Report of the statutory auditor

with consolidated financial statements as of 31 December 2016 of

Groupe Acrotec SA, Develier

Building a better
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To the General Meeting of
Groupe Acrotec SA, Develier

Lausanne, 27 April 2017

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Groupe Acrotec SA, Develier, which comprise the consolidated balance sheet, the consolidated statement of income, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements for the year ended 31 December 2016.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibility* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Decentralized Group structure

Area of focus	Groupe Acrotec is a group with 20 fully consolidated legal entities. The decentralized geographical structure and the relatively small size of most of these entities compared to the Group as a whole, the use of different accounting software and the absence of reporting software increase the complexity of the company's control environment and requires additional efforts from us as Group auditor to obtain an appropriate level of understanding of these entities.
Our audit response	We evaluated the company's internal controls that address these risks, including centralized monitoring controls at Group level. During our audit, we focused on risks in relation to the decentralized structure and we extended our involvement in local audit work performed by the component auditors. We organized site visits, paperwork reviews, meetings and conference calls with component auditors in our audit scope. We also requested component auditors to specifically address certain risks and attention areas defined at Group level in order to ensure a consistent approach in areas that were deemed most relevant from a Group audit perspective.

Restructuration of the financing

Area of focus	As outlined in note 2c, as part of a Group restructuring of its financing and the fact that new shareholders invested into Acrotec, the Group legal structure was modified and a new holding company called Groupe Acrotec SA was incorporated. In June 2016, this new holding acquired 100% of the issued shares of Finacrotec SA, the former top-holding. The Group's Directors considered the real economic circumstances to be unchanged as the Group's operations were maintained without any interruption in exactly the same way as before. As a consequence, based on the substance over form principle, the Directors decided to present the 2016 consolidated financial statements as a continuation of the prior year consolidated financial statements. This means that the Finacrotec SA 2015 consolidated financial positions are presented as comparative figures and that the current financial period covers the full financial year.
Our audit response	We gained an understanding of the transaction and of the reasons behind the Directors' judgement. We involved internal Swiss GAAP FER specialists to assess the accounting treatment applied by the Company.

Acquisition accounting

Area of focus	As mentioned above, Groupe Acrotec SA acquired Finacrotec SA, the former top-holding, for a consideration of CHF 187.7 million including acquisition costs. Part of the consideration was financed by the Group's shareholder and was contributed to Group Acrotec Ltd as share premium. Before the restructuration of the financing, the Group, under its former name Finacrotec, completed the acquisitions of Precipro SA, Petitpierre SA, D.J.C SAS, mu-DEC SA and the respective sub-holdings for total considerations of CHF 65.5 million. The acquisition accounting for these transactions involves a number of judgements.
Our audit response	We performed audit procedures to assess the purchase price allocations (PPA) with regard to these acquisitions. This included an analysis of the fair value of the assets acquired and of the liabilities assumed supporting the purchase price allocation at the acquisition date. As part of our procedures, we agreed the considerations paid back to the sale and purchase agreements and to supporting evidence for the acquisition costs as well as the cash disbursements.

We gained an understanding of the principles applied by the Directors in determining their acquisition date fair value information. In respect of significant adjustments, we audited the Group's assumptions based on our knowledge and experience of the industry in which Groupe Acrotec SA operates. We agreed significant transactions to supporting documentation, such as underlying contracts, third-party confirmations and valuation reports.

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

We also considered the adequacy of the Group's disclosures in respect of the acquisitions and the related judgements in note 27.

Valuation and existence of inventories

Area of focus	Inventory of CHF 31.6 million, as disclosed in note 8, is a material balance-sheet item for the Group, which requires management judgement in determining an appropriate costing basis for each subsidiary depending on its activity, and in assessing if this is lower than the net realizable value of the inventory on hand at year end. Judgements are also required in determining inventory excess and obsolescence provisions as these are based on forecast inventory usage and assessing if the provision level is adequate. Since the Group is in a phase of growth, including through acquisition, the costing is improved progressively. In 2016, the costing was completely reviewed in various production entities to be fully aligned with Group requirements.

Our audit response

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

We attended inventory counts at components level, and performed substantive testing on a sample of items at significant components to assess the cost basis and net realizable value of inventory.

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

We assessed whether the new costing methods implemented in several entities during the year, as well as the accounting treatment of the change and the corresponding disclosures in note 8, were aligned with Swiss GAAP FER and Group accounting policies requirements.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

Ernst & Young Ltd

Pierre-Alain Coquoz Licensed audit expert (Auditor in charge)	Michael Ackermann Licensed audit expert

Enclosure

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

Consolidated Balance sheet

Assets (in CHF)	Notes	31.12.2016	31.12.2015
Cash and cash equivalents		14 599 220	7 937 075
Receivables from goods and services	6	16 163 281	10 139 776
Other short-term receivables	7	2 299 592	1 043 612
Inventories	8	31 554 806	19 068 615
Prepayments and accrued income	9	1 375 811	1 105 010
Current assets		**65 992 710**	**39 294 088**
Financial assets	10	2 852 142	900 000
Property, plant and equipment	11	71 007 350	44 945 604
Intangible assets	12	183 849 608	30 340 480
Deferred tax assets	18	98 000	-
Non-current assets		**257 807 099**	**76 186 084**
Assets		**323 799 810**	**115 480 172**

