
Financial Statements 2007

Consolidated financial statements
Financial statements of the Holding

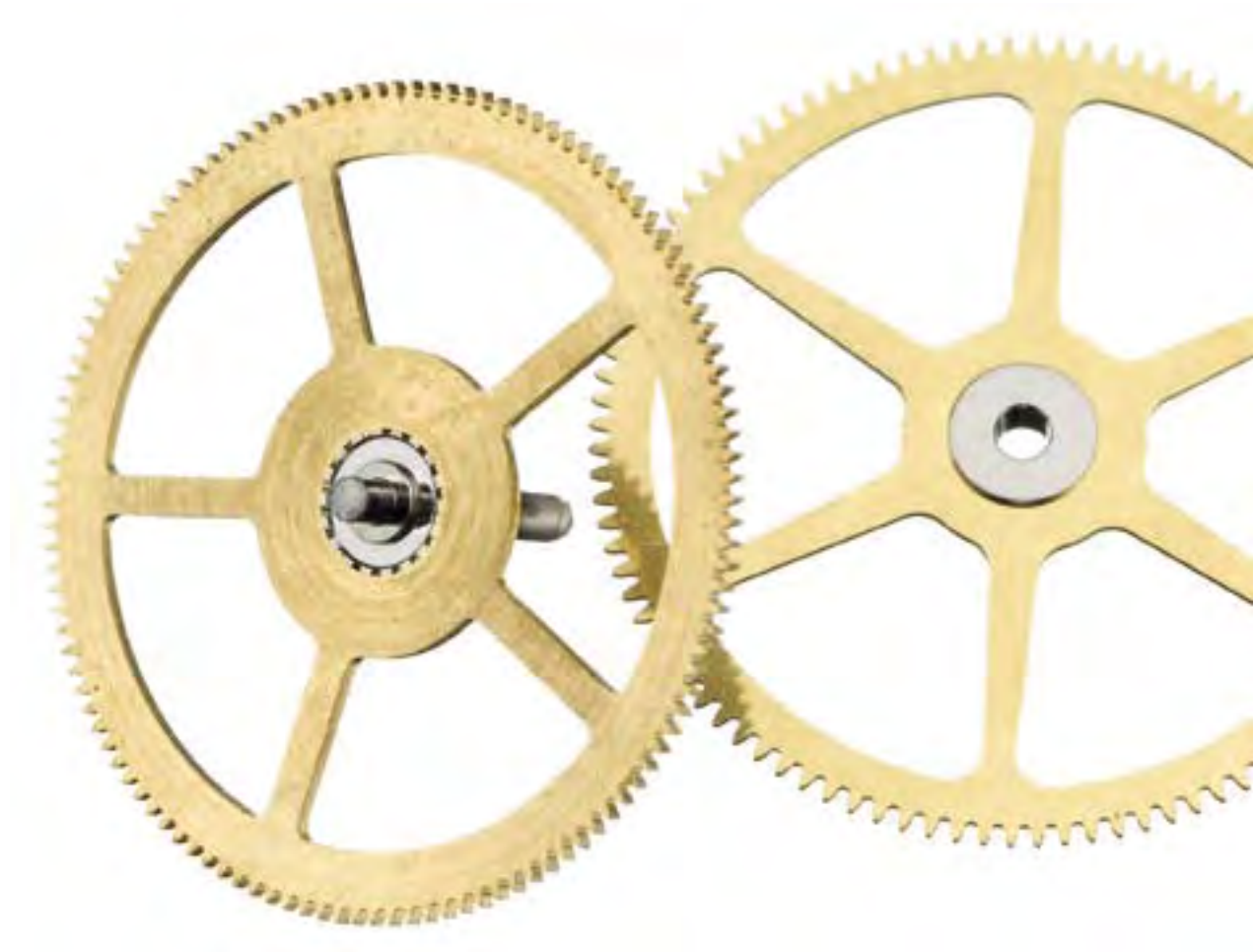




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Financial review

Key financial developments in 2007

– Gross sales:	Up by 17.6% to a record CHF 5 941 million (net sales: +17.1% to CHF 5 646 million)
– Segments:	Strong growth in all Group segments, notably in the Watches & Jewelry as well as Production segments
– Operating profit:	Record operating profit of CHF 1 236 million with improved operating margin of 21.9%
– Net income:	Above CHF 1 billion for the first time in the Swatch Group history (increase of 22.3%)
– Earnings per share:	Significant rise of 24% compared to 2006
– Dividend:	Proposed dividend increase of 21.4%, per bearer share CHF 4.25 (previous year CHF 3.50), per registered share CHF 0.85 (previous year CHF 0.70)
– Share buyback:	Share buyback program of CHF 420 million already under way
– Outlook:	Promising start in 2008, strong trend continues

Financial review

1. Operating results

Key figures Group

(CHF million)	2007	2006	Change in %		Total
			in local currency	currency effect	
Gross sales	5 941	5 050	+17.3%	+0.3%	+17.6%
Net sales	5 646	4 820			+17.1%
Operating profit	1 236	973			+27.0%
– in % of net sales	21.9%	20.2%			
Net income	1 015	830			+22.3%
– in % of net sales	18.0%	17.2%			
Equity	5 329	4 967			+7.3%
– as % of total assets	71.5%	71.9%			
Average return on equity (ROE)	19.7%	17.3%			

In the year 2007, the Swatch Group saw records in all areas and in many respects. Sales rose by more than 17% compared to the already strong prior year. In terms of gross sales, very little was missing to achieve the mark of CHF 6 billion. Foreign currencies had a marginally favorable impact of +0.3% on Group sales. The weakness in US Dollar and Yen was compensated by the Euro.

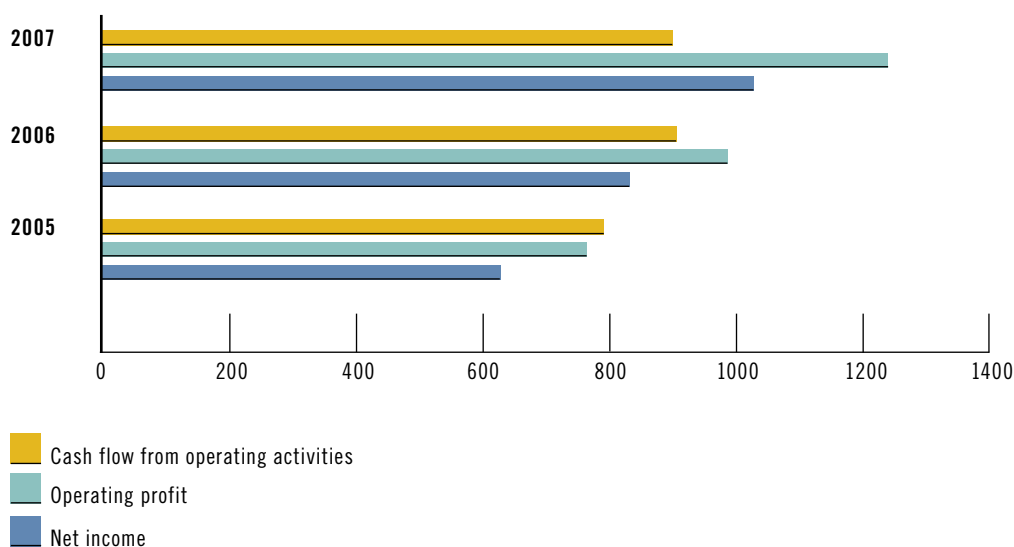
Operating profit rose to CHF 1 236 million in the year under review, which represents an increase in the operating margin from 20.2% to 21.9%. The Group's net income exceeded the mark of CHF 1 billion for the first time.

Group equity remains very solid with CHF 5 329 million at 31 December 2007. This represents an equity ratio of 71.5%. Return on equity improved in the current year to 19.7% (previous year 17.3%).

Financial review

Performance trends

(CHF million)



Segment performance

Watches & Jewelry

(CHF million)	2007	2006	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	4 710	3 912			
– Group	0	0			
– Total	4 710	3 912	+20.0%	+0.4%	+20.4%
Net sales	4 456	3 723			+19.7%
Operating profit	920	738			+24.7%
– in % of net sales	20.6%	19.8%			

The Watches and Jewelry segment achieved record, double-digit growth of over 20%, with all price categories and brands contributing.

The continued selective expansion of retail activities has given the Group brands a strong visual presence in premier retail locations, enabling direct contact with customers and enhancing sales in each brand's diverse market environment. In addition, robust development in the jewelry activities sector contributed with above-average growth to the overall performance of the Group's core business.

Asia, including the Middle East, posted outstanding double-digit sales growth, with Europe, America and Oceania also recording solid double-digit growth rates. The Group is excellently positioned and represented across all price categories and regions. Targeted expansion will serve to further underpin this global strength.

Operating profit saw an above-average increase in this segment of 24.7% to CHF 920 million, which represents an operating margin of 20.6% (compared to 19.8% in 2006). Selective price increases undertaken in the previous year had a positive influence on margins. This reduced the impact of further increasing prices for precious metals, diamonds and other raw materials. In order to encourage the Group's long-term growth, marketing spend was increased and retail activities were expanded.

Financial review

Production

(CHF million)	2007	2006	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	625	562			
– Group	1 059	831			
– Total	1 684	1 393	+20.8%	+0.1%	+20.9%
Net sales	1 624	1 335			+21.6%
Operating profit	235	147			+59.9%
– in % of net sales	14.5%	11.0%			

The sharp rise in demand from Group companies and third parties for watch movements and components led to an extraordinary surge in sales, with the Production segment posting gross sales of CHF 1 684 million in 2007, a gain of 20.9% versus the previous year.

Although somewhat reduced, continuing production bottlenecks in some areas prevented the Production segment as well as the finished-watches sector from achieving even higher sales growth. Group sales nevertheless grew by around CHF 900 million, thanks to expansion of the production systems. Component shortages meant that many watches could not be delivered on time to customers, and some customers are still awaiting deliveries; this resulted in a temporary increase in inventory, above all in semi-finished products. The Group is making every effort to eliminate these bottlenecks and to expand production capacity, with considerable success. The producers of movements (ETA and Frédéric Piguet) as well as all producers of components were consistently confronted with strong demand. Dress Your Body (DYB), the Group's specialist in the diamond and jewelry sector, also realized an above-average growth.

With production running at full capacity, this enabled the profitability of the segment in the year under review to once again increase considerably. The strong rise to an operative margin of 14.5% was helped by the further increased volumes, high utilization of production facilities and, once again, a more favorable product mix towards high-end watch movements.

Financial review

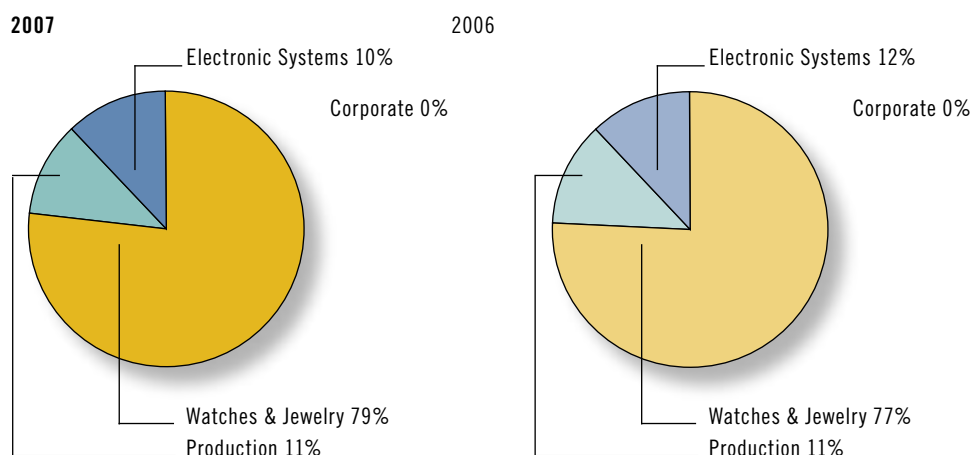
Electronic Systems

(CHF million)	2007	2006	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	601	571			
– Group	29	22			
– Total	630	593	+5.9%	+0.3%	+6.2%
Net sales	623	586			+6.3%
Operating profit	99	106			–6.6%
– in % of net sales	15.9%	18.1%			

The Electronic Systems segment had to battle with a rather more volatile business environment last year. Despite generally modest growth across the sector as a whole, the segment recorded net sales of CHF 623 million, up 6.3% on the previous year. This positive development, primarily in the second half of the year, was largely attributable to the Group companies EM Microelectronic Marin and Renata. Swiss Timing's services for third-party sport games organizers also contributed to the segment's sales growth.

In the area of quartz crystals for the mobile phone industry, Micro Crystal still faced a strong pressure on prices. This trend weakened somewhat in the second half of 2007, with a clear increase in sales and higher profitability. The segment's operating profit achieved almost CHF 100 million in the year under review, which represents an operating margin of 15.9%.

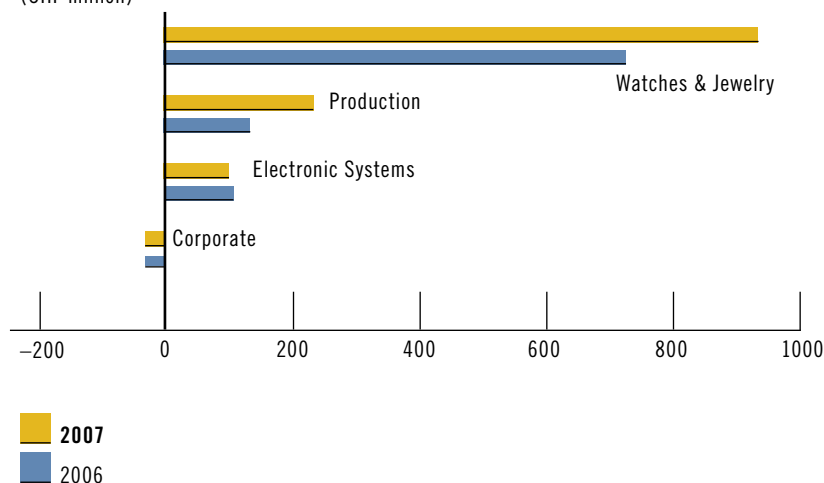
Segment share of net sales



Financial review

Segment share of operating profit

(CHF million)



Financial result

An analysis of the net financial result of the Group shows the following:

(CHF million)	2007	2006
Interest income	47	40
Income from marketable securities and derivatives	30	85
Net currency result	-14	-16
Interest expense and other financial expense	-26	-25
Total net financial result	37	84

In 2007, interest income was up due to higher interest rates. The mixed performance of stock markets led to reduced profits on the marketable securities position. As in the previous year, the biggest profit in this area resulted from the Group's special investments, mainly from the 8.09% stake in Xinyu Hengdeli Holdings Ltd., the Group's main distribution partner in China, whose shares are listed on the Hong Kong stock exchange. Given that all marketable securities held by the Group have been designated as "fair-value-through-profit-or-loss", the financial result turned out to be rather volatile. This pattern might continue in the near future and influence the Group's net income.

In addition, the general development of foreign currencies with a weak US Dollar and Japanese Yen resulted in a foreign exchange loss for the year of CHF 14 million.

Income tax

An analysis of the income tax charge is set out in Note 7 to the consolidated financial statements. The income tax charge as a percentage of profit before tax was 20.3% in the current year compared to 21.5% in the previous year.

Proposed dividend

At the General Meeting on 21 May 2008, a dividend for the financial year 2007 of CHF 0.85 (2006: CHF 0.70) for registered shares and CHF 4.25 (2006: CHF 3.50) for bearer shares will be proposed. This dividend has not been recognized as a liability in the consolidated financial statements at 31 December 2007.

Earnings per share

Basic earnings per share have increased in the current year by 24% to CHF 3.70 (CHF 2.97 in 2006) for registered shares and CHF 18.49 (CHF 14.87 in 2006) for bearer shares respectively. The increase in net income compares to a reduced number of shares which is mainly due to the shares bought back in 2007. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 8.

Financial review

2. Financial condition

Liquidity and financial resources

Despite a significant increase of inventories, the Group realized a considerable operating cash flow of CHF 875 million, compared to CHF 884 million in 2006. Investing activities were higher than in 2006, mainly due to increased investments in tangible assets. The share buyback and the dividend paid were the main factors in financing activities. These investments resulted in a decrease in cash and cash equivalents of CHF 382 million. Nevertheless, the Group realized a comfortable free cash flow of CHF 307 million which compares to CHF 474 million in the previous year.

