

Financial Statements 2008

**Consolidated financial statements
Financial statements of the Holding**



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Financial review

Key financial developments in 2008

– Gross sales:	Total Group gross sales in 2008 up 4.3% in local currencies, up 0.4% in Swiss Francs to CHF 5 966 million (net sales: +0.5% to CHF 5 677 million)
– Segments:	Increase of 6.5% at constant rates and 2.2% in CHF terms in the Group's core business, the segments Watches & Jewelry and Production, excluding Electronic Systems
– Operating profit:	Strong operating profit of CHF 1 202 million (2007: CHF 1 236 million) with solid operating margin of 21.2% (2007: 21.9%)
– Net income:	Due to weak financial result, decrease of the Group's net income to CHF 838 million in 2008 (previous year: record net income of CHF 1 015 million)
– Earnings per share:	Reduced basic EPS of CHF 3.15 per registered share (2007: CHF 3.70) and CHF 15.75 per bearer share (2007: CHF 18.49)
– Dividend:	Unchanged dividend 2008 proposed, per registered share CHF 0.85, per bearer share CHF 4.25, totalling CHF 237 million
– Outlook:	Cautious but not pessimistic outlook for the first months 2009 due to the ongoing financial turmoil, an improvement is expected in the second half of 2009.

Financial review

1. Operating results

Key figures Group

(CHF million)	2008	2007	Change in %		Total
			in local currency	currency effect	
Gross sales	5 966	5 941	+4.3%	–3.9%	+0.4%
Net sales	5 677	5 646			+0.5%
Operating profit	1 202	1 236			–2.7%
– in % of net sales	21.2%	21.9%			
Net income	838	1 015			–17.4%
– in % of net sales	14.8%	18.0%			
Equity	5 451	5 329			+2.3%
– as % of total assets	75.3%	71.5%			
Average return on equity (ROE)	15.5%	19.7%			

After a promising start in 2008 with further strong growth, the year under review turned out to be more challenging. The turmoil and enormous destruction of wealth in the financial markets worldwide infected the economies of many countries, leading to cautious reactions mainly at wholesale level and in some parts of the world to a noticeable drop in watch demand in the last two months of 2008.

Despite these difficult and exceptional circumstances, the Swatch Group was able to increase overall gross sales by 4.3% at constant exchange rates. Foreign currencies were extremely volatile and ultimately had a total unfavorable impact on Group sales of CHF 233 million or –3.9%. In particular the Euro and British Pound, but also the USD and other dollar-related currencies weakened considerably against the Swiss Franc. Only the Yen regained some ground in 2008. The gross sales figure of CHF 5 966 million topped prior year's record result after a period of very strong sales growth between 2006 and 2007, resulting in growth of 22% over a two-year period.

Once again, the Group's core business activities, the segments Watches & Jewelry as well as Production, continued to be the main driving and growth factors. The strategic move to reduce the exposure to non-core business activities such as components for the automotive industry, already initiated in 2007, proved to be a wise and timely decision. The Electronic Systems segment suffered from the difficult market conditions in other areas such as the telephone, automotive and machine industries.

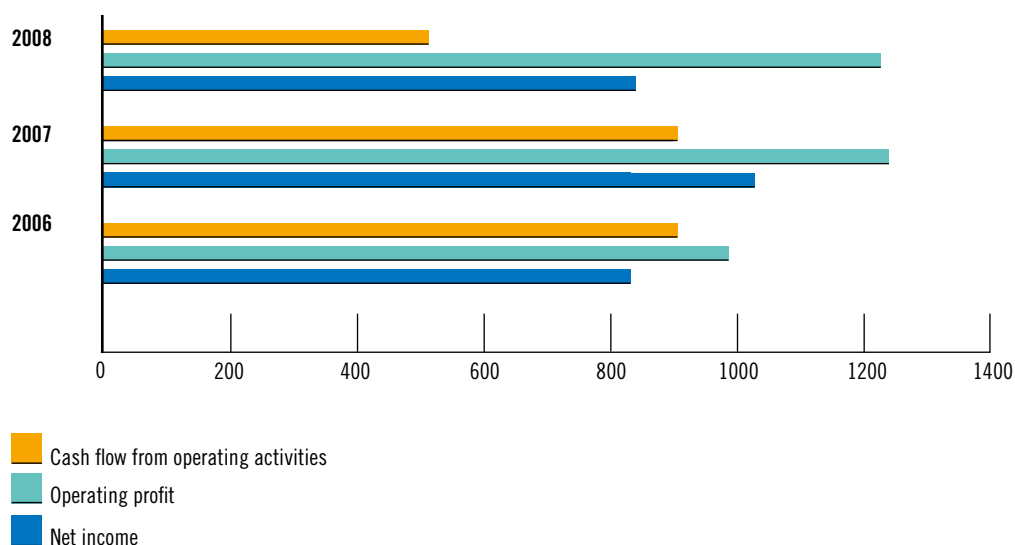
In the year under review, the Group realized a strong operating profit of CHF 1 202 million, which represents an operating margin of 21.2%. Due to a negative financial result, the Group's net income decreased to CHF 838 million (2007: CHF 1 015 million).

Group equity remains very solid with CHF 5 451 million at 31 December 2008. This represents an equity ratio of 75.3%. Return on equity in 2008 was 15.5% (previous year 19.7%).

Financial review

Performance trends

(CHF million)



Segment performance

Watches & Jewelry

(CHF million)	2008	2007	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	4 794	4 710			
– Group	2	0			
– Total	4 796	4 710	+6.6%	–4.8%	+1.8%
Net sales	4 547	4 456			+1.9%
Operating profit	828	920			–10.0%
– in % of net sales	18.2%	20.6%			

In 2008, all price categories of the Watches & Jewelry segment reported higher sales in local currencies than in the very strong year 2007. Compared to 2006, the increase amounted even to 28% at constant rates. A noticeable drop in demand in the last months of 2008 mainly at wholesale level reduced the momentum in most brands and markets. Even the luxury brands could not entirely escape this unfavorable trend.

The Group continued to selectively expand its retail activities. This move confirms that the Group believes in the long-term growth of the retail business and its strategy to further expand this field of activities. This positioning with strong visual presence in premier retail locations will continue to pay off in the short as well as in the long term. Already in 2008, our own retail business activities performed considerably better than the wholesale activities. Certain third-party agents and retailers, due to their cautious outlook and in some cases reduced financing capabilities, were to a certain degree more reluctant than in the past to buy in order to satisfy the needs of their clients.

Some countries in Asia, in particular China, and in the Middle East posted double-digit sales growth. The development in Europe and America was more modest, with recession fears starting to weigh on consumer confidence in several countries and markets towards the end of 2008. The slowdown was more acute in the USA in the last few months of 2008, which was offset to a certain degree in other growth markets. In local currencies, however, sales figures for the full year in many areas continued to be remarkable.

Operating profit saw a decrease in this segment to CHF 828 million, which represents an operating margin of 18.2% (compared to 20.6% in 2007). Operating margins remained strong in the first half of the year, but were impacted mainly by additional marketing cost of Olympic summer games in Beijing in the second half of 2008. However, despite the crisis on the financial markets worldwide and in order to encourage the Group's long-term growth, marketing spend was increased and retail activities were further expanded in strategic key locations.

Financial review

Production

(CHF million)	2008	2007	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	659	625			
– Group	1 151	1 059			
– Total	1 810	1 684	+ 7.7%	– 0.2%	+ 7.5%
Net sales	1 742	1 624			+ 7.3%
Operating profit	281	235			+ 19.6%
– in % of net sales	16.1%	14.5%			

The continuing rise in demand for watch movements and components led to a further sales increase, with the Production segment posting gross sales of CHF 1 810 million in 2008, an increase of 7.7% at constant rates versus the strong previous year. The highly integrated, efficient production capabilities were much sought after by internal as well as external customers. Production capacities were in particular strongly utilized to cope with increased demand for Swatch, Flik Flak and special calibers financed by our own Group brand companies. The progress made is also due to important investments in optimizing many production steps. As a result of a continued strong demand, all production companies and in particular ETA and Nivarox contributed with very healthy sales increases to this excellent segment result.

The investments made in the past significantly reduced the existing bottlenecks and expanded production capacities. However, bottlenecks experienced during the past year are still substantial. A survey of internal and external clients revealed a continued high demand. Therefore, in some areas still more efforts are required to be able to serve all third-party customers' requirements as well as the needs of the Group's own brands in a flexible manner. Especially for expensive watch models, it is still difficult to deliver all backorders in time.

The current order books continue to be on high levels and indicate a positive development of the Production segment.

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 16.1% 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

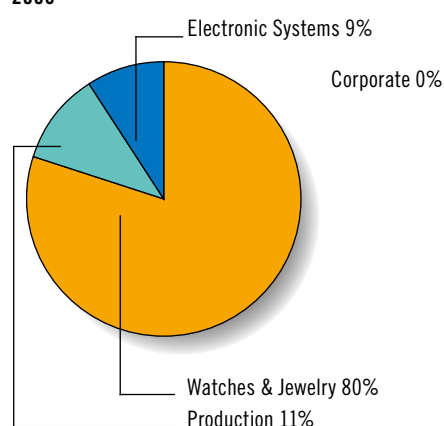
(CHF million)	2008	2007	Change in %		Total
			in local currency	currency effect	
Gross sales					
– Third parties	505	601			
– Group	25	29			
– Total	530	630	– 15.1%	– 0.8%	– 15.9%
Net sales	526	623			– 15.6%
Operating profit	104	99			+ 5.1%
– in % of net sales	19.8%	15.9%			

With the divestment of the Group companies Sokymat Automotive GmbH (Germany) and Michel Präzisionstechnik AG (Switzerland) in the second half of 2008, the Group significantly reduced its exposure to the hard-hit automotive industry. This strategic move, already decided in 2007, before any signs of industry recession, underpins the Group's focus on its core activities. Adjusted by the two divestments, the Electronic Systems segment gross sales decreased by 12.9%. The changed market environment for the Electronic Systems segment, with a strongly impacted automobile sector and a slump in demand for mobile phones, led to this distinct reduction in gross sales.

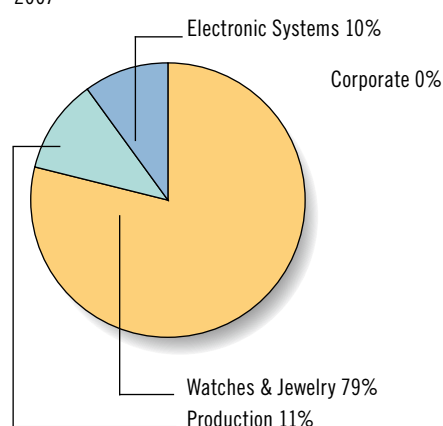
The segment's operating profit achieved CHF 104 million in the year under review, which represents an operating margin of 19.8%. However, this includes the gains on disposal of two Group companies amounting to CHF 45 million. On the other hand, lower capacity utilization and ongoing price pressure on electronic components continued to impact the operating margin during 2008.