Liabilities and equity (in CHF)	Notes	31.12.2016	31.12.2015
Payables from goods and services	13	6 511 448	3 191 777
Financial liabilities	14	4 315 723	36 188 263
Other short-term liabilities	15	2 552 680	3 177 997
Accrued liabilities and deferred income	16	7 359 747	5 461 868
Short-term provisions	17	-	20 000
Current liabilities		**20 739 598**	**48 039 905**
Financial liabilities	14	131 366 120	24 865 148
Deferred tax liabilities	18	12 061 829	8 291 891
Other Long-term liabilities	15	1 000 630	-
Long-term provisions	17	150 000	150 000
Non-current liabilities		**144 578 579**	**33 307 039**
Liabilities		**165 318 177**	**81 346 944**
Share capital	19	100 000	4 203 457
Capital reserves		160 210 894	4 096 847
Retained earnings		-3 043 217	24 663 784
Translation differences		-2 134	-
Equity attributable to owner of the Groupe Acrotec SA Group		**157 265 543**	**32 964 088**
Non-controlling interests		**1 216 090**	**1 169 140**
Liabilities and equity		**323 799 810**	**115 480 172**

Consolidated income statement

in CHF	Notes	2016	2015
Net sales from goods and services	3 / 20	119 286 317	87 061 856
Other operating income		3 368 574	3 818 913
Change in inventory of finished and unfinished goods	8	1 527 108	-3 189 085
Operating revenues		**124 181 999**	**87 691 684**
Material purchases	21	-38 270 810	-26 349 372
Personnel expenses	22	-42 982 705	-33 883 700
Other operating expenses	23	-11 347 575	-7 014 786
Operating expenses		**-92 601 091**	**-67 247 858**
Earning before interest, tax and amortization (EBITDA)		**31 580 908**	**20 443 826**
Depreciation and impairment on tangible fixed assets	11	-7 161 184	-5 612 833
Amortisation and impairment on intangible fixed assets	12	-6 449 840	-2 106 207
Total depreciation		**-13 611 024**	**-7 719 040**
Earnings before interest and tax (EBIT)		**17 969 884**	**12 724 786**
Net financial result	24	-6 737 368	-1 782 385
Non-operating result	25	-701 987	39 374
Extraordinary result	26	2 446 330	-1 019 357
Profit before income taxes		**12 976 859**	**9 962 418**
Income taxes	18	-6 289 608	-2 925 060
Profit for the year		**6 687 251**	**7 037 358**
Attributable to shareholders of Groupe Acrotec SA		6 207 181	6 799 648
Attributable to non-controlling interests		480 070	237 710
Earnings per shares (EPS) - in CHF per share :			
Bearer shares			
Basic earnings per share	4	6 207	6 800
Diluted earnings per share	4	6 207	6 800

** EPS 2015 is based on the share capital of Groupe Acrotec SA*

Consolidated statement of cash flows

in CHF	Notes	2016	2015
Profit of the year		**6 687 251**	**7 037 358**
Depreciation on tangible fixed assets	11	7 161 184	5 612 833
Amortisation and impairment on intangible fixed assets	12	6 449 840	2 106 207
Changes in deferred tax	18	-31 075	193 333
Finance costs		6 737 368	1 782 385
Loss on the disposal of an activity		-	688 307
Changes in short term provision	17	-20 000	10 000
Changes in long term provisions	17	-	150 000
Changes in working capital		-7 522 629	1 795 389
Changes in other long-term liabilities		577 442	-
Cash flow from operating activities		**20 039 381**	**19 375 812**
Increase of financial assets		-774 394	-300 000
Proceeds from disposal of property, plant and equipment	11	354 032	1 567 778
Purchase of property, plant and equipment	11	-11 756 943	-8 532 849
Purchase of intangible assets	12	-245 000	-178 644
Acquisition of subsidiaries, net of cash acquired	27	-57 007 356	-
Cash flow from investing activities		**-69 429 661**	**-7 443 715**
Inflows from capital increase (including agio)		100 000	-
Acquisition of non-controlling interests		-122 435	-162 000
Dividends paid to non-controlling interests		-555 556	-343 539
Changes in short-term financial liabilities		-31 872 540	-5 238 141
Changes in long-term financial liabilities		94 761 654	-3 226 785
Interest paid		-6 256 565	-1 782 385
Cash from financing activities		**56 054 558**	**-10 752 850**
Change in cash and cash equivalents		**6 664 279**	**1 179 247**
At beginning of year		7 937 075	6 757 828
Net foreign exchange difference		-2 134	-
At end of year		14 599 220	7 937 075
Change in cash and cash equivalents		**6 664 279**	**1 179 247**

Consolidated statement of change in equity

in CHF	Share capital	Capital reserves	Cumulative Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
	Attributable to the equity holders of the parent						
Balance at 1 January 2015	**4 203 457**	**4 096 847**	**-**	**18 026 136**	**26 326 440**	**1 835 210**	**28 161 650**
Net income	-	-	-	6 799 648	**6 799 648**	237 710	**7 037 358**
Dividends paid	-	-	-	-	**-**	-622 000	**-622 000**
Changes in non-controlling interests	-	-	-	-162 000	**-162 000**	-281 780	**-443 780**
Balance at 31 December 2015	**4 203 457**	**4 096 847**	**-**	**24 663 784**	**32 964 088**	**1 169 140**	**34 133 228**
Capital increase (Finacrotec SA)	1 000 000	26 523 000	-	-	**27 523 000**	-	**27 523 000**
Change in shareholding structure (old perimeter) *	-5 203 457	-30 619 847	-	-33 791 747	**-69 615 051**	-	**-69 615 051**
Balance after restructuring	-	-	-	-9 127 963	**-9 127 963**	1 169 140	-7 958 823
Capital increase (Groupe Acrotec SA) *	100 000	160 210 894	-	-	**160 310 894**	-	**160 310 894**
Net income	-	-	-	6 207 181	**6 207 181**	480 070	**6 687 251**
Dividends paid	-	-	-	-	**-**	-555 556	**-555 556**
Changes in non-controlling interests	-	-	-	-122 435	**-122 435**	122 436	**0**
Translation differences	-	-	-2 134	-	**-2 134**	-	**-2 134**
Balance at 31 December 2016	**100 000**	**160 210 894**	**-2 134**	**-3 043 217**	**157 265 543**	**1 216 090**	**158 481 633**

* Refer to note 27

1) The negative impact of the change of shareholding structure of CHF 69'615'051 corresponds to the net assets of Finacrotec SA at restructuring date.