Asset and capital structure

The balance sheet continues to remain very solid, with a strong equity ratio of 71.5% (compared to 71.9% in 2006). Current liabilities are covered by current assets by a factor of 4.6 (5.3 in 2006).

3. Analysis of value added

The breakdown of total operating revenues, more commonly referred to as total Group performance in calculations of value added (using standard methods), is as follows:

(CHF million)	2007		2006	
Overall Group performance	6 377	100.0%	5 249	100.0%
Material and services	3 282	51.5%	2 564	48.9%
Depreciation	204	3.2%	195	3.7%
Net added value	2 891	45.3%	2 490	47.4%
% change	16.1		17.4	

The breakdown of value added between the different beneficiaries is as follows:

	2007		2006	
Employees	1 595	55.2%	1 411	56.7%
Public authorities	258	8.9%	227	9.1%
Lenders	22	0.8%	22	0.9%
Shareholders	196	6.8%	142	5.7%
Company	820	28.3%	688	27.6%
Total	2 891	100.0%	2 490	100.0%

4. Outlook

The strong trend seen in 2007 has continued in the first two months of the current year, giving rise to expectations of ongoing substantial sales growth and further profitability increases across all segments.

The sharp weakening of foreign currencies, in particular the US Dollar, the Yen, and to a certain extent the Euro, against the Swiss Franc, coupled with the marked increases in gold, diamond and raw materials prices, create new challenges for the Group in 2008. However, there is still considerable growth potential, not least in expansion markets, which must be exploited through the attractive range of brands offered by the Group and through a targeted distribution policy. At the same time, a wide range of measures to reduce costs will be systematically identified and implemented.

A particular highlight of 2008 will be the Summer Olympic Games, which traditionally take place every four years. The highly visible presence of Omega as timekeeping and data handling partner, which will perform this role for the 23rd time in the history of the Olympic Games, will further promote awareness of the brand worldwide.

The Board of Directors and Executive Group Management Board of the Swatch Group expect to see further sales growth in the current year, with the associated increase in profitability. Despite a negative currency impact, this strong growth is already in evidence in the months of January and February 2008.

Consolidated income statement

	Notes	2007 CHF million	%	2006 CHF million	%
Gross sales		5 941	105.2	5 050	104.8
Sales reductions		-295	-5.2	-230	-4.8
Net sales	(5, 6a)	5 646	100.0	4 820	100.0
Other operating income		91	1.6	123	2.6
Changes in inventories		398	7.1	155	3.2
Material purchases		-1 480	-26.2	-1 123	-23.3
Personnel expense	(6b)	-1 595	-28.3	-1 411	-29.3
Other operating expenses	(6c)	-1 620	-28.7	-1 396	-29.0
Depreciation, amortization and impairment charges	(10, 11, 12, 18)	-204	-3.6	-195	-4.0
Operating profit		1 236	21.9	973	20.2
Financial income	(6e)	59	1.0	106	2.2
Interest expense	(6e)	-22	-0.4	-22	-0.5
Profit before taxes		1 273	22.5	1 057	21.9
Income taxes	(7)	-258	-4.5	-227	-4.7
Net income		1 015	18.0	830	17.2
Attributable to equity holders of The Swatch Group Ltd		1 011		827	
Attributable to minority interests		4		3	
Earnings per share (EPS) – expressed in CHF per share:	(8)				
Registered shares					
Basic EPS		3.70		2.97	
Diluted EPS		3.64		2.93	
Bearer shares					
Basic EPS		18.49		14.87	
Diluted EPS		18.18		14.66	

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated balance sheet

Assets	Notes	31.12.2007		31.12.2006	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment	(10)	1 357	18.2	1 205	17.4
Investment property	(11)	34	0.5	25	0.4
Intangible assets	(12)	334	4.5	315	4.6
Investments in associated companies	(13)	6	0.1	6	0.1
Other non-current assets	(15)	70	0.9	60	0.9
Deferred income tax assets	(7)	167	2.2	140	2.0
Total non-current assets		1 968	26.4	1 751	25.4
Current assets					
Inventories	(16)	2 273	30.5	1 877	27.2
Trade receivables	(17)	875	11.8	750	10.9
Other current assets	(18)	383	5.1	345	5.0
Current income tax assets	(7)	6	0.1	3	0.0
Marketable securities and derivative financial instruments	(19)	656	8.8	509	7.3
Cash and cash equivalents	(20)	1 286	17.3	1 669	24.2
Total current assets		5 479	73.6	5 153	74.6
Total assets		7 447	100.0	6 904	100.0

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated balance sheet

Equity and liabilities	Notes	31.12.2007 CHF million	%	31.12.2006 CHF million	%
Equity					
Capital and reserves attributable to Swatch Group shareholders		5 310	71.3	4 958	71.8
Minority interests		19	0.2	9	0.1
Total equity		5 329	71.5	4 967	71.9
Non-current liabilities					
Financial debts	(22)	485	6.5	484	7.0
Deferred income tax liabilities	(7)	361	4.9	387	5.6
Retirement benefit obligations	(23)	25	0.3	32	0.5
Provisions	(24)	58	0.8	58	0.8
Total non-current liabilities		929	12.5	961	13.9
Current liabilities					
Trade payables		303	4.1	245	3.6
Other current liabilities	(25)	582	7.8	441	6.4
Financial debts and derivative financial instruments	(22)	36	0.5	79	1.2
Current income tax liabilities	(7)	204	2.7	154	2.2
Provisions	(24)	64	0.9	57	0.8
Total current liabilities		1 189	16.0	976	14.2
Total liabilities		2 118	28.5	1 937	28.1
Total equity and liabilities		7 447	100.0	6 904	100.0

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

	Notes	2007 CHF million	2006 CHF million
Operating activities			
Cash generated from operations	(27)	1 112	1 046
Interest paid		-19	-19
Interest received		47	39
Tax paid		-265	-182
Cash flow from operating activities		875	884
Investing activities			
Investments in tangible assets	(10, 11)	-350	-236
Proceeds from sale of tangible assets		5	4
Investments in intangible assets	(12)	-27	-39
Proceeds from sale of intangible assets		0	2
Investments in other non-current assets	(15)	-26	-15
Proceeds from sale of other non-current assets		2	1
Acquisition of subsidiaries – net of cash	(14)	-8	-41
Purchase of marketable securities		-852	-924
Sale of marketable securities		685	786
Cash flow from investing activities		-571	-462
Financing activities			
Dividend paid to shareholders		-192	-140
Dividend paid to minority interests		-4	-2
Purchase of treasury shares		-461	-302
Sale of treasury shares		1	10
Repayment of non-current financial debts		-5	0
Increase in non-current financial debts		4	88
Repayment of current financial debts		-36	-256
Increase in current financial debts		1	9
Buyback of minority interests	(14)	0	-25
Cash flow from financing activities		-692	-618
Net impact of foreign exchange rate differences on cash		6	-1
Change in cash and cash equivalents		-382	-197
Change in cash and cash equivalents			
– At beginning of year		1 666	1 863
– At end of year	(20)	1 284	1 666

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

(CHF million)	Attributable to The Swatch Group Ltd shareholders					Total	Minority interests	Total equity
	Share capital (Note 21)	Capital reserves	Treasury shares (Note 21)	Other reserves (Note 21)	Retained earnings			
Balance at 31.12.2005	135	213	-617	11	4 838	4 580	23	4 603
Net income for the year					827	827	3	830
Translation differences and other changes				-16		-16		-16
Total recognized income 2006				-16	827	811	3	814
Dividends paid					-140	-140	-2	-142
Share-based compensation:								
– Value of employee services (net of tax)					8	8		8
– Proceeds from shares					1	1		1
Purchase of minority interests					-9	-9	-15	-24
Share buyback			-302			-302		-302
Sales of Treasury shares			8		1	9		9
Share capital reduction	-3		250		-247	0		0
Balance at 31.12.2006	132	213	-661	-5	5 279	4 958	9	4 967
Net income for the year					1 011	1 011	4	1 015
Net result on cash flow hedges				-1		-1		-1
Translation differences and other changes				-17		-17		-17
Total recognized income 2007				-18	1 011	993	4	997
Dividends paid					-192	-192	-4	-196
Share-based compensation:								
– Value of employee services (net of tax)					11	11		11
– Proceeds from shares					1	1		1
Changes in minority interests						0	10	10
Share buyback			-461			-461		-461
Share capital reduction	-3		301		-298	0		0
Balance at 31.12.2007	129	213	-821	-23	5 812	5 310	19	5 329

The accompanying notes form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. General information

The Swatch Group Ltd (the Company) and its subsidiaries (collectively the Group) is active worldwide and represented in the finished watches and jewelry sector with 19 brands in all market and price brackets. In addition, it holds an outstanding industrial position with a high degree of verticalization in the sector of watch movements and components production as well as in the electronic systems sector. During the year, no major changes occurred in the Group structure.

The Company is a limited company incorporated and domiciled in Switzerland. Its registered office is located in Neuchâtel, Faubourg de l'Hôpital 3. The administrative headquarters are in Biel, Seedorfstrasse 6.

The shares of The Swatch Group Ltd are listed in Switzerland, under the security numbers 1 225 514 (registered shares) and 1 225 515 (bearer shares). While registered shares are traded on the SWX Swiss Exchange, bearer shares are traded on virt-x, a London based Exchange for pan-European blue chip stocks. In addition, since 15 February 2007 Swatch Group shares are also listed on the BX Berne eXchange.

These consolidated financial statements were approved for issue by the Board of Directors on 10 March 2008 and will be submitted to the Annual General Meeting of Shareholders for approval on 21 May 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The Group's consolidated financial statements have been prepared on a historical cost basis, except for certain items such as financial instruments designated at fair value through profit or loss, and derivatives, as disclosed in the accounting policies below. The consolidated financial statements are presented in Swiss Francs (CHF) and all values are rounded to the nearest million, unless otherwise stated.

The consolidated financial statements of the Swatch Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The annual closing date for all the individual company accounts is 31 December. For all the companies consolidated, the financial year corresponds to the calendar year.

b. Consolidation policy

The subsidiaries are those entities controlled directly or indirectly by The Swatch Group Ltd, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is generally evidenced by the holding of more than one half of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Companies are fully consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Minority interests in equity and net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. Applying the "economic entity model", this goodwill is charged directly against equity.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the consolidated financial statements

Associates are all entities over which the Group has significant influence but not control. This is generally evidenced when the Group owns 20% to 50% of the voting rights or potential voting rights of the company. Investments in associates are accounted for using the equity method and are initially recognized at cost. Balances and transactions with associates that result in unrealized income are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group's interests in jointly controlled entities (joint ventures) are also reported using the equity method. At the end of 2007, the Group's consolidated financial statements included 161 legal entities (compared with 148 in the previous year), of which one was a joint venture (one in 2006) and five were associates (five in 2006). A full list of consolidated companies is provided in Note 32.

c. Changes in accounting policies

The accounting policies used are consistent with those of the previous financial year except that the Group has adopted those new/revised IAS/IFRS standards, amendments and interpretations mandatory for financial years beginning on or after 1 January 2007.

The impact on the financial statements of the adoption of these new standards, amendments or new interpretations was limited to additional disclosures. The principal effects of these changes in policies are described below.

IFRS 7: Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout these financial statements. While there has been no effect on the financial performance or position, comparative information has been added where needed.

IAS 1 Amendment: Presentation of Financial Statements – Capital Disclosures

This amendment requires the Group to provide additional disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These disclosures are shown in Note 3, caption b.

IFRIC 8: Scope of IFRS 2

This interpretation requires IFRS 2 Share-based Payments to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As the Group issues equity instruments only in accordance with the employee stock option plan (as set out in Note 28), the interpretation had no impact on the financial performance or position of the Group.

IFRIC 10: Interim Financial Reporting and Impairment

This new interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group did not reverse any impairment losses recognized in previous interim periods, the interpretation had no impact on the financial performance or position of the Group.

The following amendment to standards and new IFRICs are not relevant to the Group's operations:

- Amendment to IAS 30: Disclosures in Financial Statements of Banks and Similar Financial Institutions
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 9: Reassessment of Embedded Derivatives

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but which the Group has not early adopted.

The Group expects that the adoption of these pronouncements will have no major impact on the Group's financial statements in the period of initial application. However, in certain areas (IFRS 8: Operating Segments, IAS 1 revised) the changes will give rise to additional disclosures.

Notes to the consolidated financial statements

d. Segment reporting

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments. The risks and returns of the Group's operations are primarily determined by the different products rather than their geographical location. This is reflected by the Group's divisional management and organizational structure and the Group's internal financial reporting systems.

The Group's activities are organized into three separately reportable business segments:

– Watches & Jewelry	Sale of finished watches and jewelry
– Production	Manufacture of watches, watch movements and jewelry
– Electronic Systems	Design, production and marketing of electronic components, Sports timing activities

Sales to third-party clients are presented separately from sales to other operating divisions, and internal Group sales are recognized at arm's length. Segment expenses are those that can be directly attributed to the segment.

The assets of the segments mainly consist of land and buildings, equipment and machinery, intangible assets, inventories, trade accounts receivable and cash and cash equivalents. Segment liabilities include operating commitments.

In line with common practice in the watch industry, the geographical presentation of sales is broken down by continent. Turnover is reported according to the destinations that appear on the invoices. Total assets are broken down by location.

"Corporate" includes the activities of the Group's holding, finance, research and development, real estate and several other companies, none of which is of a sufficient size to require separate presentation. Group elimination and consolidation entries are shown in the column "Elimination".

e. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss Francs, which is the Company's presentation currency.

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any gains and losses resulting from these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

Income statements of Group entities with a functional currency different from the Swiss Franc are translated at average exchange rates as an approximation of exchange rates prevailing at the date of the transaction; balance sheets are translated at the year-end exchange rate. All resulting exchange differences are recognized as a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on the sale.

In the reporting periods, none of the Group entities has the currency of a hyperinflationary economy.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end rate.

The main exchange rates used are:

	Average rates	Prevailing rates	Average rates	Prevailing rates
	2007	31.12.2007	2006	31.12.2006
	CHF	CHF	CHF	CHF
1 CNY	0.1579	0.1545	0.1573	0.1560
1 EUR	1.6478	1.6600	1.5782	1.6090
1 GBP	2.4002	2.2530	2.3154	2.3950
1 HKD	0.1536	0.1447	0.1613	0.1572
100 JPY	1.0194	1.0055	1.0774	1.0280
1 USD	1.1979	1.1280	1.2531	1.2225

Notes to the consolidated financial statements

f. Revenue recognition

Revenue is recognized as follows:

Goods and services

Net sales comprise the fair value for the sale of goods and services, net of value-added tax and sales reductions (such as rebates and discounts). Intercompany sales are eliminated on consolidation.

Revenue is recognized when a Group entity has delivered products to the customer and the collectibility of the related receivables is reasonably assured. 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. Revenue from services is recognized in the accounting period in which the service is rendered.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income

Dividend income is recognized when the right to receive payment is established.

g. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

– Furniture, office machinery, motor vehicles:	5 to 8 years
– IT equipment and software:	3 to 5 years
– Measuring instruments, tools, equipment for non-mechanical processing automation components:	5 to 9 years
– Machines and mechanical production systems, workshop equipment:	9 to 15 years
– Factories and workshop buildings:	30 years
– Administrative buildings:	40 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

The position "construction in progress" includes buildings under construction, down payments on land and buildings as well as attributable borrowing costs.

h. Investment property

Investment properties comprise mainly residential properties. They are held for long-term rental yields and are not occupied by the Group. Some land reserves are held with undetermined use. Investment property is carried at historical cost less accumulated depreciation and any impairment in value. The useful life of residential properties is estimated at 50 years. Fair values are disclosed in Note 11. They are determined by capitalization of rental income for rented buildings plus an estimated market value of land reserves.

Notes to the consolidated financial statements

i. Intangible assets

Intangible assets are stated at historical cost less accumulated depreciation and any impairment in value.

