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FINACROTEC 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 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, 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, 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 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.

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 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 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 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 »

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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 126 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 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.	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		37'778'581	42'385'974
Financial assets	10	340'708	349'862
Receivables from goods and services	6	22'963'564	19'406'675
Other short-term receivables	7	2'685'601	3'179'150
Inventories	8	44'511'763	37'214'606
Prepayments and accrued income	9	1'911'954	2'173'090
Current assets		**110'192'171**	**104'709'358**
Financial assets	10	4'154'485	5'110'272
Property, plant and equipment	11	104'622'818	89'114'946
Intangible assets	12	128'950'139	112'316'202
Deferred tax assets	18	704'885	419'436
Non-current assets		**238'432'328**	**206'960'856**
Assets		**348'624'499**	**311'670'214**

Liabilities and equity (CHF)	Notes	31.12.2018	31.12.2017
Payables from goods and services	13	7'706'727	8'089'503
Financial liabilities	14	27'318'805	22'966'512
Other short-term liabilities	15	5'071'643	4'408'760
Accrued liabilities and deferred income	16	3'973'501	2'811'802
Short-term provisions	17	5'612'049	3'258'419
Current liabilities		**49'682'725**	**41'534'996**
Financial liabilities	14	161'337'202	147'478'963
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		**178'113'526**	**164'558'717**
Liabilities		**227'796'251**	**206'093'713**
Share capital	19	5'203'457	5'203'457
Capital reserves		30'619'847	30'619'847
Retained earnings		83'233'797	67'560'148
Translation differences		512'957	949'718
Equity attributable to owner of Finacrotec Group		**119'570'058**	**104'333'170**
Non-controlling interests		**1'258'190**	**1'243'330**
Liabilities and equity		**348'624'499**	**311'670'214**

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		4'227'602	4'730'949
Change in inventory of finished and unfinished goods	8	4'777'771	-2'434'960
Operating revenues		**188'625'496**	**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	-15'736'091	-14'189'443
Operating expenses		**-140'694'808**	**-117'806'008**
Earnings before interest, tax and amortisation (EBITDA)		**47'930'688**	**38'801'677**
Depreciation and impairment on tangible fixed assets	11	-11'235'869	-9'775'361
Amortisation and impairment on intangible fixed assets	12	-7'238'842	-5'699'789
Total amortisation and depreciation		**-18'474'710**	**-15'475'149**
Earnings before interest and tax (EBIT)		**29'455'978**	**23'326'528**
Net financial result	24	-6'437'997	-5'032'218
Ordinary profit		**23'017'981**	**18'294'310**
Non-operating result	25	-1'785'644	-1'428'879
Extraordinary result	26	212'090	873'068
Profit before income taxes		**21'444'426**	**17'738'499**
Income taxes	18	-5'377'251	-6'312'601
Profit for the year		**16'067'175**	**11'425'898**
Attributable to shareholders of Groupe Acrotec SA		15'655'915	11'053'528
Attributable to non-controlling interests		411'260	372'370

Earnings per shares (EPS) - in CHF per share :			
Bearer shares			
Basic earnings per share	4	3.01	2.12
Diluted earnings per share	4	3.01	2.12

Consolidated statement of cash flows

in CHF	Notes	2018	2017
Profit for the year		**16'067'175**	**11'425'898**
Depreciation and impairment on tangible fixed assets	11	11'235'869	10'066'551
Amortisation and impairment on intangible fixed assets	12	7'238'842	5'699'789
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		6'437'997	5'032'218
Other expense / income without cash impact		1'127'563	-
Changes in short term provisions	17	2'353'630	-869'942
Changes in long term provisions	17	-800'000	800'000
Changes in working capital		-7'707'825	-636'021
Changes in other long-term liabilities		-93'665	-303'508
Cash flow from operating activities		**35'104'676**	**32'038'677**
Acquisition of financial assets		-360'000	-1'562'827
Proceeds from the disposal of financial assets		228'533	-
Proceeds from disposal of property, plant and equipment	11	232'695	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		**-43'202'332**	**-62'004'753**
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		2'936'375	18'650'789
Changes in long-term financial liabilities		7'814'068	26'994'891
Interest paid		-6'437'997	-5'032'218
Cash from financing activities		**3'933'779**	**57'499'004**
Change in cash and cash equivalents		**-4'163'876**	**27'532'928**
At beginning of year		42'385'974	14'564'827
Net foreign exchange difference		-443'517	288'220
At end of year		37'778'581	42'385'974
Change in cash and cash equivalents		**-4'163'876**	**27'532'928**

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)	**5'203'457**	**30'619'847**	**-2'134**	**37'275'949**	**73'097'119**	**1'216'090**	**74'313'209**
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 (restated)	**5'203'457**	**30'619'847**	**949'718**	**67'560'148**	**104'333'170**	**1'243'330**	**105'576'500**
Capital contribution reserve	-	-	-	-	-	-	-
Net income	-	-	-	15'655'915	15'655'915	411'260	16'067'175
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	**5'203'457**	**30'619'847**	**512'957**	**83'233'797**	**119'570'058**	**1'258'190**	**120'828'248**

