

FINANCIAL STATEMENTS 2017

CONSOLIDATED FINANCIAL STATEMENTS
FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD



ORDER IN THE APPARENT CHAOS

The Milky Way is estimated to contain 100 to 400 billion stars. There is a system in this supposed chaos of stars, gas and dust. It takes a lot of experience, knowledge and a clear eye for the details to get to the heart of the matter. Like an extensive Excel file, it's a true challenge!

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FINANCIAL REVIEW

Key financial developments in 2017

- **Net sales:** Group net sales increased 5.8% to CHF 7 989 million at constant exchange rates, and +5.4% to CHF 7 960 million at current exchange rates.
- **Operating result:** Operating margin in the Watches & Jewelry Segment (excluding Production) increased 27.4%, from 12.8% to 15.3% of net sales, despite a negative currency impact.
- Overall operating result improved by 24.5% to CHF 1 002 million, and was even up by almost 40% in the second half of the year. Operating margin grew from 10.7% in the previous year to 12.6%.
- **Net income:** Net income increased 27.3% to CHF 755 million, with a net margin of 9.5% (previous year: 7.9%).
- **Dividend:** Dividend proposal up by 11.1% to CHF 7.50 per bearer share (previous year: CHF 6.75) and CHF 1.50 per registered share (previous year: CHF 1.35), back to the level of 2015.

Financial review

1. Key figures Group

(CHF million)	2017	2016	Change in %		Total
			at constant rates	currency effect	
Net sales	7 960	7 553	+5.8%	-0.4%	+5.4%
Operating result	1 002	805			+24.5%
– in % of net sales	12.6%	10.7%			
Net income	755	593			+27.3%
– in % of net sales	9.5%	7.9%			
Equity	11 289	11 073			+2.0%
– as a % of balance sheet total	83.8%	84.5%			

FINANCIAL REVIEW

2. Environment /
Financial year

Development net sales and operating result

(CHF million)	2017			2016		
	Third	Group	Total	Third	Group	Total
Net sales						
Watches & Jewelry	7 701	1	7 702	7 304	1	7 305
Electronic Systems	254	13	267	244	16	260
Corporate	5	5	10	5	6	11
Elimination		-19	-19		-23	-23
Total	7 960	-	7 960	7 553	-	7 553

(CHF million)	2017		2016	
	Total	in % of net sales	Total	in % of net sales
Operating result				
Watches & Jewelry	1 104	14.3%	894	12.2%
Electronic Systems	5	1.9%	10	3.8%
Corporate	-107		-99	
Total	1 002	12.6%	805	10.7%

The Swatch Group, with its 20 strong brands and its own retail network, including e-commerce and omnichannel distribution, is very well set up worldwide, and generated sales of CHF 7 960 million over the course of the year (+5.4% at current and +5.8% at constant exchange rates).

The Swatch Group also adhered to its consumer-friendly and defensive pricing policy, and did not adjust automatically local sales prices to the overvalued Swiss franc.

Particularly the second half of 2017 was marked by highly accelerated sales growth of 12.2% in the Watches & Jewelry segment (excluding Production) at actual rates and with one of the best-ever December turnover. The entire segment (including Production) achieved net sales of CHF 7 702 million. Compared to the previous year, this was an increase of 5.4% at actual and 5.8% at constant exchange rates.

Highly accelerated sales growth was recorded in all price segments, particularly in the basic and middle range segment as well. Flik Flak, Swatch, Calvin Klein, Hamilton, Mido and Tissot achieved impressive growth rates in the second half of 2017, while export figures for the Swiss Watch Industry were clearly negative in these segments. This indicates a massive gain in market share in these segments.

The already strong position of the Swatch Group in Mainland China strengthened further due to marked growth in 2017. Sales in Hong Kong have not only stabilized further during the year, but are on growth track. Japan recorded high single-digit growth during the course of the year. Also in the Middle East, the Swatch Group again recorded accelerated growth. In Europe, particularly sales in Great Britain, Italy, Germany, Austria, Benelux, and also again in Switzerland increased compared to the previous year. Only France and Spain lag behind in this respect. Growth in local currency also accelerated in the North American market during the course of the year.

Production integrated in the Watches & Jewelry segment already recorded good capacity utilization again in the second half of the year. In some areas, capacity constraints are already occurring, for example, in integrated gold production. Third-party brands are still hesitant with orders.

The Electronic Systems segment generated net sales of CHF 267 million, corresponding to a growth of 2.7%. Sales are very sensitive in relation to the strength of the Swiss franc versus USD and JPY, which did not help this industry sector in 2017. The operating result in the Electronic Systems segment closed at CHF 5 million (previous year: CHF 10 million).

Driven by steady growth in sales in the Watches & Jewelry segment, capacity utilization in production continued to improve, so that an operating result of CHF 1 002 million was achieved, corresponding to an operating margin of 12.6%.