Goodwill

Goodwill represents the excess of the acquisition price over the fair value of the Group's share of net identifiable assets of the acquired company at the date of acquisition. Goodwill is tested annually for impairment and in addition, when indications of impairment exist, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing. The CGU represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than a business segment (see Note 12).

Internally generated intangible assets

To assess the criteria for recognition as an intangible asset, an entity separates the generation of the internally generated intangible assets into a research phase and a development phase. Costs linked to development projects are recognized as intangible assets provided future economic benefits are anticipated. Other research and development costs are recognized as expenses. Once a product enters into commercial production, the capitalized development costs are amortized over the period of anticipated earnings. The amortization period applied does not exceed five years.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits extending beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Costs associated with improving software or extending its performance beyond the original specifications are capitalized as an asset and added to the original cost of the software. The capitalized costs associated with the development of software are amortized over their estimated useful lives using the straight-line method over a period not exceeding five years.

Other intangible assets

In addition, the heading intangible assets includes:

- Licenses purchased granting rights to use new state-of-the-art technologies. Related lump-sum payments have been capitalized and amortized over their useful life.
- Key money paid for strategically located retail shops. If their value can be demonstrated by the presence of a market, they are not amortized but tested for impairment. Key money that is not refundable or refundable only upon certain conditions being met is treated as prepaid rent.
- Customer relationships and unpatented technologies acquired in business combinations. They are amortized over a period of up to 15 years.

j. Impairment of assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization as well as assets not yet ready for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The latter is calculated by estimating the future cash flows generated by the asset and discounting them with a risk-adjusted interest rate. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

k. Financial assets

Regular purchases and sales of investments are based on the settlement date principle. Marketable securities are initially recorded at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length market transactions.

The Group classifies its financial assets, principally investments, in the following categories: financial assets designated at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the investments were acquired.

Notes to the consolidated financial statements

Financial assets at fair value through profit or loss

All the Group's current investments are classified in the category designated at fair value through profit or loss. Financial assets classified as held for trading are included in this category. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. All realized and unrealized gains and losses arising from changes in the fair value are recognized in the income statement.

The category financial assets at fair value through profit or loss consists of marketable securities and derivative financial instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are measured at cost less appropriate impairment losses.

The category loans and receivables consists of trade receivables, other current receivables, security deposits as well as other financial assets.

Summary of financial assets

The following table shows the carrying amount and the fair value of Group assets that are considered as financial assets:

(CHF million)	31.12.2007		31.12.2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Security deposits (Note 15)	17	17	13	13
Other financial assets (Note 15)	5	5	4	4
Trade receivables (Note 17)	875	875	750	750
Other current receivables (Note 18)	218	218	262	262
Loans and receivables	1 115	1 115	1 029	1 029
Marketable securities and derivative financial assets (Note 19)	656	656	509	509
Financial assets at fair value	656	656	509	509
Cash and cash equivalents (Note 20)	1 286	1 286	1 669	1 669
Cash and cash equivalents	1 286	1 286	1 669	1 669
Total financial assets	3 057	3 057	3 207	3 207

i. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average price method. Some companies, particularly those in the Production segment, value their inventories using the standard cost method. As these costs are regularly reviewed and adjusted, this method approximates the results of the weighted average price method. The valuation of spare parts for customer service is confined to those units that are considered likely to be used, based on historical demand.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the applicable variable selling expenses.

m. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

n. Trade receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for any impaired receivables, which corresponds to their fair value. Provision is made for balances overdue more than 12 months or for receivables where 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.

Notes to the consolidated financial statements

o. 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. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of short-term bank overdrafts.

p. Share capital and treasury shares Ordinary shares are classified as 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 0.45 and of bearer shares each with a nominal value of CHF 2.25. Other than the higher voting power of registered shares, no differences in terms of shareholder rights exist between the two categories. Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

q. Financial debts Financial debts are initially recognized at fair value, including transaction costs incurred. Financial debts are subsequently stated at amortized cost.

The fair value of the liability component of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in equity, net of income tax effects. Transaction costs are apportioned between the liability and equity components of the convertible bonds, based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Financial debts are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Summary of financial liabilities

The following table shows the carrying amount and the fair value of Group liabilities that are considered as financial liabilities:

(CHF million)	31.12.2007		31.12.2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial debts (Note 22)	485	483	484	484
Trade payables	303	303	245	245
Other current payables (Note 25)	154	154	115	115
Current financial debts (Note 22)	34	34	72	72
Financial liabilities measured at amortized cost	976	974	916	916
Derivative financial instruments (Note 22)	2	2	7	7
Financial liabilities at fair value	2	2	7	7
Total financial liabilities	978	976	923	923

r. Accounting for derivative financial instruments and hedging activities Derivatives are initially recognized at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Certain derivatives can be designated as hedges of a risk associated with a highly probable forecast transaction (cash flow hedge). The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The Group uses cash flow hedge accounting for forecasted intragroup transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement respectively within the financial result.

Notes to the consolidated financial statements

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of derivatives hedging purchases is recognized in the income statement within material purchases.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Derivatives at fair value through profit or loss

Derivatives not designated as hedging instruments are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognized immediately in the income statement.

s. Taxes

Current tax

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

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. If the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carryforwards 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 provided 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 probable that the temporary difference will not 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.

t. Pensions and other post-employment benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Group pension plans in Switzerland are accounted for as defined benefit plans.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

Notes to the consolidated financial statements

Other post-employment benefits

A small number of Group companies provide post-retirement medical care benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, similar to the accounting for defined benefit plans.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

u. 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 embodying economic benefits will be required to settle the obligation, and
- when a reliable estimate of the amount of the obligation can be made

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. 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 pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

v. Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (calculated using the "Black-Scholes" model), excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Equity increases by the corresponding amounts of employee service cost over the vesting period. The proceeds received net of any transaction cost are credited to equity when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 8).

w. Leases

Finance leases

A finance lease is where the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the leased item. At the inception of the lease, finance leases are capitalized at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. 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 charges are charged directly against income statement. Capitalized leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

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.

x. Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

y. Comparatives

Certain prior-year balances have been reclassified or extended from the previously reported results to take into account current year presentational changes. The changes are mentioned in the respective notes.

Notes to the consolidated financial statements

3. Financial risk management

a. Financial risk factors

In view of the global and varied nature of its activities, the Group is exposed to financial market risk (including foreign currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's risk management is essentially focused on identifying and analyzing exchange rate risk, with the aim of minimizing its impact on Group earnings before taxes and net income. In order to hedge exchange rate risk, the Group uses derivative financial instruments such as forward currency contracts or currency options.

Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group's management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under supervision of the Financial Asset and Currency Management Committee, which normally meets once a month.

1. Market risk

The Group is exposed to market risk, primarily related to foreign exchange, interest rates and the market value of investments of liquid funds. The Group actively monitors these exposures. To manage the volatility relating to these exposures, the Group uses a variety of derivative financial instruments, such as foreign exchange forward contracts or options. The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and market rates of investments of liquid funds. It is the Group's policy and practice to use derivative financial instruments to manage exposures and to enhance the yield on the investment of liquid funds.

1.1 Foreign exchange risk

The Group's consolidated financial statements are published in Swiss Francs. As foreign exchange risks are managed centrally by the treasury department (Group Treasury), the local entities are not significantly exposed to specific foreign exchange risks. The foreign exchange risks arise primarily from fluctuation of currencies against the Swiss Franc, mainly the Euro, the US Dollar as well as the Japanese Yen. Consequently, the Group enters into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The Group also uses forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies. Group companies enter into special exchange rate agreements with the Group's treasury department guaranteeing a standard exchange rate for a term of one month. The treasury department, for its part, is responsible for hedging net positions in foreign currencies with external counterparties.

Sensitivity analysis on foreign exchange risk

Financial instruments affected by foreign exchange risk include trade and other receivables, trade and other payables, financial debts, marketable securities, cash and cash equivalents including third party as well as intercompany transactions.

The sensitivity analysis presented in the following table may not be representative, since the Group's exposure to market risks also arises from other balance sheet items than financial instruments. The size of the exposure sensitive to changes in the exchange rates can fluctuate significantly, so the position at the balance sheet date may not be representative for the financial period on average.

The illustrative effect on earnings after tax that would result from reasonably possible changes in exchange rates can be summarized as follows:

Currency	31.12.2007			31.12.2006		
	Change on exchange rate	Income statement		Change on exchange rate	Income statement	
		CHF million			CHF million	
		+	-		+	-
CNY/CHF	5%	3	-3	5%	3	-3
EUR/CHF	5%	-4	2	5%	11	-8
HKD/CHF	5%	-1	2	5%	-2	1
JPY/CHF	5%	4	-3	5%	2	-6
USD/CHF	5%	10	-10	5%	7	-3

As no items are recognized directly in equity, the illustrative impact on equity of the changes in exchange rates shown above is zero.

Notes to the consolidated financial statements

1.2 Price risk

1.2.1 Commodities

The Group has a certain exposure to commodity price risk relating to the purchase of precious metals and gems, which are used in its manufacturing processes. The Group does not enter into significant commodity futures, forward and option contracts to manage fluctuations in prices of anticipated purchases. However, the Holding company has a strategic long position in gold which is presented within cash and cash equivalents and valued at market value. The sensitivity analysis presented below is based on the assumption that the gold price had increased/decreased by 10% with all other variables held constant. At 31 December 2007 the impact on profit or loss after tax would have been an increase of CHF 14 million (2006: CHF 4 million) or decrease of CHF 14 million (2006: CHF 4 million) respectively.

1.2.2 Equity investment risk

The Group purchases equity instruments as investments of its liquid funds. Such instruments are recognized as marketable securities. Potential investments need to comply with the asset allocation and portfolio limit structure defined by the Group's management bodies. According to this policy, the Group limits its holdings in equity investments to 25% of its liquid funds. They are thoroughly analyzed in respect to their past financial track record (mainly cash flow return on investment), their market potential, their management and their competitors. Call options are written on equities that the Group owns and put options are written on equities that the Group wants to buy and for which cash has been reserved.

Sensitivity analysis on equity investment risk

The table below summarizes the impact of increases/decreases of the three main equity indexes on the Group's earnings after tax for the year. There is no impact exclusively on equity as none of the equity investments are classified in a financial assets category where the result is recognized directly in equity. The analysis is based on the assumption that the equity indexes had increased/decreased by a certain percentage with all other variables held constant and that all the Group's equity instruments moved according to the historical correlation with the index.

Index	31.12.2007			31.12.2006		
	Change on index	Income statement		Change on index	Income statement	
		CHF million			CHF million	
		+	-		+	-
Dow Jones	5%	3	-3	5%	1	-1
SMI + SPI	5%	5	-5	5%	1	-1
Hang Seng	5%	6	-6	5%	4	-4

Earnings after tax for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss.

2. Credit risk

Credit risks in respect of customers arise when they may not be able to settle their obligations as agreed. The credit standing of commercial partners defined in the Group's client credit policy is periodically reviewed at Group level. As there is no independent rating for most customers, their credit quality is assessed by local credit control departments taking into account their financial position, past experience and other factors. There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

In the context of securities trading, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. In general, issuer risk is minimized by only buying securities which are investment grade rated. An exception in the overall fixed income management is the high yield portfolio, which usually amounts to approximately CHF 50 million invested. The Group's management regularly monitors strict compliance with these directives.

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit standings are usually at least AA-. Exposure to this type of risk is closely monitored by Group management and is contained within strict and pre-determined limits.

Given the very high standards of creditworthiness applied to the commercial and financial partners, the default risks to which the Group is exposed are estimated to be limited.

Notes to the consolidated financial statements

3. Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. The close monitoring of liquidity at Group level and of the allocation of resources allows the Group's treasury department to maintain adequate levels of liquidity at all times. In order to meet any exceptional liquidity requirements, the Group maintains lines of credit with a number of financial institutions.

As at the balance sheet date, the available liquidity can be summarized as follows:

(CHF million)	31.12.2007	31.12.2006
Cash and cash equivalents	1 286	1 669
Marketable securities	653	507
Liquidity reserves	1 939	2 176
Committed credit facilities	589	592
./. Utilized credit facilities	-114	-153
Total liquidity reserves and non-utilized credit facilities	2 414	2 615

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

(CHF million)	less than 1 year	1–5 years	over 5 years
Non-current financial debts	13	433	87
Trade payables	303		
Other current payables	154		
Current financial debts	34		
Derivative financial instruments	783		
Total at 31.12.2007	1 287	433	87
Non-current financial debts	13	438	94
Trade payables	245		
Other current payables	115		
Current financial debts	72		
Derivative financial instruments	672		
Total at 31.12.2006	1 117	438	94

4. Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its net exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio.

Due to a comfortable liquidity situation and, as most of the financial debts are issued at fixed rates, interest rate fluctuations do not have a major impact on the Group's financial results.

In the context of balance sheet liabilities management, the Group has not used interest rate swaps during the two years under review, and there are no outstanding positions relating to interest rate swaps in the Group's financial statements.

Sensitivity analysis on bond investment risk

Changes in the market interest rates affect the fair value of bond securities classified in the category financial assets designated at fair value through profit or loss. The sensitivity analysis presented below is based on the assumption that the interest rates had increased/decreased by 100 basis points for all currencies with all other variables held constant.

At 31 December 2007 the impact on profit or loss after tax would have been an increase of CHF 7 million (2006: CHF 11 million) or decrease of CHF 7 million (2006: CHF 11 million) respectively.

Notes to the consolidated financial statements

b. Capital management

The primary objective of the Group's management is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. In this context, capital equals total Group equity.

As at 31 December 2007, equity represented 71.5% (31 December 2006: 71.9%) of total assets.

The Financial Asset and Currency Management Committee reviews the capital structure of the Group and of its subsidiaries on a regular basis. As part of the review, the committee considers the evolution of the capital structure and the risks associated with each class of capital.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new debt or redeem existing debt.

There were no changes in the Group's approach to capital management during the year.

Neither The Swatch Group Ltd nor any of its subsidiaries are subject to externally imposed capital requirements.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use and therefore of the expected future cash flows of the cash-generating units to which the goodwill is allocated. Furthermore, a suitable discount rate is chosen in order to calculate the present value of those cash flows. More details are given in Note 12.

Taxes and duties

The Group is subject to various taxes, levies and duties in numerous jurisdictions. In this respect the Group and its subsidiary companies are regularly exposed to audits by the various governmental bodies and authorities, where the outcome of findings particularly in the area of transfer pricing depends very often on individual judgments. Considerable judgment is required in determining tax provisions. Liabilities for anticipated tax audit issues are recognized based on estimates of whether additional taxes will be due. These estimates could prove to be too pessimistic, or in a negative scenario, additional tax liabilities would have to be recorded in the future.

Furthermore, the capitalization of deferred tax assets is based on assumptions about the future profitability of certain Group companies. There is an inherent risk that these estimates made by management may turn out to be too optimistic or too pessimistic.

Allowance for impaired receivables

To cover any shortfalls from current trade receivables, the Group records an allowance for impaired receivables based on historical information and on estimates in regard to the solvency of customers. Unexpected financial problems of major customers could lead to the situation where the recorded allowance is insufficient.

Warranty claims

The Group generally offers a two-year warranty for watches. Management estimates the related provision for future warranty claims mainly based on historical warranty claim information. Factors that could impact these estimates include the success of the Group's quality initiatives, parts and labour costs as well as customer behaviour. Any material change of these factors could result in higher or lower warranty costs for the Group.

Notes to the consolidated financial statements

Legal claims

Some Group companies are involved in litigation and disputes arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of facts known at the time of closing the books and recorded adequate provisions in line with IAS 37. However, there is an inherent risk that legal claims from adversary parties are successful and cause a significant outflow of economic benefits. Moreover, the Group being listed on the Swiss Stock Exchange also finds itself under permanent review regarding the observation of all rules and regulations. Despite the considerable effort to comply with the increasing number of laws, rules and regulations at all times and on all levels in all countries in which the Group develops activities, there remains a certain risk of oversight which could impact future earnings.

Other factors

The Group and its management is extremely sensitive to all sorts of risks of a globally operating Group with more than 160 affiliated companies in more than 30 countries around the globe. Despite considerable effort in assessing and managing risks on a constant basis, there are many imponderables which could develop a negative impact on the result of a future period.

b. Critical judgments in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

Inventory abatements

In determining net realizable values of inventory, management had to use judgment as to whether or not inventory abatements are necessary. Especially for spare parts used in customer service, but also for some watch components and finished goods, judgment calls were made in order to determine a realistic value for these inventory items. Unexpected changes in fashion, technology and customer needs could lead to situations where the actual inventory abatements would need to be increased.

