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Conus et al.

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(54) LEVER ESCAPEMENT FOR A TIMEPIECE

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(58) Field of Classification Search 368/124, 368/127, 128, 129, 130, 131, 132
See application file for complete search history.

(73) Assignee: Omega SA, Biel/Bienne (CH)

(56) **References Cited**

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 326 days.

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(22) PCT Filed: May 15, 2008

Daniels, G., "La Montre: Principes et Methodes de Fabrication", 1993, Editions Scriptor SA, Lausanne, XP002468957.

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(57) **ABSTRACT**

PCT Pub. Date: Dec. 4, 2008

The escapement comprises an escape wheel assembly (1), a balance roller (3) carrying an impulse pin (4) and an impulse roller (5).

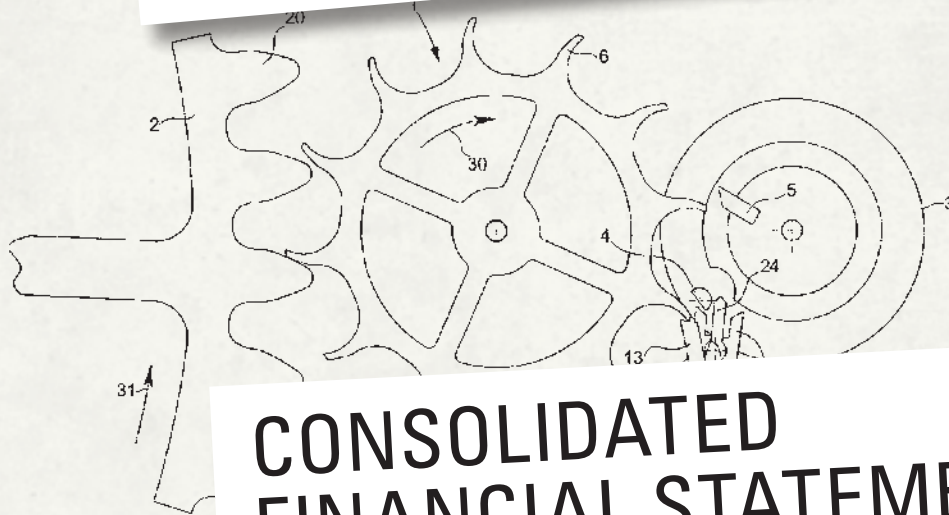
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G04B 15/06

FINANCIAL STATEMENTS 2015



CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE HOLDING

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FINANCIAL REVIEW

Key financial developments in 2015

- **Net sales:** Net sales of CHF 8 451 million for the Group, 0.9% lower than the previous year at constant exchange rates and 3.0% lower than the previous year at current exchange rates.

- **Operating result:** Operating result of CHF 1 451 million, equivalent to an operating margin of 17.2% (previous year: 20.1%). Mainly due to currency shifts, operating margin was about 17% lower in comparison to the previous year.

- **Net income:** Net income of CHF 1 119 million, which corresponds to a return on net sales of 13.2% (previous year: 16.3%).

- **Headcount:** Creation of over 700 new jobs. The number of employees increased to over 36 000 at the end of 2015.

- **Equity:** Equity increased to CHF 11.2 billion, equivalent to an equity ratio of 84.7% (previous year: 83.7%).

- **Dividend:** Dividend proposal unchanged: CHF 7.50 per bearer share and CHF 1.50 per registered share.

- **Share buyback:** New share buyback program from 2016 to 2019 to a maximum of CHF 1 billion.

Financial review

1. Key figures Group

(CHF million)	2015	2014	Change in %		Total
			at constant rates	currency effect	
Net sales	8 451	8 709	– 0.9%	– 2.1%	– 3.0%
Operating result	1 451	1 752			– 17.2%
– in % of net sales	17.2%	20.1%			
Net income	1 119	1 416			– 21.0%
– in % of net sales	13.2%	16.3%			
Equity	11 242	10 674			+ 5.3%
– as a % of balance sheet total	84.7%	83.7%			

FINANCIAL REVIEW

2. Environment /
Financial year

Development net sales and operating result

(CHF million)	2015			2014		
	Third	Group	Total	Third	Group	Total
Net sales						
Watches & Jewelry	8 175	2	8 177	8 428	1	8 429
Electronic Systems	270	22	292	274	22	296
Corporate	6	6	12	7	6	13
Elimination		-30	-30		-29	-29
Total	8 451	-	8 451	8 709	-	8 709

(CHF million)	2015		2014	
	Total	in % of net sales	Total	in % of net sales
Operating result				
Watches & Jewelry	1 539	18.8%	1 860	22.1%
Electronic Systems	9	3.1%	-9	-3.0%
Corporate	-97		-99	
Total	1 451	17.2%	1 752	20.1%

In 2015, Swatch Group generated net sales of CHF 8 636 million at constant exchange rates, equivalent to a slight decrease of 0.9%. The ongoing unfavorable currency situation versus the still massively overvalued Swiss franc reduced Group sales by CHF 185 million or 2.1 percentage points to CHF 8 451 million, -3.0% compared to the previous year. Calculated at constant exchange rates of 2010, the Group has lost cumulatively over CHF 4 billion in sales since 2010, over one billion alone in the year under review. The financial year 2015 was shaped by the currency shock caused by the Swiss National Bank (SNB), which decided to abolish the euro minimum rate at the beginning of the year. As a consequence there were significant shifts in sales in the markets, as well as a marked distortion of the international product pricing structure. Despite this, the long-term strategy of favoring a defensive price adjustment policy over short-term profit thinking was maintained. Calculated in euros, Group net sales however grew 10.3%.

In the Watches & Jewelry segment, including Production, net sales decreased 0.8% at constant and 3.0% at current exchange rates compared to the previous year. However, exports of wrist watches for the entire Swiss watch industry had declined 3.6% at the end of December. In the year under review, tourist flows changed constantly and quickly, due to various factors such as currency shifts, infectious diseases such as MERS (Middle East Respiratory Syndrome) in South Korea, changes in travel and stay regulations for tourists and local unrest or uncertainty in various countries. The strong shift in travel destinations caused a shift in the regional mix, which also reduced this segment's operating margin. However the latter, still amounted to 18.8% of net sales. Production, which is integrated into the Watches & Jewelry segment, reported good capacity utilization and slightly higher sales than the previous year, driven mainly by demand from the own brands.

In Production, Universo scaled up its new watch hand and index manufacturing in La Chaux-de-Fonds (Switzerland) and Rubattel & Weyermann, a producer of watch dials, has joined them at the same location. Also, the own foundry for internal precious metal processing was extended.

In 2015, the Electronic Systems segment generated practically unchanged net sales of CHF 292 million (-1.4%), although price pressure remaining very high, particularly in comparison to electronic consumer goods from Japan with the yen advantage. The Electronic Systems segment achieved an operating profit of CHF 9 million.

Due to the above-mentioned significant shifts in country mix, as well as a marked distortion of its international product pricing structure and the Swatch Group strategy of undertaking only very cautious price adjustments, as well as maintaining the same level of marketing investment, operating profit decreased 17.2% to CHF 1 451 million or an operating margin of 17.2%.

FINANCIAL REVIEW

Development net income

(CHF million)	2015	2014
Operating result	1 451	1 752
Net financial result	- 47	14
Ordinary result	1 404	1 766
Non-operating result	0	- 1
Profit before income taxes	1 404	1 765
Income taxes	- 285	- 349
Net income	1 119	1 416
- in % of net sales	13.2%	16.3%
- Change from previous year in %	- 21.0%	- 26.6%

Basic earnings per share – expressed in CHF per share:

- Registered shares	4.01	5.10
- Bearer shares	20.07	25.49

In the year under review, the net financial result was CHF -47 million (compared to CHF 14 million in 2014). This is mainly due to the negative net currency result of CHF 57 million (2014 resulted in a net currency loss of CHF 2 million). Further details to the net financial result can be found in Note 5f of the consolidated financial statements.

In relation to the profit before income taxes, the income tax charge amounted to 20.3% in the reporting year, compared to 19.8% in the previous year. An analysis of the income tax charge is set out in Note 6 of the consolidated financial statements.

Net income was adversely impacted by the strongly negative financial result coming from unfavorable interest and exchange rates, and closed at CHF 1 119 million, 21.0% lower than the previous year. This is equivalent to a net margin of 13.2%, compared to 16.3% in the previous year.

Basic earnings per share amounted in the current year to CHF 4.01 (2014: CHF 5.10) for registered shares and CHF 20.07 (2014: CHF 25.49) for bearer shares, respectively. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 7.

Again in 2015, almost 700 new jobs were created, mainly in the retail sector, for new stores. Swatch Group also slightly increased the number of personnel employed domestically, despite the very difficult situation with regard to the production base Switzerland. As a result, the number of employees increased to over 36 000 at the end of 2015.

The 2015 result and the current positive outlook for 2016 have prompted the Swatch Group Board of Directors to propose an unchanged dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share at the Annual General Meeting on 11 May 2016.

FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2015	2014
Current assets	9 269	8 946
Current liabilities	1 222	1 308
Equity	11 242	10 674
– as % of total assets	84.7%	83.7%
Average return on equity (ROE)	10.2%	14.0%

Current liabilities are covered by current assets by a factor of 7.6 (2014: 6.8). This factor shows a very healthy structure of the short term balance sheet positions.

As per end of December 2015 equity increased to CHF 11.2 billion to an extremely solid capitalization, with an equity ratio of 84.7% (2014: 83.7%).

Development liquidity

(CHF million)	2015	2014
Cash and cash equivalents at 1.1.	1 202	908
Cash flow from operating activities	1 404	1 848
Cash flow from investing activities	– 836	– 1 122
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 490	– 432
Cash and cash equivalents at 31.12.	1 280	1 202

In comparison to the previous year, excluding payments received from a legal case in early 2014, the Group generated a practically unchanged operating cash flow, despite the Swiss franc shock. Operating cash flow for the period under review was CHF 1 404 million, after tax payments of CHF 339 million.

Across all segments, the Swatch Group invested a total of CHF 755 million in non-current operating assets in 2015. In addition to further expansion of its retail network, intensive investment was also made in production facilities. As well, significant investment was made in the area of customer service, both in Switzerland and in foreign distribution companies.

The dividend payment of CHF 407 million (2014: CHF 407 million) was the main cash flow from financing activities.

Overall, the Group's cash position increased in 2015 by CHF 78 million to CHF 1 280 million at year-end.

FINANCIAL REVIEW

3. Outlook

Group Management expects, despite the ongoing challenging environment in various regions, a sustainable development in sales in local currency in 2016, based on worldwide ongoing very good consumption demand for Swiss watches.

With its worldwide distribution network, the Group is in an excellent position to provide its customers with an array of products, even when tourist flows and consequently purchase locations suddenly change, as was often the case in the year under review. The number of patent applications increased again in the year under review, not only in the area of electronic smart and mobile device products, but also primarily for watches and watch movements. Not only new products from the 20 brands, but also all current brand models which benefit from ongoing demand, will contribute to a good year in 2016. Particularly the new METAS certified antimagnetic Omega Co-Axial Globemaster collection, as well as various Swatch watches such as the Swatch Bellamy, launched in China, with its contactless payment function, will generate very positive sales in China and other regions. Also, the Olympic Games in Rio de Janeiro, Brazil, which start in August, will give the Omega brand, the official Games timekeeper, an additional boost. Tissot, through its long-standing partnership with the NBA, the North American professional basketball league, has become the official timekeeper for the NBA, the women's basketball league WNBA and the NBA Development League, which will generate substantially increased sales for the brand, in both North American and worldwide markets.

Swatch Group, with its strong presence and pioneer role in countries such as China, Russia or India, will continue to generate dynamic growth in local currency in 2016. January 2016 confirms that particularly in mainland China, watch consumption rose strongly compared to the previous year, reason why, the Swatch Group expects growth of well over 5% in 2016 in local currency.

Breguet
Ministèrede
l'Intérieur.Bureau
des Arts
à
Manufactures.

n.º 157

10. Années **Brevet d'Invention**

établi par la Loi du 7 Janvier 1791.



Liberté.

Égalité.

Horlogerie.

CERTIFICAT de demande d'un **BREVET D'INVENTION**,
délivré, en vertu de l'Arrêté des Consuls, du 5 Vendémiaire an 9,
au C.^m **Breguet**, (Abraham-Louis)
domicilié à Paris département de la Seine.

