
FINANCIAL STATEMENTS 2006

CONSOLIDATED FINANCIAL STATEMENTS
FINANCIAL STATEMENTS OF THE HOLDING





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Financial review

Key financial developments in 2006

– Gross sales:	Up by 12.3% to a record CHF 5 050 million (net sales: +12.3% to CHF 4 820 million)
– Segments:	Strong growth in all Group segments, especially in the Watches & Jewelry segment
– Operating profit:	Record operating profit of CHF 973 million with enhanced operating margin of 20.2%
– Net income:	Above-average increase of 33.7% to a record CHF 830 million
– Earnings per share:	Significant rise of 38% compared to 2005
– Dividend:	Dividend proposed to shareholders increased by 40% (bearer shares CHF 3.50, registered shares CHF 0.70)
– Share buyback:	New share buyback program of CHF 400 million in 2007
– Outlook:	Excellent start in 2007, outstanding prospects for current year

Financial review

1. Operating results

Key figures Group

(CHF million)	2006	2005	Change in %		Total
			in local currency	currency effect	
Gross sales	5 050	4 497	+11.7%	+0.6%	+12.3%
Net sales	4 820	4 292			+12.3%
Operating profit	973	735			+32.4%
– in % of net sales	20.2%	17.1%			
Net income	830	621			+33.7%
– in % of net sales	17.2%	14.5%			
Equity	4 967	4 603			+7.9%
– as % of total assets	71.9%	69.9%			
Average return on equity (ROE)	17.3%	14.0%			

All Group segments reported record sales last year. As in previous years, the most substantial sales growth was in the field of luxury watches, which once again enjoyed strong demand last year. The Production segment benefited directly from the strong demand in the Watch segment. The favorable product mix towards more complex mechanical watch movements enabled it to achieve strong growth. Sales in the Electronic Systems segment also recorded a marked increase due to continuing high demand for components produced by the Group companies.

There was a slightly positive currency effect in 2006 (+0.6%). The positive effect of the first half of the year (+2.1%) was almost entirely eliminated in the second half of the year due to the weak performance of the USD and the Yen.

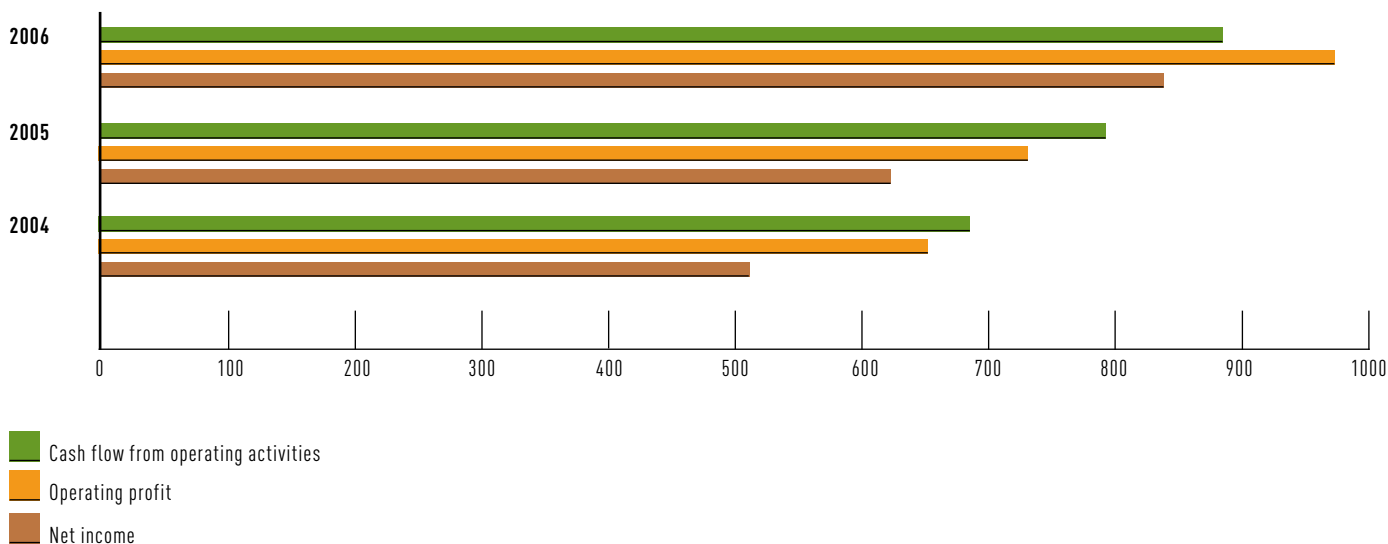
Group operating profit achieved a record level of CHF 973 million, representing a best ever operating profit margin of 20.2%. A similar increase was registered in the Group net income which achieved a record CHF 830 million, which is 33.7% higher than in 2005.

Although the Group's shareholders were rewarded in 2006 with a higher dividend and – indirectly – with a share buyback worth CHF 300 million, the Group's equity still increased by almost 8%. Return on equity improved in the current year to 17.3% (previous year 14%).

Financial review

Performance trends

(CHF million)



Segment performance

Watches & Jewelry

(CHF million)	2006	2005	Change in %		Total
			in local currency	currency effect	
Gross sales					
- Third parties	3 912	3 437			
- Group	0	0			
- Total	3 912	3 437	+13.0%	+0.8%	+13.8%
Net sales	3 723	3 272			+13.8%
Operating profit	738	626			+17.9%
- in % of net sales	19.8%	19.1%			

The Watches & Jewelry segment once again achieved the strongest sales growth last year. Headed by the Group's luxury brands, all price segments achieved high to very high growth. The Breguet, Blancpain, Glashütte Original and Omega brands deserve special mention. These luxury segment brands have achieved growth well into double figures. The strong position of the Group's watch brands was further enhanced last year. Strength of innovation in the development of new products coupled with targeted marketing is helping to ensure long-term growth in all brands and solidify their presence within the market.

Strong growth was also achieved by the brands in the premium and mid-price segments, with additional market share being won in a fiercely contested market. This applies in particular to the Longines, Rado, Tissot and Calvin Klein brands. In the mid-price segment, the Certina, Mido and Hamilton brands all made excellent progress. The efforts being made to establish these brands in niche segments continues to pay off, and the growth potential in many markets is a long way from being exhausted. In the low-price segment, the Swatch brand has continued to develop very successfully in 2006. The brand is enjoying significant growth and posting very pleasing results. All the brands in the jewelry division achieved solid growth rates and contributed to the segment's increase in sales.

Expansion of retail activities once again made good progress last year thanks to new shops in targeted locations. The contribution to sales from retail business continues to grow and sales figures are developing positively. The experience gained in the retail sector is of great benefit for the Group's brands and can be applied in many markets. Regional markets all showed positive development. Asia, the US and Europe all recorded strong growth and are enjoying healthy growth momentum. The worldwide economic boom is reflected in these more balanced growth trends. The opening of the Nicolas G. Hayek Center in Tokyo, Japan, with seven retail outlets for Group brands, planned for the first half of this year, will increase the already strong market share and accelerate growth in the region even more.

The operating margin in this segment increased to a healthy 19.8%.

Financial review

Production

(CHF million)	2006	2005	Change in %		Total
			in local currency	currency effect	
Gross sales					
- Third parties	562	537			
- Group	831	767			
- Total	1 393	1 304	+6.8%	0.0%	+6.8%
Net sales	1 335	1 230			+8.5%
Operating profit	147	47			+212.8%
- in % of net sales	11.0%	3.8%			

Growth momentum in the Watch segment had a direct impact on the Production segment. The decisive factors for the strong growth were, above all, the favorable product mix and an increased demand for movements and components in all price categories. In the year under review, the segment also benefited directly from the high demand for jewelry (gem setting, jewelry production, etc.). A further increase in orders for higher-priced, complex mechanical watch movements made an above-average contribution to the successful business development. Both Group brands and third-party customers continued to increase their orders over the course of the year.

The high demand led to a number of delivery bottlenecks and capacity problems over the course of the year. The top price segment of watches and components was affected above all, but some impact could also be felt in the premium and mid-price segments. Additional investments in production facilities and increased personnel recruitment helped the Group to partly overcome these production bottlenecks. The phased expansion of capacity for watch movements, by enhancing existing production facilities, will enable a further increase in sales in this segment during 2007. The development of additional capacity nevertheless takes time and cannot always be implemented at short notice.

The jewelry segment will gain further importance within the Group, with the construction of a center of competence for the development and production of high-quality jewelry by the Dress Your Body (DYB) company in Corcelles-Cormondrèche. The production facilities of the Group's watch movements and components sector worked at high capacity for the entire year under review.

Operating profit more than tripled in 2006 to CHF 147 million, mainly due to even more efficient production sites that are running at full capacity. Also, the absence of last year's negative impact of the closure of low-range production activities in Malaysia helped to improve the segment's operating profit.

Financial review

Electronic Systems

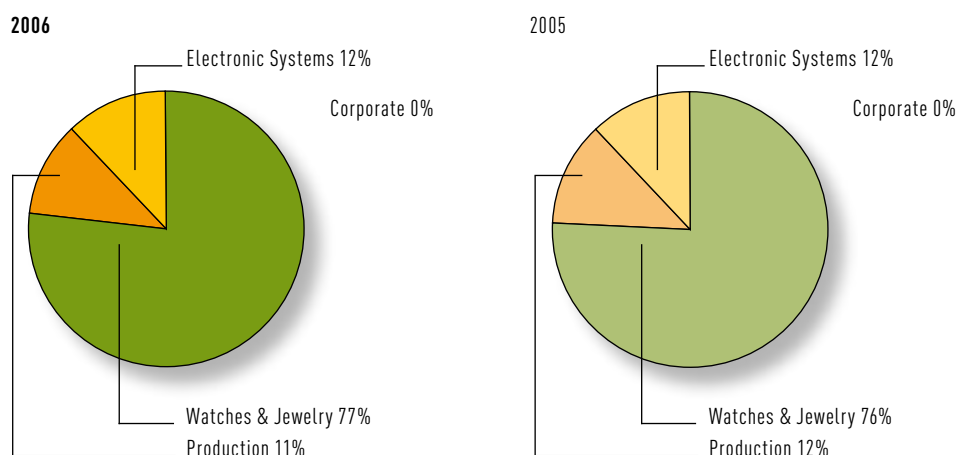
(CHF million)	2006	2005 ¹⁾	Change in %		Total
			in local currency	currency effect	
Gross sales					
- Third parties	571	517			
- Group	22	27			
- Total	593	544	+8.8%	+0.2%	+9.0%
Net sales	586	538			+8.9%
Operating profit	106	80			+32.5%
- in % of net sales	18.1%	14.9%			

¹⁾ restated due to the integration of Swiss Timing into the segment Electronic Systems

Growth in the Electronic Systems segment amounted to +9.0% in 2006. All companies in this segment were able to confirm growth throughout the year, with the exception of one entity operating in the automobile sector. Growth was achieved despite a significant reduction in the number of watch movements in the lowest price category sold in Asia in the second half of the year, and in comparison with a particularly strong previous year. Progress was underpinned by the strong increase in demand for mass-market products such as mobile phones and portable electronic devices, but also by the growing demand for components for Swatch watches. Component manufacturers Micro Crystal and EM Microelectronic, in particular, achieved a noticeable increase in their volumes, while Renata benefited from a new tire pressure monitoring system (TPMS) for automobiles. EM Microelectronic was also able to reinforce its position in the growth market of RFID tagging.