Segment share of net sales

2008

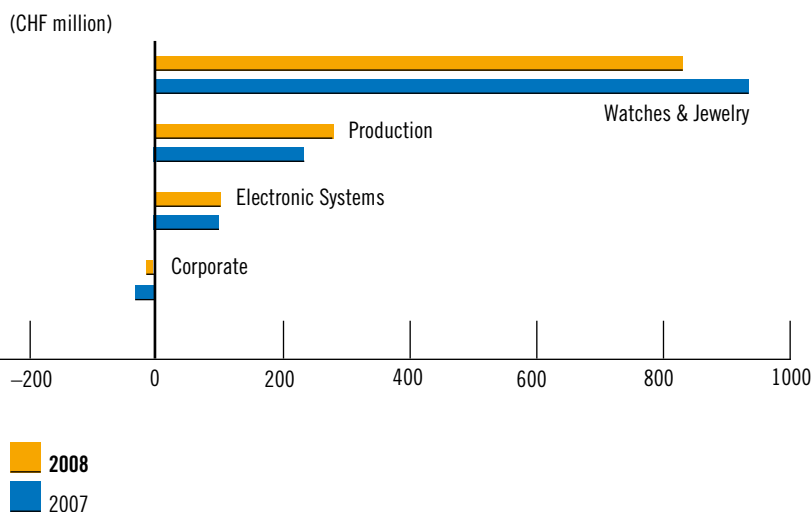


2007



Financial review

Segment share of operating profit



Financial result

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

(CHF million)	2008	2007
Interest income	23	47
Result from marketable securities and derivatives	-163	30
Share of result from associates and joint ventures	5	0
Net currency result	-35	-14
Interest expense and other financial expense	-26	-26
Total net financial result	-196	37

In 2008, interest income was down due to less short-term deposits outstanding and lower interest rates. The extremely negative performance of stock markets led to significant unrealized losses on marketable securities, on positions of companies mostly with solid entrepreneurial values. Given that all marketable securities held by the Group are included in the category «fair-value-through-profit-or-loss», as well as the objective not to realize sales below the initial purchase value, i.e. if required to keep them for a longer period, the financial result will continue to be volatile in the future and influence the Group's net income.

In addition, the general development of foreign currencies with a weak Euro and US Dollar, as well as sudden negative currency moves in December in countries in which the Group gave preference to a financing through loans, resulted in a foreign exchange loss for the year of CHF 35 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 16.7% in the current year compared to 20.3% in the previous year. The main reason for this decrease was the dissolution of tax provisions following the settlement of tax disputes in 2008.

Proposed dividend

At the General Meeting on 15 May 2009, a dividend for the financial year 2008 of CHF 0.85 (2007: CHF 0.85) for registered shares and CHF 4.25 (2007: CHF 4.25) for bearer shares will be proposed. This dividend, totalling CHF 237 million with a cash-out impact of CHF 223 million, has not been recognized as a liability in the consolidated financial statements at 31 December 2008.

Earnings per share

Basic earnings per share have decreased in the current year by 14.8% to CHF 3.15 (CHF 3.70 in 2007) for registered shares and CHF 15.75 (CHF 18.49 in 2007) for bearer shares respectively. The decrease in net income compares to a reduced number of shares which is mainly due to the shares bought back in 2008. 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 an increase of inventories, higher tax payments as well as difficult market conditions due to the financial turbulences in 2008, the Group realized a considerable operating cash flow of CHF 511 million, which compares to CHF 875 million in 2007. Net investing activities were lower than in 2007, mainly due to the divestment of businesses. The share buyback and the dividend paid accounted for CHF 587 million in financing activities. These factors resulted in a decrease in cash and cash equivalents of CHF 604 million.

Asset and capital structure

The balance sheet continues to remain very solid, with an even stronger equity ratio of 75.3% (compared to 71.5% in 2007). Current liabilities are covered by current assets by a factor of 5.5 (4.6 in 2007).

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)	2008		2007	
Overall Group performance	6 696	100.0%	6 377	100.0%
Material and services	3 815	57.0%	3 282	51.5%
Depreciation	220	3.3%	204	3.2%
Net added value	2 661	39.7%	2 891	45.3%
% change	-8.0		16.1	

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

	2008		2007	
Employees	1 633	61.4%	1 595	55.2%
Public authorities	168	6.3%	258	8.9%
Lenders	22	0.8%	22	0.8%
Shareholders	226	8.5%	196	6.8%
Company	612	23.0%	820	28.3%
Total	2 661	100.0%	2 891	100.0%

4. Outlook

The Board of Directors and the Executive Group Management Board are strongly committed to the Group's clear, healthy growth strategy of broad geographical presence in all main markets of the world, its unprecedented positioning in all market price segments as well as its reliance on its highly integrated production and product development capabilities with its innovative research and technical know-how. In addition, the Group runs a very extensive and efficient distribution system in all important world markets with its own local management close to the end-consumers. The solid balance sheet and the past experience of more difficult market conditions are other key assets in this period. Over the years the Group has developed and steadily trained a high cost-consciousness and operates a dynamic pro-active style of decision taking adopting swiftly to new circumstances, conditions and opportunities.

Therefore, even though the Group anticipates a challenging environment particularly in the first months of the year 2009 and it expects that the confidence at the international level can be restored in the second part of the year, modest growth in 2009 over 2008 is our realistic expectation and planning. The Group will take advantage of interesting opportunities to gain market share and further strengthen its global presence. This fundamental confidence and the long term perspective of the Group is underpinned by the daily monitoring of continued consumer demand experienced in our own retail stores as well as the current size of the order books. It should be noted that the beginning of 2009 has to be compared with extremely successful record first months in 2008.

Consolidated income statement

	Notes	2008		2007	
		CHF million	%	CHF million	%
Gross sales		5 966	105.1	5 941	105.2
Sales reductions		- 289	-5.1	- 295	-5.2
Net sales	(5, 6a)	5 677	100.0	5 646	100.0
Other operating income	(6b)	231	4.1	91	1.6
Changes in inventories		513	9.0	398	7.1
Material purchases		- 1 567	-27.6	- 1 480	-26.2
Personnel expense	(6c)	- 1 633	-28.8	- 1 595	-28.3
Other operating expenses	(6d)	- 1 799	-31.6	- 1 620	-28.7
Depreciation, amortization and impairment charges	(10, 11, 12, 18)	- 220	-3.9	- 204	-3.6
Operating profit		1 202	21.2	1 236	21.9
Other financial income and expense	(6f)	- 179	-3.2	59	1.0
Interest expense	(6f)	- 22	-0.4	- 22	-0.4
Share of result from associates and joint ventures	(6f, 13)	5	0.1	0	0
Profit before taxes		1 006	17.7	1 273	22.5
Income taxes	(7)	- 168	-2.9	- 258	-4.5
Net income		838	14.8	1 015	18.0
Attributable to equity holders of The Swatch Group Ltd		834		1 011	
Attributable to minority interests		4		4	
Earnings per share (EPS) – expressed in CHF per share:	(8)				
Registered shares					
Basic EPS		3.15		3.70	
Diluted EPS		3.10		3.64	
Bearer shares					
Basic EPS		15.75		18.49	
Diluted EPS		15.51		18.18	

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

Consolidated balance sheet

Assets	Notes	31.12.2008		31.12.2007	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment	(10)	1 465	20.2	1 357	18.2
Investment property	(11)	39	0.5	34	0.5
Intangible assets	(12)	308	4.3	334	4.5
Investments in associates and joint ventures	(13)	127	1.8	6	0.1
Other non-current assets	(15)	113	1.6	70	0.9
Deferred income tax assets	(7)	196	2.7	167	2.2
Total non-current assets		2 248	31.1	1 968	26.4
Current assets					
Inventories	(16)	2 738	37.8	2 273	30.5
Trade receivables	(17)	733	10.1	875	11.8
Other current assets	(18)	283	3.9	383	5.1
Current income tax assets	(7)	7	0.1	6	0.1
Marketable securities and derivative financial instruments	(19)	546	7.6	656	8.8
Cash and cash equivalents	(20)	680	9.4	1 286	17.3
Total current assets		4 987	68.9	5 479	73.6
Total assets		7 235	100.0	7 447	100.0

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

Consolidated balance sheet

Equity and liabilities	Notes	31.12.2008		31.12.2007	
		CHF million	%	CHF million	%
Equity					
Capital and reserves attributable to Swatch Group shareholders		5 436	75.1	5 310	71.3
Minority interests		15	0.2	19	0.2
Total equity		5 451	75.3	5 329	71.5
Non-current liabilities					
Financial debts	(22)	476	6.6	485	6.5
Deferred income tax liabilities	(7)	333	4.6	361	4.9
Retirement benefit obligations	(23)	28	0.4	25	0.3
Provisions	(24)	45	0.6	58	0.8
Total non-current liabilities		882	12.2	929	12.5
Current liabilities					
Trade payables		246	3.4	303	4.1
Other current liabilities	(25)	442	6.1	582	7.8
Financial debts and derivative financial instruments	(22)	53	0.7	36	0.5
Current income tax liabilities	(7)	98	1.4	204	2.7
Provisions	(24)	63	0.9	64	0.9
Total current liabilities		902	12.5	1 189	16.0
Total liabilities		1 784	24.7	2 118	28.5
Total equity and liabilities		7 235	100.0	7 447	100.0

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

Consolidated statement of cash flows

	Notes	2008 CHF million	2007 CHF million
Operating activities			
Cash generated from operations	(27)	842	1 112
Interest paid		-19	-19
Interest received		21	47
Tax paid		-333	-265
Cash flow from operating activities		511	875
Investing activities			
Investments in tangible assets	(10, 11)	-305	-350
Proceeds from sale of tangible assets		7	5
Investments in intangible assets	(12)	-19	-27
Proceeds from sale of intangible assets		1	0
Investments in other non-current assets	(15)	-12	-26
Proceeds from sale of other non-current assets		1	2
Acquisition of subsidiaries – net of cash	(14)	-30	-8
Divestments of businesses	(14)	105	0
Investments in associated companies	(13)	-69	0
Deconsolidation of subsidiaries	(14)	-17	0
Purchase of marketable securities		-353	-852
Sale of marketable securities		193	685
Cash flow from investing activities		-498	-571
Financing activities			
Dividend paid to shareholders		-225	-192
Dividend paid to minority interests		-1	-4
Purchase of treasury shares		-361	-461
Sale of treasury shares		1	1
Repayment of non-current financial debts		-6	-5
Increase in non-current financial debts		0	4
Change in current financial debts		15	-35
Repurchase of convertible bonds		-21	0
Cash flow from financing activities		-598	-692
Net impact of foreign exchange rate differences on cash		-19	6
Change in cash and cash equivalents		-604	-382
Change in cash and cash equivalents			
– At beginning of year		1 284	1 666
– At end of year	(20)	680	1 284

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 31.12.2006	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
Net income for the year					834	834	4	838
Net result on cash flow hedges				1		1		1
Translation differences and other changes				-95		-95		-95
Total recognized income 2008				-94	834	740	4	744
Dividends paid					-225	-225	-1	-226
Share-based compensation:								
– Value of employee services (net of tax)					10	10		10
– Proceeds from shares					1	1		1
Impact of reclassification to associates					-39	-39		-39
Changes in minority interests						0	-7	-7
Share buyback			-361			-361		-361
Share capital reduction	-4		553		-549	0		0
Balance at 31.12.2008	125	213	-629	-117	5 844	5 436	15	5 451

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, Seedorf 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 SIX Swiss Exchange, bearer shares are traded on SWX Europe, 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 11 March 2009 and will be submitted to the Annual General Meeting of Shareholders for approval on 15 May 2009.

