Notes to the consolidated financial statements

General information
Headquartered in Dierikon, Switzerland, Komax Holding AG (parent company), together with its subsidiary companies (the Komax Group), is a pioneer and market leader in the field of automatic wire processing, providing clients with innovative, future-oriented solutions in any situation that calls for precise contact connections.

The present consolidated financial statements were adopted by the Board of Directors of Komax Holding AG on 8 March 2018 and released for publication. Their approval by the Annual General Meeting, scheduled for 19 April 2018, is pending.

Accounting policies
The consolidated financial statements of the Komax Group are based on the individual financial statements of the Group companies, compiled in accordance with uniform standards, as at 31 December 2017. With effect from 1 January 2017, the consolidated financial statements have been drawn up in accordance with the entire existing guidelines of Swiss GAAP FER (Swiss Accounting and Reporting Recommendations). Furthermore, the provisions of the Swiss company law have been complied with. The consolidated financial statements are based on the principle of historic acquisition cost (with the exception of securities and derivative financial instruments, which are recorded at their fair values), and have been drawn up under the “going concern” assumption.

The accounting and valuation principles relevant to an understanding of the annual financial statements are described in the relevant explanatory notes.

Adjustments in connection with the change of accounting principles
In its media release of 21 March 2017, Komax announced that it was changing its accounting standard from IFRS to Swiss GAAP FER with effect from the 2017 financial year. The change was driven by the following key considerations:
- The constant widening of the scope of regulation under IFRS and the ever-increasing number of complex and formal detailed regulations.
- The Swiss GAAP FER accounting standard is particularly suited to the needs of medium-sized companies like the Komax Group.
- The latter standard continues to guarantee shareholders transparent reporting in keeping with the “true and fair” principle.

The accounting standards applied in the preparation and presentation of the consolidated financial statements for 2017 deviate from the consolidated financial statements for 2016 drawn up in accordance with IFRS in the following key points:

a) Goodwill from acquisitions and associated companies
Goodwill and technologies from acquisitions and associated companies are directly offset against retained earnings in shareholders’ equity, in keeping with the option that applies at the point of acquisition under Swiss GAAP FER 30 “Consolidated financial statements.” Under IFRS, goodwill was capitalized and reviewed for impairment on an annual basis, whereas prior to acquisitions not capitalized technologies were separately capitalized as part of the purchase price allocation process and amortized over their estimated economic lifetime. According to Swiss GAAP FER, they are not separately recognized, but remain subsumed under goodwill. Under Swiss GAAP FER, transaction costs incurred in connection with acquisitions are treated as a component part of acquisition costs. Under IFRS, transaction costs were recognized in the income statement.

b) Employee benefits

Under Swiss GAAP FER 16 “Pension benefit obligations,” the economic obligations and benefits of Swiss pension schemes are ascertained on the basis of figures drawn up in accordance with Swiss GAAP FER 26 “Accounting of pension plans.” The economic impact of the pension schemes of foreign subsidiaries is ascertained in accordance with locally applied valuation methods. Employer contribution reserves and comparable items are capitalized under Swiss GAAP FER 16. Under IFRS, defined-benefit pension plans were calculated according to the “projected unit credit method” and recorded in the balance sheet in accordance with IAS 19.

c) Tax-loss carry forwards

Komax has elected not to capitalize future tax savings from offsettable tax-loss carry forwards. The use of these tax-loss carry forwards is recorded upon realization. Under IFRS, deferred tax claims in connection with tax losses were taken into account to the extent that it was deemed probable that future taxable profits would be generated so that these losses could be used in the foreseeable future.

d) Deferred income taxes

The above-mentioned valuation and accounting adjustments have the corresponding repercussions for deferred income taxes in the balance sheet and the income statement.

e) Reclassification in shareholders’ equity

As part of the changeover to Swiss GAAP FER, the cumulative currency translation differences were reset/reversed as of 1 January 2016 and offset against retained earnings. Under Swiss GAAP FER, the result from divestments (discontinued operations) therefore only contains the currency translation differences arising after 1 January 2016.

The presentation and format of the balance sheet, income statement, statement of shareholders’ equity, and cash flow statement were adjusted in keeping with the requirements of Swiss GAAP FER. Prior periods were adjusted accordingly to facilitate comparability with the new presentation of the current reporting period (restatement). The repercussions of the above-mentioned adjustments for shareholders’ equity and the income statement of Komax are summarized in the following tables:

Adjustment effects – shareholders’ equity

in TCHF	31.12.2016	01.01.2016
Shareholders’ equity under IFRS	311 910	283 134
Adjustments under Swiss GAAP FER		
Offsetting of goodwill against shareholders’ equity	–47 441	–30 662
Offsetting of technology against shareholders’ equity as component part of goodwill (incl. deferred taxes)	–9 712	–8 204
IAS 19 adjustments (incl. deferred taxes)	7 732	13 919
Non-capitalization of deferred taxes from offsettable tax-loss carry forwards	–16 315	–17 020
Shareholders’ equity under Swiss GAAP FER	**246 174**	**241 167**

Adjustment effects – Group profit after taxes (EAT)

in TCHF	2016
Group profit after taxes (EAT) under IFRS	35 489
Adjustments under Swiss GAAP FER	
Transaction costs from acquisitions	192
Amortization of intangible assets	1 492
IAS 19 adjustments (incl. deferred taxes)	–963
Discontinued operations (effect of currency translation differences)	944
Impact of non-capitalization of deferred taxes from offsettable tax-loss carry forwards	1 549
Group profit after taxes (EAT) under Swiss GAAP FER	**38 703**

Key recognition and measurement assumptions

Preparation of the consolidated financial statements requires the Board of Directors and Group Management to make estimates and assumptions, whereby such estimates and assumptions have an effect on the accounting principles applied and are reflected in the amounts stated under assets, liabilities, income, expenses, and related disclosures. Their estimates and assumptions are based on past experience and on various other factors deemed applicable in the current situation. These form the basis for reporting those assets and liabilities that cannot be measured directly from other sources. The actual values may differ from these estimates. The following material estimates are included in the consolidated financial statements:

	Page
Recognition of revenue according to POC method	83
Current and deferred income taxes	88
Impairment of property, plant, and equipment	91
Impairment of intangible assets and goodwill	95
Contingent consideration	96
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Key events of the reporting period

As mentioned in the Shareholders’ letter on pages 2 and 3, the year 2017 was characterized by strong growth in order intake and revenues, the acquisitions of Laselec and Practical Solution, as well as significant investment in research and development. The operating profit matches almost the prior-year figure and Group profit after taxes rose by 8.8%.

The credit line of the syndicated loan agreement was increased from CHF 100 million to CHF 140 million in order to ensure the financing of the high investments. Mainly due to these investments, free cash flow resulted in a negative figure. With an equity ratio of more than 62%, Komax continues to be very robustly financed.

With effect from 1 January 2017, Komax changed the accounting standard from IFRS to Swiss GAAP FER. The accounting policies disclose in detail that this change mainly had an impact on the valuation of goodwill, the employee benefits and the deferred tax assets.

Events after the balance sheet date

No significant events occurred between the balance sheet date and the approval of the consolidated financial statements by the Board of Directors on 8 March 2018 which might adversely affect the information content of the 2017 consolidated financial statements or which would require disclosure.

1 Performance

In this section, we provide details of the 2017 result of the Komax Group. In addition to earnings per share, we also provide details on revenues, expenses, the financial result, and taxes.

The operating profit (EBIT) of the Komax Group decreased from CHF 55.4 million in 2016 to CHF 55.1 million in 2017. The chart below illustrates the year-on-year change between the current reporting period and the prior-year.

1.1 Segment information

The Komax Group is a global technology company that focuses on markets in the automation sector. As a manufacturer of innovative and high-quality solutions for the wire processing industry, Komax helps its customers implement economical and safe manufacturing processes, especially in the automotive supply sector. All Group companies are active in wire processing, have a uniform client base, and are centrally managed. The Board of Directors and the Group Executive Committee, which make the key strategic and operating decisions, manage the Komax Group primarily on the basis of the financial statements of the individual companies, the Management Information System, and the consolidated financial statements. Due to the commercial similarity and interconnections of the Group companies, Komax presents its business in amalgamated form as a single segment, in accordance with Swiss GAAP FER 31.

Up until the sale of the Medtech business unit in April 2016, the Komax Group had two segments. The corresponding segment information is set out below:

in TCHF	2017			2016[1]		
	Wire[2]	**Medtech**	**Group**	Wire[2]	Medtech	Group
Net sales from external customers	407 275	–	407 275	370 398	19 057	389 455
Net sales from other segments	–	–	–	0	0	0
Total net sales	**407 275**	**–**	**407 275**	**370 398**	**19 057**	**389 455**
EBIT	**55 069**	**–**	**55 069**	**55 202**	**222**	**55 424**

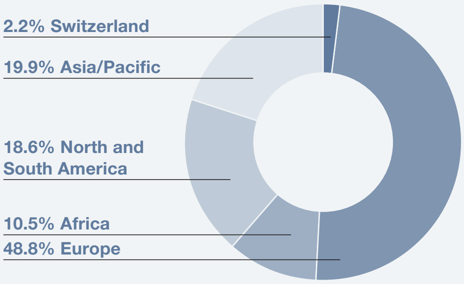
[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).
[2] Including elimination of intersegment revenues and corporate costs.