2) The capital increase amounted to CHF 160'210'894 were contributed to Groupe Acrotec SA as share premium.

Notes to the consolidated financial statements

1. Corporate information

Groupe Acrotec SA (the Company) and its subsidiaries (collectively the Group) is an independent Group active in micro-mechanical and watchmaking sectors.

The Group offers to the market high quality Swiss made products.

The Company is a limited company incorporated and domiciled in Switzerland. Its registered office is located in Rue des Romains 1, 2802 Develier.

These consolidated financial statements were approved for issue by the Board of Directors on 27 April 2017.

2. Summary of significant accounting policies

a. Basis of preparation

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

b. Consolidation policies - business combinations and goodwill

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

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

Notes to the consolidated financial statements

c. Scope of consolidation

At 31 December 2016, the Group's consolidation structure comprised 20 legal entities (2015: 11), all fully consolidated. Note 28 includes a complete list of Group companies. Vardeco Inc, an US company owned by the Group is not included in the scope. As this entity is dormant, it would have a minor impact on the consolidated result and has been assessed as not significant.

As part of a Group restructuring of its financing structure and the fact that new shareholders invested into Acrotec, the Group legal structure was modified and a new holding company called Groupe Acrotec Ltd was incorporated. In June 2016, this new holding acquired 100% of the issued shares of Finacrotec SA, the former Group top-holding. The Group considered that the real economic circumstances have not changed as the Group has maintained its operations running exactly in the same way, without any interruption. As a consequence, based on the substance over form principle, the Group decided to present the 2016 consolidated financial statements as a continuation of the prior year consolidated financial statements, which means that the Finacrotec SA 2015 financial positions are presented as comparative figures and that the current financial period covers the full financial year.

d. Accounting estimates and judgments

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

e. Foreign currency translation

Foreign currency translation

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

Conversion of financial statements of foreign subsidiaries

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

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

Currency	Unit	**Average rate 2016 CHF**	**Prevailing 31.12.2016 CHF**	Average rate 2015 CHF	Prevailing 31.12.2015 CHF
EUR	1.00	**1.0736**	**1.0898**	N/A	N/A

Notes to the consolidated financial statements

f. Cash and cash equivalents

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

g. Receivables from goods and services

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

h. Inventories

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

i. Financial assets

Financial assets are recognized as nominal values. Any transaction income incurred are posted directly in the income statement. Financial assets are shown on the balance sheet as non-current assets.

j. Property, plant and equipment

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

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

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

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

Notes to the consolidated financial statements

k. Intangible assets

Goodwill

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

Capitalized development costs

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

l. Impairment of assets

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

m. Provisions

Provisions are recognized :

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

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

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

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

n. Financial liabilities

Financial debts are recognized as nominal values. Any transaction costs incurred are posted directly in the income statement. Financial debts are shown on the balance sheet as current liabilities, unless the Group has an unconditional right to postpone the settlement of the debt until at least 12 months after the balance sheet date.

o. Income taxes

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

Current income tax

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

Notes to the consolidated financial statements

Deferred tax

Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply.

Deferred tax assets are recognized for all deductible temporary differences, carry forward tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is not intended that the temporary difference will reverse in the foreseeable future.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

p. Pensions and other post-employment benefits

Pension obligations

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

q. Share capital and treasury shares

Shares issued by Finacrotec Group are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 1.-. Each share carries one vote and confer equal entitlement to dividends.
Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

r. Sales and revenue recognition

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

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

Notes to the consolidated financial statements

s. Dividends

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

t. Leases

Finance leases

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

Operating leases

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

u. Non-operating activities

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

v. Extraordinary

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

Notes to the consolidated financial statements

3. Segment information

a. Operating segment information

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

Watchmaking industry	Shock absorbers, spring barrels, oscillating weights and various other mission-critical components.
Non-watch industry	High-value add connectors for various end-markets such as automotive, aerospace and medtech, jewellery and metal cut parts that go into turbochargers.

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

2016 in CHF	**Watchmaking industry**	**Other industry**	**Corporate**	**Elimination**	**Total**
- Third parties	64 321 158	54 702 352	-	-	119 023 510
- Group	3 377 190	474 164	2 595 949	-6 447 303	-
- Related parties	-	-	262 807	-	262 807
Net Sales	**67 698 348**	**55 176 516**	**2 858 756**	**-6 447 303**	**119 286 317**
Operating result	**19 561 376**	**13 349 856**	**-1 330 324**	**-**	**31 580 908**
In % of net sales	28.9%	24.2%	-46.5%	0.0%	26.5%
2015 in CHF	**Watchmaking industry**	**Other industry**	**Corporate**	**Elimination**	**Total**
- Third parties	53 978 351	33 083 505	-	-	87 061 856
- Group	3 371 698	-	2 293 631	-5 665 329	-
Net Sales	**57 350 049**	**33 083 505**	**2 293 631**	**-5 665 329**	**87 061 856**
Operating result	**14 803 692**	**7 907 877**	**-2 267 743**	**-**	**20 443 826**
In % of net sales	25.8%	23.9%	-98.9%	0.0%	23.5%

b. Information on geographical regions

	2016		**2015**	
in CHF	**Net Sales**	**Operating result ***	**Net Sales**	**Operating result ***
- Switzerland	73 200 207	18 868 650	63 570 178	14 266 186
- Other Europe	36 567 816	10 136 247	14 921 515	3 976 928
Total Europe	**109 768 023**	**29 004 897**	**78 491 693**	**18 243 114**
Total America	**6 606 213**	**1 713 076**	**6 366 869**	**1 639 321**
Total Asia	**2 894 687**	**859 161**	**1 516 138**	**382 648**
Total Rest of the world	**17 394**	**3 774**	**687 156**	**178 743**
Total:	**119 286 317**	**31 580 908**	**87 061 856**	**20 443 826**