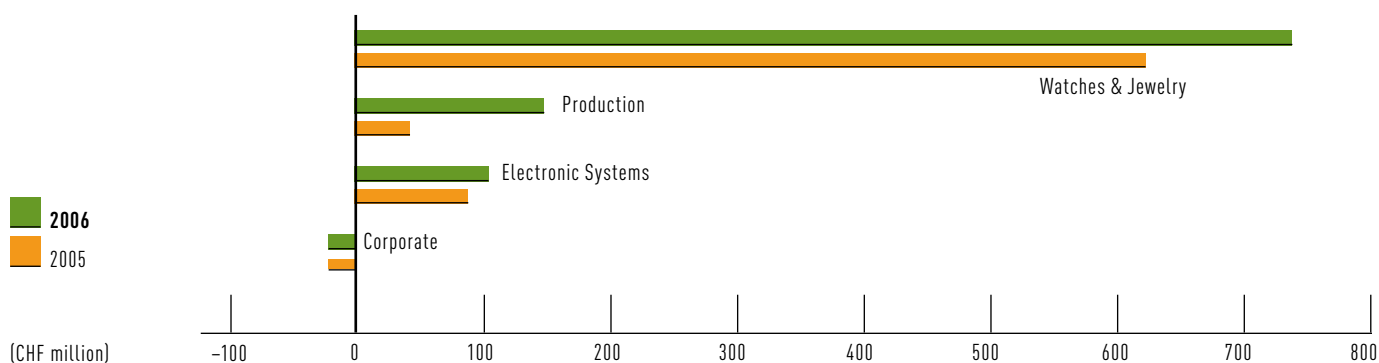
The Electronic Systems segment posted a significantly improved operating margin of 18.1%, which compares to 14.9% in 2005. This positive development was supported by the integration of Swiss Timing into the segment Electronic Systems (transferred from Corporate and Elimination). The impact of this new presentation on the comparative 2005 figures was limited to a reduction of Group sales within this segment of CHF 4 million and a transfer in operating profit of CHF 2 million from "Corporate and Elimination" to the segment "Electronic Systems".

Segment share of net sales



Financial review

Segment share of operating profit



Financial result

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

(CHF million)	2006	2005
Financial income/expenses	100	25
Exchange differences	-16	24
Total net financial result	84	49

The strong performance of stock markets in 2006 led to healthy profits on the marketable securities position. The biggest profit resulted from the Group's special investments, mainly from the 7.24% stake in Xinyu Hengdeli Holdings Ltd., the Group's main distribution partner in China, whose shares are listed on the Hong Kong stock exchange. Given that all marketable securities held by the Group have been designated as "fair-value-through-profit-or-loss", the volatility of the financial result is possibly increasing.

Besides that, the general development of foreign currencies with a weak US Dollar and Yen resulted in a foreign exchange loss for the year of CHF 16 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 21.5% in the current year compared to 20.7% in the previous year.

Proposed dividend

At the General Meeting on 11 May 2007 a dividend for the financial year 2006 of CHF 0.70 (2005: CHF 0.50) for registered shares and CHF 3.50 (2005: CHF 2.50) for bearer shares will be proposed. This dividend has not been recognized as a liability in the consolidated financial statements at 31 December 2006.

Earnings per share

Basic earnings per share have increased in the current year by 38% to CHF 2.97 (CHF 2.15 in 2005) for registered shares and CHF 14.87 (CHF 10.74 in 2005) for bearer shares respectively. The increase in net income compares to a reduced number of shares which is due to the shares bought back in 2006. 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

Once again the Group realized a very strong operating cash flow of CHF 884 million, compared to CHF 790 million in 2005. Investing activities were markedly higher than in 2005, mainly due to increased investments in tangible and intangible assets, the purchases of marketable securities as well as the business combinations realized in 2006. The share buyback, the dividend paid and the repayment of bank debt were the main factors in financing activities. These investments resulted in a decrease in cash and cash equivalents of CHF 197 million. Nevertheless, the Group realized a comfortable free cash flow of CHF 474 million which compares to CHF 499 million in the previous year.

Asset and capital structure

The balance sheet continues to remain very solid, with a further improved equity ratio of 71.9% (compared to 69.9% in 2005). Current liabilities are covered by current assets by a factor of 5.3 (4.3 in 2005).

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)	2006		2005	
Overall Group performance	5 249	100.0%	4 637	100.0%
Material and services	2 564	48.9%	2 317	50.0%
Depreciation	195	3.7%	199	4.3%
Net added value	2 490	47.4%	2 121	45.7%
% change	17.4		10.3	

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

	2006		2005	
Employees	1 411	56.7%	1 315	62.0%
Public authorities	227	9.1%	163	7.7%
Lenders	22	0.9%	22	1.0%
Shareholders	142	5.7%	102	4.8%
Company	688	27.6%	519	24.5%
Total	2 490	100.0%	2 121	100.0%

4. Outlook

The first months of 2007 show a continuation of last year's strong trend, especially in all the sectors of the Watches & Jewelry segment as well as in the Production segment. A somewhat more modest growth trend is temporarily visible in the more volatile Electronic Systems sector.

The continuing economic boom in all regions and an uninterrupted high demand for brand products worldwide will help to further sustain growth within the Group. The Group is well positioned with its brands and is aiming to win additional market shares.

The current currency situation is favorable to the Group, except for the weak Yen. The positive effect of the strong Euro more than compensates for the relatively weak US dollar. In addition, various US dollar hedging transactions have been entered into.

The Board of Directors and the Executive Group Management Board expect, as mentioned before, further sales growth combined with a rise in profitability for the current year, as can be derived from the January and February 2007 figures.

Consolidated income statement

	Notes	2006		2005	
		CHF million	%	CHF million	%
Gross sales		5 050	104.8	4 497	104.8
Sales reductions		-230	-4.8	-205	-4.8
Net sales	(5)	4 820	100.0	4 292	100.0
Other operating income		123	2.6	85	2.0
Changes in inventories and work in progress		155	3.2	84	2.0
Material purchases		-1 123	-23.3	-1 007	-23.5
Personnel expense	(6a)	-1 411	-29.3	-1 315	-30.6
Other operating expenses	(6b)	-1 396	-29.0	-1 205	-28.1
Depreciation, amortization and impairment charges	(10, 11, 12)	-195	-4.0	-199	-4.7
Operating profit		973	20.2	735	17.1
Financial income	(6d)	106	2.2	71	1.7
Interest expense	(6d)	-22	-0.5	-22	-0.5
Profit before taxes		1 057	21.9	784	18.3
Income taxes	(7)	-227	-4.7	-163	-3.8
Net income		830	17.2	621	14.5
Attributable to equity holders of The Swatch Group Ltd		827		614	
Attributable to minority interests		3		7	
Earnings per share (EPS) – expressed in CHF per share:	(8)				
Registered shares					
Basic EPS		2.97		2.15	
Diluted EPS		2.93		2.13	
Bearer shares					
Basic EPS		14.87		10.74	
Diluted EPS		14.66		10.66	

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

Consolidated balance sheet

Assets	Notes	31.12.2006		31.12.2005	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment	(10)	1 205	17.4	1 153	17.5
Investment property	(11)	25	0.4	23	0.3
Intangible assets	(12)	315	4.6	263	4.0
Investments in associated companies	(13)	6	0.1	5	0.1
Financial long-term assets	(15)	60	0.9	51	0.8
Deferred income tax assets	(7)	140	2.0	136	2.1
Total non-current assets		1 751	25.4	1 631	24.8
Current assets					
Inventories	(16)	1 877	27.2	1 724	26.2
Trade receivables	(17)	750	10.9	707	10.7
Other receivables and prepayments	(18)	347	5.0	345	5.2
Current income tax assets	(7)	3	0.0	3	0.0
Marketable securities	(19)	507	7.3	307	4.7
Cash and cash equivalents	(20)	1 669	24.2	1 871	28.4
Total current assets		5 153	74.6	4 957	75.2
Total assets		6 904	100.0	6 588	100.0

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

Consolidated balance sheet

Equity and liabilities	Notes	31.12.2006		31.12.2005	
		CHF million	%	CHF million	%
Equity					
Capital and reserves attributable to Swatch Group shareholders	(21)	4 958	71.8	4 580	69.5
Minority interests		9	0.1	23	0.4
Total equity		4 967	71.9	4 603	69.9
Non-current liabilities					
Borrowings	(22)	484	7.0	396	6.0
Deferred income tax liabilities	(7)	387	5.6	344	5.2
Retirement benefit obligations	(23)	32	0.5	32	0.5
Provisions	(24)	58	0.8	49	0.7
Total non-current liabilities		961	13.9	821	12.4
Current liabilities					
Trade payables		245	3.6	240	3.7
Other payables and accrued expenses	(25)	448	6.5	405	6.1
Borrowings	(22)	72	1.1	329	5.0
Current income tax liabilities	(7)	154	2.2	140	2.1
Provisions	(24)	57	0.8	50	0.8
Total current liabilities		976	14.2	1 164	17.7
Total liabilities		1 937	28.1	1 985	30.1
Total equity and liabilities		6 904	100.0	6 588	100.0

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

Consolidated statement of cash flows

(CHF million)	Notes	2006	2005
Operating activities			
Cash generated from operations	(28)	1 046	877
Interest paid		-19	-19
Interest received		39	25
Tax paid		-182	-93
Cash flow from operating activities		884	790
Investing activities			
Investments in tangible assets	(10)	-236	-187
Proceeds from sale of tangible assets		4	15
Investments in intangible assets	(12)	-39	-19
Proceeds from sale of intangible assets		2	1
Investments in financial long-term assets	(15)	-15	-15
Proceeds from sale of financial long-term assets		1	1
Acquisition of subsidiaries	(14)	-41	0
Purchase of marketable securities		-924	-599
Sale of marketable securities		786	741
Cash flow from investing activities		-462	-62
Financing activities			
Dividend paid to shareholders		-140	-101
Dividend paid to minority interests		-2	-1
Purchase of treasury shares	(21)	-302	-248
Sale of treasury shares	(21)	10	1
Increase in non-current borrowings		88	0
Decrease in non-current borrowings		0	-1
Increase in current borrowings		9	109
Decrease in current borrowings		-256	-13
Buyback of minority interests	(14)	-25	0
Cash flow from financing activities		-618	-254
Net impact of foreign exchange rate differences on cash		-1	16
Change in cash and cash equivalents		-197	490
Change in cash and cash equivalents			
- At beginning of year		1 863	1 373
- At end of year	(20)	1 666	1 863
		-197	490

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 31.12.2004	137	213	-518	-36	4 465	4 261	15	4 276
Net income for the year					614	614	7	621
Translation differences and other changes				47		47	2	49
Total recognized income 2005				47	614	661	9	670
Dividends paid					-101	-101	-1	-102
Share-based compensation:								
- Value of employee services (net of tax)					6	6		6
- Proceeds from shares					1	1		1
Share buyback			-248			-248		-248
Share capital reduction	-2		149		-147	0		0
Balance at 31.12.2005	135	213	-617	11	4 838	4 580	23	4 603
Net income for the year					827	827	3	830
Translation differences and other changes				-16		-16		-16
Total recognized income 2006				-16	827	811	3	814
Dividends paid					-140	-140	-2	-142
Share-based compensation:								
- Value of employee services (net of tax)					8	8		8
- Proceeds from shares					1	1		1
Purchase of minority interests					-9	-9	-15	-24
Share buyback			-302			-302		-302
Sales of treasury shares			8		1	9		9
Share capital reduction	-3		250		-247	0		0
Balance at 31.12.2006	132	213	-661	-5	5 279	4 958	9	4 967

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 18 brands in all market and price brackets. In addition, it holds an outstanding industrial position with a high degree of verticalization in the sector of watch movements and components production as well as in the electronic systems sector. During the year, no major changes occurred in the Group structure.