Le Ministre de l'Intérieur

Vu la pétition présentée par le citoyen Abraham
Louis Breguet, horloger, demeurant à Paris Quai
de l'Horloge, n.º 51. par laquelle il expose qu'il desire jouir des
Droits de Propriété assurés par la Loi, aux Auteurs de découvertes
et inventions en tout genre d'industrie, et en conséquence
obtenir un Brevet de Dix années, à l'effet de pouvoir fabriquer
vendre et débiter dans toute l'étendue de la République, une

CONSOLIDATED INCOME STATEMENT

	Notes	2015		2014	
		CHF million	%	CHF million	%
Net sales	(4, 5a)	8 451	100.0	8 709	100.0
Other operating income	(5b)	103	1.2	231	2.6
Changes in inventories		255	3.0	397	4.6
Material purchases		- 2 001	- 23.7	- 2 240	- 25.7
Personnel expense	(5c)	- 2 384	- 28.2	- 2 343	- 26.9
Depreciation and impairment on property, plant and equipment	(15)	- 366	- 4.3	- 324	- 3.7
Amortization and impairment on intangible assets	(16)	- 38	- 0.4	- 34	- 0.4
Other operating expenses	(5d)	- 2 569	- 30.4	- 2 644	- 30.4
Operating result		1 451	17.2	1 752	20.1
Other financial income and expense	(5f)	- 46	- 0.6	13	0.2
Interest expense	(5f)	- 1	- 0.0	- 2	- 0.0
Share of result from associates and joint ventures	(5f, 17)	0	0.0	3	0.0
Ordinary result		1 404	16.6	1 766	20.3
Non-operating result	(5g)	0	0.0	- 1	- 0.0
Profit before income taxes		1 404	16.6	1 765	20.3
Income taxes	(6a)	- 285	- 3.4	- 349	- 4.0
Net income		1 119	13.2	1 416	16.3
Attributable to shareholders of The Swatch Group Ltd		1 089		1 384	
Attributable to non-controlling interests		30		32	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		4.01		5.10	
Diluted earnings per share		4.01		5.09	
Bearer shares					
Basic earnings per share		20.07		25.49	
Diluted earnings per share		20.05		25.47	

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

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2015		31.12.2014	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	1 280	9.6	1 202	9.4
Marketable securities and derivative financial instruments	(10)	388	2.9	263	2.1
Trade receivables	(11)	991	7.4	1 108	8.7
Other current assets	(12)	143	1.1	135	1.1
Inventories	(13)	6 151	46.4	5 943	46.6
Prepayments and accrued income	(14)	316	2.4	295	2.3
Total current assets		9 269	69.8	8 946	70.2
Non-current assets					
Property, plant and equipment	(15)	3 173	23.9	3 010	23.6
Intangible assets	(16)	151	1.1	150	1.2
Investments in associates and joint ventures	(17)	62	0.5	70	0.5
Other non-current assets	(19)	217	1.7	201	1.6
Deferred tax assets	(6d)	398	3.0	370	2.9
Total non-current assets		4 001	30.2	3 801	29.8
Total assets		13 270	100.0	12 747	100.0

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

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2015		31.12.2014	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	13	0.1	35	0.3
Trade payables		367	2.8	371	2.9
Other liabilities	(21)	152	1.1	158	1.2
Provisions	(23)	86	0.6	83	0.7
Accrued expenses	(22)	604	4.6	661	5.2
Total current liabilities		1 222	9.2	1 308	10.3
Non-current liabilities					
Financial debts	(20)	34	0.2	38	0.3
Deferred tax liabilities	(6d)	606	4.6	604	4.7
Retirement benefit obligations	(24)	36	0.3	38	0.3
Provisions	(23)	53	0.4	47	0.4
Accrued expenses	(22)	77	0.6	38	0.3
Total non-current liabilities		806	6.1	765	6.0
Total liabilities		2 028	15.3	2 073	16.3
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 1 006		- 1 037	
Treasury shares	(26c)	- 329		- 301	
Goodwill recognized		- 1 372		- 1 372	
Translation differences		- 134		- 6	
Retained earnings		13 856		13 174	
Equity of The Swatch Group Ltd shareholders		11 140	83.9	10 583	83.0
Non-controlling interests		102	0.8	91	0.7
Total equity		11 242	84.7	10 674	83.7
Total equity and liabilities		13 270	100.0	12 747	100.0

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2015 CHF million	2014 CHF million
Operating activities			
Net income		1 119	1 416
Reversal of non-cash items	(28a)	686	739
Changes in working capital and other items included in operating cash flow	(28b)	- 70	92
Dividends received from associated companies	(17)	2	3
Interest received		7	28
Interest paid		- 1	- 2
Income tax paid	(6c)	- 339	- 428
Cash flow from operating activities		1 404	1 848
Investing activities			
Investments in property, plant and equipment	(15)	- 602	- 1 040
Proceeds from sale of property, plant and equipment		13	4
Investments in intangible assets	(16)	- 47	- 48
Proceeds from sale of intangible assets		0	1
Investments in other non-current assets	(19)	- 106	- 115
Proceeds from sale of other non-current assets		3	2
Acquisition of subsidiaries – net of cash	(18a)	-	- 4
Takeover of associated companies	(18a)	14	-
Divestments of businesses	(18b)	4	3
Purchase of marketable securities		- 241	- 187
Sale of marketable securities		126	262
Cash flow from investing activities		- 836	- 1 122
Financing activities			
Dividends paid to shareholders	(8)	- 407	- 407
Dividends paid to non-controlling interests		- 24	- 14
Purchase of treasury shares	(26c)	- 28	- 107
Sale of treasury shares		1	78
Change in non-current financial debts		- 4	- 5
Change in current financial debts		0	- 1
Repurchase of non-controlling interests	(18c)	- 1	-
Sale of non-controlling interests	(18c)	11	-
Cash flow from financing activities		- 452	- 456
Net impact of foreign exchange rate differences on cash		- 38	24
Change in cash and cash equivalents		78	294
Change in cash and cash equivalents			
– At beginning of year		1 202	908
– At end of year	(9)	1 280	1 202

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to The Swatch Group Ltd shareholders					Retained earnings	Total	Non-con- trolling interests	Total equity
	Share capital	Capital reserves	Treasury shares	Goodwill recognized	Cumulative Translation differences				
(CHF million)	(Note 26)	(Note 26)	(Note 26)						
Balance at 31 December 2013	125	- 1 062	- 268	- 1 369	- 115	12 197	9 508	66	9 574
Net income						1 384	1 384	32	1 416
Currency translation of foreign entities					109		109	7	116
Compensation of goodwill Group companies (Note 18)				-3			-3		-3
Dividends paid						-407	-407	-14	-421
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		21					21		21
– Proceeds from sale of shares		1					1		1
Sale of treasury shares		3	74				77		77
Repurchase of treasury shares		0	-107				-107		-107
Balance at 31 December 2014	125	- 1 037	- 301	- 1 372	- 6	13 174	10 583	91	10 674
Net income						1 089	1 089	30	1 119
Currency translation of foreign entities					-128		-128		-128
Dividends paid						-407	-407	-24	-431
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		19					19		19
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		0	-28				-28		-28
Changes in non-controlling interests (Note 18)		11					11	5	16
Balance at 31 December 2015	125	- 1 006	- 329	- 1 372	- 134	13 856	11 140	102	11 242

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 20 brands in all market and price segments. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components as well as in the electronic systems sector.

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

The shares of The Swatch Group Ltd are listed in Switzerland in the Swiss Reporting Standard of the SIX Swiss Exchange, under the ISIN numbers CH0012255144 (registered shares) and CH0012255151 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI, SPI Extra and SMIM. In addition, 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 19 February 2016 and will be submitted to the Annual General Meeting of Shareholders for approval on 11 May 2016.

2. Summary of significant accounting policies

a. Basis of preparation

These financial statements provide a true and fair view of the Swatch Group's assets, financial position and earnings, and have been drawn up in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. The Group already adopted FER 31 for listed companies (published in January 2013 and applicable as of 1 January 2015) as of 1 January 2013. The financial statements of the Group are based upon the financial statements of the Group companies as at 31 December and are established in accordance with the standardized reporting and accounting policies. The financial statements are based on the principle of historical acquisition costs (except for securities and derivative financial instruments recognized at fair value) and on the going concern principle. The statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts have been rounded to the next million.

b. Consolidation policies

The Group companies include all companies that are directly or indirectly controlled by The Swatch Group AG. In this respect, control is defined as the power to control the financial and operating activities of the respective company, so as to obtain benefits from its operations. This control is normally evidenced by the holding of more than half of the voting rights on share capital of an entity. Group companies are consolidated from the date on which control is transferred to the Group. Subsidiaries intended for disposal are excluded from the consolidation from the date on which control ceases.

Companies acquired over the course of the year are revalued and consolidated in accordance with Group principles upon the date of acquisition. The difference between the acquisition costs and the proportional revalued net assets is referred to as goodwill. Within the scope of acquisitions, potentially existing but until now not capitalized intangible assets such as brands, usage rights and client lists are not recognized separately, but instead remain part of goodwill. Goodwill may also arise from investments in associated companies and is defined as the difference between the acquisition costs of the investment and its proportional revalued net assets. The goodwill resulting from acquisitions is recognized directly in Group equity. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the acquired goodwill would have (see Note 27).

In the event that shares of Group or associated companies are sold, the difference between the proceeds from the sale and the proportional book value of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement.

Non-controlling interests in equity and in net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are recognized as equity transactions, provided that control continues. Intercompany transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated in full.

Associates are all companies on which the Group exerts significant influence, but does not control. This is generally evidenced when the Group holds voting rights of 20% to 50% of a company. Representation on the board of directors or access to the current financial information of a company are also indicators of significant influence. Investments in associated companies are accounted for using the equity method and are initially recognized at cost. Unrealized gains and losses from transactions with associated companies are eliminated to the extent of the Group's participation in the associated company. The accounting policies of associated companies are adjusted where necessary in order to ensure consistency with the policies observed by the Group. Participations in joint ventures are also reported using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- c. Scope of consolidation** At 31 December 2015, the Group's consolidation structure comprised 168 legal entities (previous year: 172) including two joint ventures (previous year: two) and five associated companies (previous year: six). The decrease resulted primarily from Group internal mergers and liquidations. Information on acquisitions and disposals of companies is available in Note 18. Note 32 includes a complete list of Group companies.
- d. Accounting estimates and judgments** The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.
- e. Changes in accounting policies**
- Changes not yet in force of existing Standards**
The Group implemented early adoption at 1 January 2015 of the following changes to existing standards, which were published by the end of 2015 and which are binding as of 1 January 2016 (earlier implementation permitted):
- New guideline on revenue recognition: changes in Swiss GAAP FER Framework, FER 3 and FER 6**
New rules in the area of revenue recognition specify how revenue is to be recognized, valued and disclosed. Therefore, the Framework, FER 3 and FER 6 were adapted. The amendments stipulate that revenue is to be recognized when a service was provided or a tangible or intangible asset was delivered, and the risks and rewards as well as the control have been transferred to the purchaser. In addition, net revenues from sales and services are defined as revenues from ordinary business activities which include the value of services provided, less sales reductions. In the case of agents, only the value of own services performed is to be recognized. In the event of business transactions involving identifiable multiple elements, these are to be recognized and valued separately. Furthermore, the most significant sources of revenue and their recognition are to be disclosed in the notes.
The long-standing Swatch Group accounting principles already comply with the new revenue recognition rules according to Swiss GAAP FER. Therefore, the changes have no impact on revenue recognition for the Group, and it was not necessary to adjust previous year figures.
In connection with these changes, the Group has decided to discontinue publishing gross sales less sales reductions. Newly, only the net sales figure will be disclosed. This adjustment is consistent with Swiss GAAP FER.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f. Foreign currency translation

Translation in the financial statements of the Group companies

The financial statements of individual Group companies are measured in the currency of the economic environment in which these companies predominantly operate (functional currency). Transactions in foreign currencies are converted to the functional currency at the prevailing exchange rate on the transaction date. Balance sheet items in foreign currency are converted using the year-end exchange rate. Any resulting gains and losses are recorded in the income statement. Foreign exchange gains or losses from the conversion of intercompany loans of an equity nature are recognized in equity without affecting the income statement. Exchange differences resulting from the conversion of investments in associated companies are also reported in equity. There are no investments in hyperinflationary countries.

Translation of individual financial statements to be consolidated

The financial statements of the Swatch Group are presented in the reporting currency of Swiss francs (CHF). The financial statements of the individual companies to be consolidated are translated into Group currency at the effective date with the current rate method. This currency translation is carried out for the assets and liabilities at the year-end exchange rates, for equity at historical exchange rates, and for the income statement and statement of cash flows at average annual exchange rates. Any translation differences are recognized in equity without affecting the income statement.

In the event that a foreign entity is sold, the cumulative translation differences recognized in equity, which are a result of the translation of the financial statements and intercompany loans, are reversed from the accounts and reported in the income statement as part of the gain or loss on the sale.