Impairment of assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management determines the amount of impairment losses by applying judgment in regard to the recoverable amount and the future use of an impaired asset. If external factors such as market, technology, etc. change in a way not anticipated by management, there is a risk that additional impairment losses will have to be recorded.

Notes to the consolidated financial statements

5. Segment information

a. Primary segment information (by business segment)

As of 31 December 2007, income statement and balance sheet amounts are presented separately for "Corporate" and "Elimination". Comparative figures for 2006 have been adjusted accordingly.

Income statement

2007 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	4 710	625	601	5		5 941
– Group		1 059	29	4	–1 092	0
Gross sales	4 710	1 684	630	9	–1 092	5 941
– Third parties	4 456	591	594	5		5 646
– Group		1 033	29	4	–1 066	0
Net sales	4 456	1 624	623	9	–1 066	5 646
Operating profit	920	235	99	–18		1 236
– As a % of net sales	20.6	14.5	15.9			21.9
– As a % of total	74.4	19.0	8.0	–1.4		100.0

2006 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	3 912	562	571	5		5 050
– Group		831	22	3	–856	0
Gross sales	3 912	1 393	593	8	–856	5 050
– Third parties	3 723	527	564	6		4 820
– Group		808	22	2	–832	0
Net sales	3 723	1 335	586	8	–832	4 820
Operating profit	738	147	106	–18		973
– As a % of net sales	19.8	11.0	18.1			20.2
– As a % of total	75.8	15.1	10.9	–1.8		100.0

Notes to the consolidated financial statements

Balance sheet and other information

2007 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
Balance sheet						
– Segment assets	4 147	1 500	899	2 698	–1 803	7 441
– Equity in associated companies and joint ventures		5		1		6
Total assets	4 147	1 505	899	2 699	–1 803	7 447
Total liabilities	–1 653	–489	–336	–1 443	1 803	–2 118
Net assets	2 494	1 016	563	1 256	0	5 329

Other information

Capital expenditure	179	138	70	16		403
Depreciation on tangible assets	49	102	31	3		185
Amortization on intangible assets	5	4	7			16
Impairment charges		2	1			3

2006 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
Balance sheet						
– Segment assets	3 697	1 393	756	2 712	–1 660	6 898
– Equity in associated companies and joint ventures		5		1		6
Total assets	3 697	1 398	756	2 713	–1 660	6 904
Total liabilities	–1 584	–455	–234	–1 323	1 660	–1 937
Net assets	2 113	943	522	1 390	0	4 967

Other information

Capital expenditure	133	109	40	8		290
Depreciation on tangible assets	41	98	37	3		179
Amortization on intangible assets	3	5	5			13
Impairment charges		2	1			3

b. Secondary segment information (by geographic area)

(CHF million)	2007			2006		
	Net sales	Total assets	Capital expenditure	Net sales	Total assets	Capital expenditure
Europe	2 706	6 077	337	2 360	5 647	247
America	603	248	3	558	255	6
Asia	2 215	1 086	62	1 787	965	35
Oceania	79	36	1	69	37	2
Africa	43			46		
Total	5 646	7 447	403	4 820	6 904	290

Notes to the consolidated financial statements

6. Revenues and expenses

a. Analysis of sales revenue	(CHF million)	2007	2006
Sales of goods		5 600	4 795
Rendering of services		46	25
Total net sales		5 646	4 820

b. Personnel expense	(CHF million)	2007	2006
Wages and salaries		1 307	1 150
Social security costs		217	192
Share-based compensation (Note 28)		11	9
Pension costs – defined benefit plans (Note 23)		56	56
Pension costs – defined contribution plans (Note 23)		4	3
Other post-employment benefits (Note 23)		0	1
Total personnel expense		1 595	1 411

The development of the headcount is summarized in the following table:

(Unaudited)	2007	2006
Average annual headcount	22 505	20 572
Total headcount at 31 December	23 577	21 268
Men	10 426	9 688
Women	13 151	11 580
Swiss contracts	12 460	11 423
Non-Swiss contracts	11 117	9 845

Headcount is expressed as the number of employment contracts. The number of employees includes home workers, trainees and auxiliary staff.

c. Other operating expenses	(CHF million)	2007	2006
Marketing, sales and administration		867	751
Subcontracting and other direct costs of sales		334	259
Maintenance, rents and energy		364	296
Other operating expenses		55	90
Total other operating expenses		1 620	1 396

d. Research and development costs	R&D costs amounted to CHF 155 million in 2007, representing 2.7% of net sales (compared with CHF 140 million or 2.9% in 2006).
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e. Net financial result	(CHF million)	2007	2006
Interest income		47	40
Income from marketable securities and derivatives		30	85
Net currency result		-14	-16
Other financial expense		-4	-3
Financial income		59	106
Interest on convertible bond		-14	-14
Other interest		-8	-8
Interest expense		-22	-22
Net financial result		37	84

Notes to the consolidated financial statements

7. Income taxes

a. Income tax expenses	(CHF million)	2007	2006
	Current income taxes	312	200
	Adjustments recognized for current taxes of prior periods	1	-4
	Deferred income taxes	-55	31
	Total income taxes	258	227

b. Reconciliation of the Group's effective tax rate Since the Group operates worldwide, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of tax rates in the relevant tax jurisdictions.

		2007	2006
		%	%
	Group's average expected tax rate	21.3	22.7
	Tax effect of:		
	- Change in the applicable tax rate on temporary differences	-0.3	0.0
	- Capitalization of tax assets from previous years and utilization of tax losses/unused tax credits	-0.3	0.0
	- Non-taxable income/non-deductible expenses	-0.3	-0.7
	- Items taxable at reduced rates	-0.7	-0.7
	- Other items	0.6	0.2
	Group's effective tax rate	20.3	21.5

c. Current income tax	(CHF million)	31.12.2007	31.12.2006
	Current income tax assets	6	3
	Current income tax liabilities	-204	-154
	Net current income tax liability	-198	-151

d. Deferred income tax Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The deferred tax asset and liability amounts (shown in the following table) are calculated after offsets, and were presented on the consolidated balance sheet as follows:

(CHF million)	31.12.2007	31.12.2006
Deferred tax assets	167	140
Deferred tax liabilities	-361	-387
Net deferred tax liability	-194	-247

The position of net deferred tax liability can be reconciled as follows:

(CHF million)	2007	2006
Balance at 1 January	-247	-208
Translation differences and other movements	-2	-3
Acquisitions of Group companies	0	-5
Income statement	55	-31
Balance at 31 December	-194	-247

Notes to the consolidated financial statements

The gross value of unused tax loss carryforwards which have, or have not, been recognized as deferred tax assets, with their expiry dates is as follows:

(CHF million)	Not recognized	Recognized	Total 2007
One year	0	0	0
Two years	4	0	4
Three years	8	10	18
Four years	7	1	8
Five years	12	1	13
Six years	15	3	18
More than six years	78	40	118
Total at 31.12.2007	124	55	179

(CHF million)	Not recognized	Recognized	Total 2006
One year	2	0	2
Two years	4	4	8
Three years	9	0	9
Four years	12	4	16
Five years	8	2	10
Six years	13	2	15
More than six years	76	24	100
Total at 31.12.2006	124	36	160

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

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

Deferred tax assets

Source (CHF million)	31.12.2007	31.12.2006
Carryforward tax losses/tax credits	18	12
Non-current assets	43	30
Current assets	127	105
Current liabilities	21	22
Non-current liabilities	14	12
Total	223	181
Offset	-56	-41
Total deferred tax assets on the balance sheet	167	140

Deferred tax liabilities

Source (CHF million)	31.12.2007	31.12.2006
Non-current assets	-110	-96
Current assets	-204	-183
Current liabilities	-9	-6
Non-current liabilities	-94	-143
Total	-417	-428
Offset	56	41
Total deferred tax liabilities on the balance sheet	-361	-387

In 2007 and 2006, there was no deferred tax impact on items charged or credited to equity.

Notes to the consolidated financial statements

8. Earnings per share

a. Basic

	2007	2006
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 011	827
Percentage of registered shares outstanding in comparison with the share capital outstanding	42.4%	42.5%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	57.6%	57.5%
Registered shares		
Net income attributable to registered shareholders (CHF million)	429	351
Average number of shares outstanding	115 882 234	118 110 673
Basic earnings per share (in CHF)	3.70	2.97
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	582	476
Average number of shares outstanding	31 485 875	31 981 500
Basic earnings per share (in CHF)	18.49	14.87

b. Diluted

	2007	2006
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 011	827
Interest expense on convertible debt (CHF million)	14	14
Net income used to determine diluted EPS (CHF million)	1 025	841
Percentage of diluted registered shares in comparison with the diluted share capital outstanding	44.2%	44.2%
Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding	55.8%	55.8%
Registered shares		
Net income attributable to registered shareholders (CHF million)	453	372
Average number of shares outstanding – basic (as above)	115 882 234	118 110 673
Potentially dilutive number of shares from convertible bond	8 398 368	8 399 592
Potentially dilutive number of shares from options outstanding	194 119	219 836
Average number of shares outstanding – diluted	124 474 721	126 730 101
Diluted earnings per share (in CHF)	3.64	2.93
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	572	469
Average number of shares outstanding	31 485 875	31 981 500
Diluted earnings per share (in CHF)	18.18	14.66

9. Dividends paid and proposed

On 11 May 2007, the Annual General Meeting approved the distribution of a dividend of CHF 0.70 per registered share and CHF 3.50 per bearer share. The distribution to holders of outstanding shares totaled CHF 192 million (2006: CHF 140 million) and has been recorded against retained earnings in 2007.

At the Annual General Meeting on 21 May 2008, payment of the following dividends for 2007 will be proposed:

	Registered	Bearer
Dividend per share	CHF 0.85	CHF 4.25
Total dividend	CHF 108 885 000	CHF 134 555 000

The financial statements ending 31 December 2007 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2008.

Notes to the consolidated financial statements

10. Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
(CHF million)					
Historical cost, 1 January 2007	911	2 385	336	63	3 695
Translation differences	1	13		-1	13
Acquisitions of subsidiaries (Note 14)		1			1
Additions	40	208	61	31	340
Disposals	-4	-28	-6		-38
Transfers	38	-10	-4	-40	-16
Historical cost, 31 December 2007	986	2 569	387	53	3 995
Accumulated depreciation, 1 January 2007	-444	-1 826	-219	-1	-2 490
Translation differences	-1	-10			-11
Annual depreciation	-21	-132	-31		-184
Impairment					0
Depreciation on disposals	3	26	5		34
Transfers		10	3		13
Accumulated depreciation, 31 December 2007	-463	-1 932	-242	-1	-2 638
Net book value, 31 December 2007	523	637	145	52	1 357
Insured value					4 679
Net book value of property, plant and equipment under finance lease contracts					1
Total non-current assets pledged to guarantee the commitments of Group companies					86

	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
(CHF million)					
Historical cost, 1 January 2006	918	2 278	311	28	3 535
Translation differences	-11	7			-4
Acquisitions of subsidiaries (Note 14)	7	5	1		13
Additions	13	140	46	37	236
Disposals		-39	-15		-54
Transfers	-16	-6	-7	-2	-31
Historical cost, 31 December 2006	911	2 385	336	63	3 695
Accumulated depreciation, 1 January 2006	-440	-1 729	-213	0	-2 382
Translation differences		-6			-6
Annual depreciation	-19	-131	-28		-178
Impairment		-2			-2
Depreciation on disposals		37	14		51
Transfers	15	5	8	-1	27
Accumulated depreciation, 31 December 2006	-444	-1 826	-219	-1	-2 490
Net book value, 31 December 2006	467	559	117	62	1 205
Insured value					4 516
Net book value of property, plant and equipment under finance lease contracts					1
Total non-current assets pledged to guarantee the commitments of Group companies					93

Notes to the consolidated financial statements

11. Investment property

(CHF million)	2007	2006
Historical cost, 1 January	49	46
Additions	10	0
Disposals	0	0
Transfers	1	3
Historical cost, 31 December	60	49
Accumulated depreciation, 1 January	-24	-23
Annual depreciation	-1	-1
Impairment	0	0
Depreciation on disposals	0	0
Transfers	-1	0
Accumulated depreciation, 31 December	-26	-24
Net book value, 31 December	34	25
Rental income	3	3
Direct operating expenses arising from investment properties that generated rental income	-2	-2
Direct operating expenses arising from investment properties that did not generate rental income	0	0

Based on capitalized rental income for rented buildings plus an estimated market value for land reserves, the fair value of the investment properties is estimated at CHF 60 million at 31 December 2007 compared to CHF 48 million at 31 December 2006. No external independent valuation has been performed.

Notes to the consolidated financial statements

12. Intangible assets

(CHF million)	Capitalized development costs	Other intangible assets	Goodwill	Total
Historical cost, 1 January 2007	27	159	226	412
Translation differences		2		2
Acquisitions of subsidiaries (Note 14)		1	6	7
Additions	8	19		27
Disposals		-13		-13
Transfers	-2	2		0
Historical cost, 31 December 2007	33	170	232	435
Accumulated amortization, 1 January 2007	-8	-89	0	-97
Translation differences		-1		-1
Annual amortization	-4	-12		-16
Impairment				0
Amortization on disposals		13		13
Transfers				0
Accumulated amortization, 31 December 2007	-12	-89	0	-101
Net book value, 31 December 2007	21	81	232	334

(CHF million)	Capitalized development costs	Other intangible assets	Goodwill	Total
Historical cost, 1 January 2006	33	112	207	352
Translation differences		2		2
Acquisitions of subsidiaries (Note 14)	3	4	19	26
Additions	8	31		39
Disposals	-4	-4		-8
Transfers	-13	14		1
Historical cost, 31 December 2006	27	159	226	412
Accumulated amortization, 1 January 2006	-21	-68	0	-89
Translation differences				0
Annual amortization	-3	-10		-13
Impairment	-1			-1
Amortization on disposals	3	3		6
Transfers	14	-14		0
Accumulated amortization, 31 December 2006	-8	-89	0	-97
Net book value, 31 December 2006	19	70	226	315

There are no accumulated impairment losses in goodwill. Within intangible assets, only goodwill is assumed to have an indefinite life.

Notes to the consolidated financial statements

Goodwill impairment testing

Goodwill is allocated to the Group's cash-generating units (CGUs), which correspond to the profit centers for the segment "Watches & Jewelry" and the reportable segments for the business segments "Production" and "Electronic Systems". A segment-level summary of the goodwill allocation is presented below:

(CHF million)	31.12.2007	31.12.2006
Watches & Jewelry	155	154
Production	32	27
Electronic Systems	45	45
Total	232	226

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rate. The discount rates used are derived from a capital asset pricing model using data from Swiss capital markets and reflect specific risks relating to the relevant segments. This is then adjusted to a pre-tax rate.

Ranges of key assumptions used

	2007			2006		
	Watches & Jewelry	Production	Electronic Systems	Watches & Jewelry	Production	Electronic Systems
Estimated growth rate beyond five-year period	1%	1%	0.5%	0%–1%	1%	1%
Expected gross margin	56%–68%	27%–32%	35%–40%	56%–68%	27%–29%	35%–39%
Pre-tax discount rate	6.5%	7.4%	7.6%	7.0%	8.8%	9.6%

No impairment charge for goodwill had to be recorded in 2007. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

13. Investments in associated companies (including joint ventures)

Investments in associated companies are essentially investments in other companies, resulting in the ownership of 20–50% of their voting rights. In 2007, five such investments, which are listed in Note 32, were recognized using the equity method, since the Group exercised a significant influence over their activities.

In 2006, the Group entered into a joint venture in the US, with an interest of 50%, the organization being under joint control. This investment has been accounted for using the equity method. As the operations started only in 2007, the joint venture did not generate any significant result in the previous year. No material commitments existed at the balance sheet date.

The carrying value of investments in associates and joint ventures was CHF 6 million in 2007 (CHF 6 million in 2006). The Swatch Group's share in these companies generated after-tax income of less than CHF 1 million in 2007 (2006: CHF 1 million). This income is recognized in the net financial result.