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

The shares of The Swatch Group Ltd are listed in Switzerland, under the security numbers 1 225 514 (registered shares) and 1 225 515 (bearer shares), and traded on the SWX Swiss Exchange virt-x, an 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 14 March 2007 and will be submitted to the Annual General Meeting of Shareholders for approval on 11 May 2007.

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, 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.

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. Interests in joint ventures are also reported using the equity method.

Notes to the consolidated financial statements

At the end of 2006, the Group's consolidated financial statements included 148 legal entities (compared with 140 in the previous year), of which one was a joint venture (none in 2005) and five were associates (five in 2005). A full list of consolidated companies is provided in Note 32.

C. Changes in accounting policies

The accounting policies used are consistent with those of the previous financial year except that the Group has adopted those new/revised IAS/IFRS standards, amendments and interpretations mandatory for financial years beginning on or after 1 January 2006. Furthermore, the Group changed its accounting policy for joint ventures.

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

Amendment to IAS 19: Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures

As the Group does not intend to change the accounting policy adopted for the recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacted the format and extent of disclosures presented in these financial statements.

Amendment to IAS 21: The Effects of Changes in Foreign Exchange Rates

This amendment specifies how to evaluate the functional currency of each of the consolidated entities. As all Group entities use the same functional currency as their measurement currency, this amendment is not relevant for the Group.

Amendments to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction, and the foreign currency risk will affect the consolidated income statement. This amendment is not relevant to the Group's operations in 2006, as the Group did not operate intragroup transactions that would qualify as a hedged item in the consolidated financial statements.

Amendments to IAS 39: The Fair Value Option

The amendments did not have a significant impact on the classification of financial instruments, as the Group complied with the amended criteria for the designation of financial instruments at fair value through profit and loss.

IFRIC 4: Determining Whether an Arrangement Contains a Lease

Based on a group-wide analysis, there was no significant impact of this new interpretation on the Group's operations.

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

- Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts
- Amendment to IFRS 1: First-Time Adoption of International Financial Reporting Standards
- Amendment to IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRIC 5: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6: Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

In addition to these changes due to the adoption of new/revised IAS/IFRS standards, amendments and interpretations mandatory, management decided to change the accounting policy regarding joint venture companies. Interests in joint ventures are no longer reported using the line-by-line proportionate consolidation method. In accordance with IAS 31.38, interests in joint ventures are now reported using the equity method. There is no need to restate the financial statements 2005 due to the fact that the Group was not involved in any joint venture in 2005.

Notes to the consolidated financial statements

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods, but which the Group has not early adopted, as follows:

- IFRS 7: Financial Instruments: Disclosures,
- IFRS 8: Operating Segments,
- Amendment to IAS 1: Capital Disclosures,
- Amendment to IAS 30: Disclosures in the Financial Statements of Bank and Similar Financial Institutions,
- Amendment to IAS 32: Disclosure and Presentation,
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies,
- IFRIC 8: Scope of IFRS 2,
- IFRIC 9: Reassessment of Embedded Derivatives,
- IFRIC 10: Interim Financial Reporting and Impairment,
- IFRIC 11: IFRS 2 – Group and Treasury Share Transactions,
- IFRIC 12: Service Concession Arrangements.

The Group expects that the adoption of these pronouncements will have no major impact on the Group's financial statements in the period of initial application. However, in certain areas (IFRS 7: Financial Instruments – Disclosures, and the amendments of IAS 1, IAS 30 and IAS 32 related to this new standard; IFRS 8: Operating Segments) disclosures will have to be expanded.

Restatement of the segments

At 1 January 2006, the sports activities of Omega Electronics SA were integrated into the company Swiss Timing Ltd. In addition, the acquisition of WIGE Data strengthened the position of the Group's sports activities. These sports activities are now included in the segment "Electronic Systems" instead of within "Corporate and Elimination". The prior year figures have been reclassified in order to reflect this change between segments. The impact on the 2005 financial statements was limited to a reduction in Group sales of CHF 4 million in the segment "Electronic Systems" as well as a transfer in operating profit of CHF 2 million from "Corporate and Elimination" to the segment "Electronic Systems".

D. Segment reporting

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

- | | |
|----------------------|---|
| - Watches & Jewelry | Sale of finished watches and jewelry |
| - Production | Manufacture of watches, watch movements and jewelry |
| - Electronic Systems | Design, production and marketing of electronic components |

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. However, they exclude consolidated investments in subsidiaries. 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 third-party assets are broken down by location.

In addition to the Group elimination entries, "Corporate and Elimination" 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.

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.

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.

Notes to the consolidated financial statements

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
	2006	31.12.2006	2005	31.12.2005
	CHF	CHF	CHF	CHF
1 CNY	0.1573	0.1560	0.1536	0.1635
1 EUR	1.5782	1.6090	1.5498	1.5565
1 GBP	2.3154	2.3950	2.2702	2.2700
1 HKD	0.1613	0.1572	0.1614	0.1700
100 JPY	1.0774	1.0280	1.1335	1.1200
1 USD	1.2531	1.2225	1.2558	1.3190

F. Revenue recognition

Revenue is recognized as follows:

Goods and services

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

Revenue is recognized when a Group entity has delivered products to the customer and the collectibility of the related receivables is reasonably assured. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. Revenue from services is recognized in the accounting period in which the service is rendered.

Interest income

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

Dividend income

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

G. Property, plant and equipment

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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.

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 a period of five years.
- Key money paid for strategically located retail shops. If their value can be demonstrated by the presence of a market, they are not amortized but tested for impairment. Key money that is not refundable or refundable only upon certain conditions being met is treated as prepaid rent.
- Customer relationships and unpatented technologies acquired in business combinations. They are amortized over a period of up to 15 years.

J. Impairment of assets

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

K. Financial assets

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

Notes to the consolidated financial statements

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

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

Financial assets designated at fair value through profit or loss

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

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.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, not designated at fair value through profit or loss, that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are recognized at amortized cost less impairment losses.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

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.

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 when there is objective evidence that the Group will not be able to collect the receivables. Bad debts are written off when identified.

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.

Notes to the consolidated financial statements

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.

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. Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings 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.

Borrowings 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.

R. 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.

S. Pensions and other post-employment benefits

Pension obligations

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

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

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

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

Notes to the consolidated financial statements

Other post-employment benefits

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

Termination benefits

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

T. 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.

U. 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).

V. 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.

W. Dividends

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

X. Comparatives

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

Notes to the consolidated financial statements

3. Financial risk management

A. Financial risk factors

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

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

1. Market risk

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

1.1 Foreign exchange risk

The Group's consolidated financial statements are published in Swiss Francs and are therefore mainly exposed to fluctuations in the Euro, the US Dollar and its related currencies as well as the Japanese Yen. Consequently, it 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 contracts 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.

1.2 Price risk

1.2.1 Commodities

The Group has a limited exposure to price risk related to anticipated purchases of certain commodities used such as gold, platinum or gems. A change in those prices may alter the gross margin of a specific business, but are not considered as a relevant risk for overall margin. Accordingly, the Group does not enter into significant commodity futures, forward and option contracts to manage fluctuations in prices of anticipated purchases.

1.2.2 Equity investment risk

The Group purchases equities as investments of its liquid funds. Potential investments 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.

2. Credit risk

The Group's client credit policy necessitates periodic reviews of the credit standing of our commercial partners.

In purchasing securities, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. 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 standing has been verified by our treasury department beforehand. 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 our commercial and financial partners, the default risks to which the Group is exposed are limited.

3. Liquidity risk

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.

Notes to the consolidated financial statements

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. In the current monetary environment, 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.

B. 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 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.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place).

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.

C. Fair value estimation

The fair value of quoted investments is deemed to be their corresponding stock market closing prices on the balance sheet date. Derivatives and forward rate contracts are also recognized at their market value on the account closure date. The fair value of financial instruments that are not traded in an active market is determined by making assumptions that are based on prevailing market conditions and on recent arm's length market transactions.

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 assumptions

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

Impairment of goodwill

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

Notes to the consolidated financial statements

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.