The main exchange rates used are:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2015	31.12.2015	2014	31.12.2014
		CHF	CHF	CHF	CHF
CNY	1	0.1540	0.1538	0.1496	0.1598
EUR	1	1.0682	1.0870	1.2139	1.2030
HKD	1	0.1250	0.1289	0.1190	0.1277
JPY	100	0.8013	0.8300	0.8683	0.8300
USD	1	0.9687	0.9990	0.9226	0.9905

g. Sales and revenue recognition

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

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectability of the related receivables is reasonably secured. Revenue from services is recognized in the accounting period in which the service is rendered. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. In the case of agency transactions, only the value of own services is recognized. In the event of business transactions involving identifiable multiple elements, these are to be recognized and valued separately. This type of transaction occurs only rarely within the Group.

h. Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- i. Marketable securities** Purchases and sales of securities are recognized in accordance with the settlement date principle. The securities are initially measured at cost, and the transaction costs are charged to the income statement. Subsequently, the listed securities are recorded in the balance sheet at market value on the balance sheet date. Private equity investments are adjusted to the current net asset value on the balance sheet date. All realized and unrealized gains and losses resulting from variations in market values and foreign currencies are recorded in the income statement.
- j. Trade receivables** Trade receivables are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables. Provision is made for balances overdue more than 12 months or for receivables where specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.
- k. Inventories** Inventories are valued at the lower of acquisition or production cost and fair value less cost to sell. Any discounts received are treated as cost reductions. Manufacturing costs comprise all costs directly attributable to material and production, as well as overhead costs incurred in building up the inventory at its current location and/or to its current condition. Acquisition costs are determined according to the weighted average method. Some production companies value their own produced inventories using the standard cost method. As these costs are regularly reviewed and updated, this method approximates the result of the weighted average method. Inventories with unsatisfactory inventory turnover are revalued accordingly.
- l. Property, plant and equipment** Property, plant and equipment (including investment property) are recorded in the balance sheet at historical cost less accumulated depreciation and any impairments. Acquisition costs comprise the purchase price as well as the costs directly attributable to the utilization of the property, plant and equipment. Investments in existing property, plant and equipment are only capitalized if their value in use is sustainably increased or their useful life is extended considerably. Self-constructed assets are only capitalized if they are clearly identifiable and the costs can be reliably determined, and if the assets generate measurable benefits for the Group over a period of several years. Maintenance and repair costs that do not add value are charged directly to the result for the period.

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

– Land	no depreciation
– Investment properties	50 years
– Administrative buildings	40 years
– Production plants and workshop buildings	30 years
– Machines and technical equipment, workshop equipment	9 to 15 years
– Measuring instruments, tools, processing equipment, automation components	5 to 9 years
– Furniture, office machinery, motor vehicles	5 to 8 years
– IT equipment	3 to 5 years

The residual values and the remaining useful life of property, plant and equipment are reviewed yearly and adjusted where necessary. Investment property mainly comprises residential buildings rented to third parties. The position Plant and equipment under construction includes buildings under construction and non-refundable down payments on land and buildings. The Group does not capitalize any interest expenses incurred during the construction period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

m. Intangible assets

Goodwill

The difference between the acquisition costs and the actual value of the net identifiable assets of the acquired company at the time of the purchase represents goodwill from business combinations. The goodwill resulting from acquisitions is recognized in Group equity at the time of the acquisition. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the goodwill would have (see Note 27).

Goodwill may also arise from investments in associated companies, calculated as the difference between the acquisition costs of the investment and its related net assets at fair value at the time of acquisition.

Capitalized development costs

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

Software

This heading includes in particular the following positions:

- Licenses purchased granting rights to use new technologies and software. They are amortized over their useful life (max. five years).
- Internally developed software. These costs are recognized as intangible assets if it is likely that they will generate future economic benefits. The costs include software development employee costs and the direct portion of related overhead costs. The capitalized costs are amortized on a straight-line basis over the estimated useful life (max. five years).

Other intangible assets

This heading mainly includes key money for strategically located retail stores. If it can be demonstrated by the existence of a market, it is capitalized as an intangible asset and amortized on a straight-line basis over the location's useful life of max. 20 years. In contrast, key money that is not refundable or only refundable under specific circumstances is treated as prepaid rent and recorded under Other non-current assets (see Note 19). This heading includes also patents and rights of use as well as development and software projects in progress. Those are transferred into the respective categories after project completion.

n. Impairment of assets

The recoverable value of non-current assets (including goodwill recognized in equity) is verified on every balance sheet date. If there are indications of a sustained impairment, the recoverable amount of the respective assets will be determined. The recoverable amount is the higher of the net selling price and value in use.

If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the smallest group of assets to which the individual asset belongs. If the book value of an asset exceeds the recoverable amount, an impairment loss is recognized separately in the income statement. As the goodwill is already recognized in equity at the time at which it was acquired, a goodwill impairment would not result in a charge being recorded in the income statement, but leads to a disclosure in the Notes to the financial statements. In the event that a Group company is sold, any goodwill acquired at an earlier point in time and recognized in equity is taken into consideration when determining the gain or loss in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

o. Provisions

Provisions are recognized:

- when the Group has a present legal or constructive obligation as a result of past events,
- when it is probable that an outflow of resources will be required to settle the obligation, and
- when a reliable estimate of the amount of the obligation can be made.

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 receivable, 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 discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision in function of time is recognized as interest expense.

p. Financial debts

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

q. Derivative financial instruments

Derivative financial instruments are recognized at fair value at the trade date; the associated transaction costs are recorded as expenditure in the income statement. The method of recognizing the gain or loss from subsequent revaluations depends on the purpose for the hedging and the underlying transaction.

Cash flow hedges

The Group may hedge certain cash flows for projected intra- or extragroup transactions. This is documented accordingly upon conclusion of the transaction. In this case, the effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion of the hedging instrument is recognized in the income statement under financial result.

Amounts recognized in equity are recycled in the income statement in the periods when the hedged item affects gain or loss. The gain or loss from the effective portion of the hedging instrument related to flow of goods is recorded in the income statement under material purchases.

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

Other derivative financial instruments

Derivative financial instruments not designated as hedging instruments are accounted for at fair value. Changes in the fair value are recognized immediately in the income statement.

r. Income taxes

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

Current income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax

Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply.

Deferred tax assets are recognized for all deductible temporary differences, carryforward tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is not intended that the temporary difference will reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

s. Pensions and other post-employment benefits

Pension obligations

Group companies operate various pension schemes, which conform to the legal regulations and provisions in force in the respective countries. The actual economic effects of pension schemes on the Group are calculated at balance sheet date. An economic obligation is recognized as a liability if the requirements for the recognition of a liability are met. An economic benefit is capitalized provided that this can be used for future Group pension contributions. Freely available employer contribution reserves are capitalized.

Employees of Swiss Group companies are insured as part of the "Swatch Group Pension Fund", which is a separate legal entity and financed by contributions from both employers and employees. Surpluses or deficits are calculated based on the Pension Fund's financial statements, which have been drawn up in accordance with Swiss GAAP FER 26. The Group's pension costs include the employer contributions accrued in the period as well as any economic effects from the excess/shortfall and the change in employer contribution reserves.

Some foreign companies operate fully financed pension funds. These funds are treated in the same way as the Swiss plan in terms of accounting, i.e. paid contributions are basically recorded as expenses. In some countries, there are also pension plans that do not have their own assets, whereby the corresponding benefit provisions are recognized directly in the balance sheet and any changes are recognized in the income statement.

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.

Termination benefits

Termination benefits are payable when employment is terminated (in normal employment conditions) in advance of the terms of the contract, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes such benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing benefits as a result of an offer made for a voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The company does not make severance payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

t. Share capital and treasury shares

Shares issued by The Swatch Group AG are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 0.45, and bearer shares, each with a nominal value of CHF 2.25. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value.

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

u. Dividends

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

v. Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (market value at grant date). 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.

A block of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. 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 7).

w. Leases

Finance leases

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

Operating leases

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

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 different financial risks, including foreign currency, market, credit and liquidity risks. The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, mainly against the US Dollar, the Chinese Renminbi, the Euro and the Japanese Yen, with the aim of minimizing its impact on Group net income. In order to hedge exchange rate risk, the Group may use derivative financial instruments such as forward currency contracts or currency options. At year-end no cash flow hedges existed.

Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group's management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under the regular supervision of the Group's Top Management.

Credit risk

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

In the context of securities trading, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. In general, issuer risk is minimized by only buying securities which are investment grade rated.

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 ratings are usually at least investment grade. Exposure to this type of risk is closely monitored by Group management and is contained within strict and predetermined limits.

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

Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. The close monitoring of liquidity at Group level and of the asset allocation 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.

At the balance sheet date, the available liquidity is summarized as follows:

(CHF million)	31.12.2015	31.12.2014
Cash and cash equivalents (Note 9)	1 280	1 202
Marketable securities and derivative financial instruments (Note 10)	388	263
Short-term accessible liquidity reserves	1 668	1 465
Committed credit facilities	578	539
/ Utilized credit facilities	- 36	- 40
Total short-term accessible liquidity reserves and undrawn credit facilities	2 210	1 964

b. Capital management

The primary objective of the Group with regard to capital management is to preserve a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2015, equity represented 84.7% (31 December 2014: 83.7%) of total assets.

The Group's Top Management reviews the capital structure of the Group and the equity of its subsidiaries on a regular basis. To preserve or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new debt or redeem existing debt. There were no changes in the Group's approach to capital management during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information

a. Operating segment information

Operating segments are reported consistent with the internal reporting provided to the Management Board. Although the Group's operations are worldwide, the main entrepreneurial focus remains on the product portfolio. 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 numerous individual business units (Profit Centers) which are aggregated in the following reportable operating segments:

– Watches & Jewelry	Design, production and commercialization of watches and jewelry
– Electronic Systems	Design, production and commercialization of electronic components, Sports timing activities

The reportable operating segments generate their revenue mainly from the manufacture and sale of products to third parties or to other Group segments.

Corporate services does not qualify as a segment but is shown separately. It includes the activities of the Group's holding, finance, research and development, real estate and several other companies. Elimination of inter-segment sales, income and expense as well as assets and liabilities is shown in the column "Elimination".

Internal Group sales are recognized at arm's length. Segment expenses are those that can be directly attributed to the segment. Centralized costs relating to Group Management, Corporate Communication, Group Human Resources, Corporate Finance, Treasury, Tax and Legal Services are not reallocated to the operating segments and remain under the heading "Corporate".

Income statement

2015 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 175	270	6		8 451
– Group	2	22	6	– 30	–
Net sales	8 177	292	12	– 30	8 451
Operating result	1 539	9	– 97	–	1 451
– In % of net sales	18.8	3.1			17.2

2014 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 428	274	7		8 709
– Group	1	22	6	– 29	–
Net sales	8 429	296	13	– 29	8 709
Operating result	1 860	– 9	– 99	–	1 752
– In % of net sales	22.1	– 3.0			20.1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet and other information

2015 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	11 783	375	4 857	– 3 807	13 208
– Investments in associated companies and joint ventures	7	–	55	–	62
Total assets	11 790	375	4 912	– 3 807	13 270
Total liabilities	– 4 876	– 103	– 856	3 807	– 2 028
Net assets	6 914	272	4 056	–	11 242

Other information

Investments in property, plant and equipment	535	31	12	–	578
Investments in intangible assets	38	2	3	–	43
Investments in other non-current assets	106	0	0	–	106
Depreciation on property, plant and equipment	– 326	– 19	– 19	–	– 364
Amortization on intangible assets	– 31	– 3	– 3	–	– 37
Impairment	– 3	–	–	–	– 3

2014 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	11 440	397	4 225	– 3 385	12 677
– Investments in associated companies and joint ventures	6	–	64	–	70
Total assets	11 446	397	4 289	– 3 385	12 747
Total liabilities	– 4 472	– 91	– 895	3 385	– 2 073
Net assets	6 974	306	3 394	–	10 674

Other information

Investments in property, plant and equipment	607	13	431	–	1 051
Investments in intangible assets	44	5	2	–	51
Investments in other non-current assets	115	0	0	–	115
Depreciation on property, plant and equipment	– 288	– 25	– 11	–	– 324
Amortization on intangible assets	– 29	– 2	– 3	–	– 34
Impairment	–	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Information on geographical regions

(CHF million)	2015		2014	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	986	2 631	971	2 473
Other Europe	1 839	324	1 820	342
Total Europe	2 825	2 955	2 791	2 815
Greater China	2 869	260	3 224	248
Other Asia	1 884	249	1 814	237
Total Asia	4 753	509	5 038	485
Total America	725	131	737	122
Total Oceania	92	2	85	3
Total Africa	56	1	58	1
Total	8 451	3 598	8 709	3 426

For the geographical presentation, sales are reported according to the destinations that appear on the invoices. Non-current assets presented in the geographical information are broken down by location.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. Revenues and expenses

a. Analysis of net sales	(CHF million)	2015	2014
	Sale of goods	8 415	8 680
	Rendering of services	36	29
	Total net sales	8 451	8 709

b. Other operating income In 2015, other operating income amounted to CHF 103 million (2014: CHF 231 million). The decrease is mainly due to the time-keeping services rendered in 2014 for the Olympic Games.

c. Personnel expense	(CHF million)	2015	2014
	Wages and salaries	1 928	1 902
	Social security costs	326	316
	Share-based compensation (Note 29)	19	21
	Pension costs (Note 24)	111	104
	Total personnel expense	2 384	2 343

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

(Unaudited)	2015	2014
Average annual headcount	35 783	34 492
Total headcount at 31 December	36 313	35 623
Men	17 488	17 035
Women	18 825	18 588
Swiss contracts	17 433	17 408
Non-Swiss contracts	18 880	18 215