1.2 Revenues

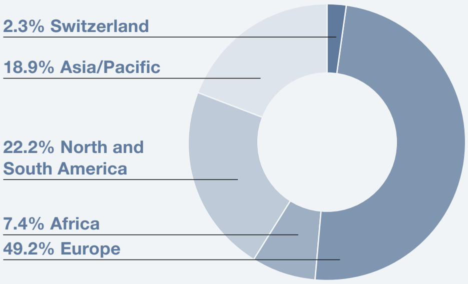
a) Revenues by region

The percentage breakdown of revenues by region is as follows:

2017



2016



b) Construction contracts

In the current reporting period, sales of CHF 11.7 million (2016: CHF 23.3 million) were recorded from long-term construction contracts on the basis of the POC method.

c) Other operating income

in TCHF	**2017**	2016[1]
Own work capitalized	820	1 630
Government grants	184	68
Gains from the disposal non-current assets	116	305
Other income	114	362
Total other operating income	**1 234**	**2 365**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Key recognition and measurement assumptions

Automated assembly and production contracts are measured according to the POC method, provided the assessment meets the requirements of Swiss GAAP FER 22 “Long-term contracts”. Although projects are assessed monthly and in good faith in accordance with comprehensive project management guidelines, subsequent corrections may be required. These corrections are made in the following period and may have a positive or negative impact on revenue in this period.

Recognition and measurement

Revenue recognition: The Komax Group's consolidated income statement is compiled using the nature of expense method. Net sales comprise the fair value of considerations received or receivable for the sale of goods and services in the course of ordinary business activities after deducting VAT, returns, discounts, and price reductions, and eliminating intragroup sales. Revenues are recognized as described below. For any intermediated transactions, only the value of services provided by Komax itself is reported. Transactions with a number of individually identifiable component parts are recorded and valued separately.

Sale of goods: Revenue from the sale of goods is recognized when risk and rewards of ownership have been transferred to the buyer. All expenses connected with sales are recognized on an accrual basis.

Sale of services: Revenue from the sale of services is recognized in accordance with progress on the service according to the ratio of completed to still outstanding services to be performed during the financial year in which the services are rendered.

Manufacturing contracts: Manufacturing contracts in the automated assembly and production business units, involving the customer-specific manufacture of systems, are valued according to the "percentage of completion" method (POC method) in accordance with Swiss GAAP FER 22. On the balance sheet, these are reported either under "Trade receivables" or "Other payables," depending on the degree to which they are underfinanced or overfinanced. The percentage of completion is calculated according to the "cost-to-cost method" (costs incurred in relation to overall estimated costs of the contract). Anticipated project losses are recognized in full in the income statement. Any costs of debt capital are capitalized provided debt capital is raised for the purpose of financing the project and its costs can be directly attributed to a manufacturing contract.

Leases with Komax as lessor: Contractual relationships in which Komax acts as lessor are reported as financial leases if all risks and returns associated with ownership are essentially transferred to the lessee. At the beginning of the lease, lease payments are recognized in the balance sheet in the amount of the net investment value arising from the lease. Revenue is recorded in the same way as the direct sale of goods. Financial income is spread over the term of the lease.

Assets that are the subject of operating leases are reported in the balance sheet in accordance with their characteristics, and are written down at the normal rates that apply to assets of that type. Lease income is recognized in the income statement on a linear basis over the term of the lease.

Leases with Komax as lessee: Only in exceptional cases does Komax act as lessee in financial lease agreements. A financial lease arises when the lessor transfers virtually all the risks and benefits associated with ownership of the leasing object to the lessee. At the beginning of the contract term, the object in question is recorded on the balance sheet as both an investment asset and a liability at its fair value or (if lower) at the net cash value of future leasing payments. Every lease instalment is broken down into financing costs on the one hand and repayment of the residual debt on the other, so that the interest rate remains constant for the residual liability. Financing costs are booked directly to the income statement as an expense. Capitalized leasing objects are depreciated over their estimated economically useful lives, or (if lower) over the contractual period in question.

An operating lease agreement arises when a substantial proportion of the risks associated with ownership remain with the lessor. Payments for operating leasing agreements are booked to the income statement as an expense in a linear way for the entire duration of the agreement.

Government grants: Government grants are recognized if it is likely that the payments will be received and Komax can fulfil the conditions attached to such subsidies. These are recognized in "Other operating income," regardless of when payment is received, and on a pro rata basis in the period in which the associated costs are incurred, and charged to the income statement as an expense. Grants relating to an asset are deducted from the carrying amount.

1.3 Expenses

a) Personnel expenses

in TCHF	2017	2016[1]
Wages and salaries	–109 448	–102 369
Share-based payments settled with equity instruments	–1 090	–1 777
Share-based payments settled in cash	–284	–1 541
Social security and pension contributions	–21 581	–21 271
Other personnel costs (in particular training and development)	–4 579	–4 630
Total personnel expenses	**–136 982**	**–131 588**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Other operating expenses

in TCHF	2017	2016[1]
Expenditure on operating equipment and energy	–2 238	–2 266
Rental expenses	–3 078	–2 886
Repair and maintenance expenses	–13 955	–12 542
Third-party services for development expenses	–7 128	–6 064
Representation and marketing expenses	–11 593	–11 338
Legal and consultancy expenses	–4 225	–5 040
Shipping and packaging expenses	–6 114	–6 649
Expenditure on administration and sales	–2 921	–3 102
Other expenditure	–2 127	–2 048
Total other operating expenses	**–53 379**	**–51 935**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

1.4 Financial result

in TCHF	2017	2016[1]
Financial income		
Interest income	454	333
Exchange rate gains on foreign currencies	7 078	6 245
Total financial income	**7 532**	**6 578**
Financial expenses		
Interest expenses	–1 241	–1 802
Exchange rate losses on foreign currencies	–7 636	–6 984
Change in fair value of contingent consideration arrangements	0	–79
Total financial expenses	**–8 877**	**–8 865**
Result from associated companies	**526**	**139**
Total financial result	**–819**	**–2 148**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Interests: Interest income and expenses are accrued using the effective interest rate method.

1.5 Non-operating and extraordinary result

The non-operating result includes the income and expenses from non-operating properties.

The extraordinary result contains expenses of CHF 3.6 million relating to an impairment of a loan granted to an associated company. In the corresponding prior-year period, the expenses incurred in connection with the restructuring at the Porta Westfalica site in Germany (CHF 2.4 million) and the result from the sale of the former Medtech business unit (CHF 1.3 million) are contained in the extraordinary result.

Recognition and measurement

Non-operating result: Non-operating result is expense and income which arise from events or transactions that clearly differ from the usual business activities of the organisation.

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

1.6 Taxes

a) Income taxes

in TCHF	**2017**	2016[1]
Current income taxes	–8 766	–10 636
Deferred tax income (+) / tax expenses (–)	317	–51
Total income taxes	**–8 449**	**–10 687**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Analysis of the tax rate

in TCHF	**2017**	**%**	2016[1]	%
Group profit before taxes (EBT)	50 550		49 390	
Expected tax expenses	**–7 521**	**14.9**	**–7 959**	**16.1**
Impact of non-capitalized tax-loss carry forwards	–1 475	2.9	–4 516	9.1
Utilization of non-capitalized tax-loss carry forwards	384	–0.8	1 228	–2.5
Effect of changes in tax rate	45	–0.1	–17	0.0
Tax credits / charges from prior-years	161	–0.3	1 293	–2.6
Effect of non-deductible expenses	–189	0.4	–287	0.6
Effect of non-taxable income	136	–0.3	67	–0.1
Non-reclaimable withholding taxes	–119	0.2	–563	1.1
Others	129	–0.2	67	–0.1
Effective tax expenses	**–8 449**	**16.7**	**–10 687**	**21.6**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

As the Group is internationally active, its income taxes are dependent on a number of different tax jurisdictions. The expected income tax rate is equivalent to the weighted average of tax rates of those countries in which the Group is active. Due to the composition of the taxable income of the Group, as well as changes in local tax rates, this Group tax rate varies from year to year.

The expected tax rate based on the ordinary result was at 14.5% (2016: 15.5%).

b) Deferred tax assets and liabilities

in TCHF	**31.12.2017**	31.12.2016[1]
Property, plant, and equipment / intangible assets	9 870	9 666
Trade receivables and inventories[2]	4 107	3 160
Provisions	1 146	1 145
Other items	684	1 080
Total deferred tax assets (gross)	**15 807**	**15 051**
Offset against deferred tax liabilities	–2 786	–2 882
Balance sheet deferred tax assets	**13 021**	**12 169**
Property, plant, and equipment / intangible assets	3 137	3 722
Trade receivables and inventories	3 534	2 715
Provisions	1 152	726
Other items	171	919
Total deferred tax liabilities (gross)	**7 994**	**8 082**
Offset against deferred tax assets	–2 786	–2 882
Balance sheet deferred tax liabilities	**5 208**	**5 200**
Net deferred tax assets (+) / tax liabilities (–)	**7 813**	**6 969**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).
[2] Including unrealized intragroup profit.

The non-capitalized and unused tax-loss carry forwards expire as follows:

in TCHF	Within 5 years	After more than 5 years	**Total**
Expiry of unutilized tax-loss carry forwards			
31 December 2017	3 382	65 888	**69 270**
31 December 2016	2 034	62 379	**64 413**

This results in a deferred tax claim (not recognized in the balance sheet) for as yet unutilized tax-loss carry forwards of CHF 19.6 million (31 December 2016: CHF 22.0 million) as well as CHF 3.4 million (31 December 2016: CHF 3.5 million) not recognized tax credits.