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 close to 150 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 and sales

A. Primary segment information (by business segment)

Income statement

2006 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate & Elimination	Total
- Third parties	3 912	562	571	5	5 050
- Group		831	22	-853	0
Gross sales	3 912	1 393	593	-848	5 050
- Third parties	3 723	527	564	6	4 820
- Group		808	22	-830	0
Net sales	3 723	1 335	586	-824	4 820
Operating profit	738	147	106	-18	973
- As a % of net sales	19.8	11.0	18.1		20.2
- As a % of total	75.8	15.1	10.9	-1.8	100.0

2005 (CHF million)	Watches & Jewelry	Production	Electronic Systems ¹⁾	Corporate & Elimination ¹⁾	Total
- Third parties	3 437	537	517	6	4 497
- Group		767	27	-794	0
Gross sales	3 437	1 304	544	-788	4 497
- Third parties	3 272	503	511	6	4 292
- Group		727	27	-754	0
Net sales	3 272	1 230	538	-748	4 292
Operating profit	626	47	80	-18	735
- As a % of net sales	19.1	3.8	14.9		17.1
- As a % of total	85.2	6.4	10.9	-2.5	100.0

¹⁾ restated due to the integration of Swiss Timing into the segment Electronic Systems

Notes to the consolidated financial statements

Balance sheet and other information

2006 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate & Elimination	Total
Balance sheet					
- Segment assets	3 423	1 211	468	1 796	6 898
- Equity in associated companies and joint ventures		5		1	6
Total assets	3 423	1 216	468	1 797	6 904
Total liabilities	-972	-286	-90	-589	-1 937
Net assets	2 451	930	378	1 208	4 967

Other information

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

2005 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate & Elimination	Total
Balance sheet					
- Segment assets	3 099	1 177	435	1 872	6 583
- Equity in associated companies and joint ventures		4		1	5
Total assets	3 099	1 181	435	1 873	6 588
Total liabilities	-1 006	-275	-78	-626	-1 985
Net assets	2 093	906	357	1 247	4 603

Other information

Capital expenditure	87	101	28	5	221
Depreciation on tangible assets	34	105	34	3	176
Amortization on intangible assets	3	4	3	1	11
Impairment charges		8	4		12

B. Secondary segment information (by geographic area)

(CHF million)	2006			2005		
	Net sales	Total assets	Capital expenditure	Net sales	Total assets	Capital expenditure
Europe	2 360	5 647	247	2 090	5 509	179
America	558	255	6	494	259	10
Asia	1 787	965	35	1 597	786	31
Oceania	69	37	2	68	34	1
Africa	46			43		
Total	4 820	6 904	290	4 292	6 588	221

Notes to the consolidated financial statements

6. Revenues and expenses

a. Personnel expense	(CHF million)	2006	2005
Wages and salaries		1 150	1 067
Social security costs		192	178
Share-based compensation (Note 29)		9	7
Pension costs – defined benefit plans (Note 23)		56	57
Pension costs – defined contribution plans (Note 23)		3	4
Other post-employment benefits (Note 23)		1	2
Total personnel expense		1 411	1 315

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

(Unaudited)	2006	2005
Average annual headcount	20 572	20 730
Total headcount at 31 December	21 268	20 650
– Men	9 688	9 172
– Women	11 580	11 478
– Swiss contracts	11 423	10 830
– Non-Swiss contracts	9 845	9 820

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

b. Other operating expenses	(CHF million)	2006	2005
Marketing, sales and administration		751	665
Subcontracting and other direct costs of sales		259	233
Maintenance, rents and energy		296	249
Other operating expenses		90	58
Total other operating expenses		1 396	1 205

c. Research and development costs R&D costs amounted to CHF 140 million in 2006, representing 2.9% of net sales (compared with CHF 144 million or 3.4% in 2005).

d. Net financial result	(CHF million)	2006	2005
Interest income		40	25
Income from marketable securities		82	22
Foreign exchange differences on financial transactions		-16	24
Financial income		106	71
Interest on convertible bond		-14	-14
Other interest		-8	-8
Interest expense		-22	-22
Net financial result		84	49

Notes to the consolidated financial statements

7. Income taxes

Income tax expenses	(CHF million)	2006	2005
Current income taxes		200	168
Adjustments recognized for current taxes of prior periods		-4	5
Deferred income taxes		31	-10
Total income taxes		227	163

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.

Reconciliation of the Group's effective tax rate	2006	2005
	%	%
Group's average expected tax rate	22.7	21.8
Tax effect of:		
- Change in the applicable tax rate on temporary differences	0.0	-1.4
- Capitalization of tax assets from previous years and utilization of tax losses/ unused tax credits	0.0	0.0
- Non-taxable income/non-deductible expenses	-0.7	0.3
- Items taxable at reduced rates	-0.7	-0.8
- Other items	0.2	0.8
Group's effective tax rate	21.5	20.7

Current income tax	(CHF million)	31.12.2006	31.12.2005
Current income tax assets		3	3
Current income tax liabilities		-154	-140
Net current income tax liability		-151	-137

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)	31.12.2006	31.12.2005
Deferred tax assets	140	136
Deferred tax liabilities	-387	-344
Net deferred tax liability	-247	-208

Notes to the consolidated financial statements

The gross movement on the deferred income tax account is as follows:

(CHF million)	2006	2005
Balance at 1 January	-208	-224
Translation differences and other movements	-3	6
Acquisitions of Group companies	-5	0
Income statement	-31	10
At 31 December	-247	-208

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 Group has unrecognized tax losses of CHF 124 million at 31 December 2006 (CHF 97 million at 31 December 2005). In 2006, 37% of total recognized and unrecognized carryforward tax losses expire within six years (35% in 2005). The remaining tax losses expire after six years or more.

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

Deferred tax assets		
Source (CHF million)	31.12.2006	31.12.2005
Carryforward tax losses/tax credits	12	13
Non-current assets	30	31
Current assets	105	103
Current liabilities	22	20
Non-current liabilities	12	9
Total	181	176
Offset	-41	-40
Total deferred tax assets on the balance sheet	140	136

Deferred tax liabilities		
Source (CHF million)	31.12.2006	31.12.2005
Non-current assets	-96	-96
Current assets	-183	-160
Current liabilities	-6	-5
Non-current liabilities	-143	-123
Total	-428	-384
Offset	41	40
Total deferred tax liabilities on the balance sheet	-387	-344

Notes to the consolidated financial statements

8. Earnings per share

	2006	2005
Basic		
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	827	614
Percentage of registered shares outstanding in comparison with the share capital outstanding	42.5%	42.7%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	57.5%	57.3%
Registered shares		
Net income attributable to registered shareholders (CHF million)	351	262
Average number of shares outstanding	118 110 673	122 004 798
Basic earnings per share (in CHF)	2.97	2.15
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	476	352
Average number of shares outstanding	31 981 500	32 788 496
Basic earnings per share (in CHF)	14.87	10.74
Diluted		
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	827	614
Interest expense on convertible debt (net of tax) (CHF million)	14	14
Net income used to determine diluted EPS (CHF million)	841	628
Percentage of diluted registered shares outstanding in comparison with the diluted share capital outstanding	44.2%	44.3%
Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding	55.8%	55.7%
Registered shares		
Net income attributable to registered shareholders (CHF million)	372	279
Average number of shares outstanding	126 751 038	130 646 179
Diluted earnings per share (in CHF)	2.93	2.13
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	469	349
Average number of shares outstanding	31 981 500	32 788 496
Diluted earnings per share (in CHF)	14.66	10.66

9. Dividends paid and proposed

On 19 May 2006, the Annual General Meeting approved the distribution of a dividend of CHF 0.50 per registered share and CHF 2.50 per bearer share. The distribution to holders of outstanding shares totaled CHF 140 million (2005: CHF 101 million) and has been recorded against retained earnings in 2006.

At the Annual General Meeting on 11 May 2007, payment of the following dividends for 2006 will be proposed:

	Registered	Bearer
Dividend per share	CHF 0.70	CHF 3.50
Total dividend	CHF 92 071 000	CHF 113 274 000

The financial statements ending 31 December 2006 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2007.

Notes to the consolidated financial statements

10. Property, plant and equipment

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

(CHF million)	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and Construction in progress	Total
Historical cost, 1 January 2005	897	2 216	286	28	3 427
Translation differences	6	18	4		28
Additions	14	110	38	24	186
Disposals	-3	-80	-11		-94
Transfers	4	14	-6	-24	-12
Historical cost, 31 December 2005	918	2 278	311	28	3 535
Accumulated depreciation, 1 January 2005	-420	-1 620	-203	-23	-2 266
Translation differences	-1	-11	-3		-15
Annual depreciation	-17	-135	-23		-175
Impairment		-10			-10
Depreciation on disposals		68	8		76
Transfers	-2	-21	8	23	8
Accumulated depreciation, 31 December 2005	-440	-1 729	-213	0	-2 382
Net book value, 31 December 2005	478	549	98	28	1 153
Insured value					4 523
Net book value of property, plant and equipment under finance lease contracts					2
Total non-current assets pledged to guarantee the commitments of Group companies					3

Notes to the consolidated financial statements

11. Investment property

(CHF million)	2006	2005
Historical cost, 1 January	46	52
Additions	0	1
Disposals	0	-1
Transfers	3	-6
Historical cost, 31 December	49	46
Accumulated depreciation, 1 January	-23	-25
Annual depreciation	-1	-1
Impairment	0	-1
Depreciation on disposals	0	1
Transfers	0	3
Accumulated depreciation, 31 December	-24	-23
Net book value, 31 December	25	23
Rental income	3	3
Direct operating expenses arising from investment properties that generated rental income	-2	-2
Direct operating expenses arising from investment properties that did not generate rental income	0	0

Based on capitalized rental income for rented buildings plus an estimated market value for land reserves, the fair value of the investment properties is estimated at CHF 48 million at 31 December 2006 compared to CHF 51 million at 31 December 2005. 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 2006	33	112	207	352
Translation differences		2		2
Acquisitions of subsidiaries (Note 14)	3	4	19	26
Additions	8	31		39
Disposals	-4	-4		-8
Transfers	-13	14		1
Historical cost, 31 December 2006	27	159	226	412
Accumulated amortization, 1 January 2006	-21	-68	0	-89
Translation differences				0
Annual amortization	-3	-10		-13
Impairment	-1			-1
Amortization on disposals	3	3		6
Transfers	14	-14		0
Accumulated amortization, 31 December 2006	-8	-89	0	-97
Net book value, 31 December 2006	19	70	226	315

(CHF million)	Capitalized development costs	Other intangible assets	Goodwill	Total
Historical cost, 1 January 2005	27	90	274	391
Translation differences		1		1
Additions	6	13		19
Disposals		-2		-2
Transfers		10	-67	-57
Historical cost, 31 December 2005	33	112	207	352
Accumulated amortization, 1 January 2005	-18	-50	-67	-135
Translation differences		-1		-1
Annual amortization	-3	-8		-11
Amortization on disposals		1		1
Transfers		-10	67	57
Accumulated amortization, 31 December 2005	-21	-68	0	-89
Net book value, 31 December 2005	12	44	207	263

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

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)	31.12.2006	31.12.2005
Watches & Jewelry	154	151
Production	27	22
Electronic Systems	45	34
Total	226	207

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 conservatively estimated growth rates. 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.

Notes to the consolidated financial statements

Ranges of key assumptions used

	2006	2005
Estimated growth rate beyond five-year period	0%–1%	0%–1%
Expected gross margin	27%–68%	24%–64%
Pre-tax discount rate	7.0%–9.6%	8.25%–10.1%

No impairment charge for goodwill had to be recorded in 2006. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

13. Investments in associated companies (including joint ventures)

Investments in associated companies are essentially investments in other companies, resulting in the ownership of 20–50% of their voting rights. In 2006, five such investments, which are listed in Note 32, were recognized using the equity method, since the Group exercised a significant influence over their activities.

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

The carrying value of investments in associates and joint ventures was CHF 6 million in 2006 (CHF 5 million in 2005). The Swatch Group's share in these companies generated after-tax income of CHF 1 million in 2006 (2005: CHF 1 million). This income is recognized in the net financial result (Note 6d).

14. Business combinations

In February and March 2006, the Group acquired 100 percent of the issued capital of WIGE Data GmbH, Leipzig and The Swatch Group (RUS) OOO, Moscow. In the second half of the year, two dial producers were acquired, whereof one in Germany (Deutsche Zifferblatt Manufaktur GmbH) and one in Switzerland (MOM Le Prélet SA). The acquisitions have been accounted for using the purchase method of accounting. In 2005, the Group did not enter into any business combination.