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

d. Other operating expenses	(CHF million)	2015	2014
	Marketing, sales and administration	1 279	1 347
	Subcontracting and other direct costs of sales	291	304
	Maintenance, rents and energy	938	843
	Other operating expenses	61	150
	Total other operating expenses	2 569	2 644

e. Research and development costs Costs for research and development activities amounted to CHF 205 million in 2015, representing 2.4% of net sales (previous year: CHF 187 million or 2.1%).

f. Net financial result	(CHF million)	2015	2014
	Interest income	7	7
	Result from marketable securities at fair value	8	12
	Net currency result	-57	-2
	Other financial expense	-4	-4
	Other financial income and expense	-46	13
	Interest expense	-1	-2
	Share of result from associates and joint ventures	0	3
	Net financial result	-47	14

g. Non-operating result Only net income from investment property is included in the non-operating result position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Income taxes

a. Income tax expenses	(CHF million)	2015	2014
Current income taxes		- 322	- 344
Adjustments recognized for current income taxes of prior periods		3	1
Deferred taxes		34	- 6
Total income taxes		- 285	- 349

b. Reconciliation of the Group's effective tax rate

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

	2015	2014
	%	%
Group's average expected tax rate	19.3	19.1
Tax effect of:		
- Change in the applicable tax rate on temporary differences	- 0.5	- 0.7
- Recognition of unused tax losses from prior years	- 0.2	- 0.1
- Utilization of previously unrecognized tax losses	- 0.1	0.0
- Unrecognized current year tax losses	1.1	0.4
- Non-taxable income	- 0.3	- 0.2
- Non-tax-deductible expenses	0.8	0.7
- Items taxable at reduced rates	- 0.3	- 0.3
- Adjustments recognized for current taxes of prior periods	- 0.2	0.0
- Other items	0.7	0.9
Group's effective tax rate	20.3	19.8

The effective tax rate based on the ordinary result in the year under review was 20.3% (previous year: 19.8%).

c. Current income tax

	(CHF million)	2015	2014
Net current income tax liability			
Balance at 1 January		- 89	- 171
Recognized in income statement		- 319	- 343
Recognized in equity		0	-
Income taxes paid		339	428
Translation differences		- 1	- 3
Balance at 31 December		- 70	- 89
thereof current income tax assets		46	45
thereof current income tax liabilities		- 116	- 134

d. Deferred tax

Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred taxes relate to the same taxation authority.

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

(CHF million)	31.12.2015			31.12.2014		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	329	- 396	- 67	303	- 414	- 111
Trade and other receivables	3	- 19	- 16	2	- 24	- 22
Property, plant and equipment	17	- 139	- 122	16	- 128	- 112
Intangible assets	11	- 10	1	15	- 9	6
Provisions	16	- 46	- 30	14	- 45	- 31
Retirement benefit obligations	4	- 1	3	4	- 2	2
Tax losses	28	-	28	36	-	36
Other	65	- 70	- 5	61	- 63	- 2
Total deferred tax assets (liabilities)	473	- 681	- 208	451	- 685	- 234
Deferred tax assets			398			370
Deferred tax liabilities			- 606			- 604

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(CHF million)	Not recognized	Recognized	Total 2015
One year	4	4	8
Two years	3	11	14
Three years	3	7	10
Four years	8	1	9
Five years	10	6	16
Six years	11	12	23
More than six years	142	61	203
Total at 31.12.2015	181	102	283

(CHF million)	Not recognized	Recognized	Total 2014
One year	2	1	3
Two years	3	12	15
Three years	3	12	15
Four years	4	7	11
Five years	3	2	5
Six years	0	11	11
More than six years	129	82	211
Total at 31.12.2014	144	127	271

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 51 million in the year under review (previous year: CHF 44 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Earnings per share

a. Basic

	2015	2014
Net income attributable to shareholders of The Swatch Group Ltd (CHF million)	1 089	1 384
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.2%	44.2%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.8%	55.8%
Registered shares		
Net income attributable to registered shareholders (CHF million)	481	611
Average number of shares outstanding	119 847 161	119 894 096
Basic earnings per share (in CHF)	4.01	5.10
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	608	773
Average number of shares outstanding	30 308 846	30 320 769
Basic earnings per share (in CHF)	20.07	25.49

b. Diluted

	2015	2014
Registered shares		
Net income attributable to registered shareholders (CHF million)	481	612
Average number of shares outstanding – basic (as above)	119 847 161	119 894 096
Potential number of shares from options outstanding	222 525	230 587
Average potential number of shares outstanding – diluted	120 069 686	120 124 683
Diluted earnings per share (in CHF)	4.01	5.09
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	608	772
Average potential number of shares outstanding	30 308 846	30 320 769
Diluted earnings per share (in CHF)	20.05	25.47

8. Dividends paid and proposed

On 28 May 2015, the Annual General Meeting approved the distribution of a dividend of CHF 1.50 per registered share and CHF 7.50 per bearer share. The distribution to holders of outstanding shares totaled CHF 407 million (2014: CHF 407 million) and has been recorded against retained earnings in the year under review. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount would have totaled CHF 10 million.

At the Annual General Meeting on 11 May 2016, payment of the following dividends for the year under review will be proposed:

		Registered	Bearer
Dividend per share	CHF	1.50	7.50
Total dividend	CHF million	186	231

The financial statements ending 31 December 2015 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Cash and cash equivalents

(CHF million)	31.12.2015	31.12.2014
Current accounts and liquid assets	1 021	984
Short-term deposits with financial institutions	259	218
Total cash and cash equivalents	1 280	1 202

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

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

(CHF million)	31.12.2015	31.12.2014
Cash and cash equivalents	1 280	1 202
Current account overdrafts (Note 20)	0	0
Total funds net cash	1 280	1 202

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2015	31.12.2014
Equity securities	102	49
Bond securities	258	195
Investment funds and other investments	16	19
Total marketable securities at fair value	376	263

Derivative financial instruments	12	0
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Total marketable securities and derivative financial instruments	388	263
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The table below gives an overview of the contract values and fair values of derivative financial instruments by type of contract.

(CHF million)	31.12.2015			31.12.2014		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
AUD	8	–	–0	4	–	–0
CAD	9	–	–0	7	–	–0
CNY	–	–	–	50	–	–1
EUR	489	1	–2	361	0	–1
GBP	56	0	–	40	–	–1
HKD	12	0	–0	–	–	–
JPY	21	–	–0	21	–	–0
RUB	6	0	–	6	–	–0
SGD	7	–	–0	16	–	–0
USD	1 066	11	–5	949	–	–25
Other currencies	19	0	–0	20	0	–1
Total	1 693	12	–7	1 474	0	–29

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade receivables

(CHF million)	31.12.2015	31.12.2014
Trade receivables – gross	1 002	1 121
Allowance for impaired receivables	– 11	– 13
Total trade receivables – net	991	1 108

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

(CHF million)	2015	2014
Balance at 1 January	– 13	– 10
Translation differences	0	0
Business combinations	–	–
Utilization	2	1
Reversal	1	1
Creation	– 1	– 5
Balance at 31 December	– 11	– 13

The individually impaired receivables mainly relate to amounts overdue more than 12 months and to customers with solvency risks. Based on past experience with the quality of trade receivables, no material increase in credit losses is expected.

Net trade receivables are recognized in the following major currencies:

(CHF million)	31.12.2015	31.12.2014
CHF	181	208
CNY	246	294
EUR	175	182
HKD	30	57
JPY	32	30
USD	112	122
Other currencies	215	215
Total trade receivables – net	991	1 108

Invoices are essentially issued in the currency of the primary economic environment in which the entity operates.

12. Other current assets

(CHF million)	31.12.2015	31.12.2014
VAT to be refunded	104	104
Other receivables	39	31
Total other current assets	143	135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

(CHF million)	31.12.2015	31.12.2014
Raw materials, auxiliary material and supplies	346	345
Goods in progress	547	565
Semi-finished goods	1 970	2 069
Finished goods	2 959	2 659
Spare parts for customer service	329	305
Total inventories	6 151	5 943

Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2015, the Group recognized write-downs of CHF 47 million (previous year: CHF 33 million). In addition, an amount of CHF 15 million was reversed (previous year: CHF 10 million). The net impact of these adjustments was a charge to the income statement of CHF 32 million (previous year: CHF 23 million).

14. Prepayments and accrued income

(CHF million)	31.12.2015	31.12.2014
Prepaid sales, marketing and administration costs	128	107
Income tax assets	46	45
Other prepayments and accrued income	142	143
Total prepayments and accrued income	316	295

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Property, plant and equipment

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2014	2 073	3 527	476	108	6 184
Translation differences	-16	-33	-13	0	-62
Acquisition of subsidiaries (Note 18)	-	1	-	-	1
Divestments of businesses (Note 18)	-10	-	-	-	-10
Additions	75	317	88	98	578
Disposals	-15	-83	-23	-7	-128
Transfers	29	6	3	-38	-
Historical cost, 31 December 2015	2 136	3 735	531	161	6 563
Accumulated depreciation, 31 December 2014	- 646	- 2 267	- 261	-	- 3 174
Translation differences	4	21	8	-	33
Depreciation on divestments of businesses (Note 18)	7	-	-	-	7
Annual depreciation	-57	-247	-60	-	-364
Impairment	-2	-	-	-	-2
Depreciation on disposals	9	78	23	-	110
Transfers	-	-	-	-	-
Accumulated depreciation, 31 December 2015	- 685	- 2 415	- 290	-	- 3 390
Net book values:					
Balance at 31 December 2014	1 427	1 260	215	108	3 010
Balance at 31 December 2015	1 451	1 320	241	161	3 173
Insured value					7 331
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					36

¹⁾ The category Land, buildings and properties includes investment properties with a carrying amount of CHF 453 million (previous year: CHF 452 million).

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2013	1 453	3 218	435	134	5 240
Translation differences	-1	29	4	-	32
Acquisition of subsidiaries (Note 18)	1	-	0	-	1
Divestments of businesses (Note 18)	-	-10	-3	-	-13
Additions	558	390	64	39	1 051
Disposals	-3	-95	-29	0	-127
Transfers	65	-5	5	-65	-
Historical cost, 31 December 2014	2 073	3 527	476	108	6 184
Accumulated depreciation, 31 December 2013	- 600	- 2 129	- 239	-	- 2 968
Translation differences	-1	-17	-1	-	-19
Depreciation on divestments of businesses (Note 18)	-	9	3	-	12
Annual depreciation	-47	-227	-50	-	-324
Impairment	-	-	-	-	-
Depreciation on disposals	2	95	28	-	125
Transfers	-	2	-2	-	-
Accumulated depreciation, 31 December 2014	- 646	- 2 267	- 261	-	- 3 174
Net book values:					
Balance at 31 December 2013	853	1 089	196	134	2 272
Balance at 31 December 2014	1 427	1 260	215	108	3 010
Fire insurance value					6 667
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					40

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2014	99	123	115	337
Translation differences	–	–1	–5	–6
Acquisition of subsidiaries (Note 18)	–	–	–	–
Divestments of businesses (Note 18)	–	–	–1	–1
Additions	10	13	20	43
Disposals	–3	–2	0	–5
Transfers	14	2	–16	0
Historical cost, 31 December 2015	120	135	113	368
Accumulated amortization, 31 December 2014	–58	–92	–37	–187
Translation differences	–	1	3	4
Amortization on divestments of businesses (Note 18)	–	–	0	0
Annual amortization	–18	–14	–5	–37
Impairment	–	–	–1	–1
Amortization on disposals	2	2	0	4
Transfers	–	–	–	–
Accumulated amortization, 31 December 2015	–74	–103	–40	–217
Net book values:				
Balance at 31 December 2014	41	31	78	150
Balance at 31 December 2015	46	32	73	151

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2013	80	111	109	300
Translation differences	0	0	–1	–1
Acquisition of subsidiaries (Note 18)	–	–	–	–
Divestments of businesses (Note 18)	–4	0	–	–4
Additions	15	16	20	51
Disposals	–1	–5	–3	–9
Transfers	9	1	–10	0
Historical cost, 31 December 2014	99	123	115	337
Accumulated amortization, 31 December 2013	–46	–84	–34	–164
Translation differences	0	0	0	0
Amortization on divestments of businesses (Note 18)	3	0	–	3
Annual amortization	–15	–13	–6	–34
Impairment	–	–	–	–
Amortization on disposals	0	5	3	8
Transfers	–	0	0	0
Accumulated amortization, 31 December 2014	–58	–92	–37	–187
Net book values:				
Balance at 31 December 2013	34	27	75	136
Balance at 31 December 2014	41	31	78	150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Investments in associates and joint ventures

(CHF million)	2015	2014
Balance at 1 January	70	65
Share of result from associates and joint ventures	0	3
Dividends received	-2	-3
Investments	-	-
Reclassification of previously held interests	-7	-
Investments acquired through business combinations	-	-
Translation differences	1	5
Balance at 31 December	62	70

All associates and joint ventures are recognized using the equity method. They have been listed in Note 32. Despite having less than 20% of the voting power of Hengdeli Holdings, the Swatch Group can exercise significant influence due to representation on the Board of Directors, access to current financial information and the strategic character of the investment. Therefore, this investment is defined as associate.