Notes to the consolidated financial statements

14. Business combinations

In November 2007, the Group acquired 100% of the issued capital of Indexor SA, a watch index manufacturer based in La Chaux-de-Fonds (Switzerland). In another small transaction, the business of a customer service agent in the US was acquired. These were the only business combinations effected in the financial year 2007.

In February and March 2006, the Group had acquired 100% of the issued capital of WIGE Data GmbH, Leipzig and The Swatch Group (RUS) OOO, Moscow. In the second half of the year 2006, two dial producers were acquired, whereof one in Germany (Deutsche Zifferblatt Manufaktur GmbH) and one in Switzerland (MOM Le Prélet SA).

All acquisitions have been accounted for using the purchase method of accounting.

The identifiable assets and liabilities acquired in the transactions, the goodwill arising and the cash outflow on acquisitions were as follows:

	2007		2006	
	Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount
(CHF million)				
Property, plant and equipment	1	1	13	12
Intangible assets	1	0	7	1
Other non-current assets	0	0	6	1
Current assets	2	2	12	10
Cash and cash equivalents	0	0	5	5
Provisions	0	0	0	-1
Deferred tax liabilities	0	0	-5	0
Other non-current liabilities	0	0	-4	-3
Current liabilities	-2	-2	-6	-6
Net assets acquired	2	1	28	19
Goodwill	6		19	
Total purchase consideration	8		47	
Cash and cash equivalents acquired	0		-5	
Consideration payable	0		-1	
Cash outflow on acquisitions	8		41	

The total acquisition cost basically represented the cash payments made to the vendors. The costs directly attributable to the acquisitions were below CHF 1 million (2006: below CHF 1 million).

The goodwill arising from these acquisitions is attributable to the expected operating synergies from the combinations, the acquired know-how and the reduction of bottlenecks in the production chain.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date were below CHF 1 million (2006: below CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2007 (1 January 2006), the Group's revenue would have been CHF 5 million (2006: CHF 14 million) higher, and profit would have changed by less than CHF 1 million (2006: less than CHF 1 million).

In June 2006 the Group had acquired an additional 44% of its subsidiaries in Singapore and Malaysia for a consideration of CHF 25 million, thereby reducing the minority interests in both entities from 49% to 5%. In this case IFRS 3 Business Combinations did not apply since the Group already exercised control before the transaction. Applying the "economic entity model", the resulting goodwill was charged directly against equity.

Notes to the consolidated financial statements

15. Other non-current assets

(CHF million)	Key money	Security deposits	Other financial assets	Total
Balance at 1 January 2007	43	13	4	60
Translation differences	1			1
Acquisitions of subsidiaries (Note 14)				0
Additions	19	6	1	26
Disposals		-2		-2
Transfers to "other receivables"	-15			-15
Balance at 31 December 2007	48	17	5	70
Term 1–5 years	36	11	5	52
Term >5 years	12	6		18
Balance at 31 December 2007	48	17	5	70

(CHF million)	Key money	Security deposits	Other financial assets	Total
Balance at 1 January 2006	36	10	5	51
Translation differences	1		-1	0
Acquisitions of subsidiaries (Note 14)	6			6
Additions	11	4		15
Disposals		-1		-1
Transfers to "other receivables"	-11			-11
Balance at 31 December 2006	43	13	4	60
Term 1–5 years	25	8	4	37
Term >5 years	18	5		23
Balance at 31 December 2006	43	13	4	60

Security deposits as well as other financial assets are considered as financial instruments (category loans and receivables).

Key money that the Group pays when renting shops in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain. The non-current portion is recognized under "Other non-current assets", while the current component is transferred to "Other current assets".

16. Inventories

(CHF million)	31.12.2007	31.12.2006
Raw materials and components	552	419
Work in progress	375	325
Semi-finished goods	556	414
Finished goods	650	591
Spare parts for customer service	140	128
Total inventories	2 273	1 877

Inventories with risk of obsolescence have been adjusted to their net realizable value. Adjustments of this nature accounted for CHF 20 million in 2007 (CHF 24 million in 2006).

Notes to the consolidated financial statements

17. Trade receivables

(CHF million)	31.12.2007	31.12.2006
Trade receivables – gross	896	774
Allowance for impaired receivables	-21	-24
Total trade receivables – net	875	750

The evolution of the allowance for impaired receivables can be summarized as follows:

(CHF million)	2007	2006
Balance at 1 January	-24	-31
Translation differences	0	0
Utilization	6	8
Reversal	3	4
Creation	-6	-5
Balance at 31 December	-21	-24

The individually impaired receivables mainly relate to amounts overdue more than 12 months and to customers with solvency problems.

The following table provides details of the age of trade receivables that are past due but not impaired:

(CHF million)	31.12.2007	31.12.2006
Neither past due nor impaired	696	588
<3 months	156	144
3–6 months	16	13
6–12 months	7	5
Total past due but not impaired	179	162
Total trade receivables	875	750

Based on past experience with the quality of trade receivables, no material increase in credit losses is expected.

Net trade receivables are recognized in the following major currencies:

(CHF million)	31.12.2007	31.12.2006
CHF	212	193
CNY	36	28
EUR	262	204
JPY	44	49
HKD	35	33
USD	109	98
Other currencies	177	145
Total trade receivables – net	875	750

Invoices are essentially issued in the currency of the primary economic environment in which the entity operates. The maximum exposure to credit risk at the balance sheet date is the fair value of trade receivables. The Group does not hold any collateral as security.

Notes to the consolidated financial statements

18. Other current assets

(CHF million)	31.12.2007	31.12.2006
Other current receivables		
VAT to be refunded	135	134
Other receivables	83	128
Total other current receivables	218	262
Prepayments		
Key money	12	9
Other prepayments and accrued income	153	74
Total prepayments	165	83
Total other current assets	383	345

Current income tax assets are reported on a separate balance sheet line and are also included in Note 7 Income taxes. Impairments of CHF 3 million were recognized on other receivables (2006: zero). Except for prepayments, other current assets are considered as financial instruments.

19. Marketable securities and derivative financial instruments

(CHF million)	31.12.2007	31.12.2006
Equity securities	210	70
Bond securities	231	229
Investment funds	70	104
Other investments	142	104
Total marketable securities	653	507
Derivative financial instruments	3	2
Total marketable securities and derivative financial instruments	656	509

All marketable securities and derivative financial assets are classified in the category "financial assets at fair value through profit or loss". Changes in fair values are recorded in the income statement (see Note 6e).

Other investments contain essentially the 8.09% (2006: 7.24%) stake in Xinyu Hengdeli Holdings Ltd., whose shares are listed on the Hong Kong stock exchange.

Notes to the consolidated financial statements

The table below gives an overview of the contract values and fair values of derivative financial instruments by type of contract.

Type	31.12.2007			31.12.2006		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
(CHF million)						
Forward foreign exchange rate contracts	626	3	-1	672	2	-3
Currency options	0	0	0	197	0	-4
Options on equity securities	0	0	0	0	0	0
Total trading	626	3	-1	869	2	-7
Forward foreign exchange rate contracts	157	0	-1	0	0	0
Currency options	0	0	0	0	0	0
Total hedge accounting	157	0	-1	0	0	0
Total	783	3	-2	869	2	-7

The cash flows related to the hedges shown above are expected to occur and to affect the income statement in the first six months of 2008. In 2007, CHF 1 million was charged to equity as a result of the application of hedge accounting (2006: zero), and there was no impact on the income statement. The derivative financial liabilities are included in current financial debts.

The detail by currency of the contract values of derivative financial instruments can be summarized as follows:

Type	2007					2006				
	EUR	USD	JPY	Other	Total	EUR	USD	JPY	Other	Total
(CHF million)										
Forward foreign exchange rate contracts	440	0	26	160	626	429	77	12	154	672
Currency options	0	0	0	0	0	185	12	0	0	197
Options on equity securities	0	0	0	0	0	0	0	0	0	0
Total trading	440	0	26	160	626	614	89	12	154	869
Forward foreign exchange rate contracts	157	0	0	0	157	0	0	0	0	0
Currency options	0	0	0	0	0	0	0	0	0	0
Total hedge accounting	157	0	0	0	157	0	0	0	0	0
Total	597	0	26	160	783	614	89	12	154	869

At 31 December 2007, the contracts have a term of up to three months. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

At 31 December 2007, all of the hedging instruments used mature within twelve months and were contracted with the intention of hedging anticipated transactions which are expected to occur in 2008. The instruments are intended to hedge the foreign currency risk arising from highly probable forecast intra-group transactions with consolidated foreign currency exchange risk. At 31 December 2007 there was no ineffectiveness to be recorded from cash flow hedges.

20. Cash and cash equivalents

(CHF million)	31.12.2007	31.12.2006
Current accounts and liquid assets	526	776
Short-term deposits with financial institutions	760	893
Total	1 286	1 669

The average yield on short-term bank deposits corresponds to the average interest rate on an investment on the capital and money markets with a term of up to three months.

Notes to the consolidated financial statements

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include the following items:

(CHF million)	31.12.2007	31.12.2006
Cash and cash equivalents	1 286	1 669
Current account overdrafts (Note 22)	-2	-3
Total	1 284	1 666

21. Share capital and reserves

Over the past three years, the share capital of The Swatch Group Ltd has changed as follows:

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2004	137 051 327 at CHF 0.45	33 506 950 at CHF 2.25	137 063 734.65
Cancellation ¹⁾	-2 140 000 at CHF 0.45	-449 500 at CHF 2.25	-1 974 375.00
31.12.2005	134 911 327 at CHF 0.45	33 057 450 at CHF 2.25	135 089 359.65
Cancellation ²⁾	-3 381 327 at CHF 0.45	-693 450 at CHF 2.25	-3 081 859.65
31.12.2006	131 530 000 at CHF 0.45	32 364 000 at CHF 2.25	132 007 500.00
Cancellation ³⁾	-3 430 000 at CHF 0.45	-704 000 at CHF 2.25	-3 127 500.00
31.12.2007	128 100 000 at CHF 0.45	31 660 000 at CHF 2.25	128 880 000.00

¹⁾ Buyback of shares on the Group's 2nd trading line and cancellation following the decision of the AGM of 18 May 2005.

²⁾ Buyback of shares on the Group's 2nd trading line and cancellation following the decision of the AGM of 19 May 2006.

³⁾ Buyback of shares on the Group's 2nd trading line and cancellation following the decision of the AGM of 11 May 2007.

At year-end 2007 as well as 2006, there was no authorized or conditional capital. All issued shares are fully paid. No benefit certificates exist. In accordance with the articles of incorporation of the Swatch Group, the Board of Directors shall refuse a registered share ownership of more than 5% per shareholder. In exceptional cases, the Board of Directors may consent to an exception to this rule.

Shares of The Swatch Group Ltd held by the Group are recognized in the consolidated financial statements at their historical cost. The value of these shares is charged against consolidated equity.

Under the completed share repurchase program, which ran from 30 March 2007 to 22 November 2007, 2 850 000 registered shares and 570 000 bearer shares were repurchased. A new repurchase program with a total value of CHF 420 million started on 10 December 2007. As at 31 December 2007, 450 000 registered shares and 90 000 bearer shares had been repurchased through this program.

Equity increased by CHF 11 million in 2007 (net of taxes) (2006: CHF 9 million), due to the stock option plan. Details to the share options issued in connection with the employee stock option plan are given in Note 28.

Other reserves can be summarized as follows:

(CHF million)	31.12.2007	31.12.2006
Equity component of convertible bond	16	16
Cash flow hedges:		
- Fair value result	-1	0
- Tax on fair value result	0	0
- Transfers to material purchases	0	0
- Transfers to financial result	0	0
Translation and other differences	-38	-21
Total other reserves	-23	-5

Notes to the consolidated financial statements

22. Financial debts and derivative financial instruments

(CHF million)	31.12.2007	31.12.2006
Convertible bond	402	399
Other non-current debt	83	85
Total non-current financial debts	485	484
Current account overdrafts	2	3
Short-term leasing commitments	0	1
Short-term bank debt	32	68
Total current financial debts	34	72
Derivative financial instruments	2	7
Total current financial debts and derivative financial instruments	36	79
Total financial debts	521	563

The exposure of the Group's financial debts to interest rate changes and the contractual repricing dates at the balance sheet date are as follows:

(CHF million)	less than 1 year	1–5 years	over 5 years	Total
At 31.12.2007	36	405	80	521
At 31.12.2006	79	399	85	563

The carrying amounts of the Swatch Group's financial debts are denominated in the following currencies:

(CHF million)	31.12.2007	31.12.2006
Swiss Franc (CHF)	404	400
Japanese Yen (JPY)	99	132
Euro (EUR)	6	12
Other currencies	12	19
Total	521	563

Convertible bond

On 15 October 2003, The Swatch Group Finance (Luxembourg) SA issued convertible bonds valid from 15 October 2003 to 15 October 2010 and a coupon of 2.625%, for a total of CHF 411 600 000. During the conversion period, these bonds with a nominal value of CHF 5 000 may be converted into registered shares of The Swatch Group Ltd at CHF 49.00 each.

The bond issue has been split into an equity and a liability component, recognized on the balance sheet under the corresponding headings. The fair value of the liability component, recognized as long-term debt, was determined by reference to the market rate (3.248% per year) of an equivalent non-convertible bond. The residual value (the conversion option) was recognized as equity.

Until conversion or redemption of the bond issue, the liability component and all related adjustments will be accounted for using the effective interest rate method. The equity portion was determined at the time of issue and will not be modified at a later date.

The convertible bond issue is recognized as follows:

(CHF million)	2007	2006
Liability component at 1 January	399	396
Coupon interest at market rate	14	14
Coupon interest at 2.625%	-11	-11
Liability component at 31 December	402	399

In 2007, no bonds had been converted (2006: 16 bonds with a nominal value of CHF 5 000 each). The closing rate of the convertible bond on the Swiss Stock Exchange at end-2007 was 142.10% (125.79% at end-2006).

Notes to the consolidated financial statements

23. Retirement benefit obligations

a. Defined benefit plans

The Group has numerous independent pension plans. Defined benefit pension plans cover a significant number of the Group's employees. The Group's Swiss pension fund is also treated as a defined benefit pension plan. Other defined benefit plans are located in Japan, Korea, Italy, Taiwan, Malaysia, Germany, UK and the USA. The defined benefit obligations and related assets are reassessed annually by independent actuaries. The following is a summary of the status of the Group's defined benefit pension plans:

(CHF million)	2007	2006
Present value of funded obligations	-3 264	-3 097
Fair value of plan assets	3 298	3 184
Excess of assets/(liabilities) at 31 December	34	87
Present value of unfunded obligations	-18	-9
Unrecognized actuarial loss	6	12
Unrecognized past-service cost	0	0
Unrecognized surplus due to asset ceiling	-44	-108
Net liability in the balance sheet at 31 December	-22	-18

Some surpluses have not been recognized because the criteria for capitalization are not fulfilled.

Periodic pension cost for defined benefit plans

(CHF million)	2007	2006
Current service cost	-85	-76
Interest cost	-103	-98
Expected return on plan assets	128	121
Actuarial gains/(losses)	-111	20
Past-service cost	0	0
Employee contributions	50	47
Gains/(Losses) on curtailment	1	0
Impact of asset ceiling	64	-70
Total periodic pension cost	-56	-56

Movement in the fair value of plan assets

(CHF million)	2007	2006
1 January	3 184	2 990
Expected return on plan assets	128	121
Actuarial gains/(losses)	38	127
Exchange differences	-5	-1
Employer contributions	62	58
Employee contributions	50	47
Benefits paid	-159	-158
31 December	3 298	3 184

Pension plan assets include the company's registered shares with a fair value of CHF 366 million (2006: CHF 299 million) and the company's bearer shares with a fair value of CHF 68 million (2006: CHF 54 million). No buildings occupied by the Group were included in the pension plan assets.

Notes to the consolidated financial statements

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The actual return on plan assets amounted to CHF 166 million (2006: CHF 248 million).

The Group expects to contribute CHF 62 million to its post-employment benefit plans in 2008.