The identifiable assets and liabilities acquired in the transactions, the goodwill arising and the cash outflow on acquisitions in 2006 are as follows:

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

Notes to the consolidated financial statements

The total acquisition cost basically represents the cash payments made to the vendors. The costs directly attributable to the acquisitions were 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 anticipated profitability of the distribution of the Group's products in the new markets.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date were below CHF 1 million. Furthermore, if the acquisitions had taken place at 1 January 2006, the Group's revenue would have been CHF 14 million higher, and profit would not have changed by more than CHF 1 million.

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

15. Financial long-term assets

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

(CHF million)	Key money	Guarantees, deposits	Other financial assets	Total
Balance at 1 January 2005	36	5	2	43
Translation differences				0
Additions	6	5	4	15
Disposals			-1	-1
Transfers to "Other receivables"	-6			-6
Balance at 31 December 2005	36	10	5	51
Term 1-5 years	19	8	5	32
Term >5 years	17	2		19
Balance at 31 December 2005	36	10	5	51

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 "Financial long-term assets", while the current component is transferred to "Other receivables and prepayments".

16. Inventories

(CHF million)	31.12.2006	31.12.2005
Raw materials and components	419	528
Work in progress	325	272
Semi-finished goods	414	235
Finished goods	591	565
Spare parts for customer service	128	124
Total	1 877	1 724

Inventories with risk of obsolescence have been adjusted to their net realizable value. Adjustments of this nature accounted for CHF 24 million in 2006 (CHF 24 million in 2005).

Notes to the consolidated financial statements

17. Trade receivables

(CHF million)	31.12.2006	31.12.2005
Trade receivables – gross	774	738
Allowance for impaired receivables	-24	-31
Total trade receivables – net	750	707

The amount recognized in the balance sheet for trade receivables is equal to their fair value.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

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

(CHF million)	2006	2005
Balance at 1 January	-31	-34
Exchange rate effect	0	-1
Utilization	8	6
Reversal	4	10
Creation	-5	-12
Balance at 31 December	-24	-31

18. Other receivables and prepayments

(CHF million)	31.12.2006	31.12.2005
Advances	27	27
VAT to be refunded	134	125
Other taxes to be refunded	5	2
Accrued financial expenses	4	2
Prepaid advertising expenses	15	10
Assets held for sale	5	8
Key money	9	6
Sundry receivables and other accrued income	148	165
Total	347	345

Current income tax assets are reported on a separate balance sheet line and are also included in Note 7 Income taxes.

The carrying amounts of other receivables and prepayments approximate their fair value.

19. Marketable securities

(CHF million)	31.12.2006	31.12.2005
Equity securities	70	66
Bond securities	229	178
Investment funds	104	38
Special investments	104	25
Total	507	307

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

Special investments contain essentially the 7.24% stake in Xinyu Hengdeli Holdings Ltd., whose shares are listed on the Hong Kong stock exchange.

Notes to the consolidated financial statements

20. Cash and cash equivalents

(CHF million)	31.12.2006	31.12.2005
Current accounts and liquid assets	776	627
Short-term deposits with financial institutions	893	1 244
Total	1 669	1 871

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

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

(CHF million)	31.12.2006	31.12.2005
Cash and cash equivalents	1 669	1 871
Bank overdrafts (Note 22)	-3	-8
Total	1 666	1 863

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
31.12.2003	137 051 327 at CHF 0.45	33 506 950 at CHF 2.25	137 063 734.65
31.12.2004	137 051 327 at CHF 0.45	33 506 950 at CHF 2.25	137 063 734.65
Cancellation ¹⁾	-2 140 000 at CHF 0.45	-449 500 at CHF 2.25	-1 974 375.00
31.12.2005	134 911 327 at CHF 0.45	33 057 450 at CHF 2.25	135 089 359.65
Cancellation ²⁾	-3 381 327 at CHF 0.45	-693 450 at CHF 2.25	-3 081 859.65
31.12.2006	131 530 000 at CHF 0.45	32 364 000 at CHF 2.25	132 007 500.00

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

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

At year-end 2006 as well as 2005, 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 24 March 2006 to 23 November 2006, 3 430 000 registered shares and 704 000 bearer shares were repurchased.

Equity increased by CHF 9 million in 2006 (net of taxes) (2005: CHF 7 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 29.

Other reserves can be summarized as follows:

(CHF million)	31.12.2006	31.12.2005
Equity component of convertible bond	16	16
Translation and other differences	-21	-5
Total other reserves	-5	11

Notes to the consolidated financial statements

22. Borrowings

(CHF million)	31.12.2006	31.12.2005
Non-current borrowings		
Convertible bond	399	396
Other non-current debt	85	0
Total non-current borrowings	484	396
Current borrowings		
Current account overdrafts	3	8
Short-term leasing commitments	1	0
Short-term bank debt	68	321
Total current borrowings	72	329
Total borrowings	556	725

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

(CHF million)	6 months or less	7-12 months	1-5 years	more than 5 years	Total
At 31.12.2006	69	3	399	85	556
At 31.12.2005	262	67	396	0	725

The effective weighted average interest rates at the balance sheet date were as follows:

	2006				2005			
	CHF	EUR	JPY	Other	CHF	EUR	JPY	Other
Convertible bond	3.5%				3.5%			
Other non-current debt		5.3%	2.4%					
Current borrowings		3.9%	0.9%	4.1%	1.4%	2.1%	0.7%	4.6%

The carrying amounts of borrowings approximate their fair value. The carrying amounts of the Swatch Group's borrowings are denominated in the following currencies:

(CHF million)	31.12.2006	31.12.2005
Swiss Franc (CHF)	400	461
Japanese Yen (JPY)	132	186
Euro (EUR)	6	59
Other currencies	18	19
Total	556	725

Convertible bond

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

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

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

Notes to the consolidated financial statements

The convertible bond issue is recognized as follows:

(CHF million)	2006	2005
Liability component at 1 January	396	393
Coupon interest at market rate	14	14
Coupon interest at 2.625%	-11	-11
Liability component at 31 December	399	396

At 31 December 2006, 16 bonds with a nominal value of CHF 5 000 each had been converted. The closing rate of the convertible bond on the Swiss Stock Exchange at end-2006 was 125.79% (109.00% at end-2005).

23. Retirement benefit obligations

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, 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)	2006	2005
Present value of funded obligations	-3 097	-2 994
Fair value of plan assets	3 184	2 990
Excess of assets/(liabilities) at 31 December	87	-4
Present value of unfunded obligations	-9	-3
Unrecognized actuarial loss	12	27
Unrecognized past-service cost	0	-1
Unrecognized surplus due to IAS 19.58 B	-108	-38
Net liability in the balance sheet at 31 December	-18	-19

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

Periodic pension cost for defined benefit plans

(CHF million)	2006	2005
Current service cost	-76	-70
Interest cost	-98	-91
Expected return on plan assets	121	111
Actuarial gains / (losses)	20	-52
Past service cost	0	-1
Employee contributions	47	45
Impact of IAS 19.58 B	-70	1
Total periodic pension cost	-56	-57

Notes to the consolidated financial statements

Movement in the fair value of plan assets

(CHF million)	2006	2005
1 January	2 990	2 720
Expected return on plan assets	121	111
Actuarial (losses)/gains	127	210
Exchange differences	-1	0
Employer contributions	58	54
Employee contributions	47	45
Benefits paid	-158	-150
31 December	3 184	2 990

Pension plan assets include the company's registered shares with a fair value of CHF 54 million (2005: CHF 42 million) and the company's bearer shares with a fair value of CHF 299 million (2005: CHF 220 million). No buildings occupied by the Group were included in the pension plan assets.

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

The actual return on plan assets amounted to CHF 248 million (2005: CHF 321 million).

The Group expects to contribute CHF 61 million to its post-employment benefit plans in 2007.

Asset allocation of plan assets

	31.12.2006		31.12.2005	
	CHF million	%	CHF million	%
Equity	1 152	36.2	973	32.6
Bonds	1 388	43.6	1 469	49.1
Real estate	418	13.1	407	13.6
Other assets	226	7.1	141	4.7
Total	3 184	100.0	2 990	100.0

Movement in the present value of defined benefit obligation

(CHF million)	2006	2005
1 January	-2 997	-2 719
Current service cost	-76	-70
Interest cost	-98	-91
Actuarial (losses)/gains	-94	-262
Exchange differences	3	-5
Benefits paid	158	150
Settlements	-2	0
31 December	-3 106	-2 997

Notes to the consolidated financial statements

Principal actuarial assumptions used

	2006	2005
	%	%
	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	1.00
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)	2006	2005
Present value of defined benefit obligation	-3 106	-2 997
Fair value of plan assets	3 184	2 990
Over/(under) funding	78	-7
Experience adjustments on plan liabilities	70	5
Experience adjustments on plan assets	127	206

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 2006 of CHF 4 million (2005: CHF 4 million). This plan is included in the defined benefit obligations presented above. The method of accounting and the frequency of valuation are similar to those used for benefit pension schemes. A one percentage point increase or decrease in assumed medical cost trend rates would lead to an absolutely insignificant change in the defined benefit obligation.

Other post-employment benefit plans

In addition to the defined benefit pension plans, the Group has liabilities for other post-employment benefit plans for employees working abroad.

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

(CHF million)	31.12.2006	31.12.2005
Net liability for defined benefit plans	-18	-19
Other post-employment benefit plans	-14	-13
Total retirement benefit obligations	-32	-32

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 2006, these contributions amounted to CHF 3 million (CHF 4 million in 2005).

Notes to the consolidated financial statements

24. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 1 January 2006	61	13	25	99
Translation differences	0	0	0	0
Additional provisions	72	7	6	85
Reversal of provisions	-4	-4	-1	-9
Provisions used during the year	-59	0	-1	-60
At 31 December 2006	70	16	29	115

Analysis of total provisions (CHF million)	31.12.2006	31.12.2005
Non-current provisions	58	49
Current provisions	57	50
Total	115	99

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.

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.

Other Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties.

25. Other payables and accrued expenses

(CHF million)	31.12.2006	31.12.2005
Purchases of goods and services	30	24
Wages and social security costs	123	102
Discounts and rebates	27	24
Advertising	100	81
VAT due	14	31
Capital taxes	3	3
Advance payments	15	14
Other debt and accrued expenses	136	126
Total other payables and accrued expenses	448	405

Current income tax liabilities are reported on a separate balance sheet line and are also included in Note 7 Income taxes.

Notes to the consolidated financial statements

26. Commitments and contingencies

Guarantees and sureties

At 31 December 2006, guarantees to third parties as security for commitments of Group companies amounted to less than CHF 1 million (less than CHF 2 million at end-2005).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 6 million at 31 December 2006 (CHF 6 million at end-2005).