On 2 July 2015, Belenos Clean Power Holding AG sold its stake in Swiss Hydrogen Power SHP SA. In return, Belenos Clean Power Holding AG repurchased 10% of its own shares. With this transaction, the Swatch Group took control of Belenos Clean Power Holding AG and its stake in Belenos Clean Power Engineering AG. At this point, both Belenos companies became fully consolidated subsidiaries of the Swatch Group. The previously held stake in both Belenos companies was removed from associated companies and included in the calculation of goodwill from these acquisitions (see Note 18).

In 2015 there were no other changes in investments in associates and joint ventures.

Sales to and purchases from associates and joint ventures amounted to CHF 980 million (2014: CHF 1 044 million) and CHF 29 million (2014: CHF 12 million) respectively.

At balance sheet date, associated companies and joint ventures had no contingent liabilities (2014: none).

18. Business combinations

a. Acquisition of subsidiaries

On 2 July 2015, Belenos Clean Power Holding AG and its stake in Belenos Clean Power Engineering AG were taken over. These companies are active in the area of renewable, alternative and environmentally friendly energy. Swatch Group already held a significant influence over these companies. The previously held stake in both Belenos companies was removed from associated companies and included in the calculation of goodwill from these acquisitions (see Note 17).

In 2014, the Swatch Group acquired all the shares of René Clémence S.A. in La Chaux-de-Fonds (Switzerland). The company is a watch glass manufacturer.

The Group also acquired 100% of the shares of the Canadian company H.W. Protection Inc, Toronto in 2014. This company provides services solely to other Group companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(CHF million)	Notes	2015 Actual Values	2014 Actual Values
Cash and cash equivalents		14	1
Current assets		1	0
Property, plant and equipment	(15)	1	1
Intangible assets	(16)	0	–
Deferred tax assets		–	0
Current liabilities		–2	0
Provisions	(23)	–	0
Previously held interests	(17)	–7	–
Non-controlling interests		–7	–
Net assets acquired		0	2
Goodwill (recognized in equity)	(27)	–	3
Negative Goodwill (recognized in income statement)		0	–
Total purchase consideration (incl. acquisition-related costs)		–	–5
Cash and cash equivalents acquired		14	1
Consideration payable		–	0
Cash in-/outflow on acquisitions		14	–4

Negative goodwill from company acquisitions in 2015 was less than CHF 1 million and was recognized in the income statement as other operating income. No purchase price was paid for acquisitions in 2015. The transactions were settled by assets.

Goodwill from the 2014 acquisitions relates primarily to the expected operating synergies from these combinations and the acquired know-how from the takeovers.

For all acquisitions in 2014 the purchase consideration basically represented the cash payments made to the vendors. Transaction costs related to the takeovers were recognized as part of goodwill directly in equity.

b. Divestments of businesses

On 23 October 2015, the Swatch Group sold the company Zhuhai SMH Electric Co. Ltd in China to a subsidiary of Hengdeli Holdings Limited (see Note 30). The value of net assets sold was CHF 11 million. The total sales price amounted to CHF 17 million, the balance of CHF 7 million will be paid in installments over the next two years. The profit from the disposal amounted to CHF 6 million and was recorded in the income statement as other operating income.

In 2014, Swatch Group sold its entire participation in Oscilloquartz AG, Neuenburg (Switzerland), to ADVA Optical Networking SE, Munich (Germany). The value of net assets sold was CHF 12 million. The net cash inflow of the disposal amounted to CHF 3 million.

The value of the net assets disposed of and the cash inflow from the disposals are as follows:

(CHF million)	Notes	2015 Actual Values	2014 Actual Values
Cash and cash equivalents		6	0
Current assets		1	14
Property, plant and equipment	(15)	3	1
Intangible assets	(16)	1	1
Current liabilities		0	–4
Provisions	(23)	–	0
Net assets disposed of		11	12
Result on divestment of businesses		6	–9
Total disposal consideration		17	3
Cash and cash equivalents disposed of		–6	0
Consideration payable		–7	–
Net Cash inflow on disposal		4	3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

c. Changes in non-controlling interests

In the first half of 2015, minority interests in two companies in the Middle East were sold. These transactions generated a cash flow of CHF 11 million, but had no impact on the consolidation. The Swatch Group continues to maintain control over both companies. Profit of CHF 12 million from the disposal was added to capital reserves.

In November 2015, the Swatch Group purchased an additional 1.2% of the shares of Belenos Clean Power Holding AG. The Swatch Group already had control over the company (see paragraph a). The transaction amounted to CHF 1 million. The difference between the purchase price and the proportional share of the equity of Belenos Clean Power Holding AG amounted to less than CHF 1 million and was deducted from capital reserves.

In December 2015, the remaining minority interest of 49% in the company ASICentrum spol.s.r.o. was acquired. The Swatch Group already had control over the company. The transaction will be paid in installments over the next two years in the form of treasury shares valued at CHF 2 million. The resulting difference of less than CHF 1 million to the proportional share of equity was deducted from capital reserves.

19. Other non-current assets

(CHF million)	Prepaid marketing and rental cost	Security deposits	Other financial assets	Total
Balance at 31 December 2014	95	95	11	201
Translation differences	-6	-2	0	-8
Acquisition of subsidiaries (Note 18)	-	-	-	-
Additions	94	11	1	106
Disposals	-1	-2	-	-3
Transfers to current assets	-79	-	-	-79
Balance at 31 December 2015	103	102	12	217

(CHF million)	Prepaid marketing and rental cost	Security deposits	Other financial assets	Total
Balance at 31 December 2013	74	71	11	156
Translation differences	2	5	0	7
Acquisition of subsidiaries (Note 18)	-	-	-	-
Additions	94	21	0	115
Disposals	-1	-2	-	-3
Transfers to current assets	-74	-	-	-74
Balance at 31 December 2014	95	95	11	201

Key money that the Group pays when renting stores in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain. The non-current portion of key money, together with the non-current prepaid marketing costs, is recognized under Other non-current assets. The current portion of both components is transferred to Prepayments and accrued income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Financial debts and derivative financial instruments

(CHF million)	31.12.2015	31.12.2014
Current account overdrafts	0	0
Short-term leasing commitments	1	1
Short-term bank debt	5	5
Derivative financial instruments	7	29
Total current financial debts and derivative financial instruments	13	35
Total non-current financial debts	34	38
Total financial debts	47	73

The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates. The contractual repricing dates at the balance sheet date are as follows:

(CHF million)	less than 1 year	1–5 years	over 5 years	Total
At 31 December 2015	13	17	17	47
At 31 December 2014	35	17	21	73

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

(CHF million)	31.12.2015	31.12.2014
CHF	8	29
JPY	35	39
Other currencies	4	5
Total	47	73

The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review. The long-term financial debts at the end of 2015 included a mortgage of JPY 3 750 million or CHF 31 million (previous year: JPY 4 250 million or CHF 35 million) at a fixed interest rate of 2.4% with a term until March 2021 (without a termination clause).

21. Other liabilities

(CHF million)	31.12.2015	31.12.2014
Advance payments received	30	36
Income tax liabilities	23	16
VAT due	15	11
Other payables	84	95
Total other payables	152	158

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Accrued expenses

(CHF million)	31.12.2015	31.12.2014
Accrued salaries and social security	165	177
Accrued sales, marketing and administration costs	156	162
Accrued income taxes	93	118
Accrued sales reductions	76	84
Other accrued expenses	191	158
Total accrued expenses	681	699
thereof current	604	661
thereof non-current	77	38

23. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 31 December 2013	87	6	26	119
Translation differences	3	0	0	3
Acquisition of subsidiaries (Note 18)	0	0	0	0
Divestments of businesses (Note 18)	0	0	0	0
Additional provisions	97	3	3	103
Reversal of provisions	-7	-2	-1	-10
Provisions used during the year	-76	-1	-8	-85
Balance at 31 December 2014	104	6	20	130
thereof current provisions	72	2	9	83
thereof non-current provisions	32	4	11	47
Translation differences	-2	0	-1	-3
Additional provisions	101	1	8	110
Reversal of provisions	-13	0	-1	-14
Provisions used during the year	-82	-1	-1	-84
Balance at 31 December 2015	108	6	25	139
thereof current provisions	75	1	10	86
thereof non-current provisions	33	5	15	53

a. Warranty

In the majority of cases, the Group offers a two-year warranty covering the repairs or replacement of products that do not perform to customers' satisfaction. The provision made at year-end to cover anticipated warranty costs is based on past experience with respect to the volume of repairs and returns.

b. Legal risks

Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of currently available information and recorded adequate provisions. However, there are inherent risks within legal claims depending on court and adversary party behavior and opinion that may cause a significant outflow of economic benefits.

c. Other

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Retirement benefit obligations

Employer contributions reserve / Shares held by pension institutions

The Group has an employer contribution reserve in the Swiss pension fund of the Swatch Group, which amounts to CHF 5 million (previous year: CHF 5 million). This reserve is capitalized in Other non-current assets. The employer contributions reserve remained unchanged in the year under review; there has been no formation or dissolution, nor has there been a waiver of usage.

Pension fund assets included 4 934 700 registered shares (2014: 5 384 595 shares) and 1 250 bearer shares (2014: 1 100 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses

2015

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact ¹⁾	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	325	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–11	–11
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–127	–4	1	1	–97	–96
Pension plans without own assets	–	–32	4	–4	0	–4
Total	198	–36	5	–3	–108	–111

¹⁾The amounts without an income statement impact refer to exchange rate differences and disbursements.

2014

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact ¹⁾	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	320	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–98	–98
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–11	–6	0	–1	–1	–2
Pension plans without own assets	–	–32	0	–4	–	–4
Total	309	–38	0	–5	–99	–104

Summary of pension benefit expenses

(CHF million)	2015			2014		
	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Contributions to pension plans charged to Group companies	–96	–12	–108	–86	–13	–99
Contributions to pension plans paid from employer contributions reserve	–	–	–	–	–	–
Total contributions	–96	–12	–108	–86	–13	–99
Change of employer contributions reserve from evolution of fortune, impairments, discounting, etc.	0	–	0	0	–	0
Contributions and change in employer contributions reserve	–96	–12	–108	–86	–13	–99
Increase / decrease of Group's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	–3	–3	–	–5	–5
Total changes of economic effects from surpluses / deficits	–	–3	–3	–	–5	–5
Pension benefit expenses within personnel expenses of the period	–96	–15	–111	–86	–18	–104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Commitments and contingencies

a. Guarantees and sureties

At 31 December 2015, guarantees to third parties as security for commitments of Group companies amounted to CHF 46 million (2014: CHF 8 million).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 102 million at 31 December 2015 (2014: CHF 95 million).

b. Leasing and other commitments

The Group's fixed operating leasing commitments that cannot be cancelled within 12 months and which are not recognized in the balance sheet are due as follows:

(CHF million)	31.12.2015	31.12.2014
Less than 1 year	463	385
Between 1 and 5 years	1 310	959
Over 5 years	1 120	510
Total	2 893	1 854

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 2015. Leasing costs amounting to CHF 613 million were recognized in the 2015 income statement, compared to CHF 511 million in the previous year.

Other commitments relating mainly to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2015, amounted to CHF 49 million (CHF 76 million in the previous year).

c. Contingent assets and liabilities

Some Group companies have contingent liabilities in respect of legal claims arising from the ordinary course of business and they may be liable to pay compensation. It is not expected that any material liabilities will arise from these contingent liabilities other than those provided for (see Note 23b).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Share capital and reserves

a. Share capital

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

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2013	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2014	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2015	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At year-end 2015, as well as 2014, there was no authorized or conditional capital. All issued shares are fully paid. No benefit or participation 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.

b. Capital reserves

Capital reserves include the result from the sale of treasury shares and transactions with non-controlling interests as well as effects of capital reductions in prior years. Capital reserves include non-distributable, statutory or legal reserves amounting to CHF 99 million (2014: CHF 82 million). These reserves come from the holding company The Swatch Group Ltd.

c. Treasury shares

Changes in shares of The Swatch Group Ltd held by the Group (treasury shares) are presented in the following table:

	Registered shares		Bearer shares		Total CHF million
	Quantity	Value CHF million	Quantity	Value CHF million	
Balance at 31 December 2013	4 126 296	136	505 000	132	268
Acquisitions ¹⁾	385 000	33	164 000	74	107
Disposals ²⁾	- 252 308	- 1	- 164 000	- 73	- 74
Balance at 31 December 2014	4 258 988	168	505 000	133	301
Acquisitions ¹⁾	77 000	6	65 000	22	28
Disposals ²⁾	- 237 671	-	-	-	-
Balance at 31 December 2015	4 098 317	174	570 000	155	329

¹⁾ In 2015, the Group acquired 77 000 registered shares (2014: 385 000) at an average price of CHF 79.68 (2014: CHF 86.28). The Group also acquired 65 000 bearer shares (2014: 164 000) at an average price of CHF 344.81 each (2014: CHF 448.63).