Asset allocation of plan assets

	31.12.2007		31.12.2006	
	CHF million	%	CHF million	%
Equity	1 281	38.8	1 152	36.2
Bonds	1 309	39.7	1 388	43.6
Real estate	424	12.9	418	13.1
Other assets	284	8.6	226	7.1
Total	3 298	100.0	3 184	100.0

Movement in the present value of defined benefit obligation

(CHF million)	2007	2006
1 January	-3 106	-2 997
Current service cost	-85	-76
Interest cost	-103	-98
Actuarial gains/(losses)	-143	-94
Exchange differences	5	3
Benefits paid	161	158
Reclassifications ¹⁾	-13	0
Curtailments	2	0
Settlements	0	-2
31 December	-3 282	-3 106

¹⁾ Reclassification from other post-employment benefit obligations.

Principal actuarial assumptions used

	2007	2006
	%	%
	Weighted average	Weighted average
Discount rate	3.25	3.25
Expected return on plan assets	4.00	4.00
Future salary increases due to inflation	1.25	1.25
Future pension increases due to inflation	0.00	0.00

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

Notes to the consolidated financial statements

Defined benefit plans: summary

(CHF million)	2007	2006	2005
Present value of defined benefit obligation	-3 282	-3 106	-2 997
Fair value of plan assets	3 298	3 184	2 990
Over/(under) funding	16	78	-7
Experience adjustments on plan liabilities (loss)	133	70	5
Experience adjustments on plan assets (gain)	38	127	206

b. Post-employment medical benefits plan

The Group operates a post-employment medical scheme in the USA. It represents a defined benefit obligation at 31 December 2007 of CHF 3 million (2006: CHF 4 million). This plan is included in the defined benefit obligations presented above. The method of accounting and the frequency of valuation are similar to those used for benefit pension schemes. A one percentage point increase or decrease in assumed medical cost trend rates would lead to an absolutely insignificant change in the defined benefit obligation.

c. Other post-employment benefit obligations

In addition to the defined benefit pension plans, the Group has liabilities for other post-employment benefits for employees working abroad. At 31 December 2007, these liabilities amounted to CHF 3 million (31 December 2006: CHF 14 million). In 2007, CHF 13 million were reclassified to defined benefit plans.

d. Reconciliation

The reconciliation of the balance sheet amount of retirement benefit obligations is as follows:

(CHF million)	31.12.2007	31.12.2006
Net liability for defined benefit plans	-22	-18
Other post-employment benefit obligations	-3	-14
Total retirement benefit obligations	-25	-32

e. Defined contribution plans

Amounts recognized in the consolidated income statement relating to contributions to defined contribution plans represent the employer's contributions and are calculated according to the regulations of various pension institutions. In 2007, these contributions amounted to CHF 4 million (CHF 3 million in 2006).

24. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 1 January 2007	70	16	29	115
Translation differences	1			1
Additional provisions	85	1	7	93
Reversal of provisions	-4		-5	-9
Provisions used during the year	-69		-9	-78
Balance at 31 December 2007	83	17	22	122

Analysis of total provisions

(CHF million)	31.12.2007	31.12.2006
Non-current provisions	58	58
Current provisions	64	57
Total	122	115

Notes to the consolidated financial statements

- a. Warranty** In the majority of cases, the Group offers a two-year warranty covering the repairs or replacement of products that do not perform to customers' satisfaction. The provision made at year-end to cover future warranty costs is based on past experience with respect to the volume of repairs and returns.
- b. Legal risks** Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of facts known at the time of closing the books and recorded adequate provisions in line with IAS 37. However, there is an inherent risk that legal claims from adversary parties are successful and cause a significant outflow of economic benefits.
- c. Other** Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties.

25. Other current liabilities

(CHF million)	31.12.2007	31.12.2006
Advance payments	16	15
VAT due	22	14
Other payables	116	86
Total other current payables	154	115
Accrued expenses and deferred income	428	326
Total other current liabilities	582	441

Current income tax liabilities are reported on a separate balance sheet line and are also included in Note 7 Income taxes. Except for accrued expenses and deferred income, other current liabilities are considered as financial instruments.

26. Commitments and contingencies

- a. Guarantees and sureties** At 31 December 2007, guarantees to third parties as security for commitments of Group companies amounted to less than CHF 1 million (less than CHF 1 million at end-2006). Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 19 million at 31 December 2007 (CHF 6 million at end-2006). This increase is due to cash deposits in favor of landlords (retail business rental contracts).
- b. Leasing, rental and other commitments** Operating leasing commitments for the Group not recognized in the balance sheet are as follows:

(CHF million)	31.12.2007	31.12.2006
Less than 1 year	117	87
Between 1 and 5 years	298	229
Over 5 years	257	132
Total	672	448
Proportion of contracts with renewal option (% of total amount)	74.6	68.4
Maximum risk (% of total amount)	93.1	85.4

Notes to the consolidated financial statements

The figures in the preceding table include all rental contracts for buildings, a major part of which relate to the Group's retail business, and to all other standard rental contracts existing at 31 December 2007. The Shanghai-based Swatch Art Peace Hotel contract explained a main part of the increase. Leasing costs amounting to CHF 107 million were recognized in the 2007 income statement (CHF 91 million in 2006). A sublease clause is included in a large number of rental contracts for retail shops. Moreover, if the need arises, the Group may negotiate early termination of a lease contract with exit terms considerably more favorable than the payment of the entire commitment specified in the initial contract.

Other commitments relating to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2007, amounted to CHF 5 million (CHF 21 million in the previous year).

c. Contingent liabilities

Some Group companies are involved in litigation and disputes arising from the ordinary course of business and they may be liable to pay compensation. The effect of these lawsuits, not all of which are covered by insurance, on future operations and earnings is not predictable.

27. Cash generated from operations

(CHF million)	Notes	2007	2006
Net income		1 015	830
Result from associated companies		0	-1
Taxes	(7)	258	227
Depreciation of tangible assets	(10, 11)	185	179
Amortization of intangible assets	(12)	16	13
Impairment charge	(10, 12, 18)	3	3
Profit on sale of fixed assets		-4	-3
Loss on sale of fixed assets		3	2
Fair value gains on marketable securities		-51	-73
Fair value losses on marketable securities		62	9
Interest income	(6e)	-47	-40
Interest expense	(6e)	22	22
Expenses for equity-settled equity compensation plan	(28)	11	9
Changes in working capital (without liquid funds)			
– Inventories		-400	-155
– Trade and other receivables		-149	-33
– Trade payables and other current liabilities		189	41
Changes in provisions		6	16
Changes in pensions and other retirement benefits		-7	0
Cash generated from operations		1 112	1 046

28. Employee stock option plan

When the Hayek Pool acquired control of the Swatch Group, a block of shares was reserved in 1986 for an equity-settled management stock option plan.

Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after twelve months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. When the options are exercised, Group equity increases by the corresponding amounts.

At the end of 2007, this portfolio comprised 2 793 762 registered shares (3 015 161 at the end of 2006). In 2007, 221 399 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

Notes to the consolidated financial statements

Movements in the number of share options outstanding were as follows:

	2007	2006
	Options	Options
Options outstanding at 1 January	240 773	241 381
Granted	187 091	245 607
Forfeited or lapsed	-137	-1 763
Exercised	-221 399	-244 452
Options outstanding at 31 December	206 328	240 773

All options included in the table above have an exercise price of CHF 4.00.

Share options outstanding at the end of the year have the following expiry date:

Expiry date	Share options	
	31.12.2007	31.12.2006
2007		158 956
2008	143 892	81 817
2009	62 436	
Total	206 328	240 773

The fair value of the options granted during the period was determined by using the Black-Scholes option pricing model. The following table shows the assumptions on which the valuation of share options granted in 2007 and 2006 was based:

	2007		2006	
	Tranche exercisable in 1 year	Tranche exercisable in 2 years	Tranche exercisable 1 year	Tranche exercisable 2 years
Grant date	12 July 2007	12 July 2007	12 July 2006	12 July 2006
Expiration date	12 July 2008	12 July 2009	12 July 2007	12 July 2008
Closing share price on grant date	CHF 69.15	CHF 69.15	CHF 43.05	CHF 43.05
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Volatility	19.6%	19.6%	20.1%	20.1%
Expected dividend yield	CHF 0.70	CHF 0.70	CHF 0.50	CHF 0.50
Risk-free interest rate	3.05%	3.36%	2.00%	2.30%
Market value of option at grant date	CHF 64.57	CHF 64.71	CHF 38.63	CHF 38.73

The first tranche that was immediately exercisable had the same assumptions as shown above (2007: grant date 12 July 2007, share price at grant date CHF 69.15, exercise price CHF 4.00; 2006: grant date 12 July 2006, share price at grant date CHF 43.05, exercise price CHF 4.00).

The personnel expense recorded in the 2007 income statement as a result of applying IFRS 2 calculation amounted to CHF 11 million (2006: CHF 9 million).

29. Related party transactions

a. Principal shareholders

On 31 December 2007, the Hayek Pool and its related companies, institutions and individuals held 62 311 067 registered shares and 200 550 bearer shares, equivalent to 39.1% of the shares issued (previous year: 38.0%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of Mr N. G. Hayek and related parties controlled in total 38.5% of the shares issued compared with 37.3% at the end of year 2006.

As of the same date, Mrs Esther Grether's group controlled 7.2% of the shares issued (compared with 7.3% a year earlier).

Notes to the consolidated financial statements

In 2007, the Hayek Group, owned by Mr. N. G. Hayek, invoiced an amount of CHF 10.2 million to the Swatch Group (compared with CHF 9.2 million in 2006). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2007	2006
Audit, feasibility studies and process optimization	2.4	2.6
Provision of managers and filling important, vacant functions	1.2	1.3
Project management in the construction sector	3.4	2.0
Introduction of cost accounting systems in manufacturing companies	0.0	0.3
Support for projects in the materials and surface treatment technology sector	0.6	1.0
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.4	0.4
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	2.2	1.6
Total	10.2	9.2

b. Key management personnel

In addition to the members of the Board of Directors, the members of the Group Management Board and of the Extended Management Board are considered as key management personnel (according to IAS 24.9).

The total compensation of key management personnel using IFRS 2 rules for accounting for share-based compensation was as follows:

(CHF million)	2007	2006
Short-term employee benefits	27.5	22.6
– of which in salaries	9.3	9.3
– of which in bonus	18.0	13.1
– of which in other benefits	0.2	0.2
Post-employment benefits	0.7	0.7
Termination benefits	0.0	0.0
Share-based compensation	6.7	5.4
Total	34.9	28.7

No remuneration was paid to former members of management bodies for their former functions.

c. Share ownership

At 31 December 2007, the executive members of the Board of Directors and the members of the Management Board of the company as well as the persons close to them held directly or indirectly a total of 55 408 680 registered shares and 590 bearer shares, representing 34.7% of the voting rights (previous year: 33.5%).

In addition, at 31 December 2007, all the non-executive members of the Board of Directors as well as the persons close to them held 13 072 241 registered shares and 114 000 bearer shares, representing 8.3% of the voting rights (previous year: 8.5%).

d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swatch Group Pension Fund for the construction or acquisition of property in Switzerland (primary residence). The conditions for these mortgage loans are set by the Swatch Group Pension Fund Foundation Board. These conditions are applied in the same manner to all employees.

In 2007, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2007, one loan to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 3.0% was outstanding (unchanged from previous year).

e. Associated companies and other related parties

The Group has transactions with associates, joint ventures and other related parties. A listing of the associated companies and joint ventures is included in the list of the Swatch Group companies (Note 32).

(CHF million)	2007		2006	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	8	0	5	0
Other related parties	0	0	0	0

At the end of 2007, receivables from related parties amounted to less than CHF 1 million (2006: CHF 1 million), and payables to related parties were CHF 2 million (2006: CHF 2 million). Furthermore, at 31 December 2007 the Group had granted loans to related parties in the amount of USD 1 million (2006: none) with an interest rate of 7.75 %.

Notes to the consolidated financial statements

30. Management compensation disclosures (required by Swiss Law)

This note has been prepared in accordance with the requirements of articles 663b and 663c al. 3 of the Swiss Code of Obligations (SCO). It differs in several aspects from the compensation disclosures given in Note 29, mainly due to different valuation and expense recognition rules applied.

Compensation for 2007 to Board of Directors and Group Management (Art. 663b SCO)

a. Board of Directors (BoD)	Name	Function	Compensation	Base com-	Bonus ²⁾	Other	Total ⁴⁾
			for functions in the BoD ¹⁾	pen- sation for executive function ¹⁾		compen- sation ³⁾	
			(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
	Dr. h.c. Nicolas G. Hayek	Chairman and delegate of BoD		701 568	1 770 000		2 471 568
	Dr. Peter Gross	Member of BoD	114 957				114 957
	Esther Grether	Member of BoD	104 425				104 425
	Nayla Hayek ⁵⁾	Member of BoD	106 440	190 782	860 000	205 449	1 362 671
	Dr. Peter F. Baumberger ⁶⁾	Member of BoD	52 213				52 213
	Prof. Dr. h.c. Claude Nicollier	Member of BoD	79 830				79 830
	Johann Niklaus Schneider-Ammann	Member of BoD	106 440				106 440
	Ernst Tanner	Member of BoD	106 440				106 440
	Total		670 745	892 350	2 630 000	205 449	4 398 544

¹⁾ Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred.

²⁾ Cash bonuses according to the accrual principle; neither the members nor the Chairman and Delegate of the Board of Directors received any options or shares in the year under review.

³⁾ Compensation for special mandates, pension benefits, etc.

⁴⁾ All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

⁵⁾ In the first semester 2007, Mrs Nayla Hayek had a mandate for Swatch Group Middle East, Swatch Group India and Balmain; in the second semester 2007 she assumed an executive function under a work contract in addition to her role as member of the Board of Directors.

⁶⁾ Retired in May 2007.

b. Management Board (MB) and Extended Management Board (EMB)	Name	Function	Salaries ¹⁾	Bonus ²⁾	Share options ³⁾	Share options ³⁾	Other compen- sation ⁴⁾	Total ⁵⁾
			(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
	Nick Hayek Jr.	President of the MB – CEO	1 471 561	3 000 000	16 500	1 071 840	58 467	5 601 868
	Total Other members		6 019 006	12 376 900	99 208	6 444 551	827 694	25 668 151
	Total		7 490 567	15 376 900	115 708	7 516 391	886 161	31 270 019

¹⁾ Total annual base compensation paid in cash, not including any reimbursement for travel and other business expenses incurred.

²⁾ Cash bonuses according to the accrual principle.

³⁾ Share options granted in the year under review, according to the conditions described in Note 28 Employee stock option plan. For the valuation of the share options, tax values were used for the part exercised in 2007. The options exercisable in 2008 and 2009 were valued using the Black Scholes method. Each option gives the right to conversion in one registered share.

⁴⁾ Other salary elements such as pension benefits, company cars and other benefits.

⁵⁾ All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

Notes to the consolidated financial statements

c. Loans and other payments to Board of Directors and Group Management

In 2007, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2007, one loan granted by the Group's Pension Fund to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 3.0% was outstanding.

In 2007, no compensation other than mentioned in the compensation table above was accorded to current or former members of the Board of Directors, Management Board and Extended Board or to persons closely linked to them.

Ownership of Swatch Group shares and share options by Board of Directors and Group Management

As of 31 December 2007, the members of the Board of Directors, the Management Board and the Extended Management Board, including persons closely linked to them, held the following number of Swatch Group shares and options:

Name	Function	Registered Shares	Bearer Shares	Options exercisable in 2008	Options exercisable in 2009
		(number)	(number)	(number)	(number)
Dr. h.c. Nicolas G. Hayek	Chairman and Delegate of BoD	54 937 911	550		
Dr. Peter Gross	Member of BoD	16 400			
Esther Grether	Member of BoD	11 392 880	112 000		
Nayla Hayek	Member of BoD	3 210			
Prof. Dr. h.c. Claude Nicollier	Member of BoD				
Johann Niklaus Schneider-Ammann	Member of BoD	1 662 961			
Ernst Tanner	Member of BoD		2 000		
Nick Hayek Jr.	President of the MB – CEO	17 916		12 834	5 500
Arlette E. Emch	Member of MB	10 834		8 750	3 750
Florence Ollivier-Lamarque	Member of MB	26 250		6 418	2 750
Dr. Mougahed Darwish	Member of MB	56 802		4 668	2 000
Edgar Geiser	Member of MB – CFO	88 262		10 618	4 550
Marc A. Hayek	Member of MB	20 232		5 168	2 500
Dr. Hanspeter Rentsch	Member of MB – CLO	107 622		10 618	4 550
Roland Streule	Member of MB	14 000		5 667	2 334
François Thiébaud	Member of MB	38 041		4 209	1 875
Matthias Breschan	Member of EMB	2 875		875	375
Manuel Emch	Member of EMB	1 684		1 050	450
Yann Gamard	Member of EMB			3 043	1 375
Walter von Känel	Member of EMB	10 067	40	2 187	939
Thomas Meier	Member of EMB	2 500		1 000	500
Dr. Frank Müller	Member of EMB	2 475		525	225
Kevin Rollenhagen	Member of EMB	14 650		2 450	1 050
Rudolf Semrad	Member of EMB	13 167		1 634	700
Dr. Peter Steiger	Member of EMB	30 841		3 209	1 375
Stephen Urquhart	Member of EMB	9 341		4 307	1 774
Total		68 480 921	114 590	89 230	38 572

The terms of the share options are disclosed in Note 28. Each option gives the right to conversion in one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 29 Related party transactions. Except for Mr. Nicolas G. Hayek, Mrs. E. Grether and Mr. J. N. Schneider-Ammann, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2007, either directly or through share options, more than 1% of the outstanding Swatch Group shares.