Leasing, rental and other commitments

Operating leasing commitments for the Group not recognized in the balance sheet are as follows:

(CHF million)	31.12.2006	31.12.2005
Less than 1 year	87	71
Between 1 and 5 years	229	190
Over 5 years	132	127
Total	448	388
Proportion of contracts with renewal option (% of total amount)	68.4	71.9
Maximum risk (% of total amount)	85.4	90.3

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 2006. Leasing costs amounting to CHF 91 million were recognized in the 2006 income statement (CHF 74 million in 2005). 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 financial and tangible fixed assets entered into by the Group, and ongoing at 31 December 2006, amounted to CHF 44 million (CHF 7 million in the previous year).

Contingent liabilities

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

27. Derivatives

The table below gives an overview of the contract and replacement values of derivative financial instruments.

The notes to the financial statements of the Holding on page 195 set out the contract and replacement values of the parent company's financial derivatives. Only third-party values are used for the Group accounts.

Type	31.12.2006			31.12.2005		
	Contract value	Positive replacement value	Negative replacement value	Contract value	Positive replacement value	Negative replacement value
(CHF million)						
Forward contracts	672	2	-3	531	0	-1
Options	197	0	-4	0	0	0
Total	869	2	-7	531	0	-1

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

As in the prior year, the Group had no cash-flow hedges outstanding in the current year.

The open option contracts relate mainly to money market and bond positions in Euro and US Dollar.

Notes to the consolidated financial statements

28. Cash generated from operations

(CHF million)	Notes	2006	2005
Net income		830	621
Result from associated companies		-1	-1
Taxes	(7)	227	163
Depreciation of tangible assets	(10)	179	176
Amortization of intangible assets	(12)	13	11
Impairment charge	(10, 12)	3	12
Profit on sale of fixed assets		-3	-3
Loss on sale of fixed assets		2	6
Fair value gains on marketable securities		-73	-33
Fair value losses on marketable securities		9	11
Interest income	(6d)	-40	-25
Interest expense	(6d)	22	22
Expenses for equity-settled equity compensation plan	(29)	9	7
Changes in working capital (without liquid funds):			
- Inventories		-155	-86
- Trade and other receivables		-33	-27
- Trade payables and other current liabilities		41	22
Changes in provisions		16	0
Changes in pensions and other retirement benefits		0	1
Cash generated from operations		1 046	877

29. 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. The blocking period is equal to the exercise period of each option. 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 2006, this portfolio comprised 3 015 161 registered shares (3 259 613 at the end of 2005). In 2006, 244 452 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

In 2006, movements in the number of share options outstanding were as follows:

	2006	2005
	Options	Options
Options outstanding at 1 January	241 381	259 707
Granted	245 607	238 760
Forfeited or lapsed	-1 763	-17 067
Exercised	-244 452	-240 019
Options outstanding at 31 December	240 773	241 381

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

Notes to the consolidated financial statements

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

Expiry date	Share options	
	31.12.2006	31.12.2005
2006		162 630
2007	158 956	78 751
2008	81 817	
Total	240 773	241 381

The fair value of the options granted during the period was determined by using the Black-Scholes option pricing model. The following table shows the assumptions on which the valuation of share options granted in 2006 and 2005 was based:

	2006		2005	
	Tranche exercisable in 1 year	Tranche exercisable in 2 years	Tranche exercisable 1 year	Tranche exercisable 2 years
Grant date	12 July 2006	12 July 2006	5 August 2005	5 August 2005
Expiration date	12 July 2007	12 July 2008	5 August 2006	5 August 2007
Closing share price on grant date	CHF 43.05	CHF 43.05	CHF 37.75	CHF 37.75
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Volatility	20.1%	20.1%	25.7%	25.7%
Expected dividend yield	CHF 0.50	CHF 0.50	CHF 0.35	CHF 0.35
Risk-free interest rate	2.00%	2.30%	0.9%	1.15%
Market value of option at grant date	CHF 38.63	CHF 38.73	CHF 33.40	CHF 33.50

The personnel expense recorded in the 2006 income statement as a result of applying IFRS 2 calculation amounted to CHF 9 million (2005: CHF 7 million).

Notes to the consolidated financial statements

30. Related party transactions

Principal shareholders

On 31 December 2006, the Hayek Pool and its related companies, institutions and individuals held 62 027 559 registered shares and 278 650 bearer shares, equivalent to 38.0% of the shares issued (previous year: 37.1%) 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 37.3% of the shares issued compared with 36.4% at the end of year 2005.

As of the same date, Mrs Esther Grether's group controlled 7.3% of the shares issued (compared with 6.7% a year earlier).

In 2006, the Hayek Group, owned by a member of the Hayek Pool, invoiced an amount of CHF 9.2 million to the Swatch Group (compared with CHF 8.7 million in 2005). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2006	2005
- Audit, feasibility studies and process optimization	2.6	2.4
- Provision of managers and filling important, vacant functions	1.3	0.9
- Project management in the construction sector	2.0	2.6
- Introduction of cost accounting systems in manufacturing companies	0.3	0.5
- Support for projects in the materials and surface treatment technology sector	1.0	0.1
- Leasing a store in the centre 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.	1.6	1.8
Total	9.2	8.7

Key management personnel

In addition to the executive 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 for key management personnel using IFRS 2 rules for accounting for share-based compensation was as follows:

(CHF million)	2006	2005
Short-term employee benefits	21.6	18.6
- of which in salaries	8.5	7.6
- of which in bonus	13.1	11.0
Post-employment benefits	0	0
Termination benefits	0	0
Share-based compensation	5.4	4.3
Total	27.0	22.9

In 2006, CHF 0.8 million (2005: CHF 0.8 million) was paid to non-executive members of the Board of Directors (not including Mr N. G. Hayek, Chairman and Delegate of the Board of Directors).

No remuneration was paid to former members of management bodies.

Share ownership

At 31 December 2006, 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 54 898 758 registered shares and 78 740 bearer shares, representing 33.5% of the voting rights (previous year: 32.7%).

In addition, at 31 December 2006, all the non-executive members of the Board of Directors as well as the persons close to them held 13 739 362 registered shares and 112 900 bearer shares, representing 8.5% of the voting rights (previous year: 7.8%).

Notes to the consolidated financial statements

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. At the end of 2006, one such loan had been granted to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 3.0% (in 2005, two loans for a total of CHF 1.2 million).

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)	2006		2005	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	5	0	6	0
Other related parties	0	0	1	6

At the end of 2006, receivables from related parties amounted to less than CHF 1 million (2005: CHF 1 million), and payables to related parties were CHF 2 million (2005: CHF 1 million).

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

32. The Swatch Group Companies – as at 31.12.2006

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Europe					
Switzerland					
The Swatch Group SA, Neuchâtel	Holding	CHF 132.01			▼
Asulab SA, Marin-Epagnier	Research and development	CHF 0.10	100	●	▼
Atlantic Immobilien AG Bettlach, Bettlach	Real estate	CHF 0.70	100	●	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	■
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	■
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	■
Certina SA, Le Locle	Watches	CHF 3.50	100	●	■
cK Montres & Bijoux Co. SA, Bienne	Watches	CHF 5.00	90	●	■
Cité du Temps SA, Genève	Communication	CHF 0.10	100	●	▼
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	■
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 4.50	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Torricella-Taverne	Distribution	CHF 3.00	100	●	■
Dress your body SA, Bienne	Jewelry	CHF 0.10	100	●	▲
Dress Your Body Manufacture Genevoise SA, Plan-les-Ouates	Jewelry	CHF 0.60	100	●	▲
EM Microelectronic-Marin SA, Marin-Epagnier	Microelectronics	CHF 25.00	100	●	◆
Endura SA, Bienne	Watches	CHF 2.00	100	●	■
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
François Golay SA, Le Chenit	Manufacture of watch wheels	CHF 0.10	35	○	▲
Frédéric Piguet SA, Le Chenit	Movements	CHF 0.30	100	●	▲
Groupe Habillage Haute Horlogerie SA, Saint-Imier	Assembly	CHF 4.00	100	●	▲
Hamilton International SA, Bienne	Watches	CHF 3.00	100	●	■
ICB Ingénieurs Conseils en Brevets SA, Marin-Epagnier	Patents	CHF 0.20	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	●	◆
Léon Hatot Les Boutiques SA, Bienne	Retail	CHF 0.10	100	●	■
Léon Hatot SA, Bienne	Watches	CHF 0.10	100	●	■
Louis Jeanneret-Wespy SA, La Chaux-de-Fonds	Real estate	CHF 0.05	100	●	▼
Maeder-Leschot SA, Bienne	Real estate	CHF 0.70	100	●	▼
Manufacture Favre et Perret SA, La Chaux-de-Fonds	Watch cases	CHF 0.60	100	●	▲
Manufacture Ruedin SA, Bassecourt	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 0.48	100	●	▲
Meseltron, Corcelles-Cormondrèche	Real estate	CHF 2.00	100	●	▼
Microcomponents AG, Grenchen	Components for the automobile industry	CHF 14.00	100	●	◆
Mido SA, 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 SA, Bienne	Inactive	CHF 1.50	100	●	◆
Omega SA, Bienne	Watches	CHF 50.00	100	●	■
Oscilloquartz SA, Neuchâtel	High-stability frequency sources	CHF 2.00	100	●	◆
OS Holding SA, Les Geneveys-sur-Coffrane	Holding	CHF 0.10	100	●	▼
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	■
Record Watch Co. SA, Tramelan	Inactive	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	◆
Rubattel et 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 SA, Bienne	Services and licences	CHF 0.05	100	●	▼
Swatch SA, Bienne	Watches	CHF 2.00	100	●	■
Swatch Timing SA, Bienne	Inactive	CHF 0.10	100	●	■
Swiss Timing Ltd, Corgémont	Sports timing & information display systems	CHF 2.00	100	●	◆
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
The Swatch Group Distribution SA, Bienne	Logistics and distribution	CHF 1.00	100	●	■
The Swatch Group Immeubles SA, Neuchâtel	Real estate project and property management	CHF 0.50	80	●	▼
The Swatch Group Les Boutiques SA, Lausanne	Retail	CHF 3.00	100	●	■
The Swatch Group Management Services SA, Bienne	Services and licences	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, Marin-Epagnier	Research and development	CHF 0.10	100	●	▼
Terbival SA, Courchapoix	Watch case polishing	CHF 0.10	45	○	▲
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	■
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	■
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲
Valdar SA, Le Chenit	Watch components	CHF 0.05	100	●	▲
Germany					
Altweiler Grundstücks-GmbH, Lörrach	Real estate	EUR 0.03	95	●	▼
Deutsche Zifferblatt Manufaktur GmbH, Pforzheim	Watch dials	EUR 0.10	100	●	▲
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	■
Sokymat Automotive GmbH, Reichshof-Wehnrath	Transponders	EUR 0.10	100	●	◆
ST Innovation GmbH, Leipzig	Sports timing technology & equipment	EUR 0.05	100	●	◆
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	◆
Swiss Prestige Uhren Handel GmbH, Eschborn	Inactive	EUR 0.08	100	●	■
The Swatch Group Customer Service (Europe) GmbH, Glashütte	Customer service	EUR 0.50	100	●	■