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

Notes to the consolidated financial statements

4. Earnings per share

a) Basic

	2016	2015
Net income attributable to shareholders of Groupe Acrotec SA (in CHF)	6 207 181	6 799 648
Percentage of registered shares outstanding in comparison with the share capital outstanding	100%	100%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	0%	0%

Registered shares		
Net income attributable to registered shareholders	6 207 181	6 799 648
Average number of shares outstanding	1 000	1 000
Basic earnings per shares (in CHF)	**6 207**	**6 800**

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

b) Diluted

Registered shares	**2016**	**2015**
Net income attributable to registered shareholders	6 207 181	6 799 648
Average number of shares outstanding (basic)	1 000	1 000
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	1 000	1 000
Diluted earnings per shares (in CHF)	**6 207**	**6 800**

Bearer shares		
Net income attributable to bearer shareholders	-	-
Average number of shares outstanding (basic)	-	-
Potential number of shares from options outstanding	-	-
Average potential number of shares outstanding (diluted)	-	-
Diluted earnings per shares (in CHF)	**-**	**-**

5. Dividends paid and proposed

The Annual General meeting approved that no dividend be paid during 2016.

Notes to the consolidated financial statements

6. Receivables from goods and services	31.12.2016	31.12.2015
Trade receivables from third parties - gross	17 450 352	10 609 555
Allowance for impaired receivables	-1 287 071	-469 779
	16 163 281	**10 139 776**

7. Other short-term receivables	31.12.2016	31.12.2015
Other receivables from third parties	2 087 375	806 132
Other receivables from parent entities	-	9 111
Other receivables from shareholders	212 217	228 369
	2 299 592	**1 043 612**

8. Inventories	31.12.2016	31.12.2015
Raw materials, auxiliary material and supplies	9 516 268	3 831 119
Goods in progress	10 617 933	4 684 976
Finished goods	15 127 421	11 315 676
Allowance for impaired inventories	-3 706 816	-763 156
	31 554 806	**19 068 615**
Change in inventory of finished and unfinished goods as well as unbilled goods and services	**1 527 108**	**-3 189 085**
Change in inventory of raw material expense	1 017 162	-706 828
Change in estimate for inventories valuation (Note 26)	2 800 629	-
	5 344 899	**-3 895 913**

9. Prepayments and accrued income	31.12.2016	31.12.2015
Prepayment and accrued income from third parties	1 375 811	1 105 010
	1 375 811	**1 105 010**

10. Financial assets	31.12.2016	31.12.2015
Financial assets to third parties	351 416	-
Financial assets to parent entities	205 802	-
Capitalized financial expenses	97 846	-
Asset from the employer contribution reserve to pension institution	2 197 079	900 000
	2 852 142	**900 000**

Notes to the consolidated financial statements

11. Property, plant and equipment

	Undeveloped Land	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	In progress	Total
Historical cost, 31 December 2015	**147 382**	**27 420 587**	**67 437 504**	**3 999 961**	**-**	**99 005 434**
Acquisition of subsidiaries (Note 27)	-	11 948 846	16 308 521	10 301 405	1 264 464	39 823 237
Additions	119 554	164 288	9 366 761	1 506 394	629 302	11 786 299
Disposals	-	-	-808 459	-291 414	-	-1 099 873
Transfers	-	-	1 502 216	-	-1 502 216	-
Exchange rate impact	-	-14 224	-17 716	-33 982		-65 922
Historical cost, 31 December 2016	**266 936**	**39 519 497**	**93 788 828**	**15 482 365**	**391 551**	**149 449 176**
Accumulated depreciation, 31 December 2015	**-**	**-12 360 555**	**-39 776 706**	**-1 922 569**	**-**	**-54 059 830**
Acquisition of subsidiaries (Note 27)	-	-2 502 709	-7 545 298	-7 955 211	-	-18 003 218
Annual depreciation	-	-574 342	-5 306 597	-1 280 246	-	-7 161 184
Depreciation on disposals	-	-	547 700	198 141	-	745 841
Exchange rate impact	-	23 289	-14 858	28 134	-	36 565
Accumulated depreciation, 31 December 2016	**0**	**-15 414 317**	**-52 095 758**	**-10 931 751**	**0**	**-78 441 826**
Net book values :						
Balance at 31 December 2015	**147 382**	**15 060 032**	**27 660 798**	**2 077 392**	**-**	**44 945 604**
Balance at 31 December 2016	**266 936**	**24 105 180**	**41 693 069**	**4 550 614**	**391 551**	**71 007 350**

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

	Undeveloped Land	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	In progress	Total
Historical cost, 31 December 2014	**147 382**	**26 165 706**	**63 977 067**	**2 402 568**	**-**	**92 692 723**
Divestments of businesses	-	-	-1 299 546	-	-	-1 299 546
Additions	-	1 423 684	5 400 371	1 708 794	-	8 532 849
Disposals	-	-168 803	-640 388	-111 401	-	-920 592
Historical cost, 31 December 2015	**147 382**	**27 420 587**	**67 437 504**	**3 999 961**	**-**	**99 005 434**
Accumulated depreciation, 31 December 2014	**-**	**-12 025 444**	**-35 577 522**	**-844 031**	**-**	**-48 446 997**
Depreciation on divestments of businesses	-	-	-246 237		-	-246 237
Annual depreciation	-	-335 111	-3 952 947	-1 078 538	-	-5 366 596
Accumulated depreciation, 31 December 2015	**-**	**-12 360 555**	**-39 776 706**	**-1 922 569**	**-**	**-54 059 830**
Net book values :						
Balance at 31 December 2014	**147 382**	**14 140 262**	**28 399 545**	**1 558 537**	**-**	**44 245 726**
Balance at 31 December 2015	**147 382**	**15 060 032**	**27 660 798**	**2 077 392**	**-**	**44 945 604**

