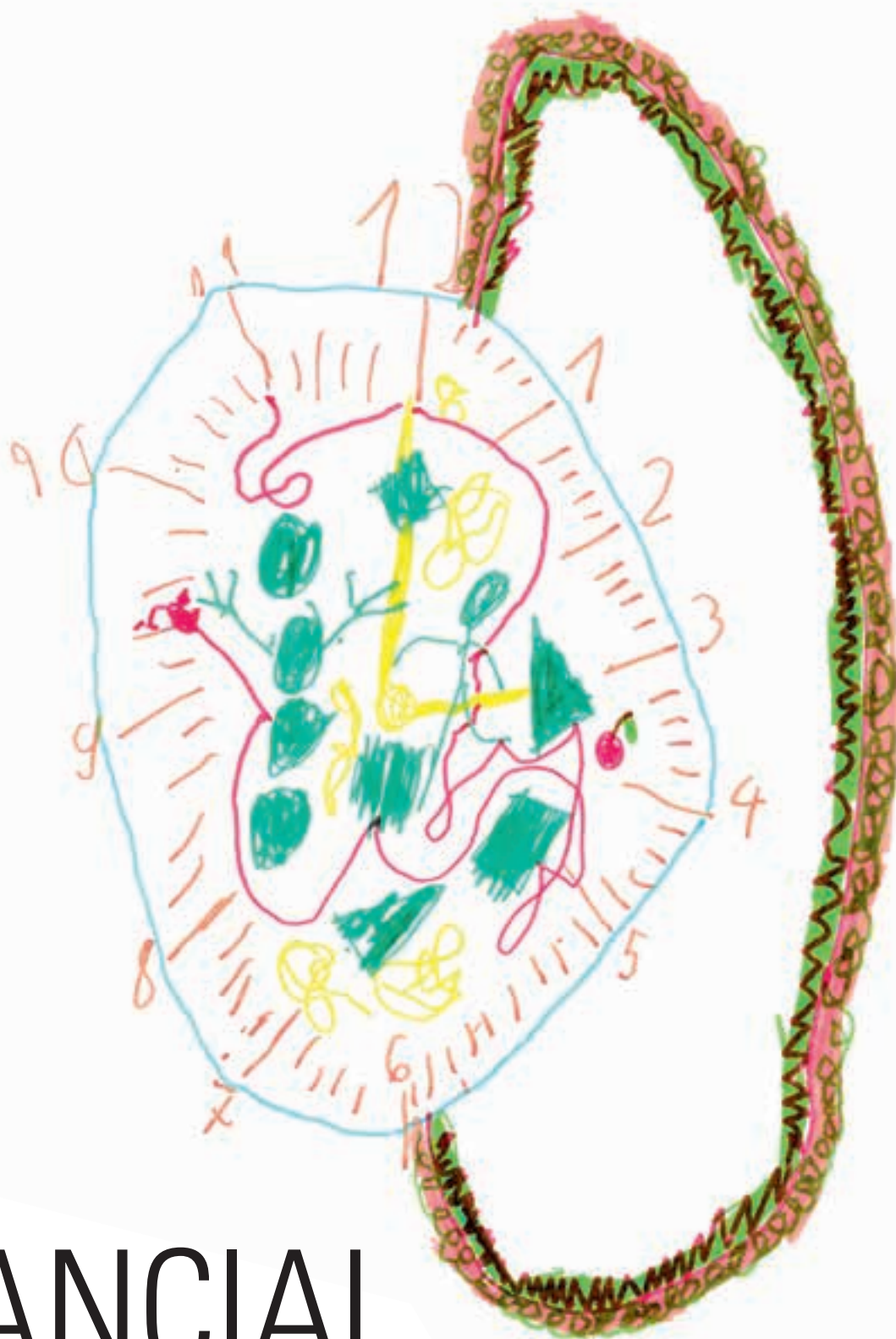


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FINANCIAL STATEMENTS 2016

**CONSOLIDATED FINANCIAL STATEMENTS
FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD**

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> FINANCIAL REVIEW

Key financial developments in 2016

– Net sales:	Net sales of CHF 7 553 million for the Group, at current exchange rates, a decrease of 10.6%, or CHF 7 534 million, a minus of 10.8% at constant exchange rates.
– Operating result:	Operating result of CHF 805 million, equivalent to an operating margin of 10.7% (minus 44.5% compared to previous year).
– Net income:	Net income of CHF 593 million, equivalent to a net margin of 7.9% (minus 47.0% compared to the previous year).
– Equity:	Equity practically unchanged at CHF 11.1 billion, due to the share buyback of CHF 332 million, equivalent to an equity ratio of 84.5% (previous year: 84.7%).
– Dividend:	Dividend proposal: CHF 6.75 per bearer share and CHF 1.35 per registered share (previous year: CHF 7.50 per bearer share, CHF 1.50 per registered share).

Financial review

1. Key figures Group

(CHF million)	2016	2015	Change in %		Total
			at constant rates	currency effect	
Net sales	7 553	8 451	– 10.8%	+ 0.2%	– 10.6%
Operating result	805	1 451			– 44.5%
– in % of net sales	10.7%	17.2%			
Net income	593	1 119			– 47.0%
– in % of net sales	7.9%	13.2%			
Equity	11 073	11 242			– 1.5%
– as a % of balance sheet total	84.5%	84.7%			

> FINANCIAL REVIEW

2. Environment /
Financial year

Development net sales and operating result

(CHF million)	2016			2015		
	Third	Group	Total	Third	Group	Total
Net sales						
Watches & Jewelry	7 304	1	7 305	8 175	2	8 177
Electronic Systems	244	16	260	270	22	292
Corporate	5	6	11	6	6	12
Elimination		-23	-23		-30	-30
Total	7 553	-	7 553	8 451	-	8 451

(CHF million)	2016		2015	
	Total	in % of net sales	Total	in % of net sales
Operating result				
Watches & Jewelry	894	12.2%	1 539	18.8%
Electronic Systems	10	3.8%	9	3.1%
Corporate	-99		-97	
Total	805	10.7%	1 451	17.2%

In 2016, Swatch Group generated net sales of CHF 7 553 million at current exchange rates, equivalent to a decrease of 10.6%. At constant exchange the net sales amounted to CHF 7 534 million which represents a decrease of 10.8%. Calculated at 2010 exchange rates, the Swatch Group lost cumulatively CHF 5 billion in revenues from 2011 up to and including 2016. The past financial year was marked by worldwide turbulence in a very challenging economic environment. The decline in consumption, already evident since the end of 2015, intensified particularly in the first half of 2016. As in the previous year, the tragic terrorist attacks in France, Belgium, Germany and Turkey, as well as new legal regulations in various countries, led to rapid regional shifts. The slightly positive currency trend for the US Dollar, Japanese Yen and Euro was almost completely neutralized by the weakening of the British Pound as a result of the Brexit decision on 24 June and the devalued Chinese Renminbi. The Swiss Franc remains strongly overvalued, reason why the long-term strategy of favoring a defensive price adjustment policy over short-term profit thinking is maintained.

In the Watches & Jewelry segment, including Production, net sales decreased 10.7% compared to the previous year at current exchange rates to CHF 7 305 million. The currency impact of 0.2% was slightly positive. The segment achieved an operating margin of 12.2% (previous year: 18.8%). Compared to the first half year, operating margin improved by 2 percentage points in the second half.

While the sales development in part of Europe was declining due to the important decrease of the number of tourists, mainly from China, the situation in Hong Kong normalized in recent months, not only in Retail but also in Wholesale. In Mainland China, as well as in the Middle East, the very positive demand in recent months lead to a double-digit growth. Business in North America was slightly below the previous year, while sales in Middle America performed positively. The sales share for the Group's own retail rose to approximately 30%, with over 100 additional points of sale in the best locations.

Production integrated into the Watches & Jewelry segment recorded significantly lower capacity utilization than in the previous year. Unchanged fixed costs for unused production capacities resulted in a temporary decline in the operating result for this area. Thanks to the maintaining of production capacities, as well as a highly motivated workforce, we can immediately respond to the expected increased demand, which will also lead to an improved situation in this area in 2017.

The Electronic Systems segment generated net sales of CHF 260 million in 2016, 11.0% lower than the previous year, due to continuing price pressure on products. Despite this, the operating result could be increased to CHF 10 million (previous year: CHF 9 million).

Low capacity utilization in Production with a practically unchanged workforce, as well as shifts in the country mix, impacted the operating result in 2016. Marketing investments were held at the same level, also due to the presence of Omega as official timekeeper at the Olympic Games in Rio de Janeiro.

The operating result amounted to CHF 805 million (minus 44.5% compared to the previous year), equivalent to an operating margin of 10.7%.