Key recognition and measurement assumptions

In determining the assets and liabilities from current and deferred income taxes, estimates must be made on the basis of existing tax laws and ordinances. Numerous internal and external factors may have favorable and unfavorable effects on the assets and liabilities from income taxes. These factors include changes in tax laws and ordinances, as well as the way they are interpreted, in addition to changes in tax rates and the total amount of taxable income for the particular location. Any changes may affect the assets and liabilities from current and deferred income taxes carried in future reporting periods.

Recognition and measurement

Deferred taxes: Deferred and future tax expenses are calculated on the basis of the comprehensive liability method. This method is based on the tax rates and tax regulations applicable on the balance sheet date or which have in essence been enacted and are expected to apply at the time the deferred tax claim is realized or the deferred tax liability is settled. Deferred and future taxes are calculated on the basis of the temporary differences in value between the individual balance sheets and balance sheets for tax purposes. Such differences primarily exist in the case of non-current assets, inventories, and some provisions. Deferred tax assets are recognized in the amount corresponding to the probability that the Group companies in question will generate sufficient future taxable income to absorb the relevant positive differences in the tax assets.

Loss carry forwards: Future tax savings from offsettable tax-loss carry forwards are not capitalized. The use of these tax-loss carry forwards is recorded upon realization.

Temporary differences on investments in subsidiaries and associates: Deferred tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference cannot be determined by the Group and it is consequently probable that the temporary difference will not reverse in the foreseeable future.

1.7 Earnings per share (EPS)

in CHF	2017	2016[1]
Group profit (attributable to equity holders of the parent company)	**42 100 813**	**38 703 234**
Weighted average number of outstanding shares	3 810 276	3 741 364
Basic earnings per share	**11.05**	**10.34**
Group profit (attributable to equity holders of the parent company)	**42 100 813**	**38 703 234**
Weighted average number of outstanding shares	3 810 276	3 741 364
Adjustment for dilution effect of share options	22 094	46 729
Weighted average number of outstanding shares for calculating diluted earnings per share	3 832 370	3 788 093
Diluted earnings per share	**10.99**	**10.22**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Earnings per share: Basic earnings per share are calculated by dividing the consolidated net earnings by the average number of shares outstanding during the fiscal year, excluding treasury shares. Diluted earnings per share are calculated by adding all option rights and non-vested equity rights which would have had a dilutive effect to the average number of shares outstanding.

2 Operating assets and liabilities

In this section we describe the current and non-current operating assets and liabilities. Among other things, this includes further details on receivables, inventories, tangible assets, and intangible assets.

2.1 Current receivables

a) Trade receivables

in TCHF	**31.12.2017**	31.12.2016[1]
Trade receivables	94 413	83 519
less provision for impairment	–302	–1 142
Accruals for construction contracts	12 516	6 125
less prepayments for construction contracts	–6 904	–3 312
Receivables arising from POC	**5 612**	**2 813**
Total	**99 723**	**85 190**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Overdue trade receivables that had not been written down amounted to CHF 21.6 million on 31 December 2017 (31 December 2016: CHF 19.2 million). Their maturity structure is set out in the following table:

in TCHF	Number of days					
	1–30	31–60	61–90	91–120	>120	**Total**
as at 31 December 2017	8 698	6 134	2 532	1 646	2 631	**21 641**
as at 31 December 2016[1]	8 275	2 653	3 658	2 659	1 923	**19 168**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Other receivables

In addition to prepayments to suppliers of CHF 1.1 million (31 December 2016: CHF 0.7 million), other receivables mainly comprise credits due from government organizations (tax authorities) and bills receivable.

Recognition and measurement

Current receivables: Receivables are recorded at nominal value. Impaired receivables are value-adjusted on an individual basis; no flat-rate value adjustments are calculated for the remaining portfolio.

For manufacturing contracts of systems, the inventory includes all costs associated with the systems as well as the production costs. The order costs comprise all costs attributable to the contract from the date the order is received until the balance sheet date. The order proceeds per manufacturing contract are recorded as at 31 December according to the POC.

2.2 Inventories

in TCHF	31.12.2017	31.12.2016[1]
Manufacturing components and spare parts	53 336	41 724
Semi-finished goods / work in process	13 974	9 038
Finished goods	33 371	28 037
Gross value inventories	**100 681**	**78 799**
less impairment	–8 661	–8 389
Inventories	**92 020**	**70 410**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Inventories: Inventories are valued at the lower of acquisition / production costs and net market value. Acquisition / production costs encompass all direct and indirect expenses incurred in bringing inventories to their current location or state (full costs). Discounts are treated as acquisition price reductions. For all inventory components, the ascertainment of value is undertaken for the most part in accordance with the FIFO method. The current market price in the sales market in question is assumed when determining net market value.

2.3 Assets held for sale

The building in York (USA) that was reported under non-operating properties in the past, is shown as held for sale since the end of 2017. The sales process has been started at the end of 2017 and was already concluded in January 2018. In addition, the building in S. Domingos de Rana (Portugal) is also reported as held for sale and was therefore regrouped from the property, plant, and equipment. The sales process has also been started at the end of 2017 and is expected to be completed in the first quarter 2018.

2.4 Property, plant, and equipment

in TCHF	Undeveloped property	Land	Buildings	Machines and equipment	Other tangible fixed assets	Assets under construction	**Total property, plant, and equipment**
Costs							
As at 31 December 2015[1]	**1 141**	**15 727**	**72 057**	**37 391**	**7 756**	**4 770**	**138 842**
Additions	0	13	7 851	5 458	2 243	2 606	18 171
Disposals	0	–467	–310	–2 015	–377	0	–3 169
Change in scope of consolidation	494	0	5	–4 566	–944	0	–5 011
Reclassifications	0	0	3 358	458	0	–3 816	0
Currency differences	0	–76	–537	–73	–26	0	–712
As at 31 December 2016[1]	**1 635**	**15 197**	**82 424**	**36 653**	**8 652**	**3 560**	**148 121**
Additions	0	189	670	3 269	1 915	12 520	18 563
Disposals	0	0	–76	–769	–477	0	–1 322
Change in scope of consolidation	0	84	379	1 285	55	0	1 803
Reclassifications	0	–633	–3 810	30	13	–95	–4 495
Currency differences	0	112	628	–6	165	0	899
As at 31 December 2017	**1 635**	**14 949**	**80 215**	**40 462**	**10 323**	**15 985**	**163 569**
Depreciation							
As at 31 December 2015[1]	**0**	**0**	**–38 485**	**–20 571**	**–4 687**	**0**	**–63 743**
Additions	0	0	–2 543	–3 044	–1 327	0	–6 914
Disposals	0	0	73	1 952	318	0	2 343
Change in scope of consolidation	0	0	0	3 060	948	0	4 008
Currency differences	0	0	–55	–14	–5	0	–74
As at 31 December 2016[1]	**0**	**0**	**–41 010**	**–18 617**	**–4 753**	**0**	**–64 380**
Additions	0	0	–2 756	–3 461	–1 488	0	–7 705
Disposals	0	0	0	479	381	0	860
Change in scope of consolidation	0	0	–116	–979	–36	0	–1 131
Reclassifications	0	0	2 802	0	0	0	2 802
Currency differences	0	0	–207	–20	–69	0	–296
As at 31 December 2017	**0**	**0**	**–41 287**	**–22 598**	**–5 965**	**0**	**–69 850**
Book values							
As at 31 December 2015[1]	**1 141**	**15 727**	**33 572**	**16 820**	**3 069**	**4 770**	**75 099**
As at 31 December 2016[1]	**1 635**	**15 197**	**41 414**	**18 036**	**3 899**	**3 560**	**83 741**
As at 31 December 2017	**1 635**	**14 949**	**38 928**	**17 864**	**4 358**	**15 985**	**93 719**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Key recognition and measurement assumptions

Property, plant, and equipment are tested for impairment at least once a year. To determine whether impairment exists, estimates are made of the expected future cash flows arising from use. Actual cash flows may differ from the discounted future cash flows based on these estimates.

Recognition and measurement

Property, plant, and equipment: Property, plant, and equipment are accounted for at historical acquisition or production cost less accumulated depreciation. Borrowing costs that incurred during the construction phase through the financing of assets under construction, are part of the acquisition cost if they are material. Depreciation is linear over the expected service lifetime.

Depreciation period

Asset category	Years
Machinery	7–10
Tools	7
Measuring, testing, and controlling devices	5
Operating installations	10
Warehouse installations	10–14
Vehicles	5–8
Office equipment	3–10
Information technology	3–5
Factory buildings	33
Office buildings	40
Land	no depreciation

2.5 Non-operating properties

Changes in gross values

in TCHF	2017	2016
Total as at 1 January	**6 860**	**6 660**
Additions	179	0
Regrouping to assets classified as held for sale	–6 771	0
Currency differences	–268	200
Total as at 31 December	**0**	**6 860**

Changes in depreciation

in TCHF	2017	2016
Total as at 1 January	**–1 549**	**–1 311**
Depreciation	–193	–191
Regrouping to assets classified as held for sale	1 679	0
Currency differences	63	–47
Total as at 31 December	**0**	**–1 549**
Net value non-operating properties	**0**	**5 311**

Recognition and measurement

Non-operating properties: Investment property encompasses land and buildings held with a view to generating rental income or for purposes of capital appreciation, and not for internal production purposes, the delivery of goods or the provision of services, administrative purposes, or sales in the context of ordinary business activity. Investment property is valued at acquisition or construction cost less cumulative depreciation.