* 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

Finacrotec 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 Finacrotec'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 Finacrotec 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 Finacrotec 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 28 legal entities (2017: 26), 26 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 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 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 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	**29'148'016**	**18'183'884**	**598'789**	**-**	**47'930'688**
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**	**-1'946'066**	**-**	**38'801'677**
In % of net sales	25.1%	25.2%	-36.4%	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	32'362'854	92'675'799	23'279'913
- Other Europe	54'059'130	12'611'833	51'673'468	13'022'626
Total Europe	**166'905'597**	**44'974'687**	**144'349'268**	**36'302'539**
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**	**47'930'688**	**154'311'697**	**38'801'677**

* 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 Finacrotec SA (in CHF)	15'655'915	11'053'528
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	15'655'915	11'053'528
Average number of shares outstanding	5'203'457	5'203'457
Basic earnings per shares (in CHF)	**3.01**	**2.12**
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	15'655'915	11'053'528
Average number of shares outstanding (basic)	5'203'457	5'203'457
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	5'203'457	5'203'457
Diluted earnings per shares (in CHF)	**3.01**	**2.12**
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	20'630'493
Trade receivables from group company	82'897	15'270
Allowance for impaired receivables	-1'356'394	-1'239'087
	22'963'564	**19'406'675**

7. Other short-term receivables	31.12.2018	31.12.2017
Other receivables from third parties	2'076'958	2'498'495
Other receivables from shareholders	608'642	680'655
	2'685'601	**3'179'150**

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	**4'777'771**	**-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
	6'385'798	**-225'376**

9. Prepayments and accrued income	31.12.2018	31.12.2017
Prepayment and accrued income from third parties	1'859'370	2'173'090
Prepayment and accrued income to shareholders	52'584	-
	1'911'954	**2'173'090**

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	386'608	936'583
Allowance for impaired financial assets	-267'102	-
Financial assets to parent entities	-	211'533
Asset from the employer contribution reserve to pension institution (refer to note 29)	4'034'979	3'913'156
	4'495'193	**5'460'134**
Current	**340'708**	**349'862**
Non-current	**4'154'485**	**5'110'272**

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	-	18'683'171
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	**129'144'503**	**2'109'874**	**131'254'377**
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	**150'808'224**	**4'394'516**	**155'202'741**
Accumulated amortisation 31 December 2017	**-18'320'801**	**-617'373**	**-18'938'174**
Acquisition of subsidiaries (Note 27)	-	-75'585	-75'585
Annual amortisation	-6'494'466	-744'376	-7'238'842
Accumulated amortisation, 31 December 2018	**-24'815'266**	**-1'437'334**	**-26'252'600**
Net book values :			
Balance at 31 December 2017	**110'823'702**	**1'492'501**	**112'316'203**
Balance at 31 December 2018	**125'992'957**	**2'957'182**	**128'950'139**

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

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2016	**81'009'577**	**888'644**	**81'898'221**
Acquisition of subsidiaries (Note 27)	48'134'926	441'245	48'576'171
Additions *	-	779'985	779'985
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**	**112'316'203**

* 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	7'703'360	8'089'503
Payables to parent entities	3'367	-
	7'706'727	**8'089'503**

14. Financial liabilities	31.12.2018	31.12.2017
Liabilities to third parties	3'765'135	5'778'572
Liabilities to shareholders	147'163'729	132'661'540
Bank debts	4'429'838	1'927'770
Mortgages	14'065'131	15'486'151
Leases	19'232'174	14'591'443
	188'656'007	**170'445'476**
Current	**27'318'805**	**22'966'512**
Non-current	**161'337'202**	**147'478'963**

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 Acrotec SA and MCHF 5 to Vardeco SA in order to restructure its debt. Certain subsidiaries are unconditional and irrevocable guarantors to the bonds.
Moreover, in 2018 a vendor loan from the seller of CHF 3'316'320 (2017: CHF 12'571'429) was generated after the acquisition of a company. In 2018, CHF 3'176'320 of this vendor loan is owed to shareholder (2017: CHF 9'468'111) .

A first bond was 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.
A second bond was 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.