²⁾ In 2015, the disposals of registered shares relate only to the employee stock option plan (2014: 10 000 registered shares at an average price of CHF 87.95). Details of the share options granted in connection with the employee stock option plan are provided in Note 29. In 2015, no bearer shares were sold (2014: 164 000 at an average price of CHF 466.11).

Treasury shares are recognized in the consolidated financial statements at their historical cost. The value of these shares is charged against consolidated equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Acquired goodwill

a. Theoretical statement of changes in goodwill

Goodwill is recognized directly in equity at the time of purchase of a subsidiary or an investment in an associated company. The theoretical capitalization of goodwill, based on a useful life of 5 to 10 years, would have the following impact on equity and net income:

(CHF million)	2015			2014		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
Historical cost 1 January	1 389	48	1 437	1 386	48	1 434
Additions	–	–	–	3	–	3
Disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Historical cost 31 December	1 389	48	1 437	1 389	48	1 437
Theoretical accumulated amortization						
1 January	– 532	– 28	– 560	– 415	– 23	– 438
Theoretical annual amortization	– 116	– 5	– 121	– 117	– 5	– 122
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Theoretical accumulated amortization 31 December	– 648	– 33	– 681	– 532	– 28	– 560
Theoretical net book value 31 December	741	15	756	857	20	877

Acquisitions were translated into CHF with the exchange rate applicable on their respective transaction dates. As a result of this procedure, no currency adjustments were necessary in the statement of changes in goodwill.

Had goodwill been capitalized and amortized, the theoretical effect on equity and net income would have been as follows:

b. Theoretical impact on equity

(CHF million)	2015	2014
Equity, per balance sheet	11 242	10 674
Theoretical capitalization of net book value of goodwill	756	877
Theoretical equity including net book value of goodwill	11 998	11 551

c. Theoretical impact on net income

(CHF million)	2015	2014
Net income, per income statement	1 119	1 416
Theoretical amortization of goodwill	– 121	– 122
Theoretical net income after goodwill amortization	998	1 294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items

(CHF million)	Notes	2015	2014
Reversal of non-cash items			
Share of result from associates and joint ventures	(17)	0	- 3
Income taxes	(6a)	285	349
Depreciation on property, plant and equipment	(15)	364	324
Amortization on intangible assets	(16)	37	34
Impairment		3	-
Gains on sale of fixed assets		- 3	- 3
Losses on sale of fixed assets		7	3
Fair value gains on marketable securities		- 47	- 17
Fair value losses on marketable securities		16	25
Interest income	(5f)	- 7	- 7
Interest expense	(5f)	1	2
Expenses for equity-settled compensation plan	(29)	19	21
Changes in provisions		11	8
Changes in retirement benefit obligations		0	3
Total		686	739

b. Changes in working capital

(CHF million)	2015	2014
Changes in working capital and other items included in cash flow from operating activities		
Inventories	- 258	- 410
Trade receivables	72	- 2
Other receivables and accrued income	46	602
Trade payables	29	- 31
Other liabilities and accrued expenses	8	- 3
Other items included in cash flow from operating activities	33	- 64
Total	- 70	92

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 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Group equity increases from the time the options are granted over the corresponding period by the value of the employee services (net of tax). When the options are exercised, Group equity increases further by the corresponding exercise price.

At the end of 2015, this portfolio comprised 916 792 registered shares (1 154 463 at the end of 2014). In 2015, 237 671 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

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

	2015	2014
	Options	Options
Options outstanding at 1 January	240 808	242 915
Granted	234 758	240 805
Forfeited or lapsed	- 2 942	- 604
Exercised	- 237 671	- 242 308
Options outstanding at 31 December	234 953	240 808

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	31.12.2015	31.12.2014
2015		160 477
2016	156 640	80 331
2017	78 313	
Total	234 953	240 808

The fair value of the options granted during the period was determined by using the actual value at the grant date. The following table shows the assumptions on which the valuation of share options granted in 2015 and 2014 was based:

	2015		2014	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	9 June 2015	9 June 2015	8 July 2014	8 July 2014
Expiration date	9 June 2016	9 June 2017	8 July 2015	8 July 2016
Closing share price on grant date	CHF 72.60	CHF 72.60	CHF 95.40	CHF 95.40
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 68.60	CHF 68.60	CHF 91.40	CHF 91.40

The first portion was immediately exercisable was subject to the exercise conditions listed above .

The personnel expense recorded in the 2015 income statement amounted to CHF 19 million (2014: CHF 21 million).

30. Related party transactions

a. Principal shareholders

On 31 December 2015, the Hayek Pool and its related companies, institutions and individuals held 62 774 550 registered shares and 1 800 bearer shares, equivalent to 40.5% of the shares issued (previous year: 40.8%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.1% of the shares issued (previous year: 40.3%).

Mrs. Esther Grether's group controlled 5.9% of the shares issued (previous year: 5.9%).

In 2015, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 10.2 million to the Swatch Group (previous year: CHF 9.6 million). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2015	2014
Audit, feasibility studies and process optimization	1.1	2.0
Executive functions	0.9	0.7
Project management in the construction sector	6.1	4.9
Support for projects in the materials and surface treatment technology sector	0.3	0.3
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.3	0.4
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.5	1.3
Total	10.2	9.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Key management personnel

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

The total compensation of key management personnel, including pension contributions, other social benefits and share-based compensation, was as follows:

(CHF million)	2015	2014
Short-term employee benefits	27.0	27.7
– of which in salaries	8.9	9.0
– of which in bonus	17.5	18.1
– of which in expense allowances	0.5	0.5
– of which in other benefits	0.1	0.1
Share-based compensation	12.0	15.5
Contributions to pension plans	0.7	0.7
Other social benefits	3.5	3.9
Total	43.2	47.8

In the year under review, no termination benefits were paid to members of the Board of Directors, the Management Board or the Extended Management Board (previous year: none). The employment contracts of members of management bodies do not provide for this type of benefit. Also, no remuneration was paid to former members of management bodies for their previous functions.

c. Share ownership

At 31 December 2015, 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 56 709 693 registered shares and 790 bearer shares, representing 36.6% of the voting rights (previous year: 36.5%).

In addition, at 31 December 2015, all the non-executive members of the Board of Directors as well as the persons close to them held 100 registered shares and 2 010 bearer shares, representing 0.0% of the voting rights (previous year: 0.0%).

d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swatch Group Swiss 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 Swiss Pension Fund Foundation Board. These conditions are applied in the same manner to all employees.

In 2015 and 2014, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, at the end of both 2015 and 2014, no such loans were outstanding.

e. Associated companies and other related parties

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

(CHF million)	2015		2014	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	29	980	12	1 044
Other related parties	0	0	0	0

At the end of 2015, receivables from associates amounted to CHF 209 million (2014: CHF 254 million), and payables to associates were CHF 4 million (2014: less than CHF 1 million). In addition, at the end of 2015 the Group held guarantees from associated companies in the amount of CHF 267 million (2014: CHF 280 million). At the end of 2015, the Group had granted no loans to associated companies (2014: none).

In 2015, the Swatch Group sold the company Zhuhai SMH Electric Co. Ltd in China to a subsidiary of Hengdeli Holdings Limited (see Note 18). The value of net assets sold was CHF 11 million. The total sale price amounted to CHF 17 million, the balance of CHF 7 million will be paid in installments over the next two years. The profit from the disposal amounted to CHF 6 million and was recorded in the income statement as other operating income.

At the end of 2015 and 2014 there were no balances outstanding with other related parties.

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2015

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Europe					
Switzerland					
The Swatch Group AG, Neuchâtel	Holding	CHF 125.21			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
Asulab SA, La Tène	Research and development	CHF 0.10	100	●	▼
Belenos Clean Power Engineering SA, Bienne	Research and development	CHF 0.25	40	●	▲
Belenos Clean Power Holding SA, Bienne	Holding	CHF 63.00	51	●	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	▲
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	▲
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	▲
Certina AG, Le Locle	Watches	CHF 3.50	100	●	▲
Cité du Temps SA, Genève	Communication	CHF 6.00	100	●	▼
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	▲
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	▲
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Torricella-Taverne	Distribution	CHF 3.00	100	●	▲
Dress your body SA, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100	●	▲
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100	●	▶
Evaco SA, Möhlin	Watches	CHF 0.50	58	●	▲
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
François Golay SA, Le Chenit	Watch components	CHF 0.10	100	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	▲
Harry Winston SA, Plan-les Ouates	Watches	CHF 0.40	100	●	▲
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Manufacture Ruedin SA, Haute-Sorne	Watch cases	CHF 2.40	100	●	▲
Mecco SA, Grenchen	Watch crowns	CHF 4.50	100	●	▲
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	▶
Mido AG, Le Locle	Watches	CHF 1.20	100	●	▲
MOM le Prélet SA, Val-de-Ruz	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	●	▲
Novi SA, Les Genevez	Assembly	CHF 0.14	100	●	▲
Omega Electronics AG, Bienne	Administration	CHF 1.50	100	●	▼
Omega SA, Bienne	Watches	CHF 50.00	100	●	▲
PHM Holding SA, Courtételle	Holding	CHF 0.10	100	●	▲
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	▲
Record Watch Co. SA, St-Imier	Administration	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	▶
René Clémence SA, La Chaux-de-Fonds	Watch-glasses	CHF 0.06	100	●	▲
Rubattel et Weyerhann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
Simon et Membrez SA, Delémont	Watch cases	CHF 0.10	100	●	▲
S.I. Les Corbes SA, Val-de-Ruz	Real estate	CHF 0.10	34	○	▼
SSIH Management Services AG, Bienne	Services	CHF 0.05	100	●	▼
Swatch AG, Bienne	Watches	CHF 2.00	100	●	▲
Swatch Retail AG, Bienne	Retail	CHF 2.00	100	●	▲
Swiss Timing AG, Corgémont	Sports timing technology & equipment	CHF 2.00	100	●	▶
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
Termiboîtes SA, Basse-Allaine	Watch case polishing	CHF 0.10	60	●	▲
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100	●	▲
The Swatch Group Europa AG, Bienne	Distribution	CHF 29.65	100	●	▲
The Swatch Group Far East Distribution Ltd, Bienne	Distribution	CHF 0.10	100	●	▲
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80	●	▲
The Swatch Group Lab AG, Zürich	Services	CHF 0.60	100	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	▲
The Swatch Group Management Services SA, Bienne	Services	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	100	●	▼
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	▲
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	▲
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2015

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Germany					
Fördergesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR 0.03	100	●	◀
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	◀
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	▶
Swiss Prestige Uhren Handel GmbH, Eschborn	Retail	EUR 0.08	100	●	◀
The Swatch Group Customer Service (Europe) GmbH, Pforzheim	Customer service	EUR 0.50	100	●	◀
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution	EUR 1.28	100	●	◀
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn	Retail	EUR 0.20	100	●	◀
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR 0.10	100	●	◀
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR 0.04	100	●	◀
Belgium					
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR 1.75	100	●	◀
Retail Services Belgium SA, Bruxelles	Services	EUR 2.09	100	●	◀
Spain					
The Swatch Group (España) SA, Alcobendas	Distribution	EUR 0.45	100	●	◀
France					
Breguet SAS, Paris	Administration	EUR 0.04	100	●	◀
Fabrique de Fournitures de Bonnétage SAS, Villers-le-Lac	Precision parts	EUR 4.56	100	●	◀
Frésard Composants SAS, Charquemont	Precision parts	EUR 1.80	100	●	◀
Centre Européen de Service Horloger SAS, Besançon	Customer service	EUR 0.70	100	●	◀
Harry Winston S.A.R.L., Paris	Retail	EUR 2.99	100	●	◀
Hour Passion SAS, Paris	Retail	EUR 10.00	100	●	◀
The Swatch Group (France) SAS, Paris	Distribution	EUR 15.00	100	●	◀
The Swatch Group (France) Les Boutiques SAS, Paris	Retail	EUR 70.13	100	●	◀
Great Britain					
Harry Winston (UK) Ltd, London	Retail	GBP 0.00	100	●	◀
The Swatch Group (UK) Ltd, London	Distribution	GBP 2.00	100	●	◀
The Swatch Group (UK) Les Boutiques Ltd, London	Retail	GBP 1.30	100	●	◀
Greece					
Alkioni SA, Athens	Retail	EUR 0.10	100	●	◀
The Swatch Group (Greece) SA, Athens	Distribution	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., Milano	Distribution	EUR 23.00	100	●	◀
Luxembourg					
The Swatch Group SICAF-SIF, Alzingen	Finance company	CHF 463.41	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.80	100	●	▼
Netherlands					
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR 3.45	100	●	◀
Poland					
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN 10.00	100	●	◀
Russia					
Swiss Watch Le Prestige OOO Russia, Moscow	Distribution	RUB 0.20	100	●	◀
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB 8 544.12	100	●	◀
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK 0.50	100	●	◀
Czech Republic					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK 0.30	100	●	▶
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK 0.10	80	●	▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK 9.00	100	●	◀
Turkey					
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY 76.00	100	●	◀