2.6 Intangible assets
a) Movements in the intangible assets

in TCHF	Software	Patents	Software in implementation	**Total intangible assets**
Costs				
As at 31 December 2015[1]	**14 868**	**4 051**	**6 416**	**25 335**
Additions	2 499	0	2 157	4 656
Disposals	–163	0	0	–163
Change in scope of consolidation	–1 987	11	0	–1 976
Reclassifications	22	0	–22	0
Currency differences	–24	0	0	–24
As at 31 December 2016[1]	**15 215**	**4 062**	**8 551**	**27 828**
Additions	3 074	0	385	3 459
Disposals	–66	0	0	–66
Change in scope of consolidation	141	0	0	141
Reclassifications	8 518	0	–8 518	0
Currency differences	149	1	0	150
As at 31 December 2017	**27 031**	**4 063**	**418**	**31 512**
Depreciation				
As at 31 December 2015[1]	**–9 192**	**–4 050**	**0**	**–13 242**
Additions	–2 072	–10	0	–2 082
Disposals	131	0	0	131
Change in scope of consolidation	1 650	0	0	1 650
Currency differences	9	0	0	9
As at 31 December 2016[1]	**–9 474**	**–4 060**	**0**	**–13 534**
Additions	–3 339	–2	0	–3 341
Disposals	60	0	0	60
Change in scope of consolidation	–117	0	0	–117
Currency differences	–99	–1	0	–100
As at 31 December 2017	**–12 969**	**–4 063**	**0**	**–17 032**
Book values				
As at 31 December 2015[1]	**5 676**	**1**	**6 416**	**12 093**
As at 31 December 2016[1]	**5 741**	**2**	**8 551**	**14 294**
As at 31 December 2017	**14 062**	**0**	**418**	**14 480**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

b) Goodwill

Goodwill is offset against Group shareholders' equity upon the acquisition of a subsidiary or the interest in an associated company. Assuming a useful life of 5 years for trading companies acquired and 10 years for production operations acquired plus depreciation on a straight-line basis, the theoretical capitalization of goodwill would have the following impact on the consolidated balance sheet:

in TCHF			2017			2016
	Goodwill subsidiaries	**Goodwill associated companies**	**Total**	Goodwill subsidiaries	Goodwill associated companies	Total
Historical costs as at 1 January	**57 308**	**1 530**	**58 838**	**37 362**	**1 504**	**38 866**
Additions	14 797	0	14 797	32 016	26	32 042
Disposals	0	–1 530	–1 530	–12 102	0	–12 102
Currency differences	–41	0	–41	32	0	32
Historical costs as at 31 December	**72 064**	**0**	**72 064**	**57 308**	**1 530**	**58 838**
Theoretical accumulated depreciation as at 1 January	**–17 781**	**–303**	**–18 084**	**–24 574**	**–150**	**–24 724**
Theoretical depreciation	–6 673	–115	–6 788	–5 282	–153	–5 435
Theoretical depreciation on disposals	0	418	418	12 102	0	12 102
Currency differences	88	0	88	–27	0	–27
Theoretical accumulated depreciation as at 31 December	**–24 366**	**0**	**–24 366**	**–17 781**	**–303**	**–18 084**
Theoretical net book value 31 December	**47 698**	**0**	**47 698**	**39 527**	**1 227**	**40 754**

The capitalisation and depreciation of the goodwill would have the following theoretical impacts on the shareholders' equity and the group profit after taxes:

in TCHF	**31.12.2017**	31.12.2016
Shareholders' equity according to balance sheet	258 178	246 174
Theoretical capitalization of net book value of goodwill	47 698	40 754
Theoretical tax impacts	715	985
Theoretical shareholders' equity	**306 591**	**287 913**

in TCHF	**2017**	2016
Group profit after taxes (EAT) according to income statement	42 101	38 703
Theoretical goodwill depreciation	–6 788	–5 435
Theoretical impact of goodwill disposals	418	12 102
Theoretical tax impacts	–235	28
Theoretical Group profit after taxes (EAT)	**35 496**	**45 398**

Key recognition and measurement assumptions

Intangible assets and Goodwill are tested for impairment if indicators reflect a possible impairment. To determine whether impairment exists, estimates are made of the expected future cash flows arising from use. Actual cash flows may differ from the discounted future cash flows based on these estimates.

Recognition and measurement

Software: Purchased software licenses are capitalized at acquisition or production cost plus costs incurred in readying them for use. The total acquisition cost is amortized on a linear basis over three to seven years. Costs associated with the development or maintenance of software are recorded as expenses at the time they are incurred.

Patents: Patents are recognized at historical acquisition cost less cumulative amortization. Acquisition costs are written down in a linear way over patent life.

Research and development: Research and development expenditure is fully charged to the income statement. These costs are contained in the positions “Personnel expenses” and “Other operating expenses.”

Goodwill: Companies acquired over the course of the year are revalued and consolidated at the point of acquisition in keeping with standardized Group principles. The difference between the acquisition cost (including material transaction costs) and the prorated fair value of the net assets acquired is described as goodwill. Any potentially existing but not previously capitalized intangible assets taken over as part of the acquisition – such as brands, technology, rights of use, or client lists – are not separately recognized, but remain subsumed under goodwill. Goodwill can also arise from investments in associated companies, whereby this amounts to the difference between the acquisition cost of the investment and the prorated fair value of the net assets acquired. The goodwill resulting from acquisitions is directly offset against Group shareholders’ equity. If the purchase price contains components that are dependent on future results, these components are estimated as accurately as possible at the point of acquisition and then capitalized. In the event of deviations when the purchase price is definitively settled at a later date, the goodwill offset against shareholders’ equity is adjusted accordingly. In case of disposal, acquired goodwill offset with equity at an earlier date is to be considered at original cost to determine the profit or loss recognised in the income statement.

2.7 Other non-current receivables

in TCHF	**31.12.2017**	31.12.2016[1]
Present value of minimum lease payments	0	46
Non-current loans to associates	1 337	5 501
Contingent consideration	0	2 000
Rent deposit and other non-current receivables	799	1 449
Total	**2 136**	**8 996**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

2.8 Other liabilities
a) Other payables

in TCHF	31.12.2017	31.12.2016
Prepayments by customers	11 355	7 456
Contingent consideration	4 357	3 900
Current income tax liabilities	4 978	5 628
Prepayments on construction contracts	5 077	2 640
less accruals / deferrals in respect of construction contracts	–2 451	–1 955
Liabilities arising from POC	**2 626**	**685**
Other positions	11 122	10 477
Total other payables	**34 438**	**28 146**

Key recognition and measurement assumptions

For the determination of the fair value of a contingent consideration, profit and revenue forecasts as well as the current exchange rates are used that might result in a higher or lower fair value measurement. In addition, the continued employment of certain selling shareholders was assumed.

b) Current provisions

in TCHF	2017	2016
Total as at 1 January	**2 222**	**3 666**
Additional provisions	2 126	2 141
Change in scope of consolidation	113	–287
Amounts utilized during the year	–1 448	–2 588
Unused amounts reversed	–672	–711
Currency differences	18	1
Total as at 31 December	**2 359**	**2 222**

Current provisions are warranty provisions that include material and personnel costs in relation to warranty work.

Key recognition and measurement assumptions

In relation to machines and systems already delivered, Komax calculates the necessary warranty provisions on the balance sheet date on the basis of analysis and estimates. The actual costs may differ from the provisions stated. Any differences may affect the provision carried for warranty events in future reporting periods and therefore the reported result for the period.

Recognition and measurement

Provisions: Provisions are formed if the Group has a current legal or constructive obligation arising from an event in the past, if it appears probable that the asset base will be negatively impacted by settlement of the obligation, and if the amount of the provision can be reliably determined. Provisions for warranties are based on past payments, revenues in prior-years and current contracts. Komax normally gives a one-year warranty on machines and systems.

3 Capital and financial risk management

In addition to details on shareholders' equity, details are also provided on financial risk management at the Komax Group.

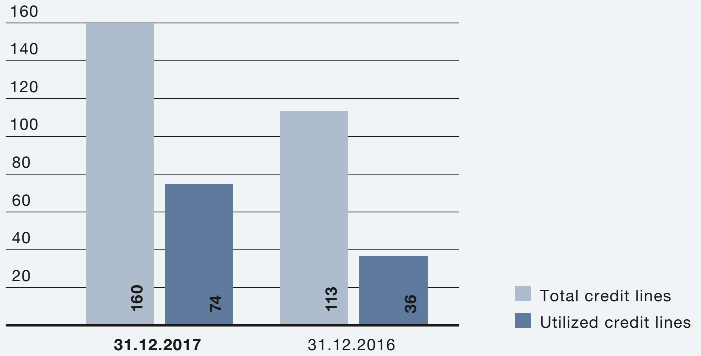
3.1 Financial liabilities

in TCHF	Currency	**31.12.2017**	31.12.2016[1]
Current account liabilities	EUR	0	78
Bank liabilities	CHF	46 000	16 000
Bank liabilities	EUR	18 906	9 265
Bank liabilities	USD	4 950	6 180
Total financial liabilities		**69 856**	**31 523**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Komax Holding AG finalized an agreement with a bank syndicate for credit line amounting to CHF 140 million. Additionally there are further local credit lines for subsidiaries available amounting to CHF 20 million (up to a maximum of CHF 25 million). As at 31 December 2017 the Group has drawn on this credit limit to the amount of CHF 74.2 million (31 December 2016: CHF 35.5 million).