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

32. The Swatch Group Companies – as at 31.12.2007

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Europe					
Switzerland					
The Swatch Group SA, Neuchâtel	Holding	CHF 128.88			▼
Asulab SA, Marin-Epagnier	Research and development	CHF 0.10	100	●	▼
Atlantic Immobilien AG Bettlach, Bettlach	Real estate	CHF 0.70	100	●	▼
Belenos Clean Power Holding SA, Bienne	Holding	CHF 21.00	64	●	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	■
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	■
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	■
Certina SA, Le Locle	Watches	CHF 3.50	100	●	■
cK Montres & Bijoux Co. SA, Bienne	Watches	CHF 5.00	90	●	■
Cité du Temps SA, Genève	Communication	CHF 0.10	100	●	▼
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	■
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 4.50	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Torricella-Taverne	Distribution	CHF 3.00	100	●	■
Dress your body SA, Bienne	Jewelry	CHF 0.10	100	●	▲
Dress Your Body Manufacture Genevoise SA, Plan-les-Ouates	Jewelry	CHF 0.60	100	●	▲
EM Microelectronic-Marin SA, Marin-Epagnier	Microelectronics	CHF 25.00	100	●	◆
Endura SA, Bienne	Watches	CHF 2.00	100	●	■
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
François Golay SA, Le Chenit	Manufacture of watch wheels	CHF 0.10	35	○	▲
Frédéric Piguet SA, Le Chenit	Movements	CHF 0.30	100	●	▲
Hamilton International SA, Bienne	Watches	CHF 3.00	100	●	■
ICB Ingénieurs Conseils en Brevets SA, Marin-Epagnier	Patents	CHF 0.20	100	●	▼
Indexor SA, La Chaux-de-Fonds	Watch dial indexes	CHF 0.10	100	●	▲
Jaquet Droz Les Boutiques SA, La Chaux-de-Fonds	Retail	CHF 0.10	100	●	■
Lasag AG, Thun	Lasers for industrial applications	CHF 1.00	100	●	◆
Le Foyer SA, Saint-Imier	Real estate	CHF 0.13	78	●	▼
Léon Hatot Les Boutiques SA, Auvernier	Retail	CHF 0.10	100	●	■
Léon Hatot SA, Auvernier	Watches	CHF 0.10	100	●	■
Louis Jeanneret-Wespy SA, La Chaux-de-Fonds	Real estate	CHF 0.05	100	●	▼
Maeder-Leschot SA, Bienne	Real estate	CHF 0.70	100	●	▼
Manufacture Favre et Perret SA, La Chaux-de-Fonds	Watch cases	CHF 0.60	100	●	▲
Manufacture Ruedin SA, Bassecourt	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 0.48	100	●	▲
Meseltron, Corcelles-Cormondrèche	Real estate	CHF 2.00	100	●	▼
Michel Präzisionstechnik AG, Grenchen	Watch components	CHF 3.00	100	●	◆
Microcomponents AG, Grenchen	Components for the automobile industry	CHF 11.00	100	●	◆
Mido SA, Le Locle	Watches	CHF 1.20	100	●	■
MOM le Prélet SA, Les Geneveys-sur-Coffrane	Watch dials	CHF 0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	■
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	■
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Omega Electronics SA, Bienne	Inactive	CHF 1.50	100	●	◆
Omega SA, Bienne	Watches	CHF 50.00	100	●	■
Oscilloquartz SA, Neuchâtel	High-stability frequency sources	CHF 2.00	100	●	◆
OS Holding SA, Les Geneveys-sur-Coffrane	Holding	CHF 0.10	100	●	▼
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	■
Record Watch Co. SA, Tramelan	Inactive	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	◆
Rubattel et Weyerermann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
S.I. Grand-Cernil 2, Les Brenets, SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. Grand-Cernil 3, Les Brenets, SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. Les Corbes SA, Savagnier	Real estate	CHF 0.10	34	○	▼
S.I. L'Etang SA, Les Brenets, Les Brenets	Real estate	CHF 0.05	100	●	▼
S.I. Rue de la Gare 2, Les Brenets, SA, Les Brenets	Real estate	CHF 0.24	100	●	▼
SSIH Management Services SA, Bienne	Services and licences	CHF 0.05	100	●	▼
Swatch SA, Bienne	Watches	CHF 2.00	100	●	■
Swatch Retail SA, Bienne	Retail	CHF 2.00	100	●	■
Swiss Timing SA, Corgémont	Sports timing & information display systems	CHF 2.00	100	●	◆
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
The Swatch Group Assembly SA, Genestrerio	Assembly	CHF 4.00	100	●	▲
The Swatch Group Distribution SA, Bienne	Logistics and distribution	CHF 1.00	100	●	■
The Swatch Group Immeubles SA, Neuchâtel	Real estate project and property management	CHF 0.50	80	●	▼
The Swatch Group Les Boutiques SA, Lausanne	Retail	CHF 3.00	100	●	■
The Swatch Group Management Services SA, Bienne	Services and licences	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, Marin-Epagnier	Research and development	CHF 0.10	100	●	▼
Terbival SA, Courchapoix	Watch case polishing	CHF 0.10	45	○	▲
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	■
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	■
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲
Valdar SA, Le Chenit	Watch components	CHF 0.05	100	●	▲
Germany					
Altweiler Grundstücks-GmbH, Lörrach	Real estate	EUR 0.03	95	●	▼
Deutsche Zifferblatt Manufaktur GmbH, Pforzheim	Watch dials	EUR 0.10	100	●	▲
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	■
Sokymat Automotive GmbH, Reichshof-Wehrnath	Transponders	EUR 0.10	100	●	◆
ST Innovation GmbH, Leipzig	Sports timing technology & equipment	EUR 0.05	100	●	◆
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	◆
Swiss Prestige Uhren Handel GmbH, Eschborn	Inactive	EUR 0.08	100	●	■
The Swatch Group Customer Service (Europe) GmbH, Glashütte	Customer service	EUR 0.50	100	●	■
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Certina, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura, ETA, Lasag, Renata, EM Marin, Micro Crystal)	EUR 1.28	100	●	■

Legend: ● Fully consolidated ○ Equity method ■ Watches & Jewelry ▲ Production ◆ Electronic Systems ▼ Corporate

32. The Swatch Group Companies – as at 31.12.2007

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn	Retail	EUR 0.20	100	●	■
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR 0.05	100	●	■
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.04	100	●	■
Belgium					
The Swatch Group (Belgium) SA, Anderlecht	Distribution (Breguet, Blancpain, Jaquet Droz, Omega, Rado, Longines, Tissot, Certina Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak) Holding	EUR 1.75	100	●	■
The Swatch Group Participation SA, Anderlecht		EUR 2.09	100	●	▼
Spain					
The Swatch Group (España) SA, Madrid	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.45	100	●	■
France					
Breguet SAS, Paris	Inactive	EUR 0.04	100	●	■
Fabrique de Fournitures de Bonnétage FFB SAS, Villers-le-Lac	Watch components and precision parts	EUR 0.29	100	●	▲
Frésard Composants SAS, Charquemont	Watch components	EUR 1.80	100	●	▲
Guebret SA (société en liquidation), Paris	In liquidation	EUR 6.10	100	●	■
Société Européenne de Fabrication d'Ebauches d'Annemasse (SEFEA) SAS, Annemasse	Watch components and electronic assembly	EUR 0.67	100	●	▲
Tech Airport Développement SAS, Paris	Retail	EUR 0.30	100	●	■
Tech Airport Holding SAS, Paris	Holding	EUR 10.00	100	●	■
Tech Airport Nice SAS, Paris	Retail	EUR 5.00	100	●	■
Tech Airport Orly SAS, Paris	Retail	EUR 1.00	100	●	■
Tech Airport SAS, Paris	Retail	EUR 3.80	100	●	■
The Swatch Group (France) SAS, Paris	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura, Renata, EM Marin, Oscilloquartz)	EUR 15.00	100	●	■
The Swatch Group (France) Les Boutiques SAS, Paris	Retail	EUR 34.93	100	●	■
Universo France SARL, Besançon	Watch hands	EUR 1.00	100	●	▲
Great Britain					
The Swatch Group (UK) Ltd, London	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak, Endura, Swiss Timing)	GBP 2.00	100	●	■
Greece					
Aikioni SA, Athens	Retail	EUR 0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution (Breguet, Blancpain, Glashütte, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak)	EUR 0.06	100	●	■
Italy					
Lascor S.p.A., Sesto Calende	Watch cases and bracelets	EUR 1.00	100	●	▲
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR 0.01	100	●	■
The Swatch Group (Italia) S.p.A., Rozzano	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Renata)	EUR 23.00	100	●	■
The Swatch Group (Italia) Les Boutiques S.p.A., Rozzano	Retail	EUR 0.12	100	●	■
Luxembourg					
The Swatch Group Finance (Luxembourg) SA, Alzingen	Finance company	CHF 1000.00	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.23	100	●	▼
Netherlands					
Breguet Investments BV, Rotterdam	Holding	EUR 0.02	100	●	▼
The Swatch Group (Netherlands) BV, Maastricht	Distribution (Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Certina, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.70	100	●	■
Poland					
The Swatch Group (Polska) Sp.z o.o., Warszawa	Distribution (Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak)	PLN 5.00	100	●	■
Portugal					
The Swatch Group (Europa) – Sociedade Unipessoal SA, Funchal	Distribution	EUR 24.14	100	●	■
The Swatch Group (Europa II) Retail – Sociedade Unipessoal SA, Funchal	Retail	EUR 0.10	100	●	■
Russia					
Swiss Watch Le Prestige 000 Russia, Moscow	Distribution	RUB 0.20	100	●	■
The Swatch Group (RUS) 000, Moscow	Distribution (Breguet, Jaquet Droz, Omega, Rado, Longines, Tissot, Swatch, Flik Flak)	RUB 137.12	100	●	■
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution (Breguet, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak)	SEK 0.50	100	●	■
Czech Republic					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK 2.01	51	●	◆
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK 0.10	80	●	◆

Legend: ● Fully consolidated ○ Equity method ■ Watches & Jewelry ▲ Production ◆ Electronic Systems ▼ Corporate

32. The Swatch Group Companies – as at 31.12.2007

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
America					
Brazil					
The Swatch Group do Amazonas SA, Manaus	Inactive	BRL 4.93	100	●	■
The Swatch Group do Brasil Ltda, São Paulo	Customer service	BRL 14.05	100	●	■
Canada					
The Swatch Group (Canada) Ltd, Toronto	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak)	CAD 4.50	100	●	■
United States					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	◆
e-swatch-us Inc., Wilmington, Delaware	e-Commerce	USD 0.00	100	●	■
HiPoint Technology Inc., Colorado Springs	Microelectronics	USD 0.17	25	○	◆
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura, Lasag, Micro Crystal, Renata, Oscilloquartz)	USD 168.90	100	●	■
The Swatch Group Les Boutiques (U.S.) Inc., Wilmington, Delaware	Retail	USD 0.00	100	●	■
Time Sales Inc., Dover, Delaware	Retail	USD 1.00	50	○	■
British Virgin Islands					
Endura Services (Asia) Inc, British Virgin Islands	Inactive	USD 0.00	100	●	■
Mexico					
Prestadora de Servicios Relojeros SA de CV, Mexico DF	Watch services	MXN 1.50	100	●	■
The Swatch Group Mexico SA de CV, Mexico DF	Distribution (Breguet, Omega, Rado, Longines, Tissot, Mido, Hamilton, cK Watch, Swatch, Flik Flak, Endura)	MXN 43.65	100	●	■
Panama					
The Swatch Group Panama SA, Panama City	Commercial services	USD 0.01	100	●	■
Asia					
Greater China					
Lanco Watches Ltd, Hong Kong	Inactive	USD 0.07	100	●	■
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	■
Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai	Retail	CNY 30.00	50	●	■
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	■
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	■
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 21.06	100	●	■
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Real estate	CNY 148.41	90	●	▼
SMH International Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Certina, Mido, Hamilton, cK Watch, Swatch, Flik Flak, EM Marin)	CNY 8.05	100	●	■
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 88.80	100	●	■
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Omega, Rado, Longines)	CNY 1.66	90	●	■
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Commercial services	CNY 10.45	100	●	■
The Swatch Group (Asia) Inc. Ltd, Hong Kong	Commercial services	HKD 0.00	100	●	■
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, ETA)	HKD 5.00	100	●	■
The Swatch Group (Taiwan) Ltd, Taipei	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, cK Watch, Swatch, Flik Flak)	TWD 28.00	100	●	■
Zhuhai SMH Watchmaking Co. Ltd, Zhuhai	Components	CNY 74.57	100	●	▲
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution (Breguet, Blancpain, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Flik Flak, Sokymat)	KRW3300.00	100	●	■
United Arab Emirates					
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	49	●	■
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, Swatch, Flik Flak)	INR 680.00	100	●	■
Japan					
The Swatch Group (Japan) KK, Tokyo	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak, Endura)	JPY 3700.00	100	●	■
Malaysia					
Micromechanics (M) Sdn Bhd, Ipoh	Assembly, watch components	MYR 35.00	100	●	▲
Swiss Luxury Watch & Jewelry Sdn Bhd, Kuala Lumpur	Retail	MYR 7.00	51	●	■
The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Mido, cK Watch, Swatch, Flik Flak)	MYR 0.50	95	●	■
Singapore					
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Renata, EM Marin)	SGD 4.00	95	●	■
Thailand					
ETA (Thailand) Co. Ltd, Samut Prakan	Movements and components	THB 504.50	100	●	▲
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Flik Flak)	THB 400.00	99	●	■
Wachirapani Co. Ltd, Bangkok	Holding	THB 3.06	49	●	▼
Oceania					
Australia					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution (Breguet, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Flik Flak, Swiss Timing, Renata)	AUD 0.40	100	●	■

Legend: ● Fully consolidated ○ Equity method ■ Watches & Jewelry ▲ Production ◆ Electronic Systems ▼ Corporate

Report of the group auditors

Report of the
group auditors to the
general meeting of
The Swatch Group Ltd
Neuchâtel

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes – pages 149 to 196) of The Swatch Group Ltd for the year ended 31 December 2007.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers Ltd

Thomas Brüderlin Gerhard Siegrist
Auditor in charge

Basel, 18 March 2008

Financial Statements of the Holding 2007



Income statement of the Holding

		2007	2006
	Notes	CHF million	CHF million
Income from investments in subsidiaries	(1)	663	481
Financial income	(2)	68	68
Other income		9	7
Total income		740	556
Personnel expense		-51	-42
General expense		-17	-14
Depreciation and impairment		-17	-9
Interest expense	(3)	-21	-12
Exchange differences and other financial expenses	(4)	-47	-32
Taxes		-1	-3
Total expenses		-154	-112
Net income		586	444

Balance sheet of the Holding

Assets	Notes	31.12.2007		31.12.2006	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment		10	0.3	10	0.3
Financial assets					
– Long-term loans to Group companies		84	2.6	73	2.5
– Investments in subsidiaries	(5)	2 030	63.7	1 901	64.8
Total non-current assets		2 124	66.6	1 984	67.6
Current assets					
Receivables from Group companies		149	4.7	149	5.1
Other receivables and accrued income		8	0.2	9	0.3
Marketable securities and precious metals	(6)	874	27.4	484	16.5
Cash and cash equivalents		36	1.1	308	10.5
Total current assets		1 067	33.4	950	32.4
Total assets		3 191	100.0	2 934	100.0

Balance sheet of the Holding

Equity and liabilities	Notes	31.12.2007 CHF million	%	31.12.2006 CHF million	%
Equity					
Share capital		129	4.0	132	4.5
General reserve		67	2.1	67	2.3
Reserve for treasury shares		821	25.7	661	22.5
Special reserve		564	17.7	772	26.3
– Profit brought forward		23		21	
– Net profit for the year		586		444	
Available earnings		609	19.1	465	15.9
Total equity	(7)	2 190	68.6	2 097	71.5
Liabilities					
Provisions		139	4.4	124	4.2
Payables to Group companies		807	25.3	681	23.2
Other liabilities		29	0.9	9	0.3
Accrued expenses		26	0.8	23	0.8
Total liabilities		1 001	31.4	837	28.5
Total equity and liabilities		3 191	100.0	2 934	100.0

Notes to the financial statements

General

The financial statements of The Swatch Group Ltd comply with the requirements of the Swiss law for companies, the Code of Obligations (SCO).