FINANCIAL REVIEW

Development net income

(CHF million)	2017	2016
Operating result	1 002	805
Net financial result	2	- 32
Ordinary result	1 004	773
Non-operating result	3	4
Profit before income taxes	1 007	777
Income taxes	- 252	- 184
Net income	755	593
- in % of net sales	9.5%	7.9%
- Change from previous year in %	27.3%	- 47.0%

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

- Registered shares	2.77	2.14
- Bearer shares	13.86	10.69

The net financial result for the current year was a gain of CHF 2 million, after a loss of CHF 32 million last year. The strongly negative net currency result of CHF 37 million was compensated by interest income, gains on marketable securities at fair value and the positive share of result from associates. Further details to the net financial result can be founded in Note 5f of the consolidated financial statements.

Income tax expense in relation to profit before income taxes increased from 23.7% in the previous year to 25.0% in the year under review. The main reasons for this increase were both the non-recurring effects due to tax rate changes in different countries and the still only cautious capitalization of carryforward tax losses. A detailed analysis of the income tax expense is set out in Note 6 of the consolidated financial statements.

Net income increased by 27.3% to CHF 755 million, with a net margin of 9.5% (previous year: 7.9%).

In the current year, basic earnings per share amounted to CHF 2.77 (previous year: CHF 2.14) for registered shares and CHF 13.86 (previous year: CHF 10.69) for bearer shares, respectively. As in previous years, dilution of earnings was immaterial. Detailed information can be found in Note 7 of the consolidated financial statements..

At the Annual General Meeting on 24 May 2018, the Board of Directors of the Swatch Group will propose a dividend increase of 11.1% to CHF 7.50 per bearer share and CHF 1.50 per registered share (previous year CHF 6.75 per bearer share and CHF 1.35 per registered share) due to the very good results.

FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2017	2016
Current assets	9 458	9 045
Current liabilities	1 373	1 207
Equity	11 289	11 073
– as % of total assets	83.8%	84.5%
Average return on equity (ROE)	6.8%	5.3%

Current liabilities were covered by current assets by a factor of 6.9 (previous year: 7.5). This factor indicates a very healthy structure of the short-term balance sheet positions.

In the year under review, equity increased to CHF 11.3 billion despite further share buybacks (previous year: CHF 11.1 billion). The equity ratio is a solid 83.8% of total assets (previous year: 84.5%).

Development liquidity

(CHF million)	2017	2016
Cash and cash equivalents at 1.1.	1 136	1 280
Cash flow from operating activities	1 264	1 010
Cash flow from investing activities	– 435	– 484
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 674	– 670
Cash and cash equivalents at 31.12.	1 291	1 136

Operating cash flow increased compared to last year by 25.1%, from CHF 1 010 million to CHF 1 264 million. To keep the cash position low and to avoid negative interest, further treasury shares with a market value of CHF 204 million were repurchased in 2017 under the three-year share buyback program. The total volume repurchased since the beginning of the program amounts to CHF 536 million. The net financial position at the end of the year amounted to CHF 1.6 billion.

Across all segments, the Swatch Group invested a total of CHF 464 million in non-current assets in 2017. The Group's retail network was further optimized in selective areas. Massive investment continued to be made in production, both in the latest production methods and in innovative production equipment and processes. Significant investment was also made in world-wide customer service.

The dividend payment of CHF 357 million (previous year: CHF 403 million) and the share buyback mentioned above were the main cash flows from financing activities.

FINANCIAL REVIEW

3. Outlook

The Swatch Group anticipates further very positive growth in local currencies in 2018, not only from its own distribution channels such as retail and e-commerce, but also from third-party channels. In addition, further growth will utilize the capacities of all production areas.

Once again, Omega, as official timekeeper of the XXIII Winter Games from 9 to 25 February in PyeongChang, South Korea, will deliver daily results and all the athletes' data, and therefore be present in all the media. In addition, Omega will present on site the Seamaster Collection limited series PyongChang 2018 dedicated to the Games. Omega will also celebrate the 70th anniversary of the Seamaster and the 25th anniversary of the Seamaster Diver 300m in 2018, and will market special editions of the collections for these occasions. After the successful launch of the new "Trésor pour femme" collection in Japan and the USA in December, worldwide market introduction will take place in the first half of 2018.

Blancpain, with its Fifty Fathoms collection and the Blancpain Ocean Commitment, and Breguet, with its new Marine Collection, will cause a sensation and generate further sales growth. The Harry Winston brand further strengthens its market presence with the opening of new sales salons on Rodeo Drive in Beverly Hills, San Francisco, Istanbul, and Zürich, as well as an additional flagship store in Hong Kong Central.