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 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 2008, the Group's consolidated financial statements included 161 legal entities (compared with 161 in the previous year), of which one was a joint venture (one in 2007) and seven were associates (five in 2007). A full list of consolidated companies is provided in Note 32.

c. Changes in accounting policies

The Group has adopted those new/revised IAS/IFRS standards, amendments and interpretations mandatory for financial years beginning on or after 1 January 2008. The principal effects of these changes in policies are described below.

IAS 39 / IFRS 7 Reclassification amendments

The IAS 39, «Financial Instruments: Recognition and Measurement» amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, «Financial Instruments: Disclosures» introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. The Swatch Group did not reclassify any financial instruments in connection with this amendment.

IFRIC 11 IFRS 2 – Group and treasury share transactions

This interpretation provides guidance on whether share-based transactions involving treasury shares or involving Group entities should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group's financial statements.

IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

This new interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group has assessed the application of this interpretation and concluded that it does not have any impact on the Group's financial statements.

The new IFRIC 12 «Service concession arrangements» and IFRIC 13 «Customer loyalty programmes» are not relevant to the Group's operations.

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

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but which the Group has not early adopted.

The principal expected effects of these changes are as follows:

IFRS 3 Business combinations (revised) and IAS 27 Consolidated and separate financial statements (revised)

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period of acquisition and future reported results. IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes will affect future acquisitions or loss of control and transactions with minority interests.

Notes to the consolidated financial statements

IFRS 8 Operating segments

The IASB issued IFRS 8 in November 2006 which replaces IAS 14 Segment Reporting. The Group will adopt the new standard as of 1 January 2009. The operating segments determined in accordance with IFRS 8 will be the same as the business segments currently identified under IAS 14. The changes will give rise to additional disclosures.

IAS 1 Presentation of financial statements (revised)

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. It separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income which presents all items of recognized income and expense.

IAS 23 Borrowing Costs (revised)

The revised IAS 23 (amendment issued in April 2007) requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's current policy is to expense borrowing costs as they occur. From 1 January 2009, the Group will capitalize borrowing costs on qualifying assets. However, the impact of this change in accounting policy is not expected to be material.

Improvements to IFRSs

In May 2008 the IASB issued its first collection of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Only the following amendments are expected to have an impact on the Group's financial statements:

- IAS 1 Presentation of financial statements: Assets and liabilities classified as held-for-trading in accordance with IAS 39 are not automatically classified as current in the balance sheet. The Group will analyze if a reclassification as non-current is necessary.
- IAS 38 Intangible assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. This amendment will have a minor impact on the Group because it enters into such promotional activities. The relevant accounting policy will be changed as of 1 January 2009.

The Group expects that the adoption of the following pronouncements will have no impact on the Group's financial statements in the period of initial application:

- Amendments to IFRS 1 First-time adoption of IFRS and IAS 27 Consolidated and separate financial statements (effective on 1 January 2009)
- IAS 32 Financial instruments: Presentation and IAS 1 Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation (effective on 1 January 2009)
- IAS 39 Financial instruments: Recognition and measurement – Eligible hedged items (effective on 1 July 2009)
- IFRIC 15 Agreement for the construction of real estate (effective on 1 January 2009)
- IFRIC 16 Hedges of a net investment in a foreign operation (effective on 1 October 2008)
- IFRIC 17 Distributions of Non-cash Assets (effective on 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective on 1 July 2009)

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 commercialization 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
	2008	31.12.2008	2007	31.12.2007
	CHF	CHF	CHF	CHF
1 CNY	0.1563	0.1574	0.1579	0.1545
1 EUR	1.5841	1.4940	1.6478	1.6600
1 HKD	0.1390	0.1386	0.1536	0.1447
100 JPY	1.0570	1.1850	1.0194	1.0055
1 USD	1.0817	1.0730	1.1979	1.1280

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 transferred to the customer the significant risks and rewards of ownership of the products 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).

Notes to the consolidated financial statements

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 information on recent arm's length market transactions.

The Group classifies its financial assets, principally investments, in the following categories: financial assets 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.

Financial assets at fair value through profit or loss (FVTPL)

All the Group's current investments are classified as financial assets at fair value. Some of these financial assets have been designated by management as FVTPL. All other investments are classified as financial assets held for trading. A financial asset is classified in this sub-category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are specifically 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)	31.12.2008		31.12.2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Security deposits (Note 15)	23	23	17	17
Other financial assets (Note 15)	5	5	5	5
Trade receivables (Note 17)	733	733	875	875
Other current receivables (Note 18)	185	185	218	218
Loans and receivables	946	946	1 115	1 115
Marketable securities designated as FVTPL	15	15	22	22
Marketable securities held-for-trading	515	515	631	631
Derivative financial assets	16	16	3	3
Financial assets at fair value (Note 19)	546	546	656	656
Cash and cash equivalents (Note 20)	680	680	1 286	1 286
Cash and cash equivalents	680	680	1 286	1 286
Total financial assets	2 172	2 172	3 057	3 057

l. 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.

Notes to the consolidated financial statements

- 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.
- 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)	31.12.2008		31.12.2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial debts (Note 22)	476	490	485	483
Trade payables	246	246	303	303
Other current payables (Note 25)	112	112	154	154
Current financial debts (Note 22)	50	50	34	34
Financial liabilities measured at amortized cost	884	898	976	974
Derivative financial instruments (Note 22)	3	3	2	2
Financial liabilities at fair value	3	3	2	2
Total financial liabilities	887	901	978	976

Notes to the consolidated financial statements

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.

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.

Notes to the consolidated financial statements

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 net asset / 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.

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.

Notes to the consolidated financial statements

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 figures have been reclassified or extended from the version presented in the prior year annual report, in order to take into account current year presentational changes. The changes are mentioned in the respective notes. There was no impact on the balance sheet and income statement in the years under review.

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 the regular supervision of the Group's Top Management.

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, the Chinese Renminbi (CNY) 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	31.12.2008		31.12.2007	
	Change on exchange rate	Income statement CHF million	Change on exchange rate	Income statement CHF million
		+ -		+ -
CNY / CHF	5%	5 -3	5%	3 -3
EUR / CHF	5%	12 -1	5%	-4 2
HKD / CHF	5%	-5 3	5%	-1 2
JPY / CHF	5%	-5 -1	5%	4 -3
USD / CHF	5%	3 -3	5%	10 -10

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 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 2008 the impact on profit or loss after tax would have been an increase of CHF 5 million (2007: CHF 14 million) or decrease of CHF 5 million (2007: CHF 14 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 its policy, the Group limits its holdings in equity investments to 10% 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	31.12.2008			31.12.2007		
	Change on index	Income statement CHF million		Change on index	Income statement CHF million	
		+	-		+	-
Dow Jones	5%	1	-1	5%	3	-3
SMI + SPI	5%	3	-3	5%	5	-5
Hang Seng				5%	6	-6

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 40 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 estimated to be sufficiently reliable and solid. 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)	31.12.2008	31.12.2007
Cash and cash equivalents	680	1 286
Marketable securities	530	653
Liquidity reserves	1 210	1 939
Committed credit facilities	613	589
./. Utilized credit facilities	-137	-114
Total liquidity reserves and non-utilized credit facilities	1 686	2 414

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	12	402	98
Trade payables	246		
Other current payables	112		
Current financial debts	50		
Derivative financial instruments	565		
Total at 31.12.2008	985	402	98
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

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 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 2008 the impact on profit or loss after tax would have been an increase of CHF 9 million (2007: CHF 7 million) or decrease of CHF 9 million (2007: CHF 7 million) respectively.

Notes to the consolidated financial statements

b. Capital management

The primary objective of the Group's management is to maintain a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2008, equity represented 75.3% (31 December 2007: 71.5%) of total assets.

The Group's Top Management reviews the capital structure of the Group and the equity of its subsidiaries on a regular basis. As part of the review, management considers the evolution of the capital structure and the risks associated with each of its classes.

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 stated 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 applied 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)

Income statement

2008 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	4 794	659	505	8		5 966
– Group	2	1 151	25	4	–1 182	0
Gross sales	4 796	1 810	530	12	–1 182	5 966
– Third parties	4 545	624	501	7		5 677
– Group	2	1 118	25	4	–1 149	0
Net sales	4 547	1 742	526	11	–1 149	5 677
Operating profit	828	281	104	–11		1 202
– As a % of net sales	18.2	16.1	19.8			21.2
– As a % of total	68.9	23.4	8.6	–0.9		100.0

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

Notes to the consolidated financial statements

Balance sheet and other information

2008 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
Balance sheet						
– Segment assets	4 208	1 720	721	2 266	–1 807	7 108
– Equity in associated companies and joint ventures				127		127
Total assets	4 208	1 720	721	2 393	–1 807	7 235
Total liabilities	–1 659	–639	–180	–1 113	1 807	–1 784
Net assets	2 549	1 081	541	1 280	0	5 451

Other information

Capital expenditure	101	152	59	19		331
Depreciation on tangible assets	59	105	36	4		204
Amortization on intangible assets	5	5	4			14
Impairment charges		1	1			2
Share of result from associates and joint ventures				5		5

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
Share of result from associates and joint ventures		0		0		0

b. Secondary segment information (by geographic area)

(CHF million)	2008			2007		
	Net sales	Total assets	Capital expenditure	Net sales	Total assets	Capital expenditure
Europe	2 692	5 980	288	2 706	6 077	337
America	545	213	5	603	248	3
Asia	2 321	1 014	37	2 215	1 086	62
Oceania	71	28	1	79	36	1
Africa	48			43		
Total	5 677	7 235	331	5 646	7 447	403

Notes to the consolidated financial statements

6. Revenues and expenses

a. Analysis of sales revenue	(CHF million)	2008	2007
Sales of goods		5 651	5 600
Rendering of services		26	46
Total net sales		5 677	5 646

b. Other operating income In 2008, other operating income amounted to CHF 231 million (2007: CHF 91 million). The increase is mainly due to the timekeeping services rendered at the Olympics in Beijing, but also to gains on disposal of businesses as set out in Note 14.

c. Personnel expense	(CHF million)	2008	2007
Wages and salaries		1 369	1 307
Social security costs		223	217
Share-based compensation (Note 28)		10	11
Pension costs – defined benefit plans (Note 23)		25	56
Pension costs – defined contribution plans (Note 23)		6	4
Other post-employment benefits (Note 23)		0	0
Total personnel expense		1 633	1 595

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

(Unaudited)	2008	2007
Average annual headcount	24 269	22 505
Total headcount at 31 December	24 270	23 577
Men	10 937	10 426
Women	13 333	13 151
Swiss contracts	13 189	12 460
Non-Swiss contracts	11 081	11 117

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

d. Other operating expenses	(CHF million)	2008	2007
Marketing, sales and administration		924	867
Subcontracting and other direct costs of sales		348	334
Maintenance, rents and energy		396	364
Other operating expenses		131	55
Total other operating expenses		1 799	1 620

e. Research and development costs R&D costs amounted to CHF 161 million in 2008, representing 2.8% of net sales (compared with CHF 155 million or 2.7% in 2007).

f. Net financial result	(CHF million)	2008	2007
Interest income		23	47
Result from marketable securities designated as FVTPL		-5	2
Result from marketable securities held-for-trading and derivatives		-158	28
Net currency result		-35	-14
Other financial expense		-4	-4
Other financial income and expense		-179	59
Interest on convertible bond		-14	-14
Other interest		-8	-8
Interest expense		-22	-22
Share of result from associates and joint ventures		5	0
Net financial result		-196	37

Notes to the consolidated financial statements

7. Income taxes

a. Income tax expenses	(CHF million)	2008	2007
	Current income taxes	228	312
	Adjustments recognized for current taxes of prior periods	1	1
	Deferred income taxes	-61	-55
	Total income taxes	168	258

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.