Notes to the consolidated financial statements

12. Intangible assets

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2015	**39 824 877**	**178 644**	**40 003 521**
Acquisition of subsidiaries (Note 27)	-	465 000	465 000
Additions	159 248 967	245 000	159 493 967
Historical cost, 31 December 2016	**199 073 844**	**888 644**	**199 962 488**
Accumulated amortisation 31 December 2015	**-9 614 383**	**-48 658**	**-9 663 041**
Annual amortisation	-6 336 252	-113 588	-6 449 840
Accumulated amortisation, 31 December 2016	**-15 950 635**	**-162 246**	**-16 112 881**
Net book values :			
Balance at 31 December 2015	**30 210 494**	**129 986**	**30 340 480**
Balance at 31 December 2016	**183 123 210**	**726 398**	**183 849 608**

	Goodwill	Capitalized development costs	Total
Historical cost, 31 December 2014	**40 512 909**	**-**	**40 512 909**
Divestments of businesses	-688 032	-	-688 032
Additions	-	178 644	178 644
Historical cost, 31 December 2015	**39 824 877**	**178 644**	**40 003 521**
Accumulated amortisation, 31 December 2014	**-7 556 834**	**-**	**-7 556 834**
Amortisation on divestments of businesses	-39 996	-	-39 996
Annual amortisation	-2 017 553	-48 658	-2 066 211
Accumulated amortisation, 31 December 2015	**-9 614 383**	**-48 658**	**-9 663 041**
Net book values :			
Balance at 31 December 2014	**32 956 075**	**-**	**32 956 075**
Balance at 31 December 2015	**30 210 494**	**129 986**	**30 340 480**

13. Payables from goods and services	**31.12.2016**	**31.12.2015**
Payables to third parties	6 511 448	3 191 777
	6 511 448	**3 191 777**

14. Financial liabilities	**31.12.2016**	**31.12.2015**
Fixed term bank advance	-	29 800 000
Liabilities to shareholders	-	9 069 710
Bank debts	902 997	5 858 606
Mortgages	17 209 925	11 297 815
Leases	11 568 922	5 027 280
Bonds	106 000 000	-
	135 681 844	**61 053 411**
Current	**4 315 723**	**36 188 263**
Non-current	**131 366 120**	**24 865 148**

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

Collateral :

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

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

Notes to the consolidated financial statements

15. Other liabilities	**31.12.2016**	**31.12.2015**
Third parties	2 322 908	1 137 932
Patronage fund	1 031 608	52 186
Other liabilities to parent entities	-	191 198
Other liabilities to shareholders	198 794	1 796 681
	3 553 310	**3 177 997**
Other short-term liabilities	2 552 680	3 177 997
Other long-term liabilities	1 000 630	-
	3 553 310	**3 177 997**

16. Accrued liabilities and deferred income	**31.12.2016**	**31.12.2015**
Tax provision	4 128 361	1 634 419
Other accrued liabilities due to third parties	3 231 386	2 555 309
Accrued liabilities due to shareholders	-	1 272 140
	7 359 747	**5 461 868**

17. Provisions

	Warranties	**Other provisions**	**Total**
At 1 January 2016	**20 000**	**150 000**	**170 000**
Released	-20 000	-	-20 000
At 31 December 2016	**-**	**150 000**	**150 000**
Current	**-**	**-**	**-**
Non-current	**-**	**150 000**	**150 000**
At 1 January 2015	**10 000**	**-**	**10 000**
Creation	10 000	150 000	160 000
At 31 December 2015	**20 000**	**150 000**	**170 000**
Current	**20 000**	**-**	**20 000**
Non-current	**-**	**150 000**	**150 000**

Warranties

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

Other provisions

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

Notes to the consolidated financial statements

18. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are :

a. Income tax expense

	2016	2015
Current income taxes		
Current year income taxes	-6 219 135	-2 714 851
Adjustments in respect of prior years	-101 548	-16 876
	-6 320 683	**-2 731 727**
Deferred taxes		
Relating to origination and reversal of temporary differences	-188 973	-193 333
Relating to adjustment of tax rates on prior year deferred taxes	122 048	-
Relating to capitalization and use of taxes carried forward	98 000	-
	31 075	**-193 333**
	-6 289 608	**-2 925 060**

b. Group's effective tax rate

In 2016, the expected tax rate is high compared to 2015. This situation is due to negative results on the holding companies which have reduced tax rates. The reconciliation between the theoretical and effective rate is presented below :

	2016	2015
Expected tax rate at weighted average applicable tax rate	**40.86%**	**21.50%**
Unrecognised deferred tax assets	2.16%	0.00%
Changes in tax rates on deferred tax	-0.94%	0.00%
Prior years' taxes	0.78%	0.00%
Tax effect of non-taxable items	3.82%	4.35%
Other	1.78%	3.51%
Effective tax rate	**48.47%**	**29.36%**

The effective tax rate based on the ordinary result in the year under review was 48.47% (previous year 29.36%).

c. Deferred tax

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

	31.12.2016	31.12.2015
Receivables from goods and services	-182 775	-161 352
Inventories	-2 285 040	-2 586 402
Prepayments and accrued income	-9 030	-27 735
Property, plant and equipment	-8 150 865	-4 430 009
Intangible assets	-92 914	-27 947
Long-term provisions	-1 341 205	-1 058 446
Loss carried forward	98 000	-
	-11 963 829	**-8 291 891**
Deferred tax assets	98 000	-
Deferred tax liabilities	-12 061 829	-8 291 891
	-11 963 829	**-8 291 891**
Change in deferred tax from temporary differences	**-3 671 939**	**-193 333**
Variation due to acquired subsidiaries (Note 27)	-3 703 014	-
Tax (expense)/income from the change in deferred tax from temporary differences	**31 075**	**-193 333**

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

Notes to the consolidated financial statements

19. Share capital and reserves

Share capital

Over the past three years, the share capital of Group Acrotec SA has developed as follows :

Balance sheet date	Registered shares	Share capital in CHF
31.12.2014	4'203'457 at CHF 1.00	4 203 457
31.12.2015	4'203'457 at CHF 1.00	4 203 457
31.12.2016	1'000 at CHF 100.00	100 000

At year-end 2015, Groupe Acrotec SA was not still created therefore the share capital of Finacrotec SA is presented for 2014 and 2015. See note 2c.