Credit lines Komax Group
in CHF million



The maturities of the financial liabilities (without interests) are as follows:

in TCHF	less than 1 year	1–5 years	Over 5 years	Total
as at 31 December 2017	966	67 592	1 298	**69 856**
as at 31 December 2016[1]	514	29 374	1 635	**31 523**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

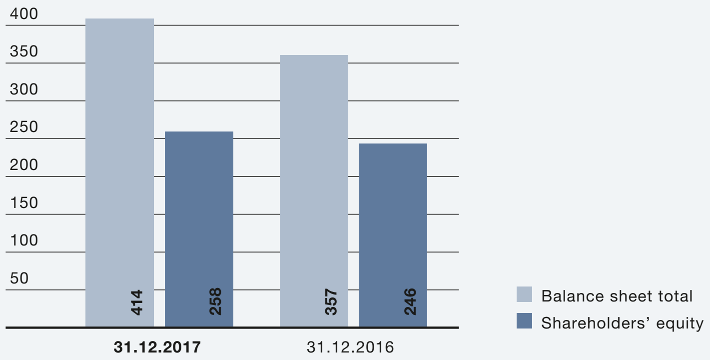
Recognition and measurement

Financial liabilities: Financial liabilities comprising bank loans, mortgages, and bonds are valued at amortized cost. Financial liabilities are recorded as current liabilities in the balance sheet unless the Group has the unconditional right to defer settlement of the liability to a point in time at least twelve months after the relevant balance sheet date.

3.2 Shareholders' equity

This section shows the change in shareholders' equity compared to the prior-year.

Shareholders' equity
in CHF million



a) Share capital

Balance sheet date	Number of shares	Par value in CHF	Par value in CHF
31 December 2017	**3 834 482**	**0.10**	**383 448**
31 December 2016	3 774 148	0.10	377 415
31 December 2015	3 691 651	0.10	369 165

All registered shares are fully paid up. The share capital increased due to the exercise of options compared to the prior-year.

b) Treasury shares

	2017			2016		
	Number	**Average price in CHF**	**Purchase costs (avg.) in TCHF**	Number	Average price in CHF	Purchase costs (avg.) in TCHF
Total as at 1 January	**9 000**	**233.85**	**2 105**	**19 522**	**112.27**	**2 191**
Purchases	8 000	262.27	2 098	9 000	233.85	2 105
Sales	0	0.00	0	–18 355	112.27	–2 060
Transfer (share-based compensation)	–636	233.85	–149	–1 167	112.27	–131
Total as at 31 December	**16 364**	**247.75**	**4 054**	**9 000**	**233.85**	**2 105**

Both at the end of the reporting year and at the end of the prior-year period, all treasury shares were envisaged for share-based compensation programs. All treasury shares are held by Komax Holding AG. Neither the other Group companies nor the staff pension scheme of Komax AG hold any shares of Komax Holding AG.

c) Conditional capital

	2017			2016		
	Number	**Par value in CHF**	**Conditional share capital in CHF**	Number	Par value in CHF	Conditional share capital in CHF
Total as at 1 January	**75 852**	**0.10**	**7 585**	**158 349**	**0.10**	**15 835**
Exercise of options	–60 334	0.10	–6 033	–82 497	0.10	–8 250
Total as at 31 December	**15 518**	**0.10**	**1 552**	**75 852**	**0.10**	**7 585**

There was no increase in conditional capital either in 2016 or in 2017. Conditional capital is created for management and employee share ownership schemes.

d) Reserves

The non-distributable reserves amounted to CHF 8.0 million as at 31 December 2017 (31 December 2016: CHF 4.5 million).

Recognition and measurement

Treasury shares: Treasury shares are recognized at the average weighted cost of acquisition, including the transaction costs assignable to them, and are then offset against shareholders' equity. When treasury shares are sold or issued, the consideration received is credited to shareholders' equity.

Issuance of shares: Costs that are directly assignable to the issuance of new shares are recognized in shareholders' equity in net form as a deduction from the issue proceeds.

Preferred shares: No preferred shares have been issued to date.

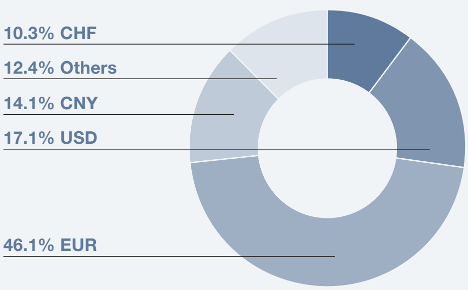
3.3 Financial risk management

The Komax Group is exposed to various financial risks, for example currency, credit, liquidity, and interest rate risks, through its business activities. The Group's overall risk management strategy is focused on the unpredictability of developments in the financial markets and is intended to minimize the potential negative impact on the Group's financial position. The Group uses derivative financial instruments to protect itself against interest rate, currency, and credit risks. Risk management is conducted by the finance department of Komax Holding AG in conformity with the guidelines issued by the Board of Directors. These guidelines set out procedures for the use of derivatives as well as dealing with foreign currency, interest rate, and credit risks. The guidelines are binding for all subsidiaries of the Komax Group.

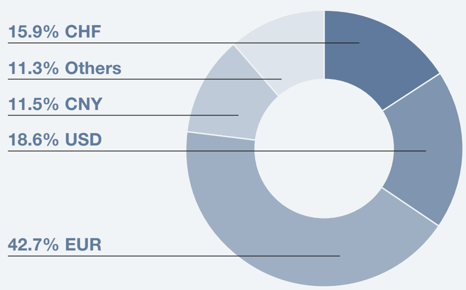
a) Currency risk

The Komax Group operates internationally and is therefore exposed to a variety of foreign exchange risks. Foreign currency risks arise from future cash flows, assets, and liabilities recognized in the balance sheet, and investment in foreign companies. Komax Group generates its revenues in the following currencies:

2017



2016



The most important year-end and average exchange rates were as follows:

Currency	**Year-end rate 31.12.2017**	**Average rate 2017**	Year-end rate 31.12.2016	Average rate 2016
USD	0.990	1.000	1.030	0.990
EUR	1.180	1.110	1.090	1.100
CNY	0.152	0.147	0.148	0.151

Komax is mainly exposed to currency risks relating to the USD, the EUR, and the CNY. Assuming that the average rates 2017 against the CHF had been 10% lower respectively higher and that all other parameters remained largely unchanged, the EBIT margin would have been changed as follows:

	Change EBIT margin 2017	Change EBIT margin 2016
EUR/CHF average rate +/– 10%	+/– 1.0%-pt.	+/– 1.1%-pt.
USD/CHF average rate +/– 10%	+/– 0.8%-pt.	+/– 0.7%-pt.
CNY/CHF average rate +/– 10%	+/– 0.8%-pt.	+/– 0.6%-pt.

b) Credit risk

Credit risks may exist with regard to bank account balances, derivative financial instruments, and receivables from customers. Komax regularly reviews the independent ratings of financial institutions. Moreover, all risks pertaining to cash and cash equivalents are further minimized by using a variety of banks rather than one single bank.

c) Capital risk

In the management of its capital, the Komax Group pays special attention to ensuring that the Group is able to continue to operate, that shareholders receive an appropriate return for their risks, and that financial ratios are optimized, taking the cost of capital into account. To achieve these targets, Komax may adjust its dividend payment, issue new shares, or sell assets in order to scale back its debt.

d) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient reserves of cash and cash equivalents and liquid securities as well as financing capacity through an adequate volume of approved lines of credit. The amount of cash required for operations is reviewed annually and monitored on a monthly basis by the finance department. Given the business environment in which Komax operates, it is also essential for the Group to maintain the necessary flexibility in financing by maintaining sufficient unused lines of credit.

e) Interest rate risk

Neither at 31 December 2017 nor at the prior-year's balance sheet date did the Komax Group possess any assets that were subject to any material rate of interest. The Group's financial risk policy is to finance long-term investments with long-term liabilities, which gives rise to an interest rate risk. If there is a significant interest rate risk, the related cash flow risks are hedged through interest rate swaps.

4 Group structure

This section contains details on the scope of consolidation, including any changes (acquisitions, business areas to be discontinued). The list of investments additionally contains all direct and indirectly held investments as per 31 December 2017.

4.1 Scope of consolidation

The consolidated financial statements incorporate the individual financial statements of Komax Holding AG, Dierikon, and its subsidiaries.

In addition to the acquisitions listed under Note 4.2, two further subsidiaries were founded in 2017, namely Komax Manufacturing de México S. de R.L. de C.V., Mexico, and Komax Bulgaria EOOD, Bulgaria. In the prior-year period, other than the acquisitions listed in Note 4.2 and the sale of the former Medtech business unit (see Note 4.4), there were no changes in the scope of consolidation.

Recognition and measurement

Subsidiaries: Subsidiaries are fully consolidated if Komax Holding AG exercises control over their financial and business policies. As a rule, this is the case if Komax Holding AG directly or indirectly holds more than 50% of the subsidiary's voting capital.

Date of consolidation: Subsidiaries are included in the consolidated financial statements from the date on which the Group assumes control. They are deconsolidated from the date on which control is ceded.

Intragroup eliminations: Intragroup transactions, intragroup balances, and unrealized gains or losses from transactions between Group companies are eliminated from the scope of consolidation.