	2008	2007	
	%	%	
	Group's average expected tax rate	21.2	21.3
	Tax effect of:		
	- Change in the applicable tax rate on temporary differences	-0.8	-0.3
	- Capitalization of tax assets from previous years and utilization of tax losses / unused tax credits	0.0	-0.3
	- Non-taxable income	-0.6	-0.3
	- Non-tax-deductible expenses	1.2	0.0
	- Items taxable at reduced rates	-1.1	-0.7
	- Adjustments recognized for current taxes of prior periods	0.1	0.1
	- Other items	-3.3	0.5
	Group's effective tax rate	16.7	20.3

In 2008, other items included a tax effect of -6.7% following the settlement of tax disputes and +2.5% relating to a reversal of unrecognized deferred taxes on IC participations and loans in application of IAS 12.39.

c. Current income tax	(CHF million)	31.12.2008	31.12.2007
	Current income tax assets	7	6
	Current income tax liabilities	-98	-204
	Net current income tax liability	-91	-198

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)	31.12.2008	31.12.2007
Deferred tax assets	196	167
Deferred tax liabilities	-333	-361
Net deferred tax liability	-137	-194

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

(CHF million)	2008	2007
Balance at 1 January	-194	-247
Translation differences and other movements	-4	-2
Acquisitions (Note 14)	-3	0
Divestments (Note 14)	3	0
Income statement	61	55
Balance at 31 December	-137	-194

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 2008
One year	4	4	8
Two years	8	5	13
Three years	7	4	11
Four years	12	1	13
Five years	15	2	17
Six years	23	5	28
More than six years	63	58	121
Total at 31.12.2008	132	79	211

(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

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)	31.12.2008	31.12.2007
Carryforward tax losses/tax credits	24	18
Non-current assets	19	43
Current assets	152	127
Current liabilities	22	21
Non-current liabilities	10	14
Total	227	223
Offset	-31	-56
Total deferred tax assets on the balance sheet	196	167

Deferred tax liabilities

Source (CHF million)	31.12.2008	31.12.2007
Non-current assets	-96	-110
Current assets	-234	-204
Current liabilities	-9	-9
Non-current liabilities	-25	-94
Total	-364	-417
Offset	31	56
Total deferred tax liabilities on the balance sheet	-333	-361

In 2008 and 2007, 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

	2008	2007
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	834	1 011
Percentage of registered shares outstanding in comparison with the share capital outstanding	42.2%	42.4%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	57.8%	57.6%
Registered shares		
Net income attributable to registered shareholders (CHF million)	352	429
Average number of shares outstanding	111 605 632	115 882 234
Basic earnings per share (in CHF)	3.15	3.70
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	482	582
Average number of shares outstanding	30 596 542	31 485 875
Basic earnings per share (in CHF)	15.75	18.49

b. Diluted

	2008	2007
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	834	1 011
Interest expense on convertible debt (CHF million)	14	14
Net income used to determine diluted EPS (CHF million)	848	1 025
Percentage of diluted registered shares in comparison with the diluted share capital outstanding	44.0%	44.2%
Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding	56.0%	55.8%
Registered shares		
Net income attributable to registered shareholders (CHF million)	373	453
Average number of shares outstanding – basic (as above)	111 605 632	115 882 234
Potentially dilutive number of shares from convertible bond	8 398 368	8 398 368
Potentially dilutive number of shares from options outstanding	199 642	194 119
Average number of shares outstanding – diluted	120 203 642	124 474 721
Diluted earnings per share (in CHF)	3.10	3.64
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	475	572
Average number of shares outstanding	30 596 542	31 485 875
Diluted earnings per share (in CHF)	15.51	18.18

9. Dividends paid and proposed

On 21 May 2008, the Annual General Meeting approved the distribution of a dividend of CHF 0.85 per registered share and CHF 4.25 per bearer share. The distribution to holders of outstanding shares totaled CHF 225 million (2007: CHF 192 million) and has been recorded against retained earnings in 2008.

At the Annual General Meeting on 15 May 2009, payment of the following dividends for 2008 will be proposed:

	Registered	Bearer
Dividend per share	CHF 0.85	CHF 4.25
Total dividend	CHF 105 438 250	CHF 131 070 000

The financial statements ending 31 December 2008 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2009.

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 2008	986	2 569	387	53	3 995
Translation differences	22	-38	-14		-30
Business combinations (Note 14)	16	14	1		31
Divestments of businesses (Note 14)	-2	-60	-2		-64
Additions	22	206	40	26	294
Disposals		-74	-18		-92
Transfers	40	9	-1	-48	0
Historical cost, 31 December 2008	1 084	2 626	393	31	4 134
Accumulated depreciation, 1 January 2008	-463	-1 932	-242	-1	-2 638
Translation differences	3	30	10		43
Annual depreciation	-22	-147	-33		-202
Impairment		-1			-1
Depreciation on disposals		69	16		85
Depreciation on divestments of businesses		43	1		44
Transfers					0
Accumulated depreciation, 31 December 2008	-482	-1 938	-248	-1	-2 669
Net book value, 31 December 2008	602	688	145	30	1 465
Insured value					4 832
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					94
	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
Business combinations (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

Notes to the consolidated financial statements

11. Investment property

(CHF million)	2008	2007
Historical cost, 1 January	60	49
Additions	7	10
Disposals	0	0
Transfers	0	1
Historical cost, 31 December	67	60
Accumulated depreciation, 1 January	-26	-24
Annual depreciation	-2	-1
Impairment	0	0
Depreciation on disposals	0	0
Transfers	0	-1
Accumulated depreciation, 31 December	-28	-26
Net book value, 31 December	39	34
Rental income	4	3
Direct operating expenses arising from investment properties that generated rental income	-3	-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 68 million at 31 December 2008 compared to CHF 60 million at 31 December 2007. 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 2008	33	170	232	435
Translation differences		-8	-1	-9
Business combinations (Note 14)	2	4	6	12
Divestments of businesses (Note 14)		-3	-33	-36
Additions	10	9		19
Disposals	-1	-4		-5
Transfers				0
Historical cost, 31 December 2008	44	168	204	416
Accumulated amortization, 1 January 2008	-12	-89	0	-101
Translation differences		2		2
Annual amortization	-6	-8		-14
Impairment		-1		-1
Amortization on disposals	1	3		4
Amortization on divestments of businesses		2		2
Transfers				0
Accumulated amortization, 31 December 2008	-17	-91	0	-108
Net book value, 31 December 2008	27	77	204	308

(CHF million)	Capitalized development costs	Other intangible assets	Goodwill	Total
Historical cost, 1 January 2007	27	159	226	412
Translation differences		2		2
Business combinations (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

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)	31.12.2008	31.12.2007
Watches & Jewelry	157	155
Production	36	32
Electronic Systems	11	45
Total	204	232

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

	2008			2007		
	Watches & Jewelry	Production	Electronic Systems	Watches & Jewelry	Production	Electronic Systems
Estimated growth rate beyond five-year period	1%	0.50%	0%	1%	1%	0.50%
Expected gross margin	56%–64%	26%–30%	31%–35%	56%–68%	27%–32%	35%–40%
Pre-tax discount rate	9.1%	10.2%	10.5%	6.5%	7.4%	7.6%

No impairment charge for goodwill had to be recorded in 2008. 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 associates and joint ventures

(CHF million)	2008	2007
Balance at 1 January	6	6
Share of result from associates and joint ventures	5	0
Dividends received	0	0
Investments	69	0
Reclassifications	45	0
Translations differences	2	0
Balance at 31 December	127	6

All associates and joint ventures are recognized using the equity method. They have been listed in Note 32.

The investments in 2008 relate to the acquired stake in Rivoli Group LLC (Dubai), one of the leading lifestyle luxury goods retailers in the GCC (Gulf Cooperation Council) region. Despite having less than 20% of the voting power, the Swatch Group can exercise significant influence due to the representation on the Board of Directors, the access to current financial information and the strategic character of the investment. Due to this significant influence, the investment in Rivoli is considered as an associate.

The reclassifications in 2008 mainly relate to the 8.09% stake in Xinyu Hengdeli (Hong Kong) which has been transferred from marketable securities into associates. As of 9 July 2008, the Group obtained significant influence following a decisive change in Xinyu Hengdeli's Board of Directors and a closer strategic partnership between the two parties. The reclassification as of 9 July 2008 was done at original cost value with the difference to the current fair value being recognized in equity.

Furthermore, the company François Golay SA was reclassified out of investments in associates due to its full consolidation (acquisition of the remaining 65% of the shares, refer to Note 14 Business Combinations). Also, the Group's share in Belenos Clean Power Holding SA has been reduced to below 50%, the company is now considered as an associate.

At 31 December 2008, the fair value of the investment in Xinyu Hengdeli was CHF 33 million.

Sales to and purchases from associates and joint ventures amounted to CHF 159 million (2007: 0 million) and CHF 9 million (2007: CHF 8 million) respectively.

Notes to the consolidated financial statements

The following amounts represent the Group's share of assets, liabilities, revenues and net income of associates and joint ventures:

(CHF million)	31.12.2008	31.12.2007
Assets	100	5
Liabilities	44	3
Revenues	61	4
Net income	5	0

At the balance sheet date, contingent liabilities of associates and joint ventures amounted to CHF 1 million (2007: no material commitments).

14. Business combinations

In January 2008, the Group acquired the business activities of the company H. Moebius & Sohn, Allschwil (Switzerland), a supplier of classic and synthetic oils, lubricants and epilam coatings. In March 2008, another minor transaction involved the acquisition of 100% of the issued capital of Vica Sàrl, Lausanne (Switzerland).

In June 2008, the Group acquired the remaining 65% of François Golay SA, Le Brassus (Switzerland), a developer of high-quality wheels and other watch components. On 4 November 2008, the Group finalized the purchase of the watch components division of Burri AG in Moutier (Switzerland).

In November 2007, the Group had 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 had been acquired. These were the only business combinations effected in the financial year 2007.