Capital reserves

Capital reserves include non-distributable, statutory or legal reserves amounting to CHF 4'529'343 (2015: CHF 3'942'756).

20. Net sales from goods and services	31.12.2016	31.12.2015
Net sales from goods and services from third parties	119 023 509	87 061 856
Net sales from goods and services from parent entities	262 808	587 842
	119 286 317	**87 061 856**

Net sales by industry	31.12.2016	31.12.2015
Net sales watchmaking industry	64 321 158	53 978 351
Net sales other industries	54 702 352	33 083 505
Net sales corporate	262 807	-
	119 286 317	**87 061 856**

Net sales by country	31.12.2016	31.12.2015
Net sales in Switzerland	73 200 207	63 570 178
Net sales in foreign countries	46 086 110	23 491 678
	119 286 317	**87 061 856**

21. Material purchases	31.12.2016	31.12.2015
Material costs	-25 975 197	-16 036 319
Tools and supply	-977 486	-1 329 844
Cost of external services	-11 124 729	-7 663 149
Energy	-128 341	-818 935
Others raw material expenses	-65 057	-501 125
	-38 270 810	**-26 349 372**

22. Personnel expenses	31.12.2016	31.12.2015
Wages and salaries	-35 970 312	-28 213 272
Social security costs	-6 078 267	-4 498 117
Others personnel expenses	-934 126	-1 172 311
	-42 982 705	**-33 883 700**

23. Other operating expenses	31.12.2016	31.12.2015
Maintenance, rents and energy	-6 241 895	-3 688 478
Leasing	-16 052	-41 334
Vehicle	-250 345	-193 920
Administration and IT	-3 260 069	-1 928 329
Insurance	-409 314	-276 358
Marketing and sales	-983 726	-866 910
Change in bad debt allowance	-186 174	-19 457
	-11 347 575	**-7 014 786**
Other operating expenses related to third parties	-10 741 407	-7 014 786
Other operating expenses related to related parties	-606 169	-
	-11 347 575	**-7 014 786**

Notes to the consolidated financial statements

24. Net financial result	31.12.2016	31.12.2015
Financial income	32 925	3 931
Financial income to shareholders	14 119	-
	47 044	**3 931**
Financial expense	-6 684 735	-1 446 821
Financial expense to shareholders	-99 677	-339 495
	-6 784 412	**-1 786 316**
	-6 737 368	**-1 782 385**

25. Non-operating result	31.12.2016	31.12.2015
Non-operating income	93 802	39 374
Non-operation expense	-795 788	-
	-701 987	**39 374**

Non-operating income generated in 2016 relates to mainly a refund of non-operating tax and a refund of an insurance. In 2015, the corresponding amount was mostly related to a refund of non-operating tax.

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

26. Extraordinary result	31.12.2016	31.12.2015
Non-recurring income	286 846	186 890
Change in estimate of inventory	2 800 629	-
	3 087 475	**186 890**
Non-recurrent expense	-641 145	-367 940
Result from non-core business disposal	-	-688 307
Allocation to legal provision	-	-150 000
	-641 145	**-1 206 247**
	2 446 330	**-1 019 357**

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

Non-recurring expense is due to a bonus paid in connection with the acquisition of a subsidiary (CHF 199'825) and prior years expenses adjustment (CHF 441'320).

In 2015, non-recurring income was due prior years incomes and expenses adjustment including an indirect tax penalty provision (CHF 135'000) and indemnity to paid further to the breach of contract (CHF 150'000). Non-core business disposal cost represented the net result on the disposal of the milling activity.

Notes to the consolidated financial statements

27. Business combinations

a) In 2016, four companies, which are presented below, were acquired by the Group :

I. On 11 February 2016, the Group acquired 100% of the voting shares of mu-DEC SA which is an unlisted company based in La Chaux-de-Fonds and specialising in the manufacture of complex small watch parts such as wheels and pinions. The Group acquired mu-DEC SA because of its specific knowledge in the manufacturing of watch parts.

II. On 29 February 2016, the Group acquired 100% of the voting shares of DJC SAS, an unlisted company based in Thiez and specialising in high capacity production of precision turned parts from metal bars. The Group acquired DJC SAS because of its specific knowledge and the possible synergies.

III. On 03 June 2016, the Group acquired 100% of the voting shares of FX & Associés Holding SA and its stake of J2X Holding SA and Precipro SA. These companies are unlisted and are based in La Chaux-de-Fonds. Precipro SA is specialised in the manufacture of jewellery such as bracelets, necklaces, rings and earrings made from precious metals with designs provided by customers. The Group acquired FX & Associés Holding SA because of its precious metals capabilities and supply chain know-how to the Group.

IV. On 03 June 2016, the Group acquired 100% of the voting shares of Petitpierre Holding SA and its stake in Petitpierre SA which are both an unlisted company based in Cortaillod. Petipierre SA is specialised in the manufacture of machine tools for the watch-making industry as well as assembly and control of precision components . The Group acquired Petitpierre SA because of its knowledge of critical components that it currently does not produce or assemble, such as parts that constitute the « watch assortment ».