4.2 Business combinations
a) Acquisitions 2017

in TCHF	Practical Solution	Laselec	Total
Acquired net assets at fair value			
Cash and cash equivalents	0	579	**579**
Securities	0	22	**22**
Trade receivables	0	891	**891**
Other receivables	0	365	**365**
Inventories	1 176	3 700	**4 876**
Accrued income and prepaid expenses	0	1 276	**1 276**
Property, plant, and equipment	54	618	**672**
Intangible assets	0	17	**17**
Deferred tax assets	0	346	**346**
Other non-current receivables	0	88	**88**
Total assets	**1 230**	**7 902**	**9 132**
Current financial liabilities	0	–74	**–74**
Trade payables	0	–863	**–863**
Other payables	0	–316	**–316**
Current provisions	0	–113	**–113**
Accrued expenses and deferred income	0	–1 450	**–1 450**
Non-current financial liabilities	0	–1 655	**–1 655**
Other non-current liabilities	0	–386	**–386**
Deferred tax liabilities	0	–38	**–38**
Total liabilities	**0**	**–4 895**	**–4 895**
Acquired net assets	**1 230**	**3 007**	**4 237**
Acquisition costs	**0**	**198**	**198**
Goodwill	**4 499**	**10 298**	**14 797**
Total consideration	**5 729**	**13 305**	**19 034**
Contingent consideration	1 597	1 006	**2 603**
Investment in associates	0	2 755	**2 755**
Transferred consideration	4 132	9 544	**13 676**
less acquired cash and cash equivalents	0	–579	**–579**
Net cash out 2017	**4 132**	**8 965**	**13 097**

Laselec
As at 1 October 2017 Komax has taken over 100% of Laselec SA in Toulouse (France) and its subsidiary in Grand Prairie (USA). The acquired company generated in the fourth quarter revenues of CHF 3.9 million and a profit after taxes of around CHF 0.9 million.

Practical Solution

As at 3 March 2017 Komax has taken over the business of Practical Solution Pte Ltd, Singapore, as well as Practical Solution Trading (Shanghai) Co., Ltd, China, by means of an asset deal. With the business acquired Komax generated revenues of CHF 1.0 million and a profit after taxes of CHF 0.1 million in 2017.

b) Acquisitions 2016[1]

in TCHF	Thonauer Group	Ondal Tape Processing GmbH	Kabatec GmbH & Co. KG	SLE Electronics USA, Inc.	Total
Acquired net assets at fair value					
Cash and cash equivalents	6246	84	300	0	**6630**
Securities	19	0	0	0	**19**
Trade receivables	11467	479	1235	0	**13181**
Other receivables	178	17	158	0	**353**
Inventories	1816	807	1586	469	**4678**
Accrued income and prepaid expenses	38	7	17	0	**62**
Property, plant, and equipment	720	33	312	1432	**2497**
Intangible assets	59	19	14	0	**92**
Deferred tax assets	186	22	6849	0	**7057**
Other non-current receivables	97	0	53	0	**150**
Total assets	**20826**	**1468**	**10524**	**1901**	**34719**
Current financial liabilities	0	0	–2483	0	**–2483**
Trade payables	–8982	–587	–205	0	**–9774**
Other payables	–2363	–74	–439	0	**–2876**
Current provisions	0	0	–20	0	**–20**
Accrued expenses and deferred income	–331	–89	–438	0	**–858**
Other non-current liabilities	0	–580	0	0	**–580**
Deferred tax liabilities	–65	0	–16	0	**–81**
Total liabilities	**–11741**	**–1330**	**–3601**	**0**	**–16672**
Acquired net assets	**9085**	**138**	**6923**	**1901**	**18047**
Acquisition costs	**0**	**0**	**192**	**0**	**192**
Goodwill	**9350**	**4987**	**16863**	**816**	**32016**
Total consideration	**18435**	**5125**	**23786**	**2717**	**50063**
Contingent consideration	1504	0	5297	204	**7005**
Transferred consideration	16931	5125	18489	2513	**43058**
less acquired cash and cash equivalents	–6246	–84	–300	0	**–6630**
Net cash out 2016	**10685**	**5041**	**18189**	**2513**	**36428**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Thonauer Group

Komax acquired 100% of Thonauer Gesellschaft m.b.H. in Vienna, Austria, including all its subsidiaries with effect from 1 January 2016. The acquired company achieved CHF 38.7 million revenues in 2016, as well as CHF 2.9 million profit after taxes.

Ondal Tape Processing GmbH

Komax acquired 100% of Ondal Tape Processing GmbH in Hünfeld, Germany, with effect from 1 January 2016. The acquired company achieved CHF 4.4 million revenues in 2016, as well as CHF 0.4 million profit after taxes.

Kabatec GmbH & Co. KG

Komax acquired 100% of Kabatec GmbH & Co. KG in Burghaun, Germany, with effect from 1 July 2016. The acquired company achieved CHF 4.9 million revenues in the second half of 2016, as well as CHF 0.9 million profit after taxes.

SLE Electronics USA, Inc.

With effect from 1 February 2016, Komax acquired SLE Electronics USA, Inc., in El Paso, USA, by means of an asset deal. The repercussions of the acquisition of the business of SLE Electronics USA, Inc., for the presentation of the consolidated year-end results are not significant.

4.3 Investments in associates

Komax holds interests in Xcell Automation Inc., York (USA), which is accounted for as associated company. The valuation of investments as at 31 December 2017 was based on the unaudited financial statements. Any changes in these statements will be taken into account in the following period.

As at the end of 2016 Komax still held 20.8% on Laselec SA, Toulouse (France). As at 1 October 2017 Komax acquired 100% of Laselec SA whereupon such company will be fully consolidated.

in TCHF	Participation	**31.12.2017**	31.12.2016[1]
Xcell Automation Inc., USA	25.0%	0	77
Laselec SA, France	–	0	593
Total investments in associates		**0**	**670**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

Recognition and measurement

Investments in associates: Companies in which the Komax Group holds at least 20% of voting rights but in which it has a stake of less than 50% or on which it exerts a key influence in other ways are recognized by the equity method, and initially recorded at the corresponding acquisition cost.

4.4 Discontinued operations

Komax did not divest or discontinue any business areas in the current reporting period. By contrast, in 2016 Komax sold the Medtech business unit, comprising the three companies Komax Systems LCF SA, Switzerland, Komax Systems Malaysia Sdn. Bhd., Malaysia, and Komax Systems Rockford Inc., USA.

In 2016, the sales generated by the discontinued business areas amounted to CHF 19.1 million, while the operating profit amounted to CHF 0.2 million. The following net assets were sold in 2016:

in TCHF	**Medtech**[1]
Cash and cash equivalents	6 865
Other current assets	49 510
Non-current assets	16 374
Total assets	**72 749**
Current liabilities	–34 714
Non-current liabilities	–598
Total liabilities	**–35 312**
Total net assets sold	**37 437**

[1] Since the start of 2017, the consolidated financial statements have been drawn up in accordance with Swiss GAAP FER. The prior-year figures have been revised accordingly (see accounting policies).

4.5 Equity holdings

Direct and indirect equity participation as at 31 December 2017

Company	Place
Switzerland	
Komax Management AG	Dierikon, Switzerland
Komax AG	Dierikon, Switzerland
Europe	
Kabatec GmbH & Co. KG	Burghaun, Germany
Komax Bulgaria EOOD	Yambol, Bulgaria
Komax Deutschland GmbH	Nuremberg, Germany
Komax France Sàrl.	Epinay-sur-Seine, France
Komax Kabatec Verwaltungs GmbH	Burghaun, Germany
Komax Portuguesa S.A.	S. Domingos de Rana, Portugal
Komax SLE GmbH & Co. KG	Grafenau, Germany
Komax SLE Verwaltungs GmbH	Grafenau, Germany
Komax Thonauer Kft.	Budakeszi, Hungary
Laselec SA	Toulouse, France
Ondal Tape Processing GmbH	Hünfeld, Germany
SC Thonauer Automatic s.r.l.	Bucharest, Romania
Thonauer Gesellschaft m.b.H.	Vienna, Austria
Thonauer spol. s.r.o.	Brno, Czech Republic
Thonauer s.r.o.	Bratislava, Slovakia
TSK Beteiligungs GmbH	Porta Westfalica, Germany
TSK Prüfsysteme GmbH	Porta Westfalica, Germany
TSK Test Sistemleri San. Ltd. Şti.	Ergene / Tekirdag, Turkey
TSK Test Systems SRL	Bistrita, Romania
Africa	
Komax Maroc Sàrl.	Mohammédia, Morocco
TSK Tunisia s.a.l.	Tunis, Tunisia
North/South America	
Komax Comercial do Brasil Ltda.	São Paulo, Brazil
Komax Corp.	Buffalo Grove, Illinois, USA
Komax de México S. de R.L. de C.V.	Irapuato, Mexico
Komax Manufacturing de México S. de R.L. de C.V.	Irapuato, Mexico
Komax Holding Corp.	Buffalo Grove, Illinois, USA
Komax York Inc.	York, Pennsylvania, USA
Laselec Inc.	Grand Prairie, Texas, USA
TSK Sistemas de Testes do Brasil Ltda.	Colombo, Brazil
TSK Innovations Co.	El Paso, Texas, USA
Xcell Automation Inc.	York, Pennsylvania, USA
Asia	
Komax Automation India Pvt. Ltd.	Gurgaon, India
Komax Japan K.K.	Tokyo, Japan
Komax Shanghai Co. Ltd.	Shanghai, China
Komax Singapore Pte. Ltd.	Singapore
TSK Test Systems (Shanghai) Co. Ltd.	Shanghai, China

Komax Holding AG
Dierikon, Switzerland

Purpose: Holding of equity interests
Listed on: SIX Swiss Exchange
Swiss security ID code: 001070215
Share capital: CHF 383 448
Market capitalization: CHF 1.225 billion