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2015

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Asia					
Bahrain					
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58	●	◀
Greater China					
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50	○	◀
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY 78.96	100	●	◀
Harry Winston (Hong Kong) Limited, Hong Kong	Retail	HKD 0.01	100	●	◀
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9	○	◀
Lanco Watches Ltd, Hong Kong	Administration	USD 0.07	100	●	◀
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	◀
Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai	Retail	CNY 30.00	50	●	◀
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	◀
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	◀
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 48.37	100	●	◀
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Art center	CNY 148.41	90	●	◀
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 99.69	100	●	◀
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution	CNY 7.12	90	●	◀
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Services	CNY 10.45	100	●	◀
The Swatch Group (China) Ltd, Shanghai	Distribution	CNY 14.88	100	●	◀
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution	HKD 5.00	100	●	◀
The Swatch Group (Taiwan) Ltd in liquidation, Taipei	Distribution	TWD 28.00	100	●	◀
Oman					
Rivoli & Co. L.L.C., Muscat	Retail	OMR 0.30	58	●	◀
Qatar					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29	●	◀
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 6 300.00	100	●	◀
Saudi Arabia					
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33	○	◀
United Arab Emirates					
Al Khaleej Watches L.L.C., Abu Dhabi	Retail	AED 0.15	58	●	◀
Blue Sky Trading Company L.L.C., Abu Dhabi	Retail	AED 0.30	58	●	◀
Excel Enterprises L.L.C., Dubai	Retail	AED 1.70	58	●	◀
Golden Watch Company L.L.C., Abu Dhabi	Retail	AED 0.50	58	●	◀
Hour Choice L.L.C., Dubai	Retail	AED 3.00	58	●	◀
New Horizons General Trading L.L.C., Dubai	Retail	AED 0.30	29	○	◀
Rivoli Arcade L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Rivoli Enterprises L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Rivoli Group L.L.C., Dubai	Retail	AED 24.02	58	●	◀
Rivoli Investments L.L.C., Dubai	Holding	AED 0.30	58	●	◀
Al Habib Watches L.L.C., Dubai	Administration	AED 0.30	58	●	◀
Rivoli Textiles L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	49	●	◀
Vision 2000 L.L.C., Dubai	Retail	AED 1.00	58	●	◀
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 4 680.00	100	●	◀
Swatch Group (India) Retail Private Ltd, New Delhi	Retail	INR 0.10	100	●	◀
Indonesia					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 64 231.77	100	●	◀
Japan					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 3 700.00	100	●	◀
Malaysia					
Micromechanics (M) Sdn Bhd, Ipoh	Assembly electronic 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	MYR 1.00	100	●	◀
Singapore					
Harry Winston N.A. Pte Ltd, Singapore	Retail	SGD 0.00	100	●	◀
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution	SGD 4.00	100	●	◀
The Swatch Group S.E.A. Retail Pte Ltd, Singapore	Retail	SGD 0.50	100	●	◀
Thailand					
ETA (Thailand) Co. Ltd, Samut Prakan	Assembly electronic components	THB 504.50	100	●	◀
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 400.00	100	●	◀

Legend: ● Fully consolidated ○ Equity method ◀ Watches & Jewelry ▶ Electronic Systems ▼ Corporate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2015

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
America					
Brazil					
SGA Administração de Imóveis SA, Manaus	Administration	BRL 4.92	100	●	◀
SGB Importação e Varejo de Artigos de Luxo Ltda., São Paulo	Retail	BRL 67.30	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	100	●	◀
SMH do Brasil Administração de Bens Ltda, São Paulo	Administration	BRL 27.60	100	●	▼
Canada					
H.W. Protection Inc., Toronto	Services	CAD 1.94	100	●	◀
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD 4.50	100	●	◀
United States					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	▶
Harry Winston, Inc., New York	High jewelry	USD 0.60	100	●	◀
HiPoint Technology Inc., Colorado Springs	Microelectronics	USD 0.17	25	○	▶
HW Holdings Inc., Wilmington, Delaware	Holding	USD 0.00	100	●	◀
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 168.90	100	●	◀
Mexico					
Operadora y Comercializadora de Relojes y Joyería SA de CV, Mexico	Services	MXN 1.50	100	●	◀
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 43.65	100	●	◀
Panama					
The Swatch Group Panama SA, Panama City	Administration	USD 0.01	100	●	◀
Oceania					
Australia					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	◀
Africa					
South Africa					
The Swatch Group (South Africa) (Proprietary) Ltd, Edenvale	Distribution	ZAR 0.00	100	●	◀

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 167 to 208), for the year ended 31 December 2015.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 19 February 2016

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INCOME STATEMENT OF THE HOLDING

	Notes	2015 CHF million	2014 CHF million
Income from investments in subsidiaries	(1)	1 121	1 135
Other income	(2)	6	5
Personnel expense		- 50	- 55
Other expenses		- 17	- 15
Depreciation and impairment	(3)	- 21	- 7
Financial expenses	(4)	- 41	- 21
Other financial income	(5)	35	33
Ordinary result		1 033	1 075
Non-operating result	(6)	0	0
Extraordinary result	(6)	0	0
Profit before income taxes		1 033	1 075
Income taxes		- 5	- 1
Net income		1 028	1 074

BALANCE SHEET OF THE HOLDING

Assets	Notes	31.12.2015		31.12.2014	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		194	2.9	193	3.2
Assets with an observable market price	(7, 10)	194	2.9	96	1.6
Other current receivables					
– from Group companies	(8)	2 722	40.6	2 220	36.2
– from third parties		47	0.7	53	0.9
Prepayments and accrued income		2	0.0	2	0.0
Total current assets		3 159	47.1	2 564	41.9
Non-current assets					
Loans to Group companies	(8)	422	6.3	440	7.2
Investments in subsidiaries and associates	(9)	3 116	46.5	3 113	50.8
Property, plant and equipment		9	0.1	9	0.1
Intangible assets		1	0.0	1	0.0
Total non-current assets		3 548	52.9	3 563	58.1
Total assets		6 707	100.0	6 127	100.0

BALANCE SHEET OF THE HOLDING

Equity and liabilities	Notes	31.12.2015		31.12.2014	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(10)	13	0.2	32	0.5
Other current liabilities					
– to Group companies		41	0.6	51	0.8
– to third parties		3	0.1	6	0.1
Accrued expenses		19	0.3	20	0.3
Non-current liabilities					
Non-current provisions		90	1.3	90	1.5
Total liabilities		166	2.5	199	3.2
Equity					
Share capital		125	1.9	125	2.0
Statutory capital reserve		99	1.5	82	1.4
Statutory reserve		10	0.1	10	0.2
Reserve for treasury shares		2	0.0	–	–
Voluntary reserve		5 572	83.1	4 860	79.3
– Profit brought forward		32		35	
– Net income for the year		1 028		1 074	
Available earnings		1 060	15.8	1 109	18.1
Treasury shares		– 327	– 4.9	– 258	– 4.2
Total equity	(11)	6 541	97.5	5 928	96.8
Total equity and liabilities		6 707	100.0	6 127	100.0

NOTES TO THE FINANCIAL STATEMENTS

General

The financial statements of The Swatch Group Ltd, with registered office in Neuchâtel comply with the requirements of the Swiss Code of Obligations (OR). The 2015 financial statements were prepared in accordance with Swiss Accounting Legislation (thirty-second title of the Swiss Code of Obligations).

Valuation principles

a. Assets

Assets are valued at no more than their acquisition cost. Exceptions are current assets with an observable market price, which are valued at the stock price or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built.

b. Investments

Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity are not usually combined as a group for valuation.

c. Treasury shares

Treasury shares reserved for the stock option plan, as well as repurchased treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves.

d. Liabilities

Liabilities are valued at nominal value.

e. Foreign currency translation

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)	2015	2014
Dividends	1 055	1 071
Other income from investments in subsidiaries	66	64
Total	1 121	1 135

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

2. Other income

In 2015, other income was CHF 6 million (previous year: CHF 5 million).

3. Depreciation and impairment

Depreciation and impairment was CHF 21 million (previous year: CHF 7 million).

4. Financial expenses

In both 2015 and 2014, interest expense was less than CHF 1 million. The valuation of foreign currency hedging contracts taken out in favor of various Group companies resulted in a loss of CHF 33 million (2014: loss of CHF 17 million). The loss recorded on the marketable securities portfolio, including other financial expenses, amounted to CHF 7 million (2014: loss of CHF 4 million).

5. Other financial income

(CHF million)	2015	2014
Interest income	22	21
Income and gains on securities	13	12
Total	35	33

6. Non-operating / extraordinary result

Both the non-operating and extraordinary results were less than CHF 1 million in the year under review (previous year: both less than CHF 1 million).

NOTES TO THE FINANCIAL STATEMENTS

7. Assets with an observable market price	(CHF million)	31.12.2015	31.12.2014
Marketable securities		158	86
Precious metals		23	8
Derivative financial instruments (see Note 10)		13	2
Total		194	96

The item "Precious metals" consists mainly of a strategic long position in gold.

8. Receivables and loans These positions mainly include deposits of surplus cash with the Group-internal finance company in Luxembourg as well as financing of subsidiaries.

9. Investments in subsidiaries and associates The list of 167 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 46.5% of total assets at 31 December 2015 versus 50.8% at end-2014. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 116 million at end-2015. This amount corresponds to consolidated investments and investments in associates, and is CHF 3 million higher than in 2014.

10. Derivative financial instruments The following table shows the contract and replacement values of derivative financial instruments at 31 December 2015.

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	1 693	412	2 105	12	1	13	-7	-6	-13
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2015	1 693	412	2 105	12	1	13	-7	-6	-13
Total at 31.12.2014	1 424	415	1 839	0	2	2	-28	-4	-32

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2015 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2015 relate to 33 positions held in precious metals and in foreign currencies (previous year: 32). Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions. At 31 December 2015, there was no option contract outstanding (none in the previous year).

11. Equity Compared with end-2014, equity increased by CHF 613 million to CHF 6 541 million in 2015. In percentage of total assets the equity ratio increased to 97.5% at 31 December 2015 (versus 96.8% in the previous year).

The table below shows the changes in equity:

	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
(CHF million)								
Balance at 31.12.2014	125	82	10	-	4 860	1 109	- 258	5 928
Allocated in 2015					670	- 670		-
Dividend paid out						- 407		- 407
Change in treasury shares		17			44		- 69	- 8
Creation/dissolution				2	- 2			-
Net income for the year						1 028		1 028
Balance at 31.12.2015	125	99	10	2	5 572	1 060	- 327	6 541

Share capital

At 31 December 2015, share capital consisted of 124 045 000 registered shares each with a nominal value of CHF 0.45, and of 30 840 000 bearer shares each with a nominal value of CHF 2.25 (unchanged from the previous year).

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2014	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2015	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

NOTES TO THE FINANCIAL STATEMENTS

Principal shareholders at 31 December 2015

At 31 December 2015, the Hayek Pool, its related companies, institutions and individuals held 62 774 550 registered shares and 1 800 bearer shares, equivalent to 40.5% of the shares issued at this date (previous year: 40.8%). The Hayek Pool comprises the following members:

Name/Company	Location	Beneficial owners
Community of heirs of N.G. Hayek represented by Marianne Hayek	Meisterschwanden	Community of heirs of N. G. Hayek
WAT Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Ammann Group Holding AG	c/o Ernst & Young AG, Bern	Descendants U. Ammann-Schellenberg sen.
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	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of 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 Daniela Aeschlimann
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	–
Various welfare foundations	various	–

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.1% of the shares issued at end-2015 (previous year: 40.3%).

Mrs. Esther Grether's group controlled 5.9% of the shares issued (previous year: 5.9%).

At 31 December 2015, the Swatch Group had no knowledge of any other group or individual shareholder having an interest of more than 5% of the total share capital.

Statutory capital reserve

Gains and losses from the sale of treasury shares, including transaction costs, are recorded directly in the statutory capital reserve. In addition, the statutory capital reserve includes the historical proceeds from the issuance of participation certificates in excess of nominal value and issuance costs (premium).

Voluntary reserve

In the year under review, a historical value adjustment on treasury shares amounting to CHF 44 million was dissolved. The amount was allocated to the voluntary reserve. An amount of CHF 670 million was appropriated from available earnings at 31 December 2014 and allocated to the voluntary reserve.

Reserve for treasury shares

At 31 December 2015, there was a reserve for treasury shares amounting to CHF 2 million for shares held indirectly through Group subsidiaries (previous year: none). The reserve for treasury shares was removed from voluntary reserves.

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 28 May 2015, a dividend of CHF 1.50 per registered share and of CHF 7.50 per bearer share was appropriated from available earnings as at 31 December 2014. The total dividend amount paid to shareholders in 2015 came to CHF 186 million on the registered shares and CHF 231 million on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 10 million, thus remains as an integral part of equity at 31 December 2015. Finally, CHF 670 million was appropriated from available earnings at 31 December 2014 and allocated to the voluntary reserve.