> FINANCIAL REVIEW

Development net income

(CHF million)	2016	2015
Operating result	805	1 451
Net financial result	- 32	- 47
Ordinary result	773	1 404
Non-operating result	4	0
Profit before income taxes	777	1 404
Income taxes	- 184	- 285
Net income	593	1 119
- in % of net sales	7.9%	13.2%
- Change from previous year in %	- 47.0%	- 21.0%

**Basic earnings per share –
 expressed in CHF per share:**

- Registered shares	2.14	4.01
- Bearer shares	10.69	20.07

In the year under review, the net financial result was a loss of CHF 32 million (compared to a loss of CHF 47 million in 2015). This is mainly due to the negative net currency result of CHF 28 million (2015 resulted in a net currency loss of CHF 57 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 23.7% in the reporting year, compared to 20.3% in the previous year. On the one hand the expected average tax rate increased slightly and on the other hand the Group continues to capitalize carry forward tax losses only very cautiously, reason why the tax rate increased as well. An analysis of the income tax charge is set out in Note 6 of the consolidated financial statements.

Net income closed at CHF 593 million, 47.0% lower than the previous year. This is equivalent to a net margin of 7.9%, compared to 13.2% in the previous year. Benchmarked to the first half year, the operating margin improved from 9.5% to 11.8% and the net margin from 7.1% to 8.6% in the second half year.

Basic earnings per share amounted in the current year to CHF 2.14 (previous year: CHF 4.01) for registered shares and CHF 10.69 (previous year: CHF 20.07) for bearer shares, respectively. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 7.

At the Annual General Meeting on 23 May 2017, the Board of Directors of the Swatch Group will propose reducing dividends by only 10% to CHF 6.75 per bearer share and to CHF 1.35 per registered share (previous year: CHF 7.50 per bearer share and CHF 1.50 per registered share), despite the significantly lower result.

> FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2016	2015
Current assets	9 045	9 269
Current liabilities	1 207	1 222
Equity	11 073	11 242
– as % of total assets	84.5%	84.7%
Average return on equity (ROE)	5.3%	10.2%

Current liabilities are covered by current assets by a factor of 7.5 (previous year: 7.6). This factor shows a very healthy structure of the short term balance sheet positions.

As per end of December 2016 equity remains practically unchanged at CHF 11.1 billion, due to the share buyback (previous year: CHF 11.2 billion). The equity ratio shows solid 84.5% of total assets (previous year: 84.7%).

Development liquidity

(CHF million)	2016	2015
Cash and cash equivalents at 1.1.	1 280	1 202
Cash flow from operating activities	1 010	1 404
Cash flow from investing activities	– 484	– 836
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 670	– 490
Cash and cash equivalents at 31.12.	1 136	1 280

Operating cash flow amounted to CHF 1 010 million in the period under review, after income tax payments of CHF 277 million. To keep the cash balance low, particularly in order to avoid negative interest, treasury shares with a market value of CHF 332 million were repurchased in 2016 within the scope of a three-year share buyback program.

Across all segments, the Swatch Group invested a total of CHF 563 million in non-current operating assets in 2016. In addition to the further broadening of its own retail network, heavy investment was also made in new production buildings (Omega, Swatch and Boncourt) and in state-of-the-art production and assembly facilities, with particular investment in the expansion of Industry 4.0. Significant investment was also made in the area of customer service, both in Switzerland and in the foreign distribution companies.

The dividend payment of CHF 403 million (previous year: CHF 407 million) and the share buyback mentioned above were the main cash flows from financing activities.

> FINANCIAL REVIEW

3. Outlook

Consumer interest and the potential for Swiss watches remains strong. Particularly Asia and the Middle East are showing again increasing sales in recent months, including brands in the luxury segment, so that healthy growth in local currency can again be expected for the year 2017, even more this expectation also applies to the USA and Europe.

With its global distribution network and the successful introduction of E-Commerce already in 2001, the Group is in an excellent position to serve its customers, wherever they are in the world, at any time. Our very motivated employees in retail, in distribution, and over the entire production chain make this possible.

The number of patent applications in the year under review again exceeded 180 patents, in the areas of electronic smart and mobile device products, mechanical watches and watch movements, as well as in «habillage» and for innovative production methods (Industry 4.0).

In the Electronic Systems segment, the newest developments in the area of dual frequency RFID technology (NFC and UHF), an innovative Bluetooth module, integrated circuits with lowest energy consumption and the most innovative sensor technology (particularly pressure sensors), as well as the real time clock (RTC) module will ensure growth. In addition, Belenos will put its pilot production line for the new batteries into operation. Also, Swiss Timing will show up with many technological innovations in timekeeping for sporting events.

The year 2017 will be marked by many new product launches by our brands. The 60th anniversary of the Omega Speedmaster will provide a strong stimulus. The creative and very successful use of Omega's E-Commerce, with Speedy Tuesday on Instagram, demonstrates the great potential and enormous demand. Swatch will launch the unique new very slim Skin collection, as well as the second generation of the Swatch Bellamy as a contactless payment device. This is just to name a few examples.

Based on the positive sales figures in all segments in recent months, including January 2017, Swatch Group anticipates healthy growth in 2017.

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> CONSOLIDATED INCOME STATEMENT

	Notes	2016		2015	
		CHF million	%	CHF million	%
Net sales	(4, 5a)	7 553	100.0	8 451	100.0
Other operating income	(5b)	249	3.3	103	1.2
Changes in inventories		77	1.0	255	3.0
Material purchases		- 1 642	- 21.7	- 2 001	- 23.7
Personnel expense	(5c)	- 2 342	- 31.0	- 2 384	- 28.2
Depreciation and impairment on property, plant and equipment	(15)	- 394	- 5.2	- 366	- 4.3
Amortization and impairment on intangible assets	(16)	- 43	- 0.6	- 38	- 0.4
Other operating expenses	(5d)	- 2 653	- 35.1	- 2 569	- 30.4
Operating result		805	10.7	1 451	17.2
Other financial income and expense	(5f)	- 25	- 0.3	- 46	- 0.6
Interest expense	(5f)	- 3	- 0.1	- 1	- 0.0
Share of result from associates and joint ventures	(5f, 17)	- 4	- 0.1	0	0.0
Ordinary result		773	10.2	1 404	16.6
Non-operating result	(5g)	4	0.1	0	0.0
Profit before income taxes		777	10.3	1 404	16.6
Income taxes	(6a)	- 184	- 2.4	- 285	- 3.4
Net income		593	7.9	1 119	13.2
Attributable to shareholders of The Swatch Group Ltd		574		1 089	
Attributable to non-controlling interests		19		30	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		2.14		4.01	
Diluted earnings per share		2.14		4.01	
Bearer shares					
Basic earnings per share		10.69		20.07	
Diluted earnings per share		10.68		20.05	

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

> CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2016		31.12.2015	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	1 136	8.7	1 280	9.6
Marketable securities and derivative financial instruments	(10)	326	2.5	388	2.9
Trade receivables	(11)	903	6.9	991	7.4
Other current assets	(12)	141	1.1	143	1.1
Inventories	(13)	6 259	47.7	6 151	46.4
Prepayments and accrued income	(14)	280	2.1	316	2.4
Total current assets		9 045	69.0	9 269	69.8
Non-current assets					
Property, plant and equipment	(15)	3 276	25.0	3 173	23.9
Intangible assets	(16)	142	1.1	151	1.1
Investments in associates and joint ventures	(17)	59	0.5	62	0.5
Other non-current assets	(19)	174	1.3	217	1.7
Deferred tax assets	(6d)	410	3.1	398	3.0
Total non-current assets		4 061	31.0	4 001	30.2
Total assets		13 106	100.0	13 270	100.0

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

> CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2016 CHF million	%	31.12.2015 CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	124	0.9	13	0.1
Trade payables		316	2.4	367	2.8
Other liabilities	(21)	166	1.3	152	1.1
Provisions	(23)	83	0.6	86	0.6
Accrued expenses	(22)	518	4.0	604	4.6
Total current liabilities		1 207	9.2	1 222	9.2
Non-current liabilities					
Financial debts	(20)	31	0.2	34	0.2
Deferred tax liabilities	(6d)	569	4.4	606	4.6
Retirement benefit obligations	(24)	39	0.3	36	0.3
Provisions	(23)	55	0.4	53	0.4
Accrued expenses	(22)	132	1.0	77	0.6
Total non-current liabilities		826	6.3	806	6.1
Total liabilities		2 033	15.5	2 028	15.3
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 991		- 1 006	
Treasury shares	(26d)	- 660		- 329	
Goodwill recognized		- 1 372		- 1 372	
Translation differences		- 142		- 134	
Retained earnings		14 027		13 856	
Equity of The Swatch Group Ltd shareholders		10 987	83.8	11 140	83.9
Non-controlling interests		86	0.7	102	0.8
Total equity		11 073	84.5	11 242	84.7
Total equity and liabilities		13 106	100.0	13 270	100.0