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:

(CHF million)	Notes	2008		2007	
		Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount
Property, plant and equipment	(10)	31	24	1	1
Intangible assets	(12)	6	0	1	0
Other non-current assets	(15)	0	0	0	0
Current assets		4	4	2	2
Cash and cash equivalents		0	0	0	0
Provisions	(24)	-1	-1	0	0
Deferred tax liabilities	(7)	-3	0	0	0
Other non-current liabilities		-3	-3	0	0
Current liabilities		-1	-1	-2	-2
Previously held interests		-5		0	
Net assets acquired		28	23	2	1
Goodwill (capitalized)	(12)	6		6	
Negative Goodwill (recognized in P&L)		-3		0	
Total purchase consideration		31		8	
Cash and cash equivalents acquired		0		0	
Consideration payable		-1		0	
Cash outflow on acquisitions		30		8	

Notes to the consolidated financial statements

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 (2007: 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. In the case of François Golay SA, the fair values of net assets acquired were in excess of the consideration paid. The resulting negative goodwill of CHF 3 million was recognized in the income statement within other operating income.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date amounted to CHF 1 million (2007: below CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2008 (1 January 2007), the Group's revenue would have been CHF 7 million (2007: CHF 5 million) higher, and profit would have changed by CHF 1 million (2007: less than CHF 1 million).

Divestment of businesses

In 2008, the Group sold the Group companies Sokymat Automotive GmbH (Germany) and Michel Präzisionstechnik AG (Switzerland) (2007: none) for a total consideration of CHF 109 million. The profit realized on these divestments amounted to CHF 45 million, it was included in other operating income.

The net assets disposed of and the net cash inflow on divestments were as follows:

(CHF million)	Notes	31.12.2008	31.12.2007
Property, plant and equipment	(10)	20	0
Intangible assets	(12)	1	0
Goodwill	(12)	33	0
Current assets		21	0
Cash and cash equivalents		4	0
Provisions	(24)	0	0
Deferred tax liabilities	(7)	-3	0
Other non-current liabilities		-1	0
Current liabilities		-11	0
Net assets disposed of		64	0
Accumulated currency translation gains recognized in equity		0	0
Profit on divestment of businesses		45	0
Total disposal consideration		109	0
Cash and cash equivalents disposed of		-4	0
Net Cash inflow on divestment		105	0

Furthermore, the participation in Belenos Clean Power Holding SA was reduced in 2008 to below 50% and reclassified to associates (refer to Note 13). The cash impact on deconsolidation was a decrease in cash and cash equivalents of CHF 17 million.

Notes to the consolidated financial statements

15. Other non-current assets

(CHF million)	Key money	Security deposits	Other financial assets	Pension assets	Total
Balance at 1 January 2008	48	17	5	0	70
Translation differences	-4				-4
Business combinations (Note 14)					0
Additions	4	7		48	59
Disposals		-1			-1
Transfers to «other receivables»	-11				-11
Balance at 31 December 2008	37	23	5	48	113
Term 1–5 years	29	17	5		51
Term >5 years	8	6		48	62
Balance at 31 December 2008	37	23	5	48	113

(CHF million)	Key money	Security deposits	Other financial assets	Pension assets	Total
Balance at 1 January 2007	43	13	4	0	60
Translation differences	1				1
Business combinations (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	0	70
Term 1–5 years	36	11	5		52
Term >5 years	12	6			18
Balance at 31 December 2007	48	17	5	0	70

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». Detail to the pension assets can be found in Note 23.

16. Inventories

(CHF million)	31.12.2008	31.12.2007
Raw materials	226	186
Work in progress	334	340
Semi-finished goods	1 028	950
Finished goods	999	657
Spare parts for customer service	151	140
Total inventories	2 738	2 273

In 2008, the Group reassessed its inventory categories and proceeded with some new definitions in order to improve transparency. This resulted in reclassifications. Components are now integrated in the category «semi-finished goods» and no longer in «raw materials and components». The category «raw materials» has therefore been renamed. The 2007 figures have been reclassified accordingly.

Inventories with risk of obsolescence have been adjusted to their net realizable value. Adjustments of this nature accounted for CHF 19 million in 2008 (CHF 20 million in 2007).

Notes to the consolidated financial statements

17. Trade receivables

(CHF million)	31.12.2008	31.12.2007
Trade receivables – gross	756	896
Allowance for impaired receivables	–23	–21
Total trade receivables – net	733	875

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

(CHF million)	2008	2007
Balance at 1 January	–21	–24
Translation differences	0	0
Utilization	3	6
Reversal	4	3
Creation	–9	–6
Balance at 31 December	–23	–21

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

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

(CHF million)	31.12.2008	31.12.2007
Neither past due nor impaired	537	696
<3 months	171	156
3–6 months	18	16
6–12 months	7	7
Total past due but not impaired	196	179
Total trade receivables	733	875

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)	31.12.2008	31.12.2007
CHF	213	212
CNY	38	36
EUR	211	262
JPY	37	44
HKD	27	35
USD	87	109
Other currencies	120	177
Total trade receivables – net	733	875

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)	31.12.2008	31.12.2007
Other current receivables		
VAT to be refunded	108	135
Other receivables	77	83
Total other current receivables	185	218
Prepayments		
Key money	10	12
Other prepayments and accrued income	88	153
Total prepayments	98	165
Total other current assets	283	383

Current income tax assets are reported on a separate balance sheet line and are also included in Note 7 Income taxes. No impairments were recognized on other receivables (2007: CHF 3 million). Except for prepayments, other current assets are considered as financial instruments.

19. Marketable securities and derivative financial instruments

(CHF million)	31.12.2008	31.12.2007
Equity securities	111	210
Bond securities	378	231
Investment funds	29	70
Other investments	12	142
Total marketable securities	530	653
Derivative financial instruments	16	3
Total marketable securities and derivative financial instruments	546	656

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 6f).

In 2007, other investments contained essentially the 8.09% stake in Xinyu Hengdeli Holdings Ltd., whose shares are listed on the Hong Kong stock exchange. In 2008, the Group has reclassified this investment into associates (refer to Note 13).

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

Type	31.12.2008			31.12.2007		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
(CHF million)						
Forward foreign exchange rate contracts	565	16	-3	626	3	-1
Currency options	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0
Total trading	565	16	-3	626	3	-1
Forward foreign exchange rate contracts	0	0	0	157	0	-1
Currency options	0	0	0	0	0	0
Total hedge accounting	0	0	0	157	0	-1
Total	565	16	-3	783	3	-2

Notes to the consolidated financial statements

At the end of 2008, no hedges were outstanding. In 2008, CHF 1 million was recycled from equity as a result of the application of hedge accounting (2007: CHF 1 million charged to equity). The impact on the income statement 2008 was a gain of CHF 3 million (2007: CHF 0 million). 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 (CHF million)	2008					2007				
	EUR	JPY	HKD	Other	Total	EUR	JPY	HKD	Other	Total
Forward foreign exchange rate contracts	270	126	58	111	565	440	26	53	107	626
Currency options	0	0	0	0	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0	0	0	0	0
Total trading	270	126	58	111	565	440	26	53	107	626
Forward foreign exchange rate contracts	0	0	0	0	0	157	0	0	0	157
Currency options	0	0	0	0	0	0	0	0	0	0
Total hedge accounting	0	0	0	0	0	157	0	0	0	157
Total	270	126	58	111	565	597	26	53	107	783

At 31 December 2008, the contracts have a term of up to one year. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

20. Cash and cash equivalents

(CHF million)	31.12.2008	31.12.2007
Current accounts and liquid assets	378	526
Short-term deposits with financial institutions	302	760
Total	680	1 286

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

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

(CHF million)	31.12.2008	31.12.2007
Cash and cash equivalents	680	1 286
Current account overdrafts (Note 22)	0	-2
Total	680	1 284

Notes to the consolidated financial statements

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
31.12.2005	134 911 327 at CHF 0.45	33 057 450 at CHF 2.25	135 089 359.65
Cancellation ¹⁾	-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 ²⁾	-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
Cancellation ³⁾	-4 055 000 at CHF 0.45	-820 000 at CHF 2.25	-3 669 750.00
31.12.2008	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

¹⁾ Buyback of shares on the Group's 2nd trading line and cancellation following the decision of the AGM of 19 May 2006.

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

³⁾ Buyback of shares on the Group's 2nd trading line and cancellation following the decision of the AGM of 21 May 2008.

At year-end 2008 as well as 2007, 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 10 December 2007 to 9 September 2008, 3 920 000 registered shares and 755 000 bearer shares for a total value of CHF 420 million were repurchased.

Equity increased by CHF 10 million in 2008 (net of taxes) (2007: CHF 11 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)	31.12.2008	31.12.2007
Equity component of convertible bond	15	16
Cash flow hedges:		
- Fair value result	-2	-1
- Tax on fair value result	0	0
- Transfers to material purchases	3	0
- Transfers to financial result	0	0
Translation and other differences	-133	-38
Total other reserves	-117	-23

Notes to the consolidated financial statements

22. Financial debts and derivative financial instruments

(CHF million)	31.12.2008	31.12.2007
Convertible bond	384	402
Other non-current debt	92	83
Total non-current financial debts	476	485
Current account overdrafts	0	2
Short-term leasing commitments	0	0
Short-term bank debt	50	32
Total current financial debts	50	34
Derivative financial instruments	3	2
Total current financial debts and derivative financial instruments	53	36
Total financial debts	529	521

The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates. 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 31.12.2008	53	386	90	529
At 31.12.2007	36	405	80	521

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

(CHF million)	31.12.2008	31.12.2007
Swiss Franc (CHF)	389	404
Japanese Yen (JPY)	114	99
Euro (EUR)	4	6
Other currencies	22	12
Total	529	521

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 with 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)	2008	2007
Liability component at 1 January	402	399
Coupon interest at market rate	14	14
Coupon interest at 2.625%	-11	-11
Partial repurchase of convertible bonds against cash	-21	0
Liability component at 31 December	384	402

In 2008, the Group repurchased 4 313 convertible bonds with a total nominal value of CHF 22 million at an average price of 98.45%. The realized gain relating to the liability component of less than CHF 1 million was recognized within financial income. In 2008 and 2007, no bonds had been converted. The closing rate of the convertible bond on the Swiss Stock Exchange SIX at end-2008 was 101.10% (142.10% at end-2007).

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)	2008	2007
Present value of funded obligations	-3 124	-3 264
Fair value of plan assets	2 814	3 590
Excess of assets / (liabilities) at 31 December	-310	326
Present value of unfunded obligations	-15	-18
Unrecognized actuarial loss	348	6
Unrecognized past-service cost	0	0
Unrecognized surplus due to asset ceiling	0	-336
Net asset / (liability) in the balance sheet at 31 December	23	-22

In 2008 the Group integrated the plan assets of several welfare foundations whose beneficiaries are Swiss employees. These plan assets amounted to CHF 280 million at the restatement date of 1 January 2007. The prior years' figures in Note 23 were restated accordingly. In the past, due to some restrictions, the plans' economic benefits for the Group were very limited. In light of the current economic environment, it is assumed that these benefits will be available to the Group. Due to the capitalization limits caused by the corridor approach and the mechanism of IAS 19.58B, there was no impact on the Group's balance sheet as at 31.12.2006 or 31.12.2007 or the income statement 2007 as a result of this integration.