Rado will strengthen its worldwide leadership position in ceramics with the launch of new collections with innovative materials and surface structures. Longines, with its Conquest V.H.P. collection (Very High Precision, extremely precise quartz movement with practically infinite calendar), will not only increase its market presence, but is also well on its way to achieving sales of CHF 2 billion in the medium term. Longines will also be the official timekeeper of important sporting events such as the Commonwealth Games in Australia and the world equestrian and show jumping championships in the USA.

Tissot, one of the exclusive Swiss brands with over CHF 1 billion in sales, will once again be the official sponsor and timekeeper for the Tour de France. The brand will introduce the new Tissot T-Race Cycling, and in doing so, will broaden the already well-known Tissot T-Sport Collection of timepieces which includes the Chrono XL NBA, the North American professional basketball league, and the MotoGP. In addition, the Tissot Chemin des Tourelles GMT, with a Powermatic 80 GMT watch movement with 80 hours power reserve and two time zones, will be launched. Tissot will also further expand its very close and successful partnership with Tmall in China.

Swatch and Tmall held a unique "Swatch Tmall Super Brand Day" on 12 January 2018 at the Swatch Art Peace Hotel in Shanghai, with a combination of on- and offline activities centered on the Swatch brand. Live streaming of this event was followed by over 24 million Tmall users. Karry Wang, as a new Swatch ambassador, also took part in this event. As a singer and actor, Karry Wang is a star and idol for the young generation in China. The special Swatch model which he wore was sold out within hours. In addition, a great many fans immediately crowded the Boutiques.

In the Electronic Systems segment, demand is currently growing rapidly, thanks to groundbreaking developments, which naturally have been patented. Examples are the so-called miniature watch module, which enables production of ultra-precise quartz watch movements with an accuracy 30 times better than previous quartz movements, and the new real-time clock (RTC), which is used to optimize charging cycles for the battery management system in all batteries for hybrid and electric vehicles. Last but not least, a unique interface circuit for accelerometers was developed, which is used for drones, fitness trackers, mobile phones and other electronic devices.

Swatch Group, with its global presence and its unique and diverse distribution channels, including online, will continue to generate very dynamic growth in local currency in 2018. The very good start in January confirms sustained consumption in most regions and countries, not only in the prestige and luxury sector, but also in the basic price segments.



SOLAR ECLIPSE

Sometimes the sun is blocked
and all of our light disappears.

But we know that it always
comes back – a reason for our
eternal optimism.

CONSOLIDATED INCOME STATEMENT

	Notes	2017		2016	
		CHF million	%	CHF million	%
Net sales	(4, 5a)	7 960	100.0	7 553	100.0
Other operating income	(5b)	116	1.4	249	3.3
Changes in inventories		83	1.0	77	1.0
Material purchases		- 1 735	- 21.8	- 1 642	- 21.7
Personnel expense	(5c)	- 2 339	- 29.4	- 2 342	- 31.0
Depreciation and impairment on property, plant and equipment	(15)	- 433	- 5.4	- 394	- 5.2
Amortization and impairment on intangible assets	(16)	- 43	- 0.5	- 43	- 0.6
Other operating expenses	(5d)	- 2 607	- 32.7	- 2 653	- 35.1
Operating result		1 002	12.6	805	10.7
Other financial income and expense	(5f)	- 16	- 0.2	- 25	- 0.3
Interest expense	(5f)	- 3	- 0.0	- 3	- 0.1
Share of result from associates and joint ventures	(5f, 17)	21	0.2	- 4	- 0.1
Ordinary result		1 004	12.6	773	10.2
Non-operating result	(5g)	3	0.0	4	0.1
Profit before income taxes		1 007	12.6	777	10.3
Income taxes	(6a)	- 252	- 3.1	- 184	- 2.4
Net income		755	9.5	593	7.9
Attributable to shareholders of The Swatch Group Ltd		733		574	
Attributable to non-controlling interests		22		19	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		2.77		2.14	
Diluted earnings per share		2.77		2.14	
Bearer shares					
Basic earnings per share		13.86		10.69	
Diluted earnings per share		13.85		10.68	

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

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2017		31.12.2016	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	1 291	9.6	1 136	8.7
Marketable securities and derivative financial instruments	(10)	340	2.5	326	2.5
Trade receivables	(11)	1 076	8.0	903	6.9
Other current assets	(12)	178	1.3	141	1.1
Inventories	(13)	6 318	46.9	6 259	47.7
Prepayments and accrued income	(14)	255	1.9	280	2.1
Total current assets		9 458	70.2	9 045	69.0
Non-current assets					
Property, plant and equipment	(15)	3 281	24.3	3 276	25.0
Intangible assets	(16)	147	1.1	142	1.1
Investments in associates and joint ventures	(17)	57	0.4	59	0.5
Other non-current assets	(19)	144	1.1	174	1.3
Deferred tax assets	(6d)	392	2.9	410	3.1
Total non-current assets		4 021	29.8	4 061	31.0
Total assets		13 479	100.0	13 106	100.0