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

> CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2016 CHF million	2015 CHF million
Operating activities			
Net income		593	1 119
Reversal of non-cash items	(28a)	645	686
Changes in working capital and other items included in operating cash flow	(28b)	41	- 70
Dividends received from associated companies	(17)	2	2
Interest received		9	7
Interest paid		- 3	- 1
Income tax paid	(6c)	- 277	- 339
Cash flow from operating activities		1 010	1 404
Investing activities			
Investments in property, plant and equipment	(15)	- 504	- 602
Proceeds from sale of property, plant and equipment		21	13
Investments in intangible assets	(16)	- 35	- 47
Proceeds from sale of intangible assets		1	0
Investments in other non-current assets	(19)	- 24	- 106
Proceeds from sale of other non-current assets		8	3
Acquisition of subsidiaries – net of cash	(18a)	0	-
Takeover of associated companies	(18a)	-	14
Divestments of businesses	(18b)	3	4
Purchase of marketable securities		- 76	- 241
Sale of marketable securities		122	126
Cash flow from investing activities		- 484	- 836
Financing activities			
Dividends paid to shareholders	(8)	- 403	- 407
Dividends paid to non-controlling interests		- 36	- 24
Repurchase of treasury shares	(26d)	- 332	- 28
Sale of treasury shares		1	1
Change in non-current financial debts		- 5	- 4
Change in current financial debts		108	0
Repurchase of non-controlling interests	(18c)	-	- 1
Sale of non-controlling interests	(18c)	1	11
Cash flow from financing activities		- 666	- 452
Net impact of foreign exchange rate differences on cash		- 4	- 38
Change in cash and cash equivalents		- 144	78
Change in cash and cash equivalents			
- At beginning of year		1 280	1 202
- At end of year	(9)	1 136	1 280

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					Total	Non-con- trolling interests	Total equity	
	Share capital	Capital reserves	Treasury shares	Goodwill recognized	Cumulative Translation differences				Retained earnings
(CHF million)	(Note 26)	(Note 26)	(Note 26)						
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):							19		19
– Value of employee services (net of tax)		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
Net income						574	574	19	593
Currency translation of foreign entities					- 8		- 8	1	- 7
Dividends paid						- 403	- 403	- 36	- 439
Share-based compensation (Note 29):							14		14
– Value of employee services (net of tax)		14							
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		0	- 332				- 332		- 332
Changes in non-controlling interests (Note 18)							0		0
Transactions with non-controlling interests			1				1		1
Balance at 31 December 2016	125	- 991	- 660	- 1 372	- 142	14 027	10 987	86	11 073

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 22 February 2017 and will be submitted to the Annual General Meeting of Shareholders for approval on 23 May 2017.

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 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. Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. In the case of acquisitions, potentially existing non-capitalized intangible assets such as brands, user rights or client lists are not recognized separately, but remain in goodwill. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill 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 2016, the Group's consolidation structure comprised 168 legal entities (previous year: 168) including two joint ventures (previous year: two) and four associated companies (previous year: five). Two legal entities have been created while one company has been merged with another Group company and one associated company has been dissolved. 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

The Group adopted early implementation as of 1 January 2015 of the new standard on revenue recognition, with changes to the Swiss GAAP FER framework, FER 3 and FER 6, which apply to financial years commencing on or after 1 January 2016. No further changes to the Swiss GAAP FER standards have been announced or released.

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
		2016	31.12.2016	2015	31.12.2015
		CHF	CHF	CHF	CHF
CNY	1	0.1491	0.1472	0.1540	0.1538
EUR	1	1.0930	1.0760	1.0682	1.0870
HKD	1	0.1279	0.1320	0.1250	0.1289
JPY	100	0.9121	0.8785	0.8013	0.8300
USD	1	0.9930	1.0235	0.9687	0.9990

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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»).

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. Impairment is charged on receivables which are either more than 12 months overdue or for which specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.

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.

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. 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. The maximum depreciation periods are as follows:

– Land	no depreciation
– Production plants	30 years
– Administrative buildings	40 years
– Investment properties	50 years
– Technical equipment and machinery	15 years
– Other equipment and fixtures	8 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 commercial premises and residential buildings rented to third parties. The position Advances and construction in progress 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.

m. Intangible assets

Goodwill

Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill from acquisitions is recognized in Group equity at the time of acquisition. The notes to the consolidated financial statements disclose the effects of a theoretical capitalization and amortization of goodwill (see Note 27).

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.

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

At year-end, there are no such cash-flow hedges.

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 financial result.

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.

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 at 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 Swatch Group Ltd 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 (previous year: none).

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)	31.12.2016	31.12.2015
Cash and cash equivalents (Note 9)	1 136	1 280
Marketable securities and derivative financial instruments (Note 10)	326	388
Short-term accessible liquidity reserves	1 462	1 668
Committed credit facilities	657	578
./ Utilized credit facilities	- 142	- 36
Total short-term accessible liquidity reserves and undrawn credit facilities	1 977	2 210

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 2016, equity represented 84.5% of total assets (31 December 2015: 84.7%).

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

2016 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 304	244	5		7 553
– Group	1	16	6	– 23	–
Net sales	7 305	260	11	– 23	7 553
Operating result	894	10	– 99	–	805
– In % of net sales	12.2	3.8			10.7

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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet and other information

2016 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	11 941	276	5 000	– 4 170	13 047
– Investments in associated companies and joint ventures	6	–	53	–	59
Total assets	11 947	276	5 053	– 4 170	13 106
Total liabilities	– 5 363	– 99	– 741	4 170	– 2 033
Net assets	6 584	177	4 312	–	11 073

Other information

Investments in property, plant and equipment	464	29	5	–	498
Investments in intangible assets	32	2	2	–	36
Investments in other non-current assets	24	0	0	–	24
Depreciation on property, plant and equipment	– 357	– 18	– 19	–	– 394
Amortization on intangible assets	– 38	– 2	– 3	–	– 43
Impairment	0	–	–	–	0

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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Information on geographical regions

	2016		2015	
	Net sales	Non-current assets	Net sales	Non-current assets
(CHF million)				
Switzerland	756	2 635	986	2 631
Other Europe	1 589	334	1 839	324
Total Europe	2 345	2 969	2 825	2 955
Greater China	2 532	242	2 869	260
Other Asia	1 872	277	1 884	249
Total Asia	4 404	519	4 753	509
Total America	663	151	725	131
Total Oceania	89	6	92	2
Total Africa	52	1	56	1
Total	7 553	3 646	8 451	3 598

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)	2016	2015
	Sale of goods	7 533	8 415
	Rendering of services	20	36
	Total net sales	7 553	8 451

b. Other operating income In 2016, other operating income amounted to CHF 249 million (2015: CHF 103 million). The increase is mainly due to the time-keeping services rendered in 2016 for the Olympic Games.

c. Personnel expense	(CHF million)	2016	2015
	Wages and salaries	1 891	1 928
	Social security costs	323	326
	Share-based compensation (Note 29)	15	19
	Pension costs (Note 24)	113	111
	Total personnel expense	2 342	2 384

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

(Unaudited)	2016	2015
Average annual headcount	35 827	35 783
Total headcount at 31 December	35 705	36 313
Men	17 073	17 488
Women	18 632	18 825
Swiss contracts	16 878	17 433
Non-Swiss contracts	18 827	18 880

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)	2016	2015
	Marketing, sales and administration	1 216	1 279
	Subcontracting and other direct costs of sales	242	291
	Maintenance, rents and energy	1 026	938
	Other operating expenses	169	61
	Total other operating expenses	2 653	2 569

e. Research and development costs Costs for research and development activities amounted to CHF 219 million in 2016, representing 2.9% of net sales (previous year: CHF 205 million or 2.4%).

f. Net financial result	(CHF million)	2016	2015
	Interest income	9	7
	Result from marketable securities at fair value	- 2	8
	Net currency result	- 28	- 57
	Other financial expense	- 4	- 4
	Other financial income and expense	- 25	- 46
	Interest expense	- 3	- 1
	Share of result from associates and joint ventures	- 4	0
	Net financial result	- 32	- 47

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)	2016	2015
Current income taxes	- 232	- 322
Income tax of prior periods	0	3
Deferred taxes	48	34
Total income taxes	- 184	- 285

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.