Valuation principles

On the balance sheet, assets and liabilities are recorded at net realizable values. Exceptions to this rule are investments in subsidiaries, which are shown at their acquisition cost less appropriate write-downs, and treasury shares reserved for the management stock option plan (valued "pro memoria") as well as shares bought back by the company that are shown at historical cost value.

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

Details to specific items

1. Income from investments in subsidiaries	(CHF million)	2007	2006
	Dividends	609	435
	Other income	54	46
	Total	663	481

This item includes dividends from Group companies and other income from investments in associates as well as management fees from Group companies.

2. Financial income	(CHF million)	2007	2006
	Interest income	13	12
	Income and gains on securities	55	56
	Total	68	68

The company recorded capital gains on its investment portfolio of CHF 55 million. This figure was partially offset by losses of CHF 41 million (see Note 4).

3. Interest expense In 2007, interest expense increased by CHF 9 million compared with 2006. In general, the higher interest expense reflects the increase of borrowings as well as higher rates prevailing in the capital markets during the year.

4. Exchange differences and other financial expenses This item increased by CHF 15 million compared with the previous year. Despite currency hedging contracts taken out to protect the Group's companies, the currency translation item was negative by CHF 6 million (2006: CHF 14 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 41 million (2006: CHF 18 million). However, this was more than offset by gains on marketable securities of CHF 55 million (see Note 2) (2006: CHF 56 million).

5. Investments in subsidiaries The list of 160 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 63.7% of total assets at 31 December 2007 versus 64.8% at end-2006. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 030 million at end-2007. This amount corresponds exclusively to consolidated investments, and is CHF 129 million higher than in 2006. The main differences in 2007 relate to the set-up of new Group companies and a number of capital increases of subsidiaries.

Notes to the financial statements

6. Marketable securities and precious metals

(CHF million)	31.12.2007	31.12.2006
Marketable securities	276	143
Own shares	461	300
Precious metals	137	41
Total	874	484

Marketable securities increased in 2007 by CHF 133 million, mainly due to the purchase of shares.

In the year under review, own shares that were bought back in 2006 amounting to just over CHF 300 million were cancelled. Furthermore, in 2007 treasury shares amounting to CHF 461 million were bought back on a second trading line. Also included are the registered treasury shares destined for the special management stock option plan which, as in the previous year, were valued "pro memoria".

The precious metals item included gold and other precious metals intended to meet the industrial needs of the Group's subsidiaries. At 31 December 2007 this item represented a total value of CHF 137 million (CHF 41 million at end-2006).

7. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2007 corresponded to 6.2% (versus 6.3% at end-2006) of the nominal value of total share capital.

See table on page 204 showing changes in The Swatch Group Ltd's treasury stock.

The table below shows the changes in equity:

(CHF million)	Share capital	General reserve	Reserve for treasury shares	Special reserve	Available earnings	Total equity
Balance at 31.12.2006	132	67	661	772	465	2097
Allocated in 2007				250	-250	0
Dividend paid out					-192	-192
Share capital reduction (cancelled shares)	-3		-301	3		-301
Allocation to reserve for the buyback of own shares			461	-461		0
Net income for the year					586	586
Balance at 31.12.2007	129	67	821	564	609	2 190

Compared with end-2006, equity increased by CHF 93 million to CHF 2 190 million in 2007, accounting for 68.6% of total assets at 31 December 2007 (versus 71.5% in the previous year).

In 2007, the Swatch Group cancelled the shares repurchased under its share buyback program 2006; this reduced the share capital by CHF 3 127 500. A buyback program commenced on 30 March 2007 and was completed on 8 November 2007. A further buyback program started on 10 December 2007.

In order to comply with Swiss legislation requiring that all the treasury shares held by a group be covered by an equivalent reserve, a proportion of the special reserve was transferred to the treasury share reserve to make up the full required amount.

Share capital

At 31 December 2007, share capital consisted of 128 100 000 registered shares each with a nominal value of CHF 0.45, and of 31 660 000 bearer shares each with a nominal value of CHF 2.25. The decrease compared with the previous year relates to the repurchased shares that were cancelled, in conformity with the decision of the Annual General Meeting of 11 May 2007.

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2006	131 530 000 at CHF 0.45	32 364 000 at CHF 2.25	132 007 500.00
Shares cancelled	-3 430 000 at CHF 0.45	-704 000 at CHF 2.25	-3 127 500.00
31.12.2007	128 100 000 at CHF 0.45	31 660 000 at CHF 2.25	128 880 000.00

Notes to the financial statements

Principal shareholders at 31 December 2007

At 31 December 2007, the Hayek Pool, its related companies, institutions and individuals held 62 311 067 registered shares and 200 550 bearer shares, equivalent to 39.1% of the shares issued at this date (previous year: 38.0%). The Hayek Pool comprises the following members:

Name/Company	Location	Beneficial owners
Mr. N. G. Hayek	Meisterschwanden	N. G. Hayek
WAT Holding AG	Meisterschwanden	N. G. Hayek
Ammann Group Holding AG	c/o Ernst & Young AG, Bern	J.N. Schneider-Ammann and Ammann families
Swatch Group Pension Fund	Neuchâtel	—

The companies, institutions and individuals associated with the Hayek Pool, but which do not formally belong to the Hayek Pool are as follows:

Name/Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	N. G. Hayek
Mr. N. G. Hayek and family members		N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	—
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ernst & Young AG, Bern	Represented by J.N. Schneider-Ammann
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	—
Wohlfahrtsstiftung der Renata AG	Ittingen	—
Fonds de Prévoyance d'Universo SA	Neuchâtel	—

In the context of the pool, the group of Mr. N. G. Hayek and related parties controlled in total 38.5% of the shares issued at end-2007 (37.3% at end-2006), of which 4.1% were represented by the Hayek Pool (4.0% at end-2006).

At the same date, Mrs. Esther Grether's group controlled 7.2% of the shares issued (compared with 7.3% a year earlier).

At 31 December 2007, the Swatch Group was not aware of any other group or individual shareholder having an interest of more than 5% of the total share capital.

Reserve for treasury shares

The reserve for treasury shares was valued using the weighted average purchase price method. On the Holding balance sheet, it amounted to CHF 821 million on 31 December 2007 (previous year CHF 661 million), and thereby covers the treasury shares recognized as assets on the balance sheets of Group companies at year-end.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed in 2007 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity*	Quantity
The Swatch Group Ltd		
Balance at 31.12.2006	6 459 925	704 000
Acquisitions in 2007	3 300 000	660 000
Disposals in 2007	–221 399	0
Cancellations in 2007	–3 430 000	–704 000
Balance at 31.12.2007	6 108 526	660 000
Other consolidated companies		
Balance at 31.12.2006	8 398 368	0
Acquisitions in 2007	0	0
Conversions in 2007	0	0
Balance at 31.12.2007	8 398 368	0
Total balance at 31.12.2007	14 506 894	660 000

* of which at 31 December 2007 2 793 762 registered shares were reserved for the management stock option plan (3 015 161 registered shares in 2006).

Except for movements related to the special funds, all transactions involving treasury shares were recognized at fair value. The average price per registered share exchanged in 2007 was CHF 69.05 and the average price per bearer share was CHF 353.75.

Notes to the financial statements

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 11 May 2007, a dividend of CHF 0.70 per registered share and of CHF 3.50 per bearer share was appropriated from available earnings as at 31 December 2006. The total dividend amount paid to shareholders in 2007 came to CHF 81 530 128 on the registered shares and CHF 110 670 000 on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned AGM, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 13 144 872, thus constituted an integral part of equity at 31 December 2007. Finally, CHF 250 million was appropriated from available earnings at 31 December 2006 and allocated to the special reserve.

Off-balance-sheet items

Contingent liabilities

At end-2007, guarantees provided by The Swatch Group Ltd amounted to CHF 444 828 400 (compared with CHF 455 687 600 a year earlier). This item includes:

- A guarantee of CHF 443 927 200 (vs. CHF 454 729 600 in 2006) relating to the convertible bond of CHF 411 600 000 at 2.625%, issued by The Swatch Group Finance (Luxembourg) SA on 15 October 2003 and maturing on 15 October 2010. At end-2006, 16 of these bonds with a nominal value of CHF 5 000 each had been converted into shares, no conversions in 2007.
- As in 2006, a guarantee of GBP 400 000 (equivalent to CHF 901 200 at 31 December 2007; CHF 958 000 at 31 December 2006) to cover a commitment relating to a lease taken out by one of the Group's companies.

Fire insurance values

At 31 December 2007, the fire insurance value of property, plant and equipment amounted to CHF 34 069 700 (CHF 33 191 100 at end-2006).

Assets pledged

None of the company's assets are pledged.

Commitments

Other commitments entered into by the company and open at 31 December 2007 amounted to CHF 10 million (versus CHF 8 million in the previous year), corresponding to investment commitments in financial assets.

Financial derivative instruments

The following table shows the contract and replacement values of derivative financial instruments at 31 December 2007.

Type	Contract value			Positive replacement value			Negative replacement value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	727	365	1 092	3	0	3	-2	-5	-7
Options	0	0	0	0	0	0	0	0	0
Total at 31.12.2007	727	365	1 092	3	0	3	-2	-5	-7
Total at 31.12.2006	684	309	993	1	2	3	-3	-1	-4

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2007 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2007 relate to 14 positions held in precious metals and in foreign currencies (previous year: 14). Intra-Group contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intra-group financial transactions. At 31 December 2007, there was no option outstanding (one in the previous year).

Liabilities to pension plans

The balance sheet as at end-2007 contained no liability to pension plans (no liability to pension in 2006).

Management compensation disclosures

The disclosures required by the Swiss Code of Obligations on management compensation are shown in Note 30 of the consolidated financial statements.

Proposed appropriation of available earnings

The Board of Directors proposes to the Annual General Meeting that available earnings be appropriated as follows:

	2007	2006
	CHF	CHF
Net income for the year	586 168 375	443 714 921
Profit brought forward from previous year	23 028 156	21 513 364
Available earnings	609 196 531	465 228 285
Allocation to special reserve	-350 000 000	-250 000 000
Dividend payment for 2006 on share capital of CHF 132 007 500.00:		
– CHF 0.70 per registered share with a par value of CHF 0.45		-92 071 000
– CHF 3.50 per bearer share with a par value of CHF 2.25		-113 274 000
Payment on share capital of CHF 128 880 000.00 * of a 2007 dividend, i.e.:		
– CHF 0.85 per registered share with a par value of CHF 0.45	-108 885 000	
– CHF 4.25 per bearer share with a par value of CHF 2.25	-134 555 000	
Dividends not paid out on own shares held by the Group **		13 144 872
Balance carried forward	15 756 531	23 028 156

* It is planned not to pay dividends on own shares held by the Group.

** Based on the decision of the Annual General Meeting of 11 May 2007, the dividend due on own shares held by the Group was not paid out.

Report of the statutory auditors

Report of the
statutory auditors to the
general meeting of
The Swatch Group Ltd
Neuchâtel

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 199 to 206) of The Swatch Group Ltd for the year ended 31 December 2007.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers Ltd

Thomas Brüderlin
Auditor in charge

Gerhard Siegrist

Basel, 18 March 2008

The Swatch Group Ltd securities

Average number of shares outstanding/ Average share capital		2007 basic	2007 diluted	2006 basic	2006 diluted	2005 basic	2005 diluted	2004 basic	2004 diluted
Number of registered shares of CHF 0.45		115 882 234	124 474 721	118 110 673	126 730 101	122 004 798	130 646 179	123 787 740	132 447 448
Number of bearer shares of CHF 2.25		31 485 875	31 485 875	31 981 500	31 981 500	32 788 496	32 788 496	33 211 158	33 211 158
Total average number of shares outstanding		147 368 109	155 960 596	150 092 173	158 711 601	154 793 294	163 434 675	156 998 898	165 658 606
Share capital registered shares of CHF 0.45		52 147 005	56 013 624	53 149 803	57 028 545	54 902 159	58 790 780	55 704 483	59 601 351
Share capital bearer shares of CHF 2.25		70 843 219	70 843 219	71 958 375	71 958 375	73 774 116	73 774 116	74 725 106	74 725 106
Total average share capital		122 990 224	126 856 843	125 108 178	128 986 920	128 676 275	132 564 896	130 429 589	134 326 457
Key data per registered share (nom CHF 0.45) in CHF									
Consolidated net income		3.70	3.64	2.97	2.93	2.15	2.13	1.74	1.74
Cash flow from operating activities		3.20	3.10	3.18	3.08	2.76	2.68	2.36	2.29
Consolidated shareholders' equity		19.43	18.83	17.83	17.30	16.02	15.55	14.70	14.27
Dividend		0.85*	0.85*	0.70	0.70	0.50	0.50	0.35	0.35
Key data per bearer share (nom CHF 2.25) in CHF									
Consolidated net income		18.49	18.18	14.87	14.66	10.74	10.66	8.72	8.70
Cash flow from operating activities		16.01	15.52	15.89	15.41	13.82	13.43	11.79	11.45
Consolidated shareholders' equity		97.13	94.17	89.17	86.49	80.09	77.80	73.51	71.37
Dividend		4.25*	4.25*	3.50	3.50	2.50	2.50	1.75	1.75
Stock price of registered shares (adjusted)	High	76.50	76.50	54.95	54.95	40.15	40.15	36.50	36.50
	Low	53.90	53.90	38.50	38.50	30.90	30.90	27.20	27.20
	End of year	66.85	66.85	54.50	54.50	39.75	39.75	33.80	33.80
Stock price of bearer shares (adjusted)	High	397.00	397.00	274.00	274.00	197.30	197.30	180.50	180.50
	Low	266.25	266.25	184.10	184.10	152.40	152.40	130.00	130.00
	End of year	341.25	341.25	269.25	269.25	195.00	195.00	166.90	166.90
Market capitalization (CHF million)	End of year	19 367	19 367	15 882	15 882	11 809	11 809	10 225	10 225
Key ratios (year-end)									
Average return on equity	%	19.7	20.0	17.3	17.6	14.0	14.3	12.3	12.7
Dividend yield registered shares	%	1.3	1.3	1.3	1.3	1.3	1.3	1.0	1.0
Dividend yield bearer shares	%	1.2	1.2	1.3	1.3	1.3	1.3	1.0	1.0
Price/earnings ratio – registered shares		18.1	18.4	18.3	18.6	18.5	18.7	19.4	19.4
Price/earnings ratio – bearer shares		18.5	18.8	18.1	18.4	18.2	18.3	19.1	19.2
Securities									
		Securities no.		Reuters Symbol					
The Swatch Group Ltd registered shares		1 225 514		UHRN.VX					
The Swatch Group Ltd bearer shares		1 225 515		UHR.VX					

The securities are listed on the Swiss Stock Exchange (SWX) and traded on the virt-x.

* Board of Directors' proposal.

The Swatch Group Ltd securities

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index

(indexed weekly from 01.07.1988 to 31.12.2007 – adjusted)