Purpose	Participation	Consolidation	Ordinary capital	
Group services and management	100%	Full consolidation	CHF	100 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	CHF	5 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	100 000
Engineering, production, marketing, sales	100%	Full consolidation	BGN	600 000
Sales	100%	Full consolidation	EUR	400 000
Sales	100%	Full consolidation	EUR	1 500 000
Administration	100%	Full consolidation	EUR	25 000
Sales	100%	Full consolidation	EUR	1 500 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	5 700 000
Administration	100%	Full consolidation	EUR	25 000
Engineering, production, sales	100%	Full consolidation	HUF	10 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	545 280
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	30 000
Sales	100%	Full consolidation	RON	2 200 000
Sales	100%	Full consolidation	EUR	36 336
Sales	100%	Full consolidation	CZK	200 000
Sales	100%	Full consolidation	EUR	6 639
Holding of equity interests	100%	Full consolidation	EUR	4 000 000
R&D, engineering, production, marketing, sales	100%	Full consolidation	EUR	1 764 700
Engineering, production, marketing, sales	100%	Full consolidation	TRY	265 500
Sales	100%	Full consolidation	RON	110 152
Sales	100%	Full consolidation	MAD	10 000 000
Engineering, production, marketing, sales	100%	Full consolidation	TND	366 000
Sales	100%	Full consolidation	BRL	200 000
Sales	100%	Full consolidation	USD	1 000 000
Sales	100%	Full consolidation	MXN	3 000
Production	100%	Full consolidation	MXN	3 000
Holding of equity interests	100%	Full consolidation	USD	8 160 000
Administration	100%	Full consolidation	USD	150
Sales	100%	Full consolidation	USD	1
Engineering, production, marketing, sales	100%	Full consolidation	BRL	362 500
Engineering, production, marketing, sales	100%	Full consolidation	USD	1 000 000
R&D, engineering, production, marketing, sales	25%	Equity method	USD	560 000
Sales	100%	Full consolidation	INR	10 000 000
R&D, production, marketing, sales	100%	Full consolidation	JPY	90 000 000
R&D, production, sales	100%	Full consolidation	USD	4 410 000
R&D, production, sales	100%	Full consolidation	SGD	2 600 000
Engineering, production, marketing, sales	100%	Full consolidation	CNY	3 275 902

5 Other information

This section contains all the information not addressed in the previous sections, e.g. information on employee benefits and share-based compensation.

5.1 Employee benefits

in TCHF	2017		2016
	Surplus cover as per FER 26	**Economic share within the Group**	Economic share within the Group
Pension plans with surplus cover	2816	0	0
Total	**2816**	**0**	**0**

in TCHF	2017			2016
	Change compared to prior-year / expense of reporting period	Contributions accrued for the period	**Employee benefits expenditure in personnel expenses**	Employee benefits expenditure in personnel expenses
Pension plans with surplus cover	0	4168	4168	3883
Total	**0**	**4168**	**4168**	**3883**

The employee benefits expenditure stated only comprises contributions made to the benefit schemes at the expense of the company.

The pension plans with surplus cover are related to the staff pension scheme of Komax AG in Switzerland. The coverage rate amounted to 117.4% as at 31 December 2017 (31 December 2016: 115.2%). The actuarial calculations are based on a technical interest rate of 2.5% (31 December 2016: 2.75%) as well as the technical basis of BVG 2015 (31 December 2016: BVG 2015).

There were no material employer contribution reserves neither as at 31 December 2017 nor as at 31 December 2016.

Recognition and measurement

Employee benefits: The key companies are based in Switzerland, where employee benefits are amalgamated in a legally independent foundation regulated by the Federal Law on Old-Age, Survivors' and Disability Insurance ("BVG"). No significant pension plans are managed abroad. The ascertainment of any surplus or shortfall in respect of Swiss pension plans is undertaken on the basis of the annual financial statements of the corresponding pension schemes in accordance with Swiss GAAP FER 26. Any benefit arising from employer contribution reserves is recognized as an asset. The capitalization of an additional economic benefit (as a result of a pension scheme having surplus cover) is not intended, nor are the prerequisites for such a step met. An economic obligation is carried as a liability if the prerequisites for the creation of a provision are met.

5.2 Share-based compensation

As per 31 December 2017, the Komax Group had the following share-based compensation agreements:

a) Share option plan of the Komax Group

The share option plan takes the form of share-based compensation settled in equity instruments by means of a capital increase (equity-settled plan) for the board of directors and the Komax Group management. The number of options allocated depends on the individual performance of the entitled employee. The options granted entitle holders to subscribe one Komax Holding AG share per option and are valid for five years. They have a predetermined exercise price and are subject to a three-year lock-in period.

	2017	Weighted average exercise price	2016	Weighted average exercise price
	Number	CHF	Number	CHF
Outstanding as at 1 January	**95 173**	**115.46**	**186 637**	**92.67**
Granted	0	0.00	0	0.00
Exercised	–72 134	115.00	–84 047	66.91
Forfeited	0	0.00	–3 757	118.33
Expired	–4 550	67.03	–3 660	66.21
Outstanding as at 31 December	**18 489**	**129.21**	**95 173**	**115.46**

The allocation of share options was discontinued at the end of 2015. As an alternative to selling a registered share of Komax Holding AG, Komax Holding AG has the right to pay the cash sum equivalent to the difference between the market value of the registered share at the point of exercising and the exercise price. A corresponding accrual of CHF 0.6 million (31 December 2016: CHF 2.5 million) for 2 971 options (31 December 2016: 19 321 options) was taken into account as per 31 December 2017. The market value of the Komax Holding AG share as per 31 December 2017 of CHF 319.50 (31 December 2016: CHF 251.25) was used for calculation purposes together with an average exercise price of CHF 129.21 (31 December 2016: CHF 123.55). The expenses were spread over three years, in keeping with the lock-in period.

b) Komax Performance Share Unit Plan (PSU)

The plan (equity-settled plan) for the executive management comprises PSUs with a three-year vesting period which are dependent on the attainment of a performance target and the continuation of the employment relationship. The number of PSUs allocated is calculated by dividing a fixed amount by the average closing share price during the 60 days preceding the start of the vesting period. The actual payout at the end of the vesting period takes the form of shares, and is dependent on the average EBIT margin over three years compared to the target margin determined in advance by the Board of Directors. The payout multiplier may range between 0% and 150%. The actual value of the allocation at the end of the vesting period is therefore dependent on the payout multiplier and the development of the share price over the course of the vesting period. In the event of any termination of the employment relationship, pro rata vesting applies at the ordinary vesting date.

Terms of outstanding rights as at 31 December 2017

		2015–2017	2016–2018	2017–2019
Number of outstanding rights		3 948	2 758	1 999
Vesting period		3 years	3 years	3 years
Allocation		2018	2019	2020
Fair value on the day of granting	CHF	139.45	175.19	241.98
Total fair value at allocation	**TCHF**	**550**	**483**	**484**

c) Komax Long-term Share Incentive Plan

The plan (equity-settled plan) for managers is currently not linked to profitability conditions, and contains a three-year vesting period. The number of shares allocated is calculated by dividing a fixed amount by the average closing share price during the 60 days preceding the start of the vesting period. The actual payout at the end of the vesting period in shares is dependent on the share price development during the vesting period. In the event of any termination of the employment relationship, pro rata vesting applies at the ordinary vesting date.

Number of rights	2017	2016
Total as at 1 January	**6 770**	**3 612**
Granted 1 January	2 495	3 158
Forfeited	–154	0
Transferred to participants	0	0
Total as at 31 December	**9 111**	**6 770**

The fair value on the day of granting amounted to CHF 241.98 (2016: CHF 175.19).

d) Komax Long-term Cash Incentive Plan

The plan (cash-settled plan) for managers is currently not linked to profitability conditions, and contains a three-year vesting period. The actual payout at the end of the vesting period is determined at the end of the performance period, and is based on a multiplication of the allocation amount by the share price performance factor (ratio of final share price to starting share price).

Number of rights	**2017**	2016
Total as at 1 January	**2 795**	**1 070**
Granted 1 January	1 473	1 725
Forfeited	0	0
Transferred to participants	0	0
Total as at 31 December	**4 268**	**2 795**

The fair value on the day of granting amounted to CHF 222.94 (2016: CHF 166.09).

e) Komax Restricted Share Plan

Restricted shares are allocated to Board members at the end of their period of office shortly before the Annual General Meeting (equity-settled plan); the lock-in period is three years. In the event of resignation from office as a result of retirement, death, or disability, the entitlement to restricted shares is calculated on a pro rata temporis basis. In such cases, lock-in periods may be either continued or rescinded at the discretion of the Board of Directors. In the 2017 financial year, 636 shares (2016: 873 shares) with a fair value of CHF 259.07 (2016: CHF 218.11) on the date of granting were allocated to the Board of Directors.

Recognition and measurement

Share-based compensation: All share-based compensation granted to staff is estimated at fair value as per the date it is granted, and is charged evenly across the vesting period to the corresponding income statement positions within the operating result. In the case of compensation plans involving remuneration in the form of equity instruments, the expense of the granted compensation is booked as an increase in shareholders' equity, and any funds received from the exercise of this compensation following the vesting period are booked as a change in shareholders' equity. The fair value of the amount that is to be paid to employees in respect of share appreciation rights and settled in the form of cash is booked as an expense with a corresponding increase in debt over the period in which employees acquire unrestricted access to these payments.