	2016	2015
	%	%
Group's average expected tax rate	20.4	19.3
Effect of:		
- Tax rate changes on deferred taxes	- 0.2	- 0.5
- Recognition and offset of tax loss carry-forwards		
not recognized in prior years	- 0.3	- 0.3
- Non-recognition of tax loss carry-forwards	2.9	1.1
- Non-taxable income	- 0.4	- 0.3
- Non-tax-deductible expenses	1.3	0.8
- Items taxable at reduced rates	- 0.2	- 0.3
- Income tax of prior periods	0.0	- 0.2
- Other items	0.2	0.7
Group's effective tax rate	23.7	20.3

The effective tax rate based on the ordinary result in the year under review was 23.8% (previous year: 20.3%).

c. Current income tax

(CHF million)	2016	2015
Net current income tax liability		
Balance at 1 January	- 70	- 89
Recognized in income statement	- 232	- 319
Recognized in equity	- 1	0
Income taxes paid	277	339
Translation differences	0	- 1
Balance at 31 December	- 26	- 70
thereof current income tax assets	49	46
thereof current income tax liabilities	- 75	- 116

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)	31.12.2016			31.12.2015		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	330	- 359	- 29	329	- 396	- 67
Trade and other receivables	4	- 17	- 13	3	- 19	- 16
Property, plant and equipment	13	- 149	- 136	17	- 139	- 122
Intangible assets	10	- 9	1	11	- 10	1
Provisions	18	- 44	- 26	16	- 46	- 30
Retirement benefit obligations	4	- 1	3	4	- 1	3
Tax losses	40	-	40	28	-	28
Other	78	- 77	1	65	- 70	- 5
Total deferred tax assets (liabilities)	497	- 656	- 159	473	- 681	- 208
Deferred tax assets			410			398
Deferred tax liabilities			- 569			- 606

> 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 2016
One year	4	5	9
Two years	3	6	9
Three years	8	1	9
Four years	15	5	20
Five years	16	7	23
Six years	7	12	19
More than six years	196	117	313
Total at 31.12.2016	249	153	402

(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

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 67 million in the year under review (previous year: CHF 51 million).

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Earnings per share

a. Basic

	2016	2015
Net income attributable to shareholders of The Swatch Group Ltd (CHF million)	574	1 089
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)	254	481
Average number of shares outstanding	118 672 611	119 847 161
Basic earnings per share (in CHF)	2.14	4.01
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	320	608
Average number of shares outstanding	29 987 419	30 308 846
Basic earnings per share (in CHF)	10.69	20.07

b. Diluted

	2016	2015
Registered shares		
Net income attributable to registered shareholders (CHF million)	254	481
Average number of shares outstanding – basic (as above)	118 672 611	119 847 161
Potential number of shares from options outstanding	215 130	222 525
Average potential number of shares outstanding – diluted	118 887 741	120 069 686
Diluted earnings per share (in CHF)	2.14	4.01
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	320	608
Average potential number of shares outstanding	29 987 419	30 308 846
Diluted earnings per share (in CHF)	10.68	20.05

8. Dividends paid and proposed

On 11 May 2016, 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 403 million (2015: 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 14 million.

At the Annual General Meeting on 23 May 2017, the payment of the following dividends for the year under review will be proposed:

		Registered	Bearer
Dividend per share	CHF	1.35	6.75
Total dividend	CHF million	167	208

The financial statements ending 31 December 2016 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2017.

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Cash and cash equivalents

(CHF million)	31.12.2016	31.12.2015
Current accounts and liquid assets	884	1 021
Short-term deposits with financial institutions	252	259
Total cash and cash equivalents	1 136	1 280

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)	31.12.2016	31.12.2015
Cash and cash equivalents	1 136	1 280
Current account overdrafts (Note 20)	0	0
Total funds net cash	1 136	1 280

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2016	31.12.2015
Equity securities	97	102
Bond securities	213	258
Investment funds and other investments	13	16
Total marketable securities at fair value	323	376

Derivative financial instruments	3	12
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Total marketable securities and derivative financial instruments	326	388
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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) Type	31.12.2016			31.12.2015		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
AUD	18	0	-	8	-	-0
CAD	12	0	-	9	-	-0
CNY	50	0	-	-	-	-
EUR	444	-	-1	489	1	-2
GBP	40	1	-	56	0	-
HKD	-	-	-	12	0	-0
JPY	7	-	0	21	-	-0
RUB	25	-	0	6	0	-
SGD	15	0	-	7	-	-0
USD	1 144	2	-10	1 066	11	-5
Other currencies	17	0	0	19	0	-0
Total	1 772	3	-11	1 693	12	-7

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade receivables

(CHF million)	31.12.2016	31.12.2015
Trade receivables – gross	914	1 002
Allowance for impaired receivables	– 11	– 11
Total trade receivables – net	903	991

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

(CHF million)	2016	2015
Balance at 1 January	– 11	– 13
Translation differences	0	0
Business combinations	–	–
Utilization	1	2
Reversal	1	1
Creation	– 2	– 1
Balance at 31 December	– 11	– 11

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)	31.12.2016	31.12.2015
CHF	157	181
CNY	208	246
EUR	166	175
HKD	31	30
JPY	31	32
USD	107	112
Other currencies	203	215
Total trade receivables – net	903	991

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

12. Other current assets

(CHF million)	31.12.2016	31.12.2015
VAT to be refunded	112	104
Other receivables	29	39
Total other current assets	141	143

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

(CHF million)	31.12.2016	31.12.2015
Raw materials, auxiliary material and supplies	303	346
Goods in progress	505	547
Semi-finished goods	1 995	1 970
Finished goods	3 109	2 959
Spare parts for customer service	347	329
Total inventories	6 259	6 151

Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2016, the Group recognized write-downs of CHF 49 million (previous year: CHF 47 million). In addition, an amount of CHF 8 million was reversed (previous year: CHF 15 million). The net impact of these adjustments was a charge to the income statement of CHF 41 million (previous year: CHF 32 million).

14. Prepayments and accrued income

(CHF million)	31.12.2016	31.12.2015
Prepaid sales, marketing and administration costs	91	128
Income tax assets	49	46
Other prepayments and accrued income	140	142
Total prepayments and accrued income	280	316

> 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 2015	2 136	3 735	531	161	6 563
Translation differences	8	-2	3	0	9
Acquisition of subsidiaries (Note 18)	-	-	-	-	-
Divestments of businesses (Note 18)	-	-	-	-	-
Additions	53	238	111	96	498
Disposals	-15	-92	-24	-3	-134
Transfers	48	-6	2	-44	-
Historical cost, 31 December 2016	2 230	3 873	623	210	6 936
Accumulated depreciation, 31 December 2015	- 685	- 2 415	- 290	-	- 3 390
Translation differences	-1	0	-1	-	-2
Depreciation on divestments of businesses (Note 18)	-	-	-	-	-
Annual depreciation	-64	-259	-71	-	-394
Impairment	-	0	-	-	0
Depreciation on disposals	15	87	24	-	126
Transfers	-	-	-	-	-
Accumulated depreciation, 31 December 2016	- 735	- 2 587	- 338	-	- 3 660
Net book values:					
Balance at 31 December 2015	1 451	1 320	241	161	3 173
Balance at 31 December 2016	1 495	1 286	285	210	3 276
Net book value of property, plant and equipment under finance lease contracts					0
Total non-current assets pledged to guarantee the commitments of Group companies					33

¹⁾ The category Land, buildings and properties includes investment properties with a carrying amount of CHF 450 million (previous year: CHF 453 million).

(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
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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2015	120	135	113	368
Translation differences	0	0	-1	-1
Acquisition of subsidiaries (Note 18)	-	-	-	-
Divestments of businesses (Note 18)	-	-	-	-
Additions	7	14	15	36
Disposals	-2	-5	-1	-8
Transfers	14	9	-23	0
Historical cost, 31 December 2016	139	153	103	395
Accumulated amortization, 31 December 2015	-74	-103	-40	-217
Translation differences	0	0	0	0
Amortization on divestments of businesses (Note 18)	-	-	-	-
Annual amortization	-22	-17	-4	-43
Impairment	-	-	-	-
Amortization on disposals	1	5	1	7
Transfers	-	-3	3	-
Accumulated amortization, 31 December 2016	-95	-118	-40	-253
Net book values:				
Balance at 31 December 2015	46	32	73	151
Balance at 31 December 2016	44	35	63	142

(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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Investments in associates and joint ventures

(CHF million)	2016	2015
Balance at 1 January	62	70
Share of result from associates and joint ventures	-4	0
Dividends received	-2	-2
Investments	-	-
Reclassification of previously held interests	-	-7
Investments acquired through business combinations	-	-
Translation differences	3	1
Balance at 31 December	59	62

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 the years 2015 and 2016, there were no further changes in investments in associates and joint ventures.

Sales to and purchases from associates and joint ventures amounted to CHF 885 million (2015: CHF 980 million) and CHF 43 million (2015: CHF 29 million) respectively.

At balance sheet date, associated companies and joint ventures had no contingent liabilities (2015: none).

18. Business combinations**a. Acquisition of subsidiaries**

There were no acquisitions in 2016.

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).

> 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	2016 Actual Values	2015 Actual Values
Cash and cash equivalents		–	14
Current assets		–	1
Property, plant and equipment	(15)	–	1
Intangible assets	(16)	–	0
Deferred tax assets		–	–
Current liabilities		–	–2
Provisions	(23)	–	–
Previously held interests	(17)	–	–7
Non-controlling interests		–	–7
Net assets acquired		–	0
Goodwill (recognized in equity)	(27)	–	–
Negative Goodwill (recognized in income statement)		–	0
Total purchase consideration (incl. acquisition-related costs)		–	–
Cash and cash equivalents acquired		–	14
Consideration payable		–	–
Cash in-/outflow on acquisitions		–	14

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.

b. Divestments of businesses

No companies were sold in 2016.