Periodic pension cost for defined benefit plans

(CHF million)	2008	2007
Current service cost	-114	-85
Interest cost	-105	-103
Expected return on plan assets	144	139
Actuarial gains/(losses)	-340	-110
Past-service cost	0	0
Employee contributions	54	50
Gains/(losses) on curtailment	0	1
Impact of asset ceiling	336	52
Total periodic pension cost	-25	-56

Despite significant fair value losses on plan assets in 2008, the pension cost 2008 decreased from CHF 56 million in 2007 to CHF 25 million in the current year. This one-off impact in 2008 due to the unrecognized actuarial losses according to IAS 19 will reverse in 2009 and lead to periodic pension costs similar to 2007.

Movement in the fair value of plan assets

(CHF million)	2008	2007
1 January	3 590	3 464
Expected return on plan assets	144	139
Actuarial gains/(losses)	-872	39
Exchange differences	-7	-5
Employer contributions	66	62
Employee contributions	54	50
Effect of acquisitions or divestments	0	0
Benefits paid	-161	-159
31 December	2 814	3 590

Pension plan assets include the company's registered shares with a fair value of CHF 162 million (2007: CHF 379 million) and the company's bearer shares with a fair value of CHF 29 million (2007: CHF 69 million). Furthermore, buildings occupied by the Group amounting to CHF 12 million (previous year CHF 11 million) were included in the pension plan assets.

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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 was a loss of CHF 728 million (2007: gain of CHF 178 million). The Group expects to contribute CHF 67 million to its post-employment benefit plans in 2009.

Asset allocation of plan assets

	31.12.2008		31.12.2007	
	CHF million	%	CHF million	%
Equity	826	29.4	1 342	37.4
Bonds	1 163	41.3	1 343	37.4
Real estate	607	21.6	609	17.0
Other assets	218	7.7	296	8.2
Total	2 814	100.0	3 590	100.0

Movement in the present value of defined benefit obligation

(CHF million)	2008	2007
1 January	-3 282	-3 106
Current service cost	-114	-85
Interest cost	-105	-103
Actuarial gains/(losses)	188	-143
Exchange differences	12	5
Benefits paid	162	161
Reclassification ¹⁾	0	-13
Effect of acquisitions or divestments	0	0
Curtailments	0	2
Settlements	0	0
31 December	-3 139	-3 282

¹⁾ Reclassification from other post-employment benefit obligations in 2007.

Principal actuarial assumptions used

	2008	2007
	%	%
	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.

Defined benefit plans: summary

(CHF million)	2008	2007	2006	2005
Present value of defined benefit obligation	-3 139	-3 282	-3 106	-2 997
Fair value of plan assets	2 814	3 590	3 464	3 255
Over/(under) funding	-325	308	358	258
Experience adjustments on plan liabilities – loss / (gain)	29	133	70	56
Experience adjustments on plan assets – gain / (loss)	-872	39	130	237

Notes to the consolidated financial statements

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 2008 of CHF 3 million (2007: CHF 3 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 2008, these liabilities amounted to CHF 3 million (31 December 2007: CHF 3 million).

d. Reconciliation The reconciliation of the balance sheet amount of pension assets and retirement benefit obligations is as follows:

(CHF million)	31.12.2008	31.12.2007
Defined benefit plan asset	48	0
Total pension asset (Note 15)	48	0
Defined benefit plan liability	-25	-22
Other post-employment benefit obligations	-3	-3
Total retirement benefit obligations	-28	-25

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 2008, these contributions amounted to CHF 6 million (CHF 4 million in 2007).

24. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 1 January 2008	83	17	22	122
Translation differences	-5		-1	-6
Additional provisions	71	5	5	81
Reversal of provisions	-6	-11	-3	-20
Acquisitions / divestments			1	1
Provisions used during the year	-66		-4	-70
Balance at 31 December 2008	77	11	20	108

Analysis of total provisions

(CHF million)	31.12.2008	31.12.2007
Non-current provisions	45	58
Current provisions	63	64
Total	108	122

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.

Notes to the consolidated financial statements

25. Other current liabilities

(CHF million)	31.12.2008	31.12.2007
Advance payments	15	16
VAT due	20	22
Other payables	77	116
Total other current payables	112	154
Accrued expenses and deferred income	330	428
Total other current liabilities	442	582

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 2008, 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-2007).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 23 million at 31 December 2008 (CHF 19 million at end-2007). 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)	31.12.2008	31.12.2007
Less than 1 year	129	117
Between 1 and 5 years	299	298
Over 5 years	246	257
Total	674	672
Proportion of contracts with renewal option (% of total amount)	68.5	74.6
Maximum risk (% of total amount)	91.6	93.1

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 2008. Leasing costs amounting to CHF 129 million were recognized in the 2008 income statement (CHF 107 million in 2007). 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 2008, amounted to CHF 4 million (CHF 5 million in the previous year).

c. Contingent assets and 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.

In some cases the Group is defending its rights where there is also an inherent chance of inflows of economic benefits if the cases are successful.

Notes to the consolidated financial statements

27. Cash generated from operations

(CHF million)	Notes	2008	2007
Net income		838	1 015
Share of result from associates and joint ventures	(13)	-5	0
Taxes	(7)	168	258
Depreciation of tangible assets	(10, 11)	204	185
Amortization of intangible assets	(12)	14	16
Impairment charge	(10, 12, 18)	2	3
Divestment gain from disposal of subsidiaries	(14)	-45	0
Profit on sale of fixed assets		-3	-4
Loss on sale of fixed assets		2	3
Fair value gains on marketable securities		-31	-51
Fair value losses on marketable securities		218	62
Interest income	(6f)	-23	-47
Interest expense	(6f)	22	22
Expenses for equity-settled equity compensation plan	(28)	10	11
Changes in working capital (without liquid funds):			
– Inventories		-514	-400
– Trade and other receivables		184	-149
– Trade payables and other current liabilities		-149	189
Changes in provisions		-8	6
Changes in pensions and other retirement benefits		-42	-7
Cash generated from operations		842	1 112

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 2008, this portfolio comprised 2 572 039 registered shares (2 793 762 at the end of 2007). In 2008, 221 723 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

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

	2008	2007
	Options	Options
Options outstanding at 1 January	206 328	240 773
Granted	234 217	187 091
Forfeited or lapsed	-252	-137
Exercised	-221 723	-221 399
Options outstanding at 31 December	218 570	206 328

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	
	31.12.2008	31.12.2007
2008		143 892
2009	140 369	62 436
2010	78 201	
Total	218 570	206 328

Notes to the consolidated financial statements

The fair value of the options granted during the period was determined by using the Black-Scholes option pricing model. The expected volatility has been set by reference to the implied volatility of options available on Swatch Group shares in the open market, as well as historical patterns of volatility. The following table shows the assumptions on which the valuation of share options granted in 2008 and 2007 was based:

	2008		2007	
	Tranche exercisable in 1 year	Tranche exercisable in 2 years	Tranche exercisable 1 year	Tranche exercisable in 2 years
Grant date	10 July 2008	10 July 2008	12 July 2007	12 July 2007
Expiration date	10 July 2009	10 July 2010	12 July 2008	12 July 2009
Closing share price on grant date	CHF 43.65	CHF 43.65	CHF 69.15	CHF 69.15
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Volatility	24.0%	24.0%	19.6%	19.6%
Expected dividend yield	CHF 0.85	CHF 0.85	CHF 0.70	CHF 0.70
Risk-free interest rate	3.16%	3.20%	3.05%	3.36%
Market value of option at grant date	CHF 38.93	CHF 39.05	CHF 64.57	CHF 64.71

The first tranche that was immediately exercisable had the same assumptions as shown above (2008: grant date 10 July 2008, share price at grant date CHF 43.65, exercise price CHF 4.00; 2007: grant date 12 July 2007, share price at grant date CHF 69.15, exercise price CHF 4.00). The weighted average share price at exercise date was CHF 38.39 in 2008 (2007: CHF 68.60).

The personnel expense recorded in the 2008 income statement as a result of applying IFRS 2 calculation amounted to CHF 10 million (2007: CHF 11 million).

29. Related party transactions

a. Principal shareholders

On 31 December 2008, the Hayek Pool and its related companies, institutions and individuals held 62 752 125 registered shares and 202 575 bearer shares, equivalent to 40.7% of the shares issued (previous year: 39.1%) 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 40.0% of the shares issued compared with 38.5% at the end of year 2007.

As of the same date, Mrs Esther Grether's group controlled 7.5% of the shares issued (compared with 7.2% a year earlier).

In 2008, the Hayek Group, owned by Mr. N. G. Hayek, invoiced an amount of CHF 10.0 million to the Swatch Group (compared with CHF 10.2 million in 2007). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2008	2007
Audit, feasibility studies and process optimization	2.7	2.4
Provision of managers and filling important, vacant functions	0.7	1.2
Project management in the construction sector	3.5	3.4
Support for projects in the materials and surface treatment technology sector	0.6	0.6
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.	2.1	2.2
Total	10.0	10.2

Notes to the consolidated financial statements

- 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)	2008	2007
Short-term employee benefits	27.1	27.5
– of which in salaries	9.3	9.3
– of which in bonus	17.7	18.0
– of which in other benefits	0.1	0.2
Post-employment benefits	0.8	0.7
Termination benefits	0.0	0.0
Share-based compensation	6.4	6.7
Total	34.3	34.9

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

- c. Share ownership** At 31 December 2008, 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 55 918 748 registered shares and 590 bearer shares, representing 36.1% of the voting rights (previous year: 34.7%). In addition, at 31 December 2008, all the non-executive members of the Board of Directors as well as the persons close to them held 13 121 952 registered shares and 114 000 bearer shares, representing 8.6% of the voting rights (previous year: 8.3%).

- 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 2008, 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 2008, 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)	2008		2007	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	9	159	8	0
Other related parties	0	0	0	0

At the end of 2008, receivables from related parties amounted to CHF 35 million (2007: CHF 1 million), and payables to related parties were CHF 3 million (2007: CHF 2 million). In addition, in 2008 the Group received a guarantee from an associated company in the amount of CHF 20 million (2007: none). Furthermore, at 31 December 2008 the Group had granted loans to related parties in the amount of USD 1 million (2007: USD 1 million) with an interest rate of 3.25%.

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

a. Board of Directors (BoD)

2008	Function	Compensation for functions in the BoD ¹⁾	Base com- pensation for executive function ¹⁾	Bonus ²⁾	Other compen- sation ³⁾	Total ⁴⁾
Name		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Dr. h.c. Nicolas G. Hayek	Chairman and delegate of BoD		701 892	1 770 000		2 471 892
Dr. Peter Gross	Member of BoD	114 957				114 957
Esther Grether	Member of BoD	104 425				104 425
Nayla Hayek	Member of BoD	105 318	501 564	860 000	59 700	1 526 582
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		617 410	1 203 456	2 630 000	59 700	4 510 566

2007	Function	Compensation for functions in the BoD ¹⁾	Base com- pensation for executive function ¹⁾	Bonus ²⁾	Other compen- sation ³⁾	Total ⁴⁾
Name		(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 years under review.

³⁾ Compensation for special mandates (2007), 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.