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

32. The Swatch Group Companies – as at 31.12.2006

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution (Breguet, Blancpain, Jaquet Droz, 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	●	■
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn	Retail	EUR 0.20	100	●	■
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR 0.05	100	●	■
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak, Endura)	EUR 0.04	100	●	■
Belgium					
The Swatch Group (Belgium) SA, Bruxelles	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Certina, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Omega Electronics)	EUR 1.75	100	●	■
The Swatch Group Participation SA, Bruxelles	Holding	EUR 2.09	100	●	▼
Spain					
The Swatch Group (España) SA, Madrid	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 SA, Paris	Inactive	EUR 6.10	100	●	■
Fabrique de Fournitures de Bonnétage FFB SAS, Villers-le-Lac	Watch components and precision parts	EUR 0.29	100	●	▲
Frésard Composants SAS, Charquemont	Watch components	EUR 1.80	100	●	▲
Société Européenne de Fabrication d'Ebauches d'Annemasse SAS	Watch components and electronic assembly	EUR 0.67	100	●	▲
Tech Airport SAS, Paris	Retail	EUR 3.80	100	●	■
The Swatch Group (France) SAS, Paris	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Endura, Renata, EM Marin, Oscilloquartz)	EUR 2.47	100	●	■
The Swatch Group (France) Les Boutiques SAS, Paris	Retail	EUR 34.93	100	●	■
Universo France SARL, Besançon	Watch hands	EUR 1.00	100	●	▲
Great Britain					
The Swatch Group (UK) Ltd, Eastleigh	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak, Endura, Omega Electronics)	GBP 2.00	100	●	■
Greece					
Alkioni SA, Athens	Retail	EUR 0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution (Breguet, Glashütte, Omega, Rado, Longines, Tissot, Certina, Hamilton, cK Watch, Swatch, Flik Flak)	EUR 0.06	100	●	■
Italy					
Lascor S.p.A, Sesto Calende	Watch cases and bracelets	EUR 1.00	100	●	▲
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR 0.01	100	●	▼
The Swatch Group (Italia) S.p.A., Rozzano	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, Renata)	EUR 23.00	100	●	■
The Swatch Group (Italia) Les Boutiques S.p.A., Rozzano	Retail	EUR 0.12	100	●	■
Luxembourg					
The Swatch Group Finance (Luxembourg) SA, Alzingen	Finance company	CHF 1000.00	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.23	100	●	▼
Netherlands					
Breguet Investments BV, Rotterdam	Holding	EUR 0.02	100	●	▼
The Swatch Group (Netherlands) BV, Maastricht	Distribution (Omega, Rado, Longines, Tissot, Certina, Pierre Balmain, cK Watch, Swatch, Flik Flak)	EUR 0.70	100	●	■
Poland					
The Swatch Group (Polska) Sp. z o.o, Warszawa	Distribution (Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak)	PLN 5.00	100	●	■
Portugal					
The Swatch Group (Europa) – Sociedade Unipessoal SA, Funchal	Distribution	EUR 24.14	100	●	■
The Swatch Group (Europa II) Retail – Sociedade Unipessoal SA, Funchal	Retail	EUR 0.10	100	●	■
Russia					
Swiss Watch Le Prestige 000, Moscow	Distribution	RUB 0.20	100	●	■
The Swatch Group (RUS) 000, Moscow	Distribution (Jaquet Droz, Omega, Rado, Longines, Tissot, Swatch)	RUB 50.87	100	●	■
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution (Breguet, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch, Flik Flak)	SEK 0.50	100	●	■
Czech Republic					
ASI Centrum spol. s.r.o., Praha	Microelectronics	CZK 2.01	51	●	◆
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK 0.10	80	●	◆

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

32. The Swatch Group Companies – as at 31.12.2006

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
America					
Brazil					
The Swatch Group do Amazonas SA, Manaus	Inactive	BRL 4.93	100	●	■
The Swatch Group do Brasil Ltda, São Paulo	Customer service	BRL 14.05	100	●	■
Canada					
The Swatch Group (Canada) Ltd, Toronto	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Flik Flak)	CAD 4.50	100	●	■
United States					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	◆
e-swatch-us Inc., Wilmington, Delaware	e-Commerce	USD 0.00	100	●	■
HiPoint Technology Inc., Colorado Springs	Microelectronics	USD 0.17	25	○	◆
The Swatch Group (U.S.) Inc., Dover, Delaware	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, 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., Dover, Delaware	Retail	USD 0.00	100	●	■
Time Sales Inc., Dover, Delaware	Retail	USD 0.50	50	○	■
British Virgin Islands					
Endura Services (Asia) Inc, British Virgin Islands	Inactive	USD 0.01	100	●	■
Mexico					
Prestadora de Servicios Relojeros SA de CV, Mexico DF	Watch services	MXN 1.50	100	●	■
The Swatch Group Mexico SA de CV, Mexico DF	Distribution (Breguet, Omega, Rado, Longines, Tissot, Mido, Hamilton, cK Watch, Swatch, Flik Flak, Endura)	MXN 43.65	100	●	■
Panama					
The Swatch Group Panama SA, Panama City	Commercial services	USD 0.01	100	●	■
Asia					
Greater China					
Lanco Watches Ltd, Hong Kong	Inactive	USD 0.07	100	●	■
Shanghai Ruijing Retail Co., Ltd., Shanghai	Retail	CNY 4.05	100	●	■
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 3.50	100	●	■
SMH International Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, 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 4.14	100	●	■
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Omega, Rado, Longines)	CNY 1.66	90	●	■
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Commercial services	CNY 10.45	100	●	▼
The Swatch Group (Asia) Inc. Ltd, Hong Kong	Commercial services	HKD 0.00	100	●	■
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak, ETA)	HKD 5.00	100	●	■
The Swatch Group (Taiwan) Ltd, Taipei	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, cK Watch, Swatch, Flik Flak)	TWD 28.00	100	●	■
Zhuhai SMH Watchmaking Co. Ltd, Zhuhai	Components	CNY 74.57	100	●	▲
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution (Breguet, Léon Hatot, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Flik Flak, Sokymat)	KRW 3300.00	100	●	■
United Arab Emirates					
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	49	●	■
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution (Breguet, Jaquet Droz, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, Swatch, Flik Flak)	INR 380.00	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 2200.00	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 (Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Mido, cK Watch, Swatch, Flik Flak)	MYR 0.50	95	●	■
Singapore					
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Flik Flak)	SGD 4.00	95	●	■
Thailand					
EIA (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 6.00	49	●	■
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, Certina, cK Watch, Swatch, Flik Flak, Omega Electronics, Renata)	AUD 0.40	100	●	■

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

Report of the group auditors

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

As auditors of the group, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes – pages 145 to 186) of The Swatch Group Ltd for the year ended 31 December 2006.

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

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

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

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

PricewaterhouseCoopers Ltd

Th. Brüderlin G. Siegrist
Auditor in charge

Basel, 20 March 2007

FINANCIAL STATEMENTS OF THE HOLDING 2006



Income statement of the Holding

	Notes	2006 CHF million	2005 CHF million
Income from investments in subsidiaries	(1)	481	416
Financial income	(2)	68	66
Other income		7	7
Total income		556	489
Personnel expense		-42	-35
General expense		-14	-12
Depreciation and impairment		-9	-7
Interest expense	(3)	-12	-13
Exchange differences and other financial expenses	(4)	-32	-21
Taxes		-3	-3
Total expenses		-112	-91
Net income		444	398

Balance sheet of the Holding

Assets	Notes	31.12.2006		31.12.2005	
		CHF million	%	CHF million	%
Non-current assets					
Property, plant and equipment		10	0.3	10	0.4
Financial assets					
- Long-term loans to Group companies		73	2.5	51	1.9
- Investments in subsidiaries	(5)	1 901	64.8	1 770	65.6
Total non-current assets		1 984	67.6	1 831	67.9
Current assets					
Receivables from Group companies		149	5.1	264	9.8
Other receivables and accrued income		9	0.3	5	0.2
Marketable securities and precious metals	(6)	484	16.5	356	13.2
Cash and cash equivalents		308	10.5	239	8.9
Total current assets		950	32.4	864	32.1
Total assets		2 934	100.0	2 695	100.0

Balance sheet of the Holding

Equity and liabilities	Notes	31.12.2006		31.12.2005	
		CHF million	%	CHF million	%
Equity					
Share capital		132	4.5	135	5.0
General reserve		67	2.3	67	2.5
Reserve for treasury shares		661	22.5	617	22.9
Special reserve		772	26.3	813	30.2
– Profit brought forward		21		13	
– Net profit for the year		444		398	
Available earnings		465	15.9	411	15.2
Total equity	(7)	2 097	71.5	2 043	75.8
Liabilities					
Provisions		124	4.2	119	4.4
Bank debts		0	0.0	65	2.4
Payables to Group companies		681	23.2	441	16.4
Other liabilities		9	0.3	10	0.4
Accrued expenses		23	0.8	17	0.6
Total liabilities		837	28.5	652	24.2
Total equity and liabilities		2 934	100.0	2 695	100.0

Notes to the financial statements

General

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

Valuation principles

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

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

Details to specific items

1. Income from investments in subsidiaries	(CHF million)	2006	2005
	Dividends	435	374
	Other income	46	42
	Total	481	416

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

2. Financial income	(CHF million)	2006	2005
	Interest income	12	11
	Income and gains on securities	56	55
	Total	68	66

The company recorded capital gains on its investment portfolio of CHF 56 million. This figure was partially offset by losses of CHF 18 million (see Note 4).

3. Interest expense In 2006, interest expense decreased by CHF 1 million compared with 2005. In general, the low interest expense reflects the low interest rates prevailing in the capital markets during the year.

4. Exchange differences and other financial expenses This item increased by CHF 11 million compared with the previous year. Despite currency hedging contracts taken out to protect the Group's companies, the currency translation item was negative by CHF 14 million (2005: CHF 5 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 18 million (2005: CHF 16 million). However, this was more than offset by gains on marketable securities of CHF 56 million (see Note 2) (2005: CHF 55 million).

5. Investments in subsidiaries The list of 147 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 64.8% of total assets at 31 December 2006 versus 65.6% at end-2005. In absolute terms, the value of investments in subsidiaries amounted to CHF 1 901 million at end-2006. This amount corresponds exclusively to consolidated investments, and is CHF 131 million higher than in 2005. The main differences in 2006 relate to the set-up of new Group companies, a number of capital increases of subsidiaries and internal transfers of participations.

Notes to the financial statements

6. Marketable securities and precious metals

(CHF million)	31.12.2006	31.12.2005
Marketable securities	143	80
Own shares	300	248
Precious metals	41	28
Total	484	356

Marketable securities increased in 2006 by CHF 63 million, mainly due to the purchase of bonds and shares in the portfolio. In the year under review, own shares that were bought back in 2005 (CHF 248 million) and in 2006 (CHF 2 million) amounting to CHF 250 million were cancelled. Furthermore, in 2006 treasury shares amounting to CHF 300 million were bought back on a second trading line. Also included were the registered treasury shares destined for the special management stock option plan which, as in the previous year, were valued "pro memoria".