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, of which, CHF 10 million was paid in 2015. In the year under review, an additional payment of CHF 3 million was paid in accordance with the sale contract, and the balance will be incurred in 2017. The profit from the disposal amounted to CHF 6 million in 2015 and was recorded in the income statement as other operating income.

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

(CHF million)	Notes	2016 Actual Values	2015 Actual Values
Cash and cash equivalents		–	6
Current assets		–	1
Property, plant and equipment	(15)	–	3
Intangible assets	(16)	–	1
Current liabilities		–	0
Provisions	(23)	–	–
Net assets disposed of		–	11
Result on divestment of businesses		–	6
Total disposal consideration		–	17
Cash and cash equivalents disposed of		–	–6
Consideration payable		–	–7
Net Cash inflow on disposal		–	4

> 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 in the first half of 2015 as well as CHF 1 million in the first half of 2016, 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 settled in annual instalments of treasury shares in 2016, 2017 and 2018, valued at a total of 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 2015	103	102	12	217
Translation differences	- 4	2	0	- 2
Acquisition of subsidiaries (Note 18)	-	-	-	-
Additions	12	12	0	24
Disposals	- 1	- 10	0	- 11
Transfers to current assets	- 54	-	-	- 54
Balance at 31 December 2016	56	106	12	174

(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

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)	31.12.2016	31.12.2015
Current account overdrafts	0	0
Short-term leasing commitments	0	1
Short-term bank debt	113	5
Derivative financial instruments	11	7
Total current financial debts and derivative financial instruments	124	13
Total non-current financial debts	31	34
Total financial debts	155	47

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 2016	124	31	0	155
At 31 December 2015	13	17	17	47

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

(CHF million)	31.12.2016	31.12.2015
CHF	11	8
JPY	33	35
USD	102	—
Other currencies	9	4
Total	155	47

At the end of 2016, a short term bank loan of USD 100 million or CHF 102 million was open at an interest rate of 1.0%. The long-term financial debts at the end of 2016 included a mortgage of JPY 3 250 million or CHF 29 million (previous year: JPY 3 750 million or CHF 31 million) at a fixed interest rate of 2.4% with a term until March 2021 (without a termination clause). The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review.

21. Other liabilities

(CHF million)	31.12.2016	31.12.2015
Advance payments received	38	30
Income tax liabilities	13	23
VAT due	28	15
Other payables	87	84
Total other payables	166	152

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Accrued expenses

(CHF million)	31.12.2016	31.12.2015
Accrued salaries and social security	153	165
Accrued sales, marketing and administration costs	122	156
Accrued income taxes	62	93
Accrued sales reductions	75	76
Other accrued expenses	238	191
Total accrued expenses	650	681
thereof current	518	604
thereof non-current	132	77

23. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 31 December 2014	104	6	20	130
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
Translation differences	-1	0	0	-1
Additional provisions	88	2	14	104
Reversal of provisions	-14	-1	-3	-18
Provisions used during the year	-83	-2	-1	-86
Balance at 31 December 2016	98	5	35	138
thereof current provisions	67	1	15	83
thereof non-current provisions	31	4	20	55

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 4 273 500 registered shares (2015: 4 934 700 shares) and 2 250 bearer shares (2015: 1 250 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses

2016

(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	329	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	– 13	– 13
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	– 206	– 3	1	0	– 95	– 95
Pension plans without own assets	–	– 36	1	– 5	–	– 5
Total	123	– 39	2	– 5	– 108	– 113

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

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

Summary of pension benefit expenses

(CHF million)	2016			2015		
	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Contributions to pension plans charged to Group companies	– 94	– 14	– 108	– 96	– 12	– 108
Contributions to pension plans paid from employer contributions reserve	–	–	–	–	–	–
Total contributions	– 94	– 14	– 108	– 96	– 12	– 108
Change of employer contributions reserve from evolution of fortune, impairments, discounting, etc.	0	–	0	0	–	0
Contributions and change in employer contributions reserve	– 94	– 14	– 108	– 96	– 12	– 108
Increase / decrease of Group's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	– 5	– 5	–	– 3	– 3
Total changes of economic effects from surpluses / deficits	–	– 5	– 5	–	– 3	– 3
Pension benefit expenses within personnel expenses of the period	– 94	– 19	– 113	– 96	– 15	– 111

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Commitments and contingencies**a. Guarantees and sureties**

At 31 December 2016, guarantees to third parties as security for commitments of Group companies amounted to CHF 45 million (2015: CHF 46 million).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 106 million at 31 December 2016 (2015: CHF 102 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 (non discounted):

(CHF million)	31.12.2016	31.12.2015
Less than 1 year	540	463
Between 1 and 5 years	1 401	1 310
Over 5 years	1 261	1 120
Total	3 202	2 893

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 2016. Leasing costs amounting to CHF 698 million were recognized in the 2016 income statement, compared to CHF 613 million in the previous year.

At 31 December 2016, other open long-term and irrevocable payment obligations entered into by the Group, which cannot be cancelled within 12 months, have a non-discounted value of CHF 647 million (previous year: CHF 790 million). They mainly relate to marketing and sponsoring commitments, as well as investments in tangible fixed assets.

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
31.12.2014	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
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At year-end 2016, as well as 2015, 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.

c. Non-distributable reserves

At 31 December 2016, the reserves of the holding company, The Swatch Group Ltd, include a non-distributable amount of CHF 685 million (2015: CHF 354 million). This amount consists of CHF 660 million related to treasury shares held (2015: CHF 329 million) and non-distributable legal reserves of CHF 25 million (2015: CHF 25 million).

d. Treasury shares

On 5 February 2016, the Group commenced a new share buyback program with a total value of CHF 1 billion. This program will continue until 4 February 2019 at the latest. Within the scope of this buyback program, the Swatch Group repurchased treasury shares with a market value of CHF 332 million as at 31 December 2016. At year end, there were no disclosable repurchase obligations from this program.

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 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
Acquisitions ¹⁾	2 689 767	166	538 850	166	332
Disposals ²⁾	- 246 648	- 1	-	-	- 1
Balance at 31 December 2016	6 541 436	339	1 108 850	321	660

¹⁾ In 2016 the Group acquired 2 689 767 registered shares (2015: 77 000) at an average price of CHF 61.52 (2015: CHF 79.68). In addition 538 850 bearer shares (2015: 65 000) at an average price of CHF 308.21 (2015: CHF 344.81) were acquired.

²⁾ In 2016, disposals of 236 148 registered shares relate to the employee stock option plan. Details of stock options issued in connection with the stock option plan are disclosed in Note 29 of the consolidated financial statements. In 2016, in connection with the acquisition of the remaining minority interest in ASICentrum spol. s.r.o., 10 500 registered shares were granted to the former shareholders. Details of the transaction are disclosed in Note 18 of the consolidated financial statements.

In 2015, disposals of registered shares relate solely to the employee stock option plan.

In 2016 and 2015, no bearer shares were sold.

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)	2016			2015		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
Historical cost 1 January	1 389	48	1 437	1 389	48	1 437
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Historical cost 31 December	1 389	48	1 437	1 389	48	1 437
Theoretical accumulated amortization						
1 January	– 648	– 33	– 681	– 532	– 28	– 560
Theoretical annual amortization	– 116	– 3	– 119	– 116	– 5	– 121
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Theoretical accumulated amortization 31 December	– 764	– 36	– 800	– 648	– 33	– 681
Theoretical net book value 31 December	625	12	637	741	15	756

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)	2016	2015
Equity, per balance sheet	11 073	11 242
Theoretical capitalization of net book value of goodwill	637	756
Theoretical equity including net book value of goodwill	11 710	11 998

c. Theoretical impact on net income

(CHF million)	2016	2015
Net income, per income statement	593	1 119
Theoretical amortization of goodwill	– 119	– 121
Theoretical net income after goodwill amortization	474	998

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items	(CHF million)	Notes	2016	2015
Reversal of non-cash items				
		(17)	4	0
		(6a)	184	285
		(15)	394	364
		(16)	43	37
			0	3
			-17	-3
			5	7
			-8	-47
			27	16
		(5f)	-9	-7
		(5f)	3	1
		(29)	15	19
			1	11
			3	0
			645	686

b. Changes in working capital	(CHF million)	2016	2015
Changes in working capital and other items included in cash flow from operating activities			
		-78	-258
		79	72
		92	46
		-47	29
		23	8
		-28	33
		41	-70

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, which was revised in 2016, 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 being employed by the company on the date of exercise. Options are not transferable and only exercisable by the employee. The exercised options can optionally be subject to a blocking period of either 5 or 10 years. 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 2016, this portfolio comprised 680 644 registered shares (916 792 at the end of 2015). In 2016, 236 148 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:

	2016	2015
	Options	Options
Options outstanding at 1 January	234 953	240 808
Granted	232 570	234 758
Forfeited or lapsed	-704	-2 942
Exercised	-236 148	-237 671
Options outstanding at 31 December	230 671	234 953

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	31.12.2016	31.12.2015
2016		156 640
2017	153 423	78 313
2018	77 248	
Total	230 671	234 953

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 2016 and 2015 was based:

	2016		2015	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	17 May 2016	17 May 2016	9 June 2015	9 June 2015
Expiration date	17 May 2017	17 May 2018	9 June 2016	9 June 2017
Closing share price on grant date	CHF 59.25	CHF 59.25	CHF 72.60	CHF 72.60
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 55.25	CHF 55.25	CHF 68.60	CHF 68.60

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

The personnel expense recorded in the 2016 income statement amounted to CHF 15 million (2015: CHF 19 million).