Notes to the consolidated financial statements

b. Management Board (MB) and Extended Management Board (EMB)

2008	Function	Salaries ¹⁾	Bonus ²⁾	Share options ³⁾	Share options ³⁾	Other compensation ⁴⁾	Total ⁵⁾
Name		(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
Nick Hayek Jr.	President of the MB – CEO	1 471 561	3 000 000	22 000	853 380	59 700	5 384 641
Total other members		5 998 112	12 066 350	127 000	4 926 334	791 574	23 782 370
Total		7 469 673	15 066 350	149 000	5 779 714	851 274	29 167 011

2007	Function	Salaries ¹⁾	Bonus ²⁾	Share options ³⁾	Share options ³⁾	Other compensation ⁴⁾	Total ⁵⁾
Name		(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 years 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 the current year. The options exercisable in the following years 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.

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

In 2008 and 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 2008, 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 (unchanged to previous year). In 2008 and 2007, no compensation other than mentioned in the compensation tables 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.

Notes to the consolidated financial statements

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

As of 31 December 2008, 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 (number)		Bearer Shares (number)		Options (number)	
		2008	2007	2008	2007	2008	2007
Dr. h.c. Nicolas G. Hayek	Chairman and Delegate of BoD	55 385 823	54 937 911	550	550		
Dr. Peter Gross	Member of BoD	22 200	16 400				
Esther Grether	Member of BoD	11 472 380	11 392 880	112 000	112 000		
Nayla Hayek	Member of BoD	3 210	3 210				
Prof. Dr. h.c. Claude Nicollier	Member of BoD						
Johann Niklaus Schneider-Ammann	Member of BoD	1 627 372	1 662 961				
Ernst Tanner	Member of BoD			2 000	2 000		
Nick Hayek Jr.	President of the MB – CEO	38 083	17 916			20 167	18 334
Arlette E. Emch	Member of MB	23 584	10 834			13 750	12 500
Florence Ollivier- Lamarque	Member of MB	36 334	26 250			10 084	9 168
Dr. Mougahed Darwish	Member of MB	63 470	56 802			6 000	6 668
Edgar Geiser	Member of MB – CFO	27 946	88 262			16 684	15 168
Marc A. Hayek	Member of MB	28 400	20 232			8 500	7 668
Dr. Hanspeter Rentsch	Member of MB – CLO	124 306	107 622			16 684	15 168
Roland Streule	Member of MB	25 633	14 000			7 668	8 001
François Thiébaud	Member of MB	45 250	38 041			7 875	6 084
Matthias Breschan	Member of EMB	4 250	2 875			1 375	1 250
Pierre-André Bühler ¹⁾	Member of EMB	7 640				1 773	
Manuel Emch	Member of EMB	3 234	1 684			1 450	1 500
Yann Gamard	Member of EMB					4 709	4 418
Walter von Känel	Member of EMB	14 454	10 067	40	40	2 939	3 126
Thomas Meier	Member of EMB	1 500	2 500			1 500	1 500
Dr. Frank Müller ²⁾	Member of EMB		2 475				750
Kevin Rollenhagen	Member of EMB	18 766	14 650			4 384	3 500
Rudolf Semrad	Member of EMB	15 501	13 167			2 100	2 334
Dr. Peter Steiger	Member of EMB	35 883	30 841			5 042	4 584
Stephen Urquhart	Member of EMB	15 481	9 341			5 441	6 081
Total		69 040 700	68 480 921	114 590	114 590	138 125	127 802

¹⁾ Member of EMB as of March 2008.

²⁾ Member of EMB until November 2008.

In 2008, Mr. H.P. Rentsch, member of the Management Board, acquired CHF 0.1 million of The Swatch Group Finance (Luxembourg) SA 2003-2010 2.625% convertible bonds giving rise to 2 040 registered shares if converted.

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 2008 and 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 31.12.2008

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Europe					
Switzerland					
The Swatch Group SA, Neuchâtel	Holding	CHF 125.21			▼
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	45	○	▼
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 AG, Le Locle	Watches	CHF 3.50	100	●	■
Cité du Temps SA, Genève	Communication	CHF 0.10	100	●	▼
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	■
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, Corcelles-Cormondrèche	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 AG, 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	100	●	▲
Frédéric Piguet SA, Le Chenit	Movements	CHF 0.30	100	●	▲
Hamilton International AG, 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	●	▼
Mæder-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 SA, Corcelles-Cormondrèche	Real estate	CHF 2.00	100	●	▼
Microcomponents AG, Grenchen	Components for the automobile industry	CHF 11.00	100	●	◆
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	◆
Mido AG, Le Locle	Watches	CHF 1.20	100	●	■
MOM le Prêlet 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 AG, 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	●	◆
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 Weyermann 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 AG, Bienne	Services and licences	CHF 0.05	100	●	▼
Swatch AG, Bienne	Watches	CHF 2.00	100	●	■
Swatch Retail AG, Bienne	Retail	CHF 2.00	100	●	■
Swiss Timing Ltd, Corgémont	Sports timing & information display systems	CHF 2.00	100	●	◆
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
Terbival SA, Courchapoix	Watch case polishing	CHF 0.10	45	○	▲
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	●	▼
Tiffany Watch Co. Ltd, Bienne	Watches	CHF 20.00	100	●	■
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	●	▲
Vica Sàrl, Lausanne	Watches	CHF 0.20	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	●	■
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 31.12.2008

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn Union Uhrenfabrik GmbH, Glashütte	Retail Watches	EUR 0.20 EUR 0.10	100 100	● ●	■ ■
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution (Breguet, Blancpain, Omega, Glashütte, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.04	100	●	■
Belgium					
The Swatch Group (Belgium) SA, Anderlecht	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Certina, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak)	EUR 1.75	100	●	■
The Swatch Group Participation SA, Anderlecht	Holding	EUR 2.09	100	●	▼
Spain					
The Swatch Group (España) SA, Alcobendas	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Certina, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.45	100	●	■
France					
Breguet, Paris	Inactive	EUR 0.04	100	●	■
Fabrique de Fournitures de Bonnétage FFB, Villers-le-Lac	Watch components and precision parts	EUR 0.29	100	●	▲
Frésard Composants, Charquemont	Watch components	EUR 1.80	100	●	▲
Société Européenne de Fabrication d'Ebauches d'Annemasse (SEFEA), Annemasse	Watch components and electronic assembly	EUR 0.67	100	●	▲
Tech Airport Développement, Paris	Retail	EUR 0.30	100	●	■
Tech Airport Holding, Paris	Holding	EUR 10.00	100	●	■
Tech Airport Nice, Paris	Retail	EUR 5.00	100	●	■
Tech Airport Orly, Paris	Retail	EUR 1.00	100	●	■
Tech Airport Roissy, 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, Paris	Retail	EUR 34.93	100	●	■
Universo France, 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					
Alkioni SA, Athens	Retail	EUR 0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, 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, 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					
The Swatch Group (Netherlands) BV, Maastricht	Distribution (Léon Hatot, Omega, Rado, Longines, Tissot, Certina, Hamilton, 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, Endura)	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, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak)	RUB 271.45	100	●	■
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution (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	●	◆
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	●	■

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

32. The Swatch Group Companies – as at 31.12.2008

Company name, Registered offices	Field of Activity		Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
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-swath-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, Glashütte, 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	88.77	100	●	■
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Omega, Rado, Longines)	CNY	7.12	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, 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	●	■
Xinyu Hengdeli Holdings Limited, Hong Kong	Retail	CNY	12.40	8	○	■
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)	KRW	3 300.00	100	●	■
United Arab Emirates						
Rivoli Investments L.L.C., Dubai	Retail	AED	24.02	15	○	■
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, cK Watch, Swatch, Flik Flak)	INR	930.00	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	3 700.00	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, Certina, 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, Léon Hatot, 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 statutory auditor to the general meeting of The Swatch Group Ltd, Neuchâtel

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the balance sheet, income statement, statement of cash flows, statement of changes in equity and notes (pages 153 to 204), for the year ended 31 December 2008.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2008 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.

Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Thomas Brüderlin
Audit expert
Auditor in charge

Ruth Christine Sigel
Audit expert

Basel, 11 March 2009



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Income Statement of the Holding

	Notes	2008 CHF million	2007 CHF million
Income from investments in subsidiaries	(1)	851	663
Financial income	(2)	30	68
Other income		10	9
Total income		891	740
Personnel expense		-46	-51
General expense		-14	-17
Depreciation and impairment		-5	-17
Interest expense	(3)	-29	-21
Exchange differences and other financial expenses	(4)	-124	-47
Taxes		-1	-1
Total expenses		-219	-154
Net income		672	586

Balance sheet of the Holding

Assets	Notes	31.12.2008		31.12.2007	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment		12	0.4	10	0.3
Financial assets					
– Long-term loans to Group companies		159	5.4	84	2.6
– Investments in subsidiaries	(5)	2 045	70.0	2 030	63.7
Total non-current assets		2 216	75.9	2 124	66.6
Current assets					
Receivables from Group companies		108	3.7	149	4.7
Other receivables and accrued income		23	0.8	8	0.2
Marketable securities and precious metals	(6)	513	17.6	874	27.4
Cash and cash equivalents		60	2.1	36	1.1
Total current assets		704	24.1	1 067	33.4
Total assets		2 920	100.0	3 191	100.0

Balance sheet of the Holding

Equity and liabilities	Notes	31.12.2008 CHF million	%	31.12.2007 CHF million	%
Equity					
Share capital		125	4.3	129	4.0
General reserve		67	2.3	67	2.1
Reserve for treasury shares		629	21.5	821	25.7
Special reserve		557	19.1	564	17.7
– Profit brought forward		34		23	
– Net profit for the year		672		586	
Available earnings		706	24.2	609	19.1
Total equity	(7)	2 084	71.4	2 190	68.6
Liabilities					
Provisions		141	4.8	139	4.4
Payables to Group companies		652	22.3	807	25.3
Other liabilities		7	0.2	29	0.9
Accrued expenses		36	1.2	26	0.8
Total liabilities		836	28.6	1 001	31.4
Total equity and liabilities		2 920	100.0	3 191	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).

Risk management

The Board of Directors, the Executive Group Management Board as well as all key members of The Swatch Group Ltd have always considered the aspect of risk monitoring in their regular entrepreneurial function and in their decisions. Their constant process relating to all aspects of the business also includes a close attention to any impacts on the financial reporting. For this purpose, appropriate tools and measures are in place which permit a pro-active and constant flow of information, building the basis for timely decisions as required in a dynamic environment.

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 as well as shares bought back by the company that are shown at lower of cost or market.

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)	2008	2007
	Dividends	730	609
	Other income	121	54
	Total	851	663

This item includes dividends from Group companies and other income from investments in subsidiaries as well as management fees from Group companies. In 2008 a gain of CHF 65 million was realized relating to the sale of two Group companies.

2. Financial income	(CHF million)	2008	2007
	Interest income	9	13
	Income and gains on securities	21	55
	Total	30	68

The decrease of interest income is mainly due to lower interest rates. The company recorded capital gains on its investment portfolio of CHF 21 million. This figure was offset by losses of CHF 138 million (see Note 4).

3. Interest expense In 2008, interest expense increased by CHF 8 million compared with 2007. The higher interest expense reflects the increase of the average amount of borrowings.