15. Other liabilities	31.12.2018	31.12.2017
Third parties	4'143'199	4'300'728
Patronage fund	975'831	790'906
Other liabilities to shareholders	550'241	14'249
	5'669'272	**5'105'882**
Other short-term liabilities	**5'071'643**	**4'408'760**
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	3'249'830	2'767'457
Other accrued liabilities due to shareholders	723'671	44'345
	3'973'501	**2'811'802**

Notes to the consolidated financial statements

17. Provisions

	Restructuring provision	Tax provision	Other provisions	Total
At 1 January 2018	**94'846**	**3'163'573**	**950'000**	**4'208'419**
Acquisition of subsidiaries	-	234'019	20'388	254'407
Creation	-	6'323'386	1'569'866	7'893'252
Utilisation	-82'186	-5'482'273	-	-5'564'459
Released	-	-229'571	-800'000	-1'029'571
At 31 December 2018	**12'660**	**4'009'135**	**1'740'254**	**5'762'049**
Current	**12'660**	**4'009'135**	**1'590'254**	**5'612'049**
Non-current	**-**	**-**	**150'000**	**150'000**

	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**

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	-6'323'386	-6'494'158
	Adjustments in respect of prior years	229'571	600'117
		-6'093'815	**-5'894'040**
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**
		-5'377'251	**-6'312'601**

b) Group's effective tax rate

In 2018, the expected tax rate is high compared to 2017. 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:

	2018	2017
Expected tax rate at weighted average applicable tax rate	**33.29%**	**32.63%**
Unrecognised deferred tax assets	0.73%	0.41%
Changes in tax rates on deferred tax *	-8.33%	2.76%
Prior years' taxes	-1.07%	-3.38%
Tax effect of non-tax deductible items	2.37%	2.39%
Other	-1.92%	0.78%
Effective tax rate	**25.08%**	**35.59%**

* 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 25.08% (previous year 35.59%).

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 Finacrotec SA has developed as follows:
Share capital is fully composed of ordinary shares.

Balance sheet date	Registered shares	Share capital in CHF
31.12.2016	5'203'457 at CHF 1.00	5'203'457
31.12.2017	5'203'457 at CHF 1.00	5'203'457
31.12.2018	5'203'457 at CHF 1.00	5'203'457

Capital reserves

Capital reserves include non-distributable, statutory or legal reserves amounting to CHF 6'068'462 (2017: CHF 5'949'282).

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	83'729'423
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	-37'885'041	-35'735'883
Tools and supplies	-3'713'512	-1'558'166
Cost of external services	-15'288'911	-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	-4'099'433	-3'593'516
Insurance	-528'803	-572'876
Marketing and sales	-1'260'308	-1'462'801
Change in bad debt allowance	-66'297	-115'904
	-15'736'091	**-14'189'443**
Other operating expenses related to third parties	-13'979'591	-12'788'739
Other operating expenses related to related parties	-1'756'500	-1'400'705
	-15'736'091	**-14'189'443**

Notes to the consolidated financial statements

24. Net financial result	2018	2017
Financial income	37'415	139'684
Financial income to shareholders	28'295	31'672
	65'710	**171'356**
Financial expense	-936'426	-1'153'401
Financial expense to shareholders	-5'567'280	-4'050'172
	-6'503'707	**-5'203'574**
	-6'437'997	**-5'032'218**

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 leasing, mortgage and bank accounts.
Financial expense to shareholders generated in 2018 and in 2017 relates to interest on long-term loans from shareholders.

25. Non-operating result	2018	2017
Non-operating income	117'746	-81'722
Non-operating expense	-1'985'577	-377'361
Restructuring utilisation / expense (Note 17)	82'186	-969'796
	-1'785'644	**-1'428'879**

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	487'586	1'183'370
Net change in estimate of inventory	34'027	337'568
	521'613	**1'520'938**
Non-recurrent expense	-142'927	-647'871
Non-recurrent expense related to related parties	-166'597	-
	-309'523	**-647'871**
	212'090	**873'068**

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 487'586 (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. Finacrotec Group 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
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	Result from ECR in personnel expenses 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	Result from ECR in personnel expenses 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

2018	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	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).

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	-	-	-	-	-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	28'295	-6'647'018	-843'359	661'226	-148'437'642
	2017	31'672	-4'926'147	-524'730	892'188	-132'720'133

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

In 2018, revenues from related parties mainly come from financial income charged to shareholders of the ultimate parent for CHF 28'295 (2017 CHF 31'672).

In 2018, service fees were paid by the Group to Castik, shareholders of the ultimate parent, for CHF 1'078'985 (2017: 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 amounted to CHF 5'321'983 (2017: CHF 4'050'172). 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 (2017: CHF 524'730) were collected by companies owned by shareholders of the ultimate parent company.

The amount owed by related parties corresponds to the current account with shareholders of the ultimate parent for CHF 661'226 (2017: CHF 680'655). Moreover, as at 31.12.2017 there was a loan to a company owned by a relative of a shareholder of the ultimate parent for CHF 211'533; this loan has been paid during 2018.

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 subscribed a long term debt of CHF 5'000'000 from Groupe Acrotec SA.
Other liabilities of CHF 7'914'713 (2017: CHF 12'571'429) are due to shareholders of the ultimate parent and other liabilites of CHF 19'855'737 (2017: CHF 9'468'111) are due to shareholder (Groupe Acrotec SA) as explained above. In addition, CHF 550'241 (2017: CHF 14'249) were owed to a shareholder (current acount). Finally, accrued liabilities accounted for CHF 592'431 (2017: CHF 44'345) 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	31.12.2018	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	9'026'480	6'453'408
Overs 5 years	9'253'297	6'035'670
	18'279'777	**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.