30. Related party transactions

a. Principal shareholders

On 31 December 2016, the Hayek Pool and its related companies, institutions and individuals held 62 136 850 registered shares and 2 800 bearer shares, equivalent to 40.1% of all voting rights (previous year: 40.5%) 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 39.7% of all voting rights (previous year: 40.1%).

Mrs. Esther Grether's group has been dissolved at the end of June 2016. It controlled 5.9% of all voting rights on 31 December 2015.

In 2016, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 8.8 million to the Swatch Group (previous year: CHF 10.2 million). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2016	2015
Audit, feasibility studies and process optimization	1.2	1.1
Executive functions	0.9	0.9
Project management in the construction sector	4.8	6.1
Support for projects in the materials and surface treatment technology sector	0.6	0.3
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.3	0.3
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.0	1.5
Total	8.8	10.2

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Key management personnel

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

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

(CHF million)	2016	2015
Short-term employee benefits	24.3	27.0
– of which in salaries	8.6	8.9
– of which in bonus	15.2	17.5
– of which in expense allowances	0.5	0.5
– of which in other benefits	0.0	0.1
Share-based compensation	9.4	11.7
Contributions to pension plans	0.7	0.7
Other social benefits	2.8	3.5
Total	37.2	42.9

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. The calculation of the share-based compensation has been simplified in 2016 (see details under point 2.3.4. of the remuneration report). The prior year remuneration has been adapted, resulting in an immaterial decrease of CHF 0.3 million.

c. Share ownership

At 31 December 2016, 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 56 634 767 registered shares and 590 bearer shares, representing 36.6% of all voting rights (previous year: 36.6%).

In addition, at 31 December 2016, 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 all 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. 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 2016 and 2015, 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 2016 and 2015, 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)	2016		2015	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	43	885	29	980
Other related parties	0	0	0	0

At the end of 2016, receivables from associates amounted to CHF 165 million (2015: CHF 209 million), and payables to associates were CHF 3 million (2015: CHF 4 million). In addition, at the end of 2016 the Group held guarantees from associated companies in the amount of CHF 168 million (2015: CHF 267 million). At the end of 2016, the Group had granted no loans to associated companies (2015: 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 sales price amounted to CHF 17 million, of which, CHF 10 million was paid in 2015. In the year under review, an additional payment of CHF 3 million was paid in accordance with the sale contract, and the balance will be incurred in 2017. The profit from the disposal amounted to CHF 6 million in 2015 and was recorded in the income statement as other operating income.

At the end of 2016 and 2015 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 31.12.2016

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	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	●	▼
CHH Microtechnique SA, Le Chenit	Watch components	CHF 0.10	100	●	▲
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	▲
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	▲
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Bienne	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	●	▲
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	●	▲
Meco 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 Weyerermann 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 Export SA, Neuchâtel	Distribution	CHF 1.00	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	●	▲

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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2016

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Belgium					
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR 1.75	100	●	◀
Retail Services Belgium SA, Bruxelles	Services	EUR 2.09	100	●	◀
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	●	◀
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 SAS, Paris	Retail	EUR 10.09	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	●	◀
Greece					
The Swatch Group (Greece) SA, Athens	Distribution	EUR 5.00	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	●	◀
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	●	▼
Monaco					
The Swatch Group (Monaco) Les Boutiques SAM	Distribution	EUR 2.00	100	●	◀
Netherlands					
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR 3.45	100	●	◀
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR 0.04	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	●	◀
Spain					
The Swatch Group (España) SA, Alcobendas	Distribution	EUR 0.45	100	●	◀
Czech Republic					
ASI Centrum 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 206.00	100	●	◀

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2016

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	●	◀
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 4 680.00	100	●	◀
Swatch Group (India) Retail Private Ltd, New Delhi	Retail	INR 80.10	100	●	◀
Indonesia					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 120 795.90	100	●	◀
Japan					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 3 700.00	100	●	◀
Qatar					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29	●	◀
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	●	◀
Oman					
Rivoli & Co. L.L.C., Muscat	Retail	OMR 0.30	58	●	◀
Saudi Arabia					
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33	○	◀
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	●	◀
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 6 300.00	100	●	◀
Thailand					
ETA (Thailand) Co. Ltd, Samut Prakan	Assembly electronic components	THB 504.50	100	●	◀
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 500.00	100	●	◀
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	100	●	◀
Vision 2000 L.L.C., Dubai	Retail	AED 1.00	58	●	◀

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

> NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2016

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 73.30	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	●	◀
Mexico					
Operadora y Comercializadora de Relojes y Joyeria SA de CV, Mexico	Services	MXN 1.50	100	●	◀
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 419.99	100	●	◀
Panama					
The Swatch Group Panama SA, Panama City	Administration	USD 0.01	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	●	◀
HW Holdings Inc., Wilmington, Delaware	Holding	USD 0.00	100	●	◀
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 168.90	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 on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of The Swatch Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

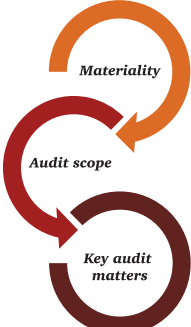
In our opinion, the accompanying consolidated financial statements (pages 171 to 211) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the «Auditor’s responsibilities for the audit of the consolidated financial statements» section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Our audit approach
 Overview**



Overall materiality: CHF 38 850 000

We concluded full scope audit work at 122 Group companies in 31 countries. The audit scope of these 122 Group companies addressed more than 95% of the Group’s total assets, net sales and net income.

As a key audit matter, the following area of focus was identified:

- Valuation and existence of inventories

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The main subsidiaries of the Group were audited by PwC exclusively and we remain in constant contact with the audit teams that perform the work. As the auditor of the consolidated financial statements, we ensure that we visit the local management and the local auditor of the most significant Group companies every three years according to a rotation plan. During these site visits, we discuss the risks of a material misstatement in the local entity’s financial statements as well as the focus points of the audit and the audit scope. During the audit of the 2016 consolidated financial statements, we participated in the audit closing meetings of five of the main Group companies in Switzerland and for the main Group companies in the USA, China and Hong Kong.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

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

Overall Group materiality for the audit of the consolidated financial statements	CHF 38 850 000
How we determined it	5% of profit before income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, profit before income taxes is a generally accepted benchmark for considerations of materiality. We chose 5% of profit before income taxes to determine materiality as this is a commonly used benchmark in practice.

In our audit plan, we communicated to the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 1 700 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks in making operational decisions and for its financial reporting.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of inventories

Key audit matter

We consider the valuation of inventories to be a key audit matter because they amounted to CHF 6 259 million on the balance sheet as at 31 December 2016 and they represent a significant share of total assets (about 48%).

Sales of watches and jewellery are subject to market fluctuations. These fluctuations along with the complex structure of inventories – raw materials, components, finished goods and spare parts – mean that there is significant scope for judgement in testing inventories for impairment and recoverability. In performing these tests, the different raw materials used and the durability of the value of each brand's products have to be considered in the light of the different product life cycles.

Due to the diversity and the significant quantity and value of inventories, we consider also the existence of inventories to be a key audit matter.

Please refer to page 178 (Summary of significant accounting policies) and page 193 (Notes to the consolidated financial statements, Note 13 Inventories) in the 2016 Annual Report.

How our audit addressed the key audit matter

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

- Based on historical and expected inventory usage figures, we assessed at subsidiary level the process for identifying slow-moving inventories and the appropriateness of the resulting write-downs.
- For inventories subject to a sales risk, we tested at subsidiary level and at Group level Management's valuation estimates based on the lower of acquisition or manufacturing cost and net realisable value and the recoverability of the book value of finished goods. In doing so, we considered not only sales figures but also the marketability of the watch and jewellery collections.
- Further, at Group level, we checked the process to eliminate unrealised gains and losses from transactions between Group companies. In doing so, we checked that the valuation of the inventories on the consolidated financial statements did not include any unrealised gains.
- For the audit of the existence of inventories, we attended at subsidiary level permanent and year-end inventory counts. We also tested the effectiveness of the key controls relating to the inventory counts. Specifically, the key controls include monitoring that the inventory counts are properly performed at the Group's numerous sales locations and production sites, and the treatment of any inventory differences.