NOTES TO THE FINANCIAL STATEMENTS

Treasury shares

Treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2015 corresponded to 2.5% (versus 2.4% at end-2014) of the nominal value of total share capital. In addition to repurchased treasury shares, this position also includes registered treasury shares intended for the employee stock option plan.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed in 2015 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity ¹⁾	Quantity
The Swatch Group Ltd		
Balance at 31.12.2014	4 258 988	505 000
Acquisitions in 2015 ²⁾	77 000	65 000
Disposals in 2015 ³⁾	- 270 563	-
Balance at 31.12.2015	4 065 425	570 000
Other consolidated companies		
Balance at 31.12.2014	-	-
Acquisitions in 2015	32 892	-
Disposals in 2015	-	-
Balance at 31.12.2015	32 892	-
Total balance at 31.12.2015	4 098 317	570 000

¹⁾ of which at 31 December 2015 a total of 916 792 registered shares were reserved for the management stock option plan (1 154 463 registered shares in 2014).

²⁾ In 2015, The Swatch Group Ltd acquired 77 000 registered shares at an average price of CHF 79.68. The Group also acquired 65 000 bearer shares at an average price of CHF 344.81.

³⁾ In 2015, The Swatch Group Ltd sold 32 892 registered shares at an average price of CHF 65.30 to an other consolidated company. The remaining disposals of registered shares relate to the employee stock option plan. Details of the share options granted in connection with the employee stock option plan are provided in Note 29. In 2015, no bearer shares have been sold.

Off-balance-sheet items

Number of full-time equivalents

In 2015, the annual average number of full-time equivalents was 147 (2014: 153).

Leasing liabilities

The balance of liabilities arising from buy or purchase-like contracts and other leasing commitments which do not expire or cannot be cancelled within 12 months amounted to less than CHF 1 million at 31 December 2015 (previous year: less than CHF 1 million).

Liabilities to pension plans

The balance sheet as at end-2015 contained no liabilities to pension plans (previous year: none).

Assets pledged

None of the company's assets are pledged.

Guarantees

At end-2015, guarantees provided by The Swatch Group Ltd amounted to less than CHF 1 million (previous year: less than CHF 1 million). This item relates to a guarantee to cover a lease commitment taken out by one of the Group's companies (unchanged to 2014).

Contingent liabilities

There were no contingent liabilities at the end of 2015 (previous year: none).

NOTES TO THE FINANCIAL STATEMENTS

Swatch Group shares and options of the Board of Directors, Group Management and employees

Article 959c paragraph 2 item 11 of the Swiss Code of Obligations require disclosure of the number and value of shares and options granted to members of the Board of Directors and Group Management as well as to employees. This information is disclosed in Note 29 of the consolidated financial statements.

In addition, Article 663c paragraph 3 of the Swiss Code of Obligations require disclosure of shares and options held by members of the Board of Directors and Group Management, including closely related persons. The table below shows the corresponding holdings at 31 December 2015 and 2014:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2015	2014	2015	2014	2015	2014
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	108 208	88 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member	100					
Dr. Jean-Pierre Roth	BoD Member			10	10		
Georges Nicolas Hayek	BoD Member / CEO	100 991	77 991			24 000	24 000
Pierre-André Bühler	MB Member	18 716	17 366			8 002	8 002
Dr. Mougahed Darwish	MB Member	73 668	71 068			2 602	2 602
Marc A. Hayek	MB Member	105 898	93 398			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	46 252	38 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	56 668	50 668			12 000	12 000
Dr. Hanspeter Rentsch	MB Member / CLO	116 522	97 522	200	200	19 001	19 001
François Thiébaud	MB Member	103 623	93 123			12 502	12 502
Raynald Aeschlimann	EMB Member	11 867	9 867			4 001	4 001
Matthias Breschan	EMB Member	2 534	3 034			3 000	3 000
Jean-Claude Eggen	EMB Member	3 816	3 616			2 501	2 501
Yann Gamard	EMB Member					5 501	5 501
Hans-Rudolf Gottier	EMB Member	28 698	26 048			5 002	5 002
Walter von Känel	EMB Member	48 879	42 879	40	40	6 000	6 000
Thomas Meier	EMB Member	3 600	2 400			1 200	1 200
Calogero Polizzi	EMB Member	6 536	5 536			2 002	2 002
Kevin Rollenhagen	EMB Member	48 148	40 148			8 002	8 002
Dr. Peter Steiger	EMB Member	75 925	67 257			9 000	8 668
Stephen Urquhart	EMB Member	45 000	38 500			6 502	6 502
Total		56 709 793	56 571 025	2 800	2 800	171 324	170 992

Each option gives the right to draw one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 30 of the consolidated financial statements. Except for the community of heirs of N. G. Hayek, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2015, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2014: community of heirs of N. G. Hayek).

Management compensation details can be found in the separate compensation report.

Additional information, cash flow statement and management report

According to Article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the statement of cash flows and the management report are dispensed with, as The Swatch Group Ltd prepares the consolidated financial statements in accordance with a recognized financial reporting standard.

Events after the balance sheet date

These financial statements were approved for issue by the Board of Directors on 19 February 2016 and will be submitted to the Annual General Meeting of Shareholders for approval on 11 May 2016.

There were no other significant events after the balance sheet date.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

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

	2015	2014
	CHF million	CHF million
Net income for the year	1 028	1 074
Profit brought forward from previous year	32	35
Available earnings	1 060	1 109
Allocation to special reserve	- 620	- 670
Payment of a 2014 dividend, i.e.:		
– CHF 1.50 per registered share with a par value of CHF 0.45		– 186
– CHF 7.50 per bearer share with a par value of CHF 2.25		– 231
Payment of a 2015 dividend, i.e.: ¹⁾		
– CHF 1.50 per registered share with a par value of CHF 0.45	- 186	
– CHF 7.50 per bearer share with a par value of CHF 2.25	- 231	
Dividends not paid out on own shares held by the Group ²⁾		10
Balance carried forward	23	32

¹⁾ It is planned not to pay dividends on own shares held by the Group.

²⁾ Based on the decision of the Annual General Meeting of 28 May 2015, the dividend due on own shares held by the Group was not paid out.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of The Swatch Group Ltd, which comprise the income statement, balance sheet and notes (pages 211 to 218), for the year ended 31 December 2015.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 19 February 2016

THE SWATCH GROUP LTD SECURITIES

	Swiss GAAP FER				IFRS	
Average number of shares outstanding/ Average share capital	2015	2014	2013	2012	2011	
	basic	basic	basic	basic	basic	
Number of registered shares of CHF 0.45	119 847 161	119 894 096	119 514 584	118 195 194	118 399 729	
Number of bearer shares of CHF 2.25	30 308 846	30 320 769	30 335 000	30 335 000	30 335 000	
Total average number of shares outstanding	150 156 007	150 214 865	149 849 584	148 530 194	148 734 729	
Share capital registered shares of CHF 0.45	53 931 222	53 952 343	53 781 563	53 187 838	53 279 878	
Share capital bearer shares of CHF 2.25	68 194 904	68 221 730	68 253 750	68 253 750	68 253 750	
Total average share capital	122 126 126	122 174 073	122 035 313	121 441 588	121 533 628	
Key data per registered share (nom. CHF 0.45) in CHF						
Consolidated net income attributable to shareholders	4.01	5.10	7.08	5.91	4.70	
Cash flow from operating activities	5.17	6.81	4.83	3.70	2.61	
Consolidated equity	41.42	39.32	35.30	31.77	29.82	
Dividend	1.50 ¹⁾	1.50	1.50	1.35	1.15	
Key data per bearer share (nom. CHF 2.25) in CHF						
Consolidated net income attributable to shareholders	20.07	25.49	35.41	29.57	23.50	
Cash flow from operating activities	25.87	34.03	24.13	18.51	13.05	
Consolidated equity	207.12	196.58	176.52	158.84	149.11	
Dividend	7.50 ¹⁾	7.50	7.50	6.75	5.75	
Stock price of registered shares (adjusted)						
High	88.90	108.00	104.40	80.40	79.50	
Low	61.25	75.35	80.20	59.90	51.60	
31.12.	68.00	86.00	100.40	78.75	62.60	
Stock price of bearer shares (adjusted)						
High	462.50	597.00	606.50	471.70	443.70	
Low	324.10	417.10	473.00	341.70	288.50	
31.12.	350.20	444.20	589.50	461.20	351.50	
Market capitalization (CHF million)	31.12.	19 235	24 367	30 634	23 992	18 605
Key ratios (year-end)						
Average return on equity	%	10.2	14.0	21.2	19.7	16.8
Dividend yield registered shares	%	2.2	1.7	1.5	1.7	1.8
Dividend yield bearer shares	%	2.1	1.7	1.3	1.5	1.6
Price/earnings ratio – registered shares		17.0	16.9	14.2	13.3	13.3
Price/earnings ratio – bearer shares		17.4	17.4	16.7	15.6	15.0

1) Board of Directors' proposal.

As of 2013, the consolidated financial statements have been prepared in accordance with Swiss GAAP FER. For comparison purposes, 2012 has been restated.

Securities

	ISIN no.	Reuters Symbol
The Swatch Group Ltd registered shares	CH0012255144	UHRN.S
The Swatch Group Ltd bearer shares	CH0012255151	UHR.VX

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

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2015)



EP 1 579 781 B1

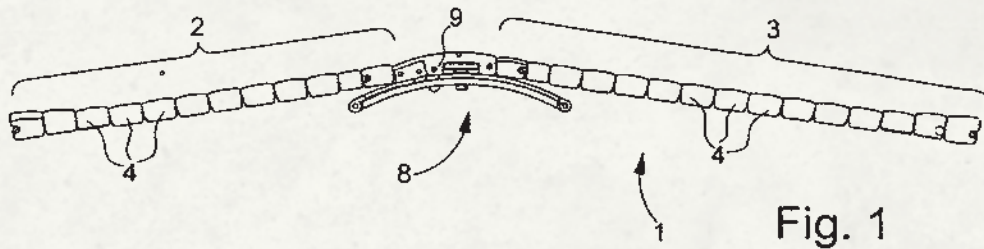


Fig. 1

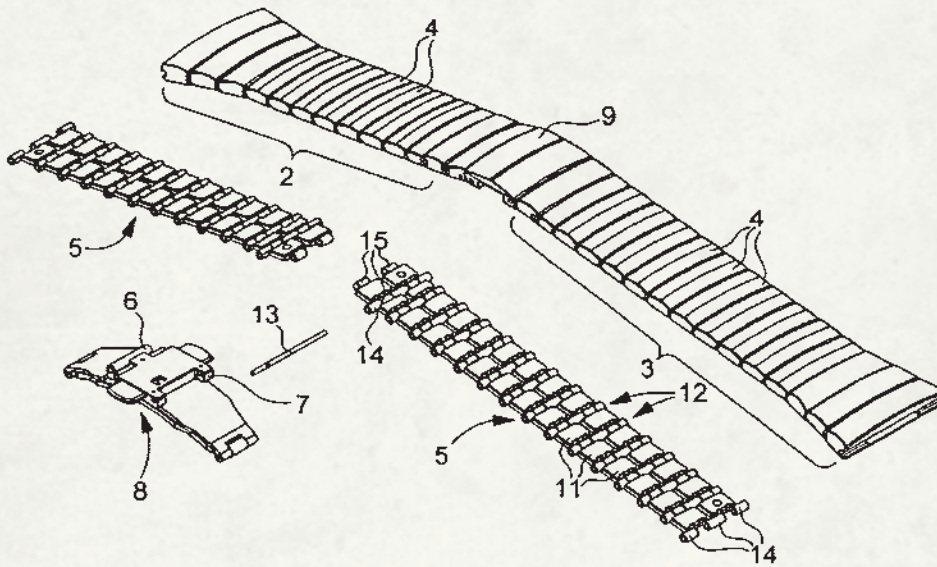


Fig. 2

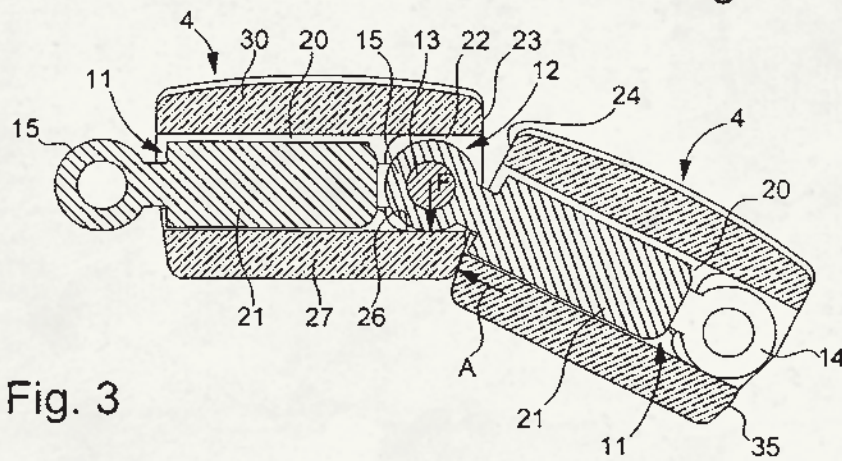


Fig. 3