The Group acquired 100% of the voting shares of mu-DEC SA, DJC SAS, FX & Associés Holding SA and Petitpierre Holding SA and therefore it took control over these subsidiaries. mu-DEC SA and DJC SAS were fully consolidated since 29 February 2016 and FX & Associés Holding SA as well as Petitpierre Holding SA were fully consolidated since 31 May 2016. The following consideration was paid to acquire these companies :

Cash paid to vendor	41 676 285
Shares issued at actual value	27 523 000
Acquisition costs	246 025
Total	**69 445 310**

The Group paid CHF 41'676'285 in cash as part of the consideration in accordance with the share purchase agreements.

The Group issued 1'000'000 ordinary shares as part of the consideration. The fair value of the shares was calculated with reference to the estimated price (EBITDA multiple) of the shares of the Company at the date of acquisition.

Acquisition costs correspond to consulting and legal expenses disbursed during the due diligence process.

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

Acquisitions of subsidiaries	**2016**	**2015**
Purchase consideration paid (incl. acquisition-related costs)	69 445 310	-
	Acquired values	**Acquired values**
Current assets	26 138 868	-
Property, plant and equipment	21 820 019	-
Intangible assets	465 000	-
Financial assets	1 177 748	-
Current liabilities	-5 475 504	-
Deferred tax liabilities	-3 703 014	-
Long term liabilities	-12 162 507	-
Net assets acquired	**28 260 610**	**-**
Goodwill	**41 184 700**	**-**
Cash and cash equivalents acquired	-12 383 379	-
Consideration paid in shares of the parent	-27 523 000	-
Cash outflow on acquisition	**29 538 932**	**-**

Current assets : The total amount is composed by cash and cash equivalents (CHF 12'383'379), receivables from goods and services (CHF 5'536'805), other receivables (CHF 613'811), inventories (CHF 7'141'292) and prepaid expenses (CHF 463'579). Currents assets have been recorded in accordance with group accounting policies.

Property, plant and equipment : mostly relate to the production plants of the acquired companies and two buildings located in Cortaillod and Thiez. PPE were remeasured at acquisition in accordance with Group accounting policies. The plant has been remeasured to its actual value based on an appraisal made by an independent real estate expert.

Current liabilities : The total amount is composed by payables from goods and services (CHF 2'303'279), other payables (CHF 2'329'225) and accrued liabilities and deferred income (CHF 843'000). They have been recorded in accordance with group accounting policies.

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

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

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

Notes to the consolidated financial statements

b) In 2016, the majority shareholder sold his stake in Finacrotec SA to a private equity fund. During the process, Group Acrotec SA, which is a unlisted company based in Develier, was created on 15 May 2016. Groupe Acrotec SA acquired 100% of the voting shares of Finacrotec SA and it took control over this company and its subsidiaries. The Goodwill arising from this acquisition was based on the 30 June 2016 figures. The following consideration was paid to acquire Finacrotec SA :

Cash paid to vendor	21 910 101	The Group paid CHF 21'910'101 in cash as part of the consideration in accordance with the share purchase agreements.
Shares premium contribution	160 210 894	Part of the shares of Finacrotec were contributed to Groupe Acrotec SA as share premium.
Acquisition costs	5 558 323	Acquisition costs correspond to consulting and legal expenses disbursed during the due diligence process.
Total	**187 679 318**	

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

Acquisitions of Finacrotec SA	**2016**	**2015**
Purchase consideration paid (incl. acquisition-related costs)	187 679 318	-
	Acquired values	**Acquired values**
Net assets acquired	**69 615 051**	**-**
Goodwill	**118 064 267**	**-**
Consideration paid in shares of the parent	-160 210 894	-
Cash outflow on acquisition	**27 468 424**	**-**

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

28. Groupe Acrotec Companies - as at 31.12.2016

	Country	Field of Activity	Capital in millions	Groupe Acrotec SA Share-holdings		Consolidation
Europe CHF				% voting	% rights	
Groupe Acrotec SA, Develier *	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Finacrotec SA, Develier	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Acrotec SA, Develier	Switzerland	Holding	4 043 417	100%	100%	Fully consolidated
Vardeco SA, Develier	Switzerland	Industrial	300 000	100%	100%	Fully consolidated
Kif Parechoc SA, Le Chenit	Switzerland	Watch	720 000	94%	94%	Fully consolidated
Générale Ressorts SA, Bienne	Switzerland	Watch-Industrial	2 425 000	100%	100%	Fully consolidated
Décovi Holding SA, Val Terbi	Switzerland	Holding	250 000	100%	100%	Fully consolidated
Décovi SA, Val Terbi	Switzerland	Industrial-Watch	150 000	100%	100%	Fully consolidated
K2A Sàrl, Le Chenit	Switzerland	Watch	20 000	100%	100%	Fully consolidated
SMTS Holding SA, Le Chenit	Switzerland	Holding	120 000	100%	100%	Fully consolidated
STS Saulcy traitement de Surface SA, Le Chenit	Switzerland	Watch	100 000	100%	100%	Fully consolidated
STS2 Saulcy Traitement de Surface SA, La Chaux-de-Fonds	Switzerland	Watch	100 000	100%	100%	Fully consolidated
STS3 Saulcy Traitement de Surface SA, Develier *	Switzerland	Watch	200 000	100%	100%	Fully consolidated
Vardeco Inc, US	United States	Dormant	-	0%	0%	None
mu-DEC SA, La Chaux-de-Fonds **	Switzerland	Watch	100 000	100%	100%	Fully consolidated
Petitpierre Holding SA, Cortaillod **	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Petitpierre SA, Cortaillod **	Switzerland	Watch-Industrial	140 000	100%	100%	Fully consolidated
FX & Associés Holding SA, Le Locle **	Switzerland	Holding	100 000	100%	100%	Fully consolidated
J2X Holding SA, Le Locle **	Switzerland	Holding	100 000	100%	100%	Fully consolidated
Precipro SA, Le Locle **	Switzerland	Watch-Industrial	411 000	100%	100%	Fully consolidated
Europe EUR						
D.J.C SAS, Thyez **	France	Industrial	7 724 680	100%	100%	Fully consolidated

* Created companies in 2016.