On the basis of the audit procedures performed, we have audited the existence of the inventories and addressed the risk of an incorrect valuation of the inventories. We have no findings to report.

> REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING
OF THE SWATCH GROUP LTD, NEUCHÂTEL**Responsibilities of the Board
of Directors for the consoli-
dated financial statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Auditor's responsibilities for
the audit of the consolidated
financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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, 22 February 2017

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> INCOME STATEMENT OF THE SWATCH GROUP LTD

	Notes	2016 CHF million	2015 CHF million
Income from investments in subsidiaries	(1)	1 060	1 121
Other income	(2)	5	6
Personnel expense		- 43	- 50
Other expenses		- 14	- 17
Depreciation and impairment	(3)	- 7	- 21
Financial expenses	(4)	- 43	- 41
Financial income	(5)	37	35
Ordinary result		995	1 033
Non-operating result	(6)	0	0
Extraordinary result	(6)	- 1	0
Profit before income taxes		994	1 033
Income taxes		- 2	- 5
Net income		992	1 028

> BALANCE SHEET OF THE SWATCH GROUP LTD

Assets	Notes	31.12.2016		31.12.2015	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		54	0.8	194	2.9
Assets with an observable market price	(7, 10)	115	1.6	194	2.9
Other current receivables					
– from Group companies	(8)	3 106	43.4	2 722	40.6
– from third parties		37	0.5	47	0.7
Prepayments and accrued income		2	0.0	2	0.0
Total current assets		3 314	46.3	3 159	47.1
Non-current assets					
Loans to Group companies	(8)	417	5.8	422	6.3
Investments in subsidiaries and associates	(9)	3 422	47.8	3 116	46.5
Property, plant and equipment		8	0.1	9	0.1
Intangible assets		1	0.0	1	0.0
Total non-current assets		3 848	53.7	3 548	52.9
Total assets		7 162	100.0	6 707	100.0

> BALANCE SHEET OF THE SWATCH GROUP LTD

Equity and liabilities	Notes	31.12.2016		31.12.2015	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(10)	116	1.6	13	0.2
Other current liabilities					
– to Group companies		120	1.7	41	0.6
– to third parties		12	0.2	3	0.1
Accrued expenses		16	0.2	19	0.3
Non-current liabilities					
Non-current provisions		90	1.2	90	1.3
Total liabilities		354	4.9	166	2.5
Equity					
Share capital		125	1.8	125	1.9
Statutory capital reserve		109	1.5	99	1.5
Statutory reserve		10	0.1	10	0.1
Reserve for treasury shares		1	0.0	2	0.0
Voluntary reserve		6 193	86.5	5 572	83.1
– Profit brought forward		37		32	
– Net income for the year		992		1 028	
Available earnings		1 029	14.4	1 060	15.8
Treasury shares		– 659	– 9.2	– 327	– 4.9
Total equity	(11)	6 808	95.1	6 541	97.5
Total equity and liabilities		7 162	100.0	6 707	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 2016 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)	2016	2015
Dividends	1 005	1 055
Other income from investments in subsidiaries	55	66
Total	1 060	1 121

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 2016, other income was CHF 5 million (previous year: CHF 6 million).

3. Depreciation and impairment

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

4. Financial expenses

(CHF million)	2016	2015
Interest expense	-2	0
Result from marketable securities at fair value	-11	-6
Net currency result	-29	-33
Other financial expense	-1	-2
Total	-43	-41

5. Financial income

(CHF million)	2016	2015
Interest income	29	22
Income and gains on securities	8	13
Total	37	35

6. Non-operating / extraordinary result

The non-operating result was less than CHF 1 million in the year under review (previous year: less than CHF 1 million). The extraordinary result was a loss of CHF 1 million in the year under review (previous year: loss of less than CHF 1 million).

> NOTES TO THE FINANCIAL STATEMENTS

7. Assets with an observable market price	(CHF million)	31.12.2016	31.12.2015
Marketable securities		100	158
Precious metals		10	23
Derivative financial instruments (see Note 10)		5	13
Total		115	194

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 Swatch Group Ltd and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 47.8% of total assets at 31 December 2016 versus 46.5% at end-2015. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 422 million at end-2016. This amount corresponds to consolidated investments and investments in associates, and is CHF 306 million higher than in 2015.

10. Financial debts and derivative financial instruments At year end 2016 a short term bank loan of CHF 103 mio was open (previous year: none).

The contract and fair values of derivative financial instruments at 31 December 2016 and 2015 are as follows:

Type	Contract value			Positive fair value			Negative fair value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 714	404	2 118	3	2	5	-11	-2	-13
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2016	1 714	404	2 118	3	2	5	-11	-2	-13

Type	Contract value			Positive fair value			Negative fair 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

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2016 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2016 relate to 32 positions held in precious metals and in foreign currencies (previous year: 33). 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 2016, there was no option contract outstanding (none in the previous year).

> NOTES TO THE FINANCIAL STATEMENTS

11. Equity

Compared with end-2015, equity increased by CHF 267 million to CHF 6 808 million in 2016. In percentage of total assets the equity ratio amounted to 95.1% at 31 December 2016 (versus 97.5% 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	Avail-able 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
Allocated in 2016					620	- 620		-
Dividend paid out						- 403		- 403
Change in treasury shares		10					- 332	- 322
Creation / dissolution				- 1	1			-
Net income for the year						992		992
Balance at 31.12.2016	125	109	10	1	6 193	1 029	- 659	6 808

Share capital

At 31 December 2016, 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
31.12.2015	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2016	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 2016

At 31 December 2016, the Hayek Pool, its related companies, institutions and individuals held 62 136 850 registered shares and 2 800 bearer shares, equivalent to 40.1% of all voting rights (previous year: 40.5%). 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 Walder Wyss 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 Ammann Group Holding 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 39.7% of all voting rights at end-2016 (previous year: 40.1%).

Mrs. Esther Grether's group has been dissolved at the end of June 2016. It controlled 5.9% of all voting rights on 31 December 2015.

At 31 December 2016, the Swatch Group had no knowledge of any other group or individual shareholder controlling more than 5% of all voting rights.

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, an amount of CHF 620 million was appropriated from available earnings at 31 December 2015 (previous year: CHF 670 million). In the previous year, a historical value adjustment on treasury shares amounting to CHF 44 million was dissolved. The amount was allocated to the voluntary reserve.

Reserve for treasury shares

At 31 December 2016, there was a reserve for treasury shares amounting to CHF 1 million for shares held indirectly through Group subsidiaries (previous year: CHF 2 million). The change in reserve for treasury shares was allocated to the voluntary reserve.

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 11 May 2016, 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 2015. The total dividend amount paid to shareholders in 2016 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 14 million, thus remains as an integral part of equity at 31 December 2016. Finally, CHF 620 million was appropriated from available earnings at 31 December 2015 and allocated to the voluntary reserve.

> NOTES TO THE FINANCIAL STATEMENTS

Treasury shares / Share buyback program

A new share buyback program with a total value of CHF 1 billion commenced on 5 February 2016 and will continue until 4 February 2019 at the latest. Within the scope of this buyback program, the Swatch Group repurchased own shares with a market value of CHF 332 million as at 31 December 2016.

Treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2016 corresponded to 4.3% (versus 2.5% at end-2015) 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 as follows:

Shares held by:	Registered shares		Bearer shares	
	Quantity ¹⁾		Quantity	
	2016	2015	2016	2015
The Swatch Group Ltd				
Balance at 1 January	4 065 425	4 258 988	570 000	505 000
Acquisitions ²⁾	2 689 767	77 000	538 850	65 000
Disposals ³⁾	- 236 148	- 270 563	-	-
Balance at 31 December	6 519 044	4 065 425	1 108 850	570 000
Other consolidated companies				
Balance at 1 January	32 892	-	-	-
Acquisitions ³⁾	-	32 892	-	-
Disposals ⁴⁾	- 10 500	-	-	-
Balance at 31 December	22 392	32 892	0	0
Total balance at 31 December	6 541 436	4 098 317	1 108 850	570 000

¹⁾ Of which, at the end of 2016, a total of 680 644 registered shares are reserved for the management stock option plan (previous year: 916 792 registered shares)

²⁾ In 2016, The Swatch Group Ltd acquired 2 689 767 registered shares at an average price of CHF 61.52. In addition, 538 850 bearer shares at an average price of CHF 308.21 were acquired. In 2015, The Swatch Group Ltd acquired 77 000 registered shares at an average price of CHF 79.68. In addition, 65 000 bearer shares at an average price of CHF 344.81 were acquired.

³⁾ In 2015, The Swatch Group Ltd sold 32 892 registered shares at an average price of CHF 65.30 to another Group company. All disposals of registered shares in 2016, as well as the remaining disposals in 2015 relate to the employee stock option plan (see Note 29 of the consolidated financial statements for details). In 2016 and 2015, no bearer shares were sold.