4. Exchange differences and other financial expenses This item increased by CHF 77 million compared with the previous year. Thanks to currency hedging contracts taken out to protect the Group's companies, the currency translation item was positive by CHF 14 million (2007: negative by CHF 6 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 138 million (2007: CHF 41 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 70.0% of total assets at 31 December 2008 versus 63.7% at end-2007. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 045 million at end-2008. This amount corresponds to consolidated investments and investments in associates, and is CHF 15 million higher than in 2007. The main differences in 2008 relate to the set-up of new Group companies and a number of capital increases of subsidiaries as well as to the disposal of the two Group companies Sokymat Automotive GmbH and Michel Präzisionstechnik AG.

Notes to the financial statements

6. Marketable securities and precious metals

(CHF million)	31.12.2008	31.12.2007
Marketable securities	201	276
Own shares	225	461
Precious metals	87	137
Total	513	874

Marketable securities decreased in 2008 by CHF 75 million, mainly due to unrealized fair value adjustments caused by the negative performance of the stock markets.

In the year under review, own shares that were bought back in 2007 amounting to CHF 461 million were cancelled. Furthermore, in 2008 treasury shares amounting to CHF 361 million were bought back on a second trading line, of which CHF 92 million were also cancelled. Also included are the registered treasury shares destined for the special management stock option plan.

Precious metals includes gold and other precious metals intended to meet the industrial needs of the Group's subsidiaries.

7. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2008 corresponded to 5.8% (versus 6.2% at end-2007) of the nominal value of total share capital.

See table on page 212 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 31.12.2007	129	67	821	564	609	2 190
Allocated in 2008				350	-350	0
Dividend paid out					-225	-225
Share capital reduction (cancelled shares)	-4		-553	4		-553
Allocation to reserve for the buyback of own shares			361	-361		0
Net income for the year					672	672
Balance at 31.12.2008	125	67	629	557	706	2 084

Compared with end-2007, equity decreased by CHF 106 million to CHF 2 084 million in 2008. In percentage of total assets the equity ratio increased to 71.4% at 31 December 2008 (versus 68.6% in the previous year).

In 2008, the Swatch Group cancelled the shares repurchased under its share buyback program 2007 and a part of the share buyback program started on 10 December 2007; this reduced the share capital by CHF 3 669 750.

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 2008, share capital consisted of 124 045 000 registered shares each with a nominal value of CHF 0.45, and of 30 840 000 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 21 May 2008.

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2007	128 100 000 at CHF 0.45	31 660 000 at CHF 2.25	128 880 000.00
Shares cancelled	- 4 055 000 at CHF 0.45	- 820 000 at CHF 2.25	- 3 669 750.00
31.12.2008	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

Notes to the financial statements

Principal shareholders at 31 December 2008

At 31 December 2008, the Hayek Pool, its related companies, institutions and individuals held 62 752 125 registered shares and 202 575 bearer shares, equivalent to 40.7% of the shares issued at this date (previous year: 39.1%). 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	—
Families Ammann (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	Itingen	—
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 40.0% of the shares issued at end-2008 (38.5% at end-2007), of which 4.5% were represented by the Hayek Pool (4.1% at end-2007).

At the same date, Mrs. Esther Grether's group controlled 7.5% of the shares issued (compared with 7.2% a year earlier).

At 31 December 2008, 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 629 million on 31 December 2008 (previous year CHF 821 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 2008 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity*	Quantity
The Swatch Group Ltd		
Balance at 31.12.2007	6 108 526	660 000
Acquisitions in 2008	3 470 000	665 000
Disposals in 2008	–221 735	0
Cancellations in 2008	–4 055 000	–820 000
Balance at 31.12.2008	5 301 791	505 000
Other consolidated companies		
Balance at 31.12.2007	8 398 368	0
Acquisitions in 2008	0	0
Conversions in 2008	0	0
Balance at 31.12.2008	8 398 368	0
Total balance at 31.12.2008	13 700 159	505 000

*of which at 31 December 2008 2 572 039 registered shares were reserved for the management stock option plan (2 793 762 registered shares in 2007).

Except for movements related to the management stock option plan, all transactions involving treasury shares were recognized at fair value. The average price per registered share purchased in 2008 was CHF 52.03 and the average price per bearer share was CHF 270.41.

Notes to the financial statements

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 21 May 2008, a dividend of CHF 0.85 per registered share and of CHF 4.25 per bearer share was appropriated from available earnings as at 31 December 2007. The total dividend amount paid to shareholders in 2008 came to CHF 94 811 650 on the registered shares and CHF 130 071 250 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 18 557 100, thus constituted an integral part of equity at 31 December 2008. Finally, CHF 350 million was appropriated from available earnings at 31 December 2007 and allocated to the special reserve.

Off-balance-sheet items

Contingent liabilities

At end-2008, guarantees provided by The Swatch Group Ltd amounted to CHF 433 752 000 (compared with CHF 444 828 400 a year earlier). This item includes:

- A guarantee of CHF 433 124 800 (vs. CHF 443 927 200 in 2007) 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-2008, 16 of these bonds with a nominal value of CHF 5 000 each had been converted into shares (same situation at end-2007).
- As in 2007, a guarantee of GBP 400 000 (equivalent to CHF 627 200 at 31 December 2008; CHF 901 200 at 31 December 2007) to cover a commitment relating to a lease taken out by one of the Group's companies.

Fire insurance values

At 31 December 2008, the fire insurance value of property, plant and equipment amounted to CHF 37 586 500 (CHF 34 069 700 at end-2007).

Assets pledged

None of the company's assets are pledged.

Commitments

Other commitments entered into by the company and open at 31 December 2008 amounted to CHF 1 million (versus CHF 10 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 2008.

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	546	391	937	15	3	18	-3	-17	-20
Options			0			0			0
Total at 31.12.2008	546	391	937	15	3	18	-3	-17	-20
Total at 31.12.2007	727	365	1 092	3	0	3	-2	-5	-7

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2008 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2008 relate to 16 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 2008, there was no option outstanding (none in the previous year).

Liabilities to pension plans

The balance sheet as at end-2008 contained no liability to pension plans (no liability to pension in 2007).

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:

	2008	2007
	CHF	CHF
Net income for the year	671 900 167	586 168 375
Profit brought forward from previous year	34 313 631	23 028 156
Available earnings	706 213 798	609 196 531
Allocation to special reserve	-450 000 000	-350 000 000
Dividend payment for 2007 on share capital of CHF 128 880 000.00:		
– 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
Payment on share capital of CHF 125 210 250.00* of a 2008 dividend, i.e.:		
– CHF 0.85 per registered share with a par value of CHF 0.45	-105 438 250	
– CHF 4.25 per bearer share with a par value of CHF 2.25	-131 070 000	
Dividends not paid out on own shares held by the Group **		18 557 100
Balance carried forward	19 705 548	34 313 631

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

** Based on the decision of the Annual General Meeting of 21 May 2008, the dividend due on own shares held by the Group was not paid out.

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of The Swatch Group Ltd, Neuchâtel, which comprise the balance sheet, income statement and notes (pages 207 to 213), for the year ended 31 December 2008.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Brüderlin
Audit expert
Auditor in charge



Ruth Christine Sigel
Audit expert

Basel, 11 March 2009

The Swatch Group Ltd securities

Average number of shares outstanding/ Average share capital	2008 basic	2008 diluted	2007 basic	2007 diluted	2006 basic	2006 diluted	2005 basic	2005 diluted
Number of registered shares of CHF 0.45	111 605 632	120 203 642	115 882 234	124 474 721	118 110 673	126 730 101	122 004 798	130 646 179
Number of bearer shares of CHF 2.25	30 596 542	30 596 542	31 485 875	31 485 875	31 981 500	31 981 500	32 788 496	32 788 496
Total average number of shares outstanding	142 202 174	150 800 184	147 368 109	155 960 596	150 092 173	158 711 601	154 793 294	163 434 675
Share capital registered shares of CHF 0.45	50 222 534	54 088 736	52 147 005	56 013 624	53 149 803	57 028 545	54 902 159	58 790 780
Share capital bearer shares of CHF 2.25	68 842 220	68 842 220	70 843 219	70 843 219	71 958 375	71 958 375	73 774 116	73 774 116
Total average share capital	119 064 754	122 930 956	122 990 224	126 856 843	125 108 178	128 986 920	128 676 275	132 564 896

Key data per registered share (nom CHF 0.45) in CHF	2008	2008	2007	2007	2006	2006	2005	2005
Consolidated net income	3.15	3.10	3.70	3.64	2.97	2.93	2.15	2.13
Cash flow from operating activities	1.93	1.87	3.20	3.10	3.18	3.08	2.76	2.68
Consolidated shareholders' equity	20.55	19.90	19.43	18.83	17.83	17.30	16.02	15.55
Dividend	0.85*	0.85*	0.85	0.85	0.70	0.70	0.50	0.50

Key data per bearer share (nom CHF 2.25) in CHF	2008	2008	2007	2007	2006	2006	2005	2005
Consolidated net income	15.75	15.51	18.49	18.18	14.87	14.66	10.74	10.66
Cash flow from operating activities	9.67	9.36	16.01	15.52	15.89	15.41	13.82	13.43
Consolidated shareholders' equity	102.73	99.49	97.13	94.17	89.17	86.49	80.09	77.80
Dividend	4.25*	4.25*	4.25	4.25	3.50	3.50	2.50	2.50

Stock price of registered shares (adjusted)	High	High	High	High	High	High	High	High
	66.75	66.75	76.50	76.50	54.95	54.95	40.15	40.15
	23.20	23.20	53.90	53.90	38.50	38.50	30.90	30.90
	31.12	28.50	66.85	66.85	54.50	54.50	39.75	39.75

Stock price of bearer shares (adjusted)	High	High	High	High	High	High	High	High
	340.00	340.00	397.00	397.00	274.00	274.00	197.30	197.30
	115.50	115.50	266.25	266.25	184.10	184.10	152.40	152.40
	31.12	145.80	341.25	341.25	269.25	269.25	195.00	195.00

Market capitalization (CHF million)	31.12.	8 032	8 032	19 367	19 367	15 882	15 882	11 809	11 809
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Key ratios (year-end)		2008	2008	2007	2007	2006	2006	2005	2005
Average return on equity	%	15.50	15.80	19.7	20.0	17.3	17.6	14.0	14.3
Dividend yield registered shares	%	3.00	3.00	1.3	1.3	1.3	1.3	1.3	1.3
Dividend yield bearer shares	%	2.90	2.90	1.2	1.2	1.3	1.3	1.3	1.3
Price/earnings ratio – registered shares		9.00	9.20	18.1	18.4	18.3	18.6	18.5	18.7
Price/earnings ratio – bearer shares		9.30	9.40	18.5	18.8	18.1	18.4	18.2	18.3

Securities	Securities no.	Reuters Symbol
The Swatch Group Ltd registered shares	1 225 514	UHRN.S
The Swatch Group Ltd bearer shares	1 225 515	UHR.VX

The securities are listed on the Swiss Stock Exchange (SIX) and on the BX Berne eXchange

* Board of Directors' proposal.

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2008)