** Acquired companies in 2016

Notes to the consolidated financial statements

29. Retirement benefit obligations

Employer contribution reserves (ECR) in CHF :

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

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

2015	Nominal value 31.12.2015	Waiver of use 31.12.2015	Balance sheet 31.12.2015	Accumulation	Balance sheet 31.12.2014	Result from ECR in personnel expenses	
						2015	2014
Pension institutions	900'000	-	900 000	300 000	600 000	-	-
	900 000	**-**	**900 000**	**300 000**	**600 000**	**-**	**-**

Economic benefit / economic obligation and pension benefit expenses

			Change from previous year			
2016	**Surplus/ deficit**	**Group's economic share**	**no income statement impact**	**income statement impact**	**Contributions for the business period**	**Pension costs within personnel expense**
Patronage funds / patronage pension plans	6 352 995	-	-	-	-	-
Pension plans without surplus / deficit	-	-	-	-	-3 431 749	-3 431 749
Pension plans with deficit	-	-	-	-	-811 779	-811 779
	6 352 995	**-**	**-**	**-**	**-4 243 528**	**-4 243 528**

			Change from previous year			
2015	**Surplus/ deficit**	**Group's economic share**	**no income statement impact**	**income statement impact**	**Contributions for the business period**	**Pension costs within personnel expense**
Patronage funds / patronage pension plans	6 457 613	-	-	-	-	-
Pension plans without surplus / deficit	-	-	-	-	-2 660 056	-2 660 056
Pension plans with surplus	-	-	-	-	-462 698	-462 698
Pension plans with deficit	-	-	-	-	-	-
	6 457 613	**-**	**-**	**-**	**3 122 754**	**3 122 754**

Notes to the consolidated financial statements

30. Related party transactions

Terms and conditions of transactions with related parties

Unless specified below, the transactions with related parties are made at terms equivalent to those that prevail in arm's length. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: CHF Nil).

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

		Sales and interest charged to related parties	Purchase and interest from/due to related parties	Other transactions with related parties	Amounts owed by related parties	Amounts owed to related parties
Shareholders of the ultimate parent company						
	2016	276 927	-705 845	-	418 019	-198 794
	2015	587 842	-739 495	-	275 053	-11 297 325

Transaction with shareholders in their capacity as shareholders

At the same time as Finacrotec SA was sold to a new majority shareholder, a new structure was set up and Groupe Acrotec SA was created. Finacrotec SA was jointly acquired by Groupe Acrotec SA (14%) and a parent company owed by shareholders (86%). Simultaneous to closing, the parent company contributed its 86% (CHF 160'210'894) of Finacrotec SA shareholding to Groupe Acrotec SA as share premium. In parallel, Groupe Acrotec SA received a loan of CHF 106'000'000 providing from the issuance of bonds where CHF 25'000'000 was used to purchase the existing shareholders Finacrotec SA shares. The balance was lent to Acrotec SA which restructured its debt.

Shareholders of the ultimate parent

In 2016, revenues from related parties mainly come from financial income charged to shareholders of the ultimate parent for CHF 14'119 and sales in relation to services provided to a company owned by shareholders of the ultimate parent for CHF 262'807. In 2015, revenues from related parties were mainly generated from financial interests.

In 2016, service fees were paid by the Group to 3A Holding SA and Castik, shareholders of the ultimate parent, for CHF 555'900 mainly to cover the assistance provided in the financial reporting. In the first semester of 2016, service fees were also paid to Quilvest SA, the former majority shareholder, for CHF 50'269 to cover the services provided.

The amount owed by related parties corresponds to the current account with two shareholders of the ultimate parent for CHF 212'217 (2015: CHF 221'073) and a loan to a company owned by a shareholder's relative of the ultimate parent for CHF 205'802 (2015: CHF 0).

In 2016, the other liabilities of CHF 198'794 are owed to 3A Holding SA regarding to service fees as explained above. Finally, accrued liabilities accounted for CHF 323'407 concern financial interests owed to Groupe Acrotec SA for the long term debt.

In 2015, several shareholders of the ultimate parents lent money to the Group for a total amount of CHF 11'297'325. Most of these borrowings were postponed and interest was charged 3,5% to 4,35% depending on the interest market conditions when the loan was granted. In 2016, all these borrowings were reimbursed after the bond issuance. The amount owned by related parties corresponds to the current account with one shareholder of the ultimate parent.

31. Commitments and contingencies

a. Contingent assets and liabilities	31.12.2016	31.12.2015
Earn-out purchase USIDEV, 40% of 2013-2014-2015 revenue, maximum CHF 1'750'000	-	1 750 000
Guarantee for a line of credit	33 000 000	-
	33 000 000	**1 750 000**

b. Pledged assets	31.12.2016	31.12.2015
Building	24 105 180	12 021 382
Machine under lease	14 133 846	4 668 721
Vehicle under lease	1 450 096	643 312
Equipment under lease	270 538	
IT under lease	3 952	
Cash and cash equivalents	95 256	778 990
	40 058 867	**18 112 405**

c. Leasing

All financial leases were activated. There are no operating leases as per 31.12.2016 and as per 31.12.2015.

32. Subsequent events after the year-end closing

In March 2017, the Group acquired 100% of the voting shares of H2i Sàrl which is a startup company based in Lucens (Switzerland). H2i has developed several worldwide patents on methods of precision measurement of mechanical watches.

In April 2017, the Group acquired 100% of the voting shares of Gasser-Ravussin SA which is a family owned business based in Lucens (Switzerland). The company is a supplier to the Group and specializes in manufacturing jewels for watch and other industries. It is fully independent, vertically-integrated and partially develops its own production tools, resulting in a unique and specialized customer offering. This company was fully paid by cash.