⁴⁾ In 2016, in connection with the acquisition of the remaining minority interest in ASI-Centrum spol. s.r.o., 10 500 registered shares were granted to the former shareholders. Details of the transaction are disclosed in Note 18 of the consolidated financial statements.

Off-balance-sheet items

Number of full-time equivalents

In 2016, the annual average number of full-time equivalents was 145 (previous year: 147).

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 CHF 10 million at the end of the year (previous year: less than CHF 1 million).

Liabilities to pension plans

The balance sheet as at end-2016 contained no liabilities to pension plans (previous year: none).

Assets pledged

None of the company's assets are pledged.

Guarantees

At end-2016, 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 another Group company (unchanged to the previous year).

Contingent liabilities

At end-2016 and 2015, there were no contingent liabilities except the joint and several responsibility in favor of other Group companies in connection with the group taxation of the value added tax.

> 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. Details of the entire plan are disclosed in Note 29 of the consolidated financial statements. Allocations to the Board of Directors and the Management Board are disclosed in the separate compensation report, in which all management remuneration information is disclosed as well.

In the year under review, 5 630 registered shares resp. options valued at CHF 0.3 million (previous year: 5 405 registered shares resp. options valued at CHF 0.4 million) were allocated to other employees of The Swatch Group Ltd.

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 2016 and 2015:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2016	2015	2016	2015	2016	2015
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	128 208	108 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member	100	100				
Dr. Jean-Pierre Roth	BoD Member			10	10		
Daniela Aeschlimann ¹⁾	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	90 991	100 991			24 000	24 000
Pierre-André Bühler	MB Member	25 966	18 716			8 002	8 002
Dr. Mougahed Darwish	MB Member	76 268	73 668			2 602	2 602
Marc A. Hayek	MB Member	118 398	105 898			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	54 252	46 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	60 000	56 668			12 000	12 000
Dr. Hanspeter Rentsch ²⁾	MB Member / CLO		116 522		200		19 001
François Thiébaud	MB Member	116 123	103 623			12 502	12 502
Raynald Aeschlimann	EMB Member	14 867	11 867			4 001	4 001
Matthias Breschan	EMB Member	1 034	2 534			3 000	3 000
Jean-Claude Eggen	EMB Member	4 316	3 816			2 501	2 501
Yann Gamard	EMB Member					5 501	5 501
Hans-Rudolf Gottier	EMB Member	33 698	28 698			5 002	5 002
Walter von Känel	EMB Member	54 879	48 879	40	40	6 000	6 000
Thomas Meier	EMB Member	4 800	3 600			1 200	1 200
Calogero Polizzi	EMB Member	5 750	6 536			1 668	2 002
Kevin Rollenhagen	EMB Member	56 148	48 148			8 002	8 002
Dr. Peter Steiger	EMB Member	84 925	75 925			9 000	9 000
Stephen Urquhart ³⁾	EMB Member		45 000				6 502
Total		56 634 867	56 709 793	2 600	2 800	145 487	171 324

¹⁾ Member of the BoD since May 2016

²⁾ Member of the MB until August 2016

³⁾ Member of the EMB until September 2016

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 2016, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2015: community of heirs of N. G. Hayek).

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 22 February 2017 and will be submitted to the Annual General Meeting of Shareholders for approval on 23 May 2017.

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:

	2016	2015
	CHF million	CHF million
Net income for the year	992	1 028
Profit brought forward from previous year	37	32
Available earnings	1 029	1 060
Allocation to special reserve	- 620	- 620
Payment of a 2015 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 2016 dividend, i.e.: ¹⁾		
– CHF 1.35 per registered share with a par value of CHF 0.45	- 167	
– CHF 6.75 per bearer share with a par value of CHF 2.25	- 208	
Dividends not paid out on own shares held by the Group ²⁾		14
Balance carried forward	34	37

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 11 May 2016, 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 on the audit of the financial statements

Opinion

We have audited the financial statements of The Swatch Group Ltd, which comprise the balance sheet as at 31 December 2016 and income statement for the year then ended and notes, including a summary of significant accounting policies.

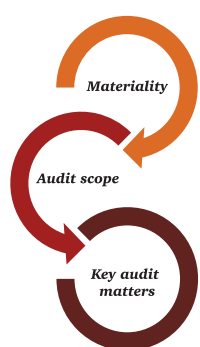
In our opinion, the accompanying financial statements (pages 217 to 225 and pages 208 to 211) as at 31 December 2016 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the «Auditor's responsibilities for the audit of the financial statements» section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach Overview



Overall materiality: CHF 34 000 000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter, the following area of focus was identified:

- Valuation of investments in subsidiaries and associates

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality for the audit of the financial statements	CHF 34 000 000
How we determined it	0.5% of total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because it is a relevant and generally accepted benchmark for materiality considerations relating to a holding company. We chose 0.5% of total equity to determine materiality as this is a commonly used benchmark in practice.

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

In our audit plan, we communicated to the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 1 700 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks to support its operational decisions and for its financial reporting.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries and associates

Key audit matter

As at 31 December 2016, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 3 422 million (about 48% of total assets). They include the directly held subsidiaries, which hold the other Group companies. These include subsidiaries with different levels of vertical integration, in particular component producers, manufactures, brand name parent companies, numerous sales organisations and other equity investments. Because of their vertical integration and their similarity, these investments are grouped together, in some cases, for valuation purposes.

Due to the significance of this asset category in the financial statements and because of the scope for judgement in grouping these investments, we consider the impairment assessment of the equity investments as complex and, therefore, as a key audit matter.

Please refer to page 220 (Valuation principles) and page 221 (Details to specific items, Note 9 Investments in subsidiaries and associates) of the 2016 Annual Report.

How our audit addressed the key audit matter

We performed the following audit procedures:

- Firstly, we checked the grouping of the investments based on their similarity and their vertical integration in the Swatch Group.
- Secondly, we tested the valuation of each investment or group of investments based on its equity and results for the year.

On the basis of the audit procedures performed, we have addressed the risk of investments being grouped together inappropriately with no economic justification and of investments being valued incorrectly. We have no findings to report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit 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.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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, 22 February 2017

> THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding / Average share capital	2016 basic	2015 basic	2014 basic	2013 basic	2012 basic
Number of registered shares of CHF 0.45	118 672 611	119 847 161	119 894 096	119 514 584	118 195 194
Number of bearer shares of CHF 2.25	29 987 419	30 308 846	30 320 769	30 335 000	30 335 000
Total average number of shares outstanding	148 660 030	150 156 007	150 214 865	149 849 584	148 530 194
Share capital registered shares of CHF 0.45	53 402 675	53 931 222	53 952 343	53 781 563	53 187 838
Share capital bearer shares of CHF 2.25	67 471 693	68 194 904	68 221 730	68 253 750	68 253 750
Total average share capital	120 874 368	122 126 126	122 174 073	122 035 313	121 441 588

Key data per registered share (nom. CHF 0.45) in CHF	2016	2015	2014	2013	2012
Consolidated net income attributable to shareholders	2.14	4.01	5.10	7.08	5.91
Cash flow from operating activities	3.76	5.17	6.81	4.83	3.70
Consolidated equity	41.22	41.42	39.32	35.30	31.77
Dividend	1.35 ¹⁾	1.50	1.50	1.50	1.35

Key data per bearer share (nom. CHF 2.25) in CHF	2016	2015	2014	2013	2012
Consolidated net income attributable to shareholders	10.69	20.07	25.49	35.41	29.57
Cash flow from operating activities	18.80	25.87	34.03	24.13	18.51
Consolidated equity	206.12	207.12	196.58	176.52	158.84
Dividend	6.75 ¹⁾	7.50	7.50	7.50	6.75

Stock price of registered shares (adjusted)		2016	2015	2014	2013	2012
High		74.00	88.90	108.00	104.40	80.40
Low		48.25	61.25	75.35	80.20	59.90
	31.12.	62.25	68.00	86.00	100.40	78.75

Stock price of bearer shares (adjusted)		2016	2015	2014	2013	2012
High		373.00	462.50	597.00	606.50	471.70
Low		246.20	324.10	417.10	473.00	341.70
	31.12.	316.70	350.20	444.20	589.50	461.20

Market capitalization (CHF million)		2016	2015	2014	2013	2012
	31.12.	17 489	19 235	24 367	30 634	23 992

Key ratios (year-end)		2016	2015	2014	2013	2012
Average return on equity	%	5.3	10.2	14.0	21.2	19.7
Dividend yield registered shares	%	2.2	2.2	1.7	1.5	1.7
Dividend yield bearer shares	%	2.1	2.1	1.7	1.3	1.5
Price/earnings ratio – registered shares		29.1	17.0	16.9	14.2	13.3
Price/earnings ratio – bearer shares		29.6	17.4	17.4	16.7	15.6

1) Board of Directors' proposal.

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 (1988–2016)

