12.2016	Balance sheet 31.12.2016	Accumulation	Balance sheet 31.12.2015	Result from ECR in personnel expenses	
						2016	2015
Patronage funds/ patronage pension plans	393'222	-	393 222	393 222	-	119 847	-
Pension institutions	1'803'857	-	1 803 857	903 857	900 000	-	-
	2 197 079	**-**	**2 197 079**	**1 297 079**	**900 000**	**119 847**	**-**

The accumulation of patronage funds between 2016 and 2015 contains an amount of CHF 243'345 acquired in the same time as the acquisition of a new company.

Economic benefit / economic obligation and pension benefit expenses

2017	Surplus/ deficit	Group's economic share	Change from previous year: no income statement impact	Change from previous year: 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	-	-	-	-	-3 539 187	-3 539 187
Pension plans with surplus *	-	-	-	-	-1 158 143	-1 158 143
	6 545 335	**-**	**-**	**-**	**-4 697 330**	**-4 697 330**

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

** In Finacrotec, four pension funds are 100% reinsured in terms of risk and investments; in 2017 the amount of relevant contributions is CHF 2'019'690.

2016	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	6 352 995	-	-	-	-	-
Pension plans without surplus / deficit	-	-	-	-	-3 431 749	-3 431 749
Pension plans with deficit	-	-	-	-	-811 779	-811 779
	6 352 995	**-**	**-**	**-**	**-4 243 528**	**-4 243 528**

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 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: 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	2017	123 541	-	-	15 270	-
	2016	-	-	-	-	-
Shareholders of the ultimate parent company						
	2017	25 941	-5 450 877	-	892 188	132 720 133
	2016	26 807	-2 425 363	-	921 371	-76 522 201

Transaction with shareholders in their capacity as shareholders

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

In 2016, Finacrotec SA was sold to another Private equity fund and as a result of the deal, the shareholding structure of the Group changed. Indeed, Finacrotec SA was jointly sold to Groupe Acrotec SA (14%), which was created during the deal, and to a parent company owned by shareholders (86%). Simultaneous to closing, the parent company contributed its 86% (CHF 160'210'894) of Finacrotec SA shareholding to Groupe Acrotec SA as share premium.

Parent companies

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

Shareholders of the ultimate parent

In 2017, revenues from related parties mainly come from financial income charged to shareholders of the ultimate parent for CHF 25'941. In 2016, revenues from related parties mainly come from financial income charged to shareholders of the ultimate parent for CHF 14'119 and sales in relation to services provided to a company owned by one shareholder of the ultimate parent for CHF 12'687.

In 2017, service fees were paid by the Group to Castik, shareholders of the ultimate parent, for CHF CHF 875'975 mainly to cover the assistance provided in the financial reporting. Additionally, financial interests on the long term debt with Groupe Acrotec SA were amounted to CHF 4'050'172.
In 2016, service fees were paid by the Group to 3A Holding SA and Castik, shareholders of the ultimate parent, for CHF CHF 555'900 mainly to cover the assistance provided in the financial reporting. In the first semester of 2016, service fees were also paid to Quilvest SA, the former majority shareholder, for CHF 50'269 to cover the services provided. Additionally, financial interests were paid to the shareholders related to postponed loans before the debt restructuring for an amount of CHF 99'677 and the interests on the long term debt with Groupe Acrotec SA were amounted to CHF 1'719'517.
In 2017, rents for CHF 524'730 were collected by companies owned by shareholders of ultimate parent company.

The amount owed by related parties corresponds to the current account with shareholders of the ultimate parent for CHF 680'655 (2016: CHF 715'569) and a loan to a company owned by a shareholder's relative of the ultimate parent for CHF 211'533 (2016: CHF 205'802).

Between 2016 and 2017, Acrotec SA subscribed a long term debt of CHF 105'622'000 from Groupe Acrotec SA in relation to its debt restructuring. Moreover, in 2017 Vardeco SA subsribed a long term debt of CHF 5'000'000 from Groupe Acrotec SA.
Other liabilities of CHF 12'571'429 are due to shareholder of ultimate parent and other liabilites of CHF 9'468'111 are due to shareholder (Groupe Acrotec SA) as explained above. In addition, CHF 14'249 were owed to shareholder (current acount). Finally, accrued liabilities accounted for CHF 44'345 concern financial interests owed to Groupe Acrotec SA for the long term debt.

In 2016, Acrotec SA subscribed a long term debt of CHF 76'000'000 from Groupe Acrotec SA in relation to its debt restructuring. The other liabilities of CHF 198'794 are due to 3A Holding SA regarding to service fees as explained above. Finally, accrued liabilities accounted for CHF 323'407 concern financial interests owed to Groupe Acrotec SA for the long term debt.

Notes to the consolidated financial statements

31. Commitments and contingencies

a. Contingent assets and liabilities	31.12.2017	31.12.2016
Guarantee for a line of credit	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	31.12.2017	31.12.2016
Building	27 699 887	24 105 180
Machine under lease	15 708 723	14 133 846
Vehicle under lease	1 565 081	1 450 096
Equipment under lease	2 330 968	270 538
IT under lease	-	3 952
Cash and cash equivalents	289 597	95 256
	47 594 256	**40 058 868**

c. Leasing

All financial leases were activated. There are no operating leases as per 31.12.2017 and as per 31.12.2016.

32. Subsequent events after the year-end closing

In February 2018, the Group acquired 51% of the voting shares of Butech SA based in Tavannes (Switzerland). This company manufactures yarn used in the grinding of synthetic stones.

In November 2017, the Group signed an agreement with Watchdec SA. The deal will become effective in the second half of 2018, under certain conditions.