The precious metals item included gold and other precious metals intended to meet the industrial needs of the Group's subsidiaries. At 31 December 2006 this item represented a total value of CHF 41 million (CHF 28 million at end-2005).

7. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2006 corresponded to 6.3% (versus 6.2% at end-2005) of the nominal value of total share capital.

See table on page 194 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 31.12.2005	135	67	617	813	411	2 043
Allocated in 2006				250	-250	0
Dividend paid out					-140	-140
Share capital reduction (cancelled shares)	-3		-250	3		-250
Allocation to reserve for the buyback of own shares			302	-302		0
Sale of own bearer shares			-8	8		0
Net income for the year					444	444
Balance at 31.12.2006	132	67	661	772	465	2 097

Compared with end-2005, equity increased by CHF 54 million to CHF 2 097 million in 2006, accounting for 71.5% of total assets at 31 December 2006 (versus 75.8% in the previous year).

In 2006, the Swatch Group cancelled the shares repurchased under its share buyback program, which ran from 1st July 2005 to 7 March 2006, this reduced share capital by CHF 3 081 860. A new buyback program commenced on 24 March 2006 and was completed on 23 November 2006.

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 2006, share capital consisted of 131 530 000 registered shares each with a nominal value of CHF 0.45, and of 32 364 000 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 19 May 2006.

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
Shares cancelled	-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

Notes to the financial statements

Principal shareholders at 31 December 2006

At 31 December 2006, the Hayek Pool, its related companies, institutions and individuals held 62 027 559 registered shares and 278 650 bearer shares, equivalent to 38.0% of the shares issued at this date (previous year: 37.1%). 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	-
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ernst & Young AG, Bern	Represented by J.N. Schneider-Ammann
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	-
Wohlfahrtsstiftung der Renata AG	Ittingen	-
Fonds de Prévoyance d'Universo SA	Neuchâtel	-

In the context of the pool, the group of Mr. N. G. Hayek and related parties controlled in total 37.3% of the shares issued at end-2006 (36.4% at end-2005), of which 4.0% were represented by the Hayek Pool (3.9% at end-2005).

At the same date, Mrs. Esther Grether's group controlled 7.3% of the shares issued (compared with 6.7% a year earlier).

At 31 December 2006, 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 661 million on 31 December 2006 (previous year CHF 617 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 2006 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity*	Quantity
The Swatch Group Ltd		
Balance at 31.12.2005	6 630 799	688 450
Acquisitions in 2006	3 455 000	709 000
Disposals in 2006	-244 547	0
Cancellations in 2006	-3 381 327	-693 450
Balance at 31.12.2006	6 459 925	704 000
Other consolidated companies		
Balance at 31.12.2005	8 405 714	44 000
Acquisitions in 2006	0	0
Disposals in 2006	-5 714	-44 000
Conversions in 2006	-1 632	0
Balance at 31.12.2006	8 398 368	0
Total balance at 31.12.2006	14 858 293	704 000

* of which at 31 December 2006 3 015 161 registered shares were reserved for the management stock option plan (3 259 613 registered shares in 2005).

Notes to the financial statements

Except for movements related to the special funds, all transactions involving treasury shares were recognized at fair value. The average price per registered share exchanged in 2006 was CHF 43.86 and the average price per bearer share was CHF 212.93.

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 19 May 2006, a dividend of CHF 0.50 per registered share and of CHF 2.50 per bearer share was appropriated from available earnings as at 31 December 2005. The total dividend amount paid to shareholders in 2006 came to CHF 59 424 907 on the registered shares and CHF 80 380 000 on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned AGM, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 10 294 382, thus constituted an integral part of equity at 31 December 2006. Finally, CHF 250 million was appropriated from available earnings at 31 December 2005 and allocated to the special reserve.

Off-balance-sheet items

Contingent liabilities

At end-2006, guarantees provided by The Swatch Group Ltd amounted to CHF 455 687 600 (compared with CHF 466 530 500 a year earlier). This item includes:

- A guarantee of CHF 454 729 600 (vs. CHF 465 622 500 in 2005) relating to the convertible bond of CHF 411 600 000 at 2.625%, issued by The Swatch Group Finance (Luxembourg) SA on 15 October 2003 and maturing on 15 October 2010. At end-2006, 16 of these bonds with a nominal value of CHF 5 000 each had been converted into shares;
- As in 2005, a guarantee of GBP 400 000 (equivalent to CHF 958'000 at 31 December 2006; CHF 908 000 at 31 December 2005) to cover a commitment relating to a lease taken out by one of the Group's companies.

Fire insurance values

At 31 December 2006, the fire insurance value of property, plant and equipment amounted to CHF 33 191 100 (unchanged from previous year).

Assets pledged

None of the company's assets are pledged.

Commitments

Other commitments entered into by the company and open at 31 December 2006 amounted to CHF 8 million (vs. CHF 5 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 2006.

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	672	309	981	1	2	3	-3	-1	-4
Options	12	0	12	0	0	0	0	0	0
Total at 31.12.2006	684	309	993	1	2	3	-3	-1	-4
Total at 31.12.2005	531	316	847	0	1	1	-1	-1	-2

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2006 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2006 relate to 14 positions held in precious metals and in foreign currencies (previous year: 14). Intra-Group contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intra-group financial transactions. At 31 December 2006, there was one option outstanding (none in the previous year). This option was specific to USD and corresponds to a reduction in commitments in this currency.

Liabilities to pension plans

The balance sheet as at end-2006 contained no liability to pension plans (less than CHF 1 million in 2005).

Proposed appropriation of available earnings

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

	2006	2005
	CHF	CHF
Net income for the year	443 714 921	398 050 766
Profit brought forward from previous year	21 513 364	13 267 505
Available earnings	465 228 285	411 318 271
Allocation to special reserve	-250 000 000	-250 000 000
Dividend payment for 2005 on share capital of CHF 135 089 359.65:		
– CHF 0.50 per registered share with a par value of CHF 0.45		-67 455 664
– CHF 2.50 per bearer share with a par value of CHF 2.25		-82 643 625
Payment on share capital of CHF 132 007 500.00 * of a 2006 dividend, i.e.:		
– CHF 0.70 per registered share with a par value of CHF 0.45	- 92 071 000	
– CHF 3.50 per bearer share with a par value of CHF 2.25	-113 274 000	
Dividends not paid out on own shares held by the Group **		10 294 382
Balance carried forward	9 883 285	21 513 364

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

** Based on the decision of the Annual General Meeting of 19 May 2006, the dividend due on own shares held by the Group was not paid out.

Report of the statutory auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes – pages 189 to 196) of The Swatch Group Ltd for the year ended 31 December 2006.

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

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

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

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

PricewaterhouseCoopers Ltd

Th. Brüdertlin G. Siegrist
Auditor in charge

Basel, 20 March 2007

The Swatch Group Ltd securities

Average number of shares outstanding/ Average share capital		2006 basic	2006 diluted	2005 basic	2005 diluted	2004 basic	2004 diluted	2003 basic	2003 diluted
Number of registered shares of CHF 0.45		118 110 673	126 751 038	122 004 798	130 646 179	123 787 740	132 447 448	124 732 274	126 832 274
Number of bearer shares of CHF 2.25		31 981 500	31 981 500	32 788 496	32 788 496	33 211 158	33 211 158	33 462 950	33 462 950
Total average number of shares outstanding		150 092 173	158 732 538	154 793 294	163 434 675	156 998 898	165 658 606	158 195 224	160 295 224
Share capital registered shares of CHF 0.45		53 149 803	57 037 967	54 902 159	58 790 780	55 704 483	59 601 351	56 129 523	57 074 523
Share capital bearer shares of CHF 2.25		71 958 375	71 958 375	73 774 116	73 774 116	74 725 106	74 725 106	75 291 638	75 291 638
Total average share capital		125 108 178	128 996 342	128 676 275	132 564 896	130 429 589	134 326 457	131 421 161	132 366 161
Key data per registered share (nom CHF 0.45) in CHF		2006	2006	2005	2005	2004	2004	2003	2003
Consolidated net income		2.97	2.93	2.15	2.13	1.74	1.74	1.69	1.68
Cash flow from operating activities		3.18	3.08	2.76	2.68	2.36	2.29	2.15	2.13
Consolidated shareholders' equity		17.83	17.30	16.02	15.55	14.70	14.27	13.72	13.62
Dividend		0.70*	0.70*	0.50	0.50	0.35	0.35	0.29	0.29
Key data per bearer share (nom CHF 2.25) in CHF		2006	2006	2005	2005	2004	2004	2003	2003
Consolidated net income		14.87	14.66	10.74	10.66	8.72	8.70	8.43	8.41
Cash flow from operating activities		15.89	15.41	13.82	13.43	11.79	11.45	10.73	10.66
Consolidated shareholders' equity		89.17	86.49	80.09	77.80	73.51	71.37	68.58	68.09
Dividend		3.50*	3.50*	2.50	2.50	1.75	1.75	1.45	1.45
Stock price of registered shares (adjusted)									
	High	54.95	54.95	40.15	40.15	36.50	36.50	30.60	30.60
	Low	38.50	38.50	30.90	30.90	27.20	27.20	19.15	19.15
	End of year	54.50	54.50	39.75	39.75	33.80	33.80	29.50	29.50
Stock price of bearer shares (adjusted)									
	High	274.00	274.00	197.30	197.30	180.50	180.50	152.75	152.75
	Low	184.10	184.10	152.40	152.40	130.00	130.00	93.70	93.70
	End of year	269.25	269.25	195.00	195.00	166.90	166.90	148.50	148.50
Market capitalization (million CHF)									
	End of year	15 882	15 882	11 809	11 809	10 225	10 225	9 019	9 019
Key ratios (year-end)		2006	2006	2005	2005	2004	2004	2003	2003
Average return on equity		17.3	17.6	14.0	14.3	12.3	12.7	13.0	13.1
Dividend yield registered shares		1.3*	1.3*	1.3	1.3	1.0	1.0	1.0	1.0
Dividend yield bearer shares		1.3*	1.3*	1.3	1.3	1.0	1.0	1.0	1.0
Price/earnings ratio - registered shares		18.3	18.6	18.5	18.7	19.4	19.4	17.5	17.6
Price/earnings ratio - bearer shares		18.1	18.4	18.2	18.3	19.1	19.2	17.6	17.7
Securities		Securities no.		Reuters Symbol					
The Swatch Group Ltd registered shares		1 225 514		UHRN.VX					
The Swatch Group Ltd bearer shares		1 225 515		UHR.VX					

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

*Board of Directors proposal.

The Swatch Group Ltd securities

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

(indexed weekly from 01.07.1988 to 31.12.2006 – adjusted)