5.3 Related party transactions

Transactions with associated companies

in TCHF	**2017**	2016
Sale of goods and services	661	897
Purchase of goods and services	–410	–485
Interest income	125	192
Extraordinary expenses	–3 601	0
Trade receivables as at 31 December	22	110
Other receivables (current and non-current) as at 31 December	0	1 201
Granted loans as at 31 December	1 337	5 501
Trade payables as at 31 December	0	68

Related party transactions include members of the Board of Directors, members of the Executive Committee, pension funds, and key shareholders, as well as companies controlled by the same. In the year under review, no transactions were entered into with closely linked persons in connection with the sale and purchase of goods and services (2016: none). With the exception of the regular employer contributions to the pension fund, no transactions were effected with related parties (2016: none).

5.4 Off-balance-sheet transactions

a) Contingent liabilities

Aside from a service performance guarantee of CHF 1.1 million (31 December 2016: CHF 1.4 million), there were other guarantees of CHF 4.4 million (31 December 2016: CHF 4.0 million) granted, these almost exclusively comprise guarantees granted to customers for advance payments. In addition to the above-mentioned guarantees, there were other contingent liabilities associated with the sale of business units that could protect the buyer against potential tax, legal, and/or other imponderables in connection with the acquired business unit. On the basis of its current risk appraisal, Komax does not expect any cash outflows in connection with the above-mentioned contingent liabilities.

b) Ownership restrictions for own liabilities

in TCHF	**31.12.2017**	31.12.2016
Book value real estate	8 534	7 721
Lien on real estate	4 248	3 924
Utilization	3 658	3 893

The pledged assets will be used to secure own liabilities.

c) Contractual obligations

As at 31 December 2017, contractual obligations of CHF 28.4 million were existing in respect of the acquisition of property, plant and equipment (31 December 2016: CHF 0.9 million). Future liabilities arising from operating lease agreements amount to CHF 2.5 million due in 2018 and CHF 4.1 million due in 2019–2022 (31 December 2016: CHF 2.0 million due in 2017 and CHF 3.5 million due in 2018–2021).

5.5 Other key accounting principles

a) Key figures not defined under Swiss GAAP FER

By stating its free cash flow in the cash flow statement, the Komax Group is reporting an item that is not in conformity with Swiss GAAP FER but is nonetheless a key figure for Komax, as well as being widely used and recognized in the financial sector. This key figure is an amalgamation of cash flow from operating activities and cash flow from investing activities. In the income statement Komax discloses the revenues as an additional subtotal that is not defined under Swiss GAAP FER. This subtotal includes beside the net sales as well the other operating income and is being used for the calculation of important key figures. As gross profit is an important key figure for Komax, the corresponding interim total is reported separately in the income statement. Gross profit comprises revenues (net sales and other operating income) minus the cost of materials and changes in inventory of unfinished and finished products.

b) Currency conversion

Recognition and measurement

Functional currency and reporting currency: Items included in the financial statements of each entity are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in Swiss francs, which is the functional currency of the parent company, Komax Holding AG.

Transactions and balances: Foreign currency transactions are translated into the functional currency at the rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Group companies: The earnings and balance sheet figures of foreign business units with a functional currency other than the Swiss franc are translated to Swiss francs as follows:
a) Assets and liabilities are translated at the exchange rate on the balance sheet date for each such date.
b) Revenues and expenses are translated at the weighted average exchange rate for each income statement.
c) All exchange rate gains and losses are recognized in shareholders' equity and reported on a separate line within the retained earnings.
Exchange rate differences arising from the translation of net investments in foreign business units are recognized under comprehensive income. When a foreign company is sold, these exchange rate differences are reported in income as part of the gain or loss from the sale.

c) Other important accounting policies

Recognition and measurement

Cash and cash equivalents: Cash and cash equivalents includes banknotes, sight deposits, and other current, highly liquid financial assets with an original maturity of no greater than three months. Utilized current account overdrafts are shown on the balance sheet as payables to credit institutions under current financial liabilities.

Trade payables: Trade payables are valued initially at fair value, which is normally the amount originally invoiced, and subsequently measured at amortized cost.

Transactions with minorities: Changes in ownership interests in subsidiaries are recognized as equity capital transactions provided control remains intact.

Impairment of non-monetary assets: Assets subject to planned amortization are also tested for impairment if events or changes in circumstances create a presumption that the carrying value can potentially no longer be realized. An impairment is recorded in the amount by which the asset's carrying value exceeds its realizable value. The realizable value is the greater of the asset's fair value less disposal costs and its use value. In determining impairments, assets are grouped according to the smallest separately identifiable cash-generating units.

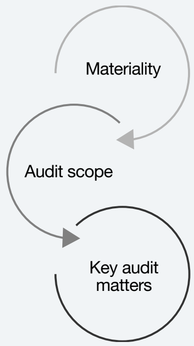
Report of the statutory auditor to the General Meeting of Komax Holding AG, Dierikon

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Komax Holding AG and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated cash flow statement, 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 on pages 74 to 113 give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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.

Our audit approach



Overview
- Overall Group materiality: CHF 2 500 000
- We concluded full scope audit work at six group companies in five countries. Our audit scope addressed 62% of net sales of the Group.
- Additionally, an audit of account balances was performed at one other Group company, which addressed a further 14% of net sales of the Group.
- We obtained additional assurance through the audits of the statutory financial statements of a further eight companies (six different countries). These addressed a further 15% of net sales of the Group.

As key audit matters, the following areas of focus were identified:
- Revenue recognition in the appropriate period
- Change to Swiss GAAP FER

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
The consolidated financial statements include within their scope 38 entities. We identified six Group companies for which, in our opinion, an audit of the complete financial information was necessary on the grounds of their size or risk characteristics. For one other Group company, an audit of account balances was performed to address significant items adequately. We obtained additional assurance from the timely performance of audits of the statutory financial statements of eight Group companies.
All of the Group companies in the described audit scope were audited by local national PwC firms. None of the Group companies excluded from our audit of the consolidated financial statements accounted individually for more than 5% of Group net sales.
The Group auditor performed the audit of the consolidation, the acquisition concluded in 2017 and the change of accounting framework from International Financial Reporting Standards (IFRS) to Swiss GAAP FER.
To provide appropriate guidance to and monitor the work of the auditors of the Group companies, the Group audit team performed selected reviews of the audit working papers and held telephone conferences with the auditors of the Group companies.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements. Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 2 500 000
How we determined it	5% of group profit before taxes, rounded
Rationale for the materiality benchmark applied	We chose group profit before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 250 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, 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.

Revenue recognition in the appropriate period

Key audit matter	How our audit addressed the key audit matter
We consider revenue recognition in the appropriate period to be a key audit matter because of the scope for judgement involved in determining, as required, exactly when the risks and rewards associated with services rendered are transferred in accordance with the Swiss GAAP FER accounting requirements. On the basis of the agreed delivery terms (Incoterms), the expected average delivery times until the effective transfer of the risks and rewards of ownership to the customer and taking into account special cases (e.g. delivery delays), Komax realises revenue from sales of goods in the period in which it transfers the risks and rewards of ownership. Please refer to page 84 of the notes to the consolidated financial statements.	We checked on a sample basis that revenue was recognised in the correct period for the months of December 2017 and January 2018. For the selected samples, we assessed the underlying Incoterms and in critical cases checked the average delivery times. In some cases, we interviewed the persons responsible, including those from other departments. We concluded that the criteria for revenue recognition in the appropriate period in accordance with the Swiss GAAP FER requirements were complied with in the consolidated financial statements for the year ended 31 December 2017.

Change to Swiss GAAP FER

Key audit matter	How our audit addressed the key audit matter

The change in accounting framework from IFRS to Swiss GAAP FER in 2017 resulted in numerous changes to the existing accounting policies. These changes are summarised on pages 78 to 80 of the annual report.
The change in accounting framework affects various items in the consolidated financial statements, notably the treatment of goodwill, intangible assets, deferred tax assets arising from tax loss carry forwards and tax credits, and pension obligations.
The effects of the change in accounting framework have a significant influence on the presentation of the consolidated financial statements and require estimates to be made in exercising the options relating to Swiss GAAP FER; for this reason, they were a focus of the audit procedures performed in the year under review.
	We examined the effects of the change in accounting framework from IFRS to Swiss GAAP FER as follows:
	– We obtained from Management a summary of the effects of the change in accounting framework, which included an analysis of the effects on the consolidated financial statements and, in particular, on the opening balance sheet as at 1 January 2016.
	– On the basis of this assessment by Management, we compared the newly elaborated accounting policies, the information presented in the balance sheet, income statement and cash flow statement, and the disclosures in the notes with the requirements of Swiss GAAP FER and, with the help of one of our specialists, we assessed their correct application. The most significant changes affected the following items on the balance sheet:
	  – Identifiable intangible assets and goodwill relating to various acquisitions were offset against equity in accordance with the chosen option, which led to a decrease of CHF 38.9 million in shareholders' equity as at the opening balance sheet date.
	  – The application of Swiss GAAP FER resulted in a decrease in the pension obligations and a corresponding increase in shareholders' equity of CHF 13.9 million as at the opening balance sheet date.
	  – In accordance with the chosen option, the deferred tax assets arising from tax loss carry forwards were no longer capitalised, which led to a decrease in shareholders' equity of CHF 17.0 million at the opening balance sheet date.
	– We tested the correct calculation and implementation of the effects of the change in accounting framework on the consolidated financial statements for the year ended 31 December 2016 and on the opening balance sheet as at 1 January 2016.
	We concluded that the first-time application of the accounting policies in accordance with Swiss GAAP FER in the accompanying consolidated financial statements was performed and presented correctly.

Responsibilities 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 and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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.
- 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 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 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 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 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 paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Thomas Brüderlin Audit expert Auditor in charge	Korbinian Petzi Audit expert

Basel, 9 March 2018