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

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2017 CHF million	%	31.12.2016 CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	16	0.1	124	0.9
Trade payables		354	2.6	316	2.4
Other liabilities	(21)	209	1.5	166	1.3
Provisions	(23)	93	0.7	83	0.6
Accrued expenses	(22)	701	5.2	518	4.0
Total current liabilities		1 373	10.1	1 207	9.2
Non-current liabilities					
Financial debts	(20)	26	0.2	31	0.2
Deferred tax liabilities	(6d)	532	4.0	569	4.4
Retirement benefit obligations	(24)	43	0.3	39	0.3
Provisions	(23)	69	0.5	55	0.4
Accrued expenses	(22)	147	1.1	132	1.0
Total non-current liabilities		817	6.1	826	6.3
Total liabilities		2 190	16.2	2 033	15.5
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 977		- 991	
Treasury shares	(26d)	- 863		- 660	
Goodwill recognized		- 1 372		- 1 372	
Translation differences		- 115		- 142	
Retained earnings		14 403		14 027	
Equity of The Swatch Group Ltd shareholders		11 201	83.1	10 987	83.8
Non-controlling interests		88	0.7	86	0.7
Total equity		11 289	83.8	11 073	84.5
Total equity and liabilities		13 479	100.0	13 106	100.0

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2017 CHF million	2016 CHF million
Operating activities			
Net income		755	593
Reversal of non-cash items	(28a)	692	645
Changes in working capital and other items included in operating cash flow	(28b)	-22	41
Dividends received from associated companies	(17)	18	2
Interest received		9	9
Interest paid		-3	-3
Income tax paid	(6c)	-185	-277
Cash flow from operating activities		1 264	1 010
Investing activities			
Investments in property, plant and equipment	(15)	-396	-504
Proceeds from sale of property, plant and equipment		6	21
Investments in intangible assets	(16)	-46	-35
Proceeds from sale of intangible assets		0	1
Investments in other non-current assets	(19)	-22	-24
Proceeds from sale of other non-current assets		12	8
Acquisition of subsidiaries – net of cash	(18a)	-	0
Divestments of businesses	(18b)	3	3
Purchase of marketable securities		-112	-76
Sale of marketable securities		120	122
Cash flow from investing activities		- 435	- 484
Financing activities			
Dividends paid to shareholders	(8)	-357	-403
Dividends paid to non-controlling interests		-17	-36
Repurchase of treasury shares	(26d)	-204	-332
Sale of treasury shares		1	1
Change in non-current financial debts		0	-5
Change in current financial debts		-100	108
Sale of non-controlling interests	(18c)	-	1
Cash flow from financing activities		- 677	- 666
Net impact of foreign exchange rate differences on cash		3	- 4
Change in cash and cash equivalents		155	- 144
Change in cash and cash equivalents			
– At beginning of year		1 136	1 280
– At end of year	(9)	1 291	1 136
		155	- 144

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Total	Non-con- trolling interests	Total equity
	Share capital (Note 26)	Capital reserves (Note 26)	Treasury shares (Note 26)	Goodwill recognized	Translation differences	Retained earnings			
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):									
– Value of employee services (net of tax)		14					14		14
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		0	- 332				- 332		- 332
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
Net income						733	733	22	755
Currency translation of foreign entities					27		27	- 3	24
Dividends paid						- 357	- 357	- 17	- 374
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		14					14		14
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		- 1	- 204				- 205		- 205
Transactions with non-controlling interests			1				1		1
Balance at 31 December 2017	125	- 977	- 863	- 1 372	- 115	14 403	11 201	88	11 289

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 Swatch Group Ltd 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 28 February 2018 and will be submitted to the Annual General Meeting of Shareholders for approval on 24 May 2018.

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 Ltd. 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 2017, the Group's consolidation structure comprised 162 legal entities (previous year: 168) including two joint ventures (previous year: two) and five associated companies (previous year: four). One legal entity has been created while four entities have been merged with other Group companies and four legal entities have 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** No changes to the Swiss GAAP FER standards have been announced or released in the financial year. As of 2018, the Swatch Group will recognize sales-related transaction costs such as credit card fees, for example, as Other operating expenses. Previously, these costs were deducted from net sales (see Note 2g). This adjustment will be made in order to increase the transparency of net sales and to enable comparison with normal international practice. As a result, Group net sales will increase marginally by approximately 0.4%, with no impact on net income. The Swatch Group will implement this change retrospectively (according to Swiss GAAP FER Framework, paragraph 30) and adjust the prior-year figures accordingly.
- 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 consolidated 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
		2017	31.12.2017	2016	31.12.2016
		CHF	CHF	CHF	CHF
CNY	1	0.1461	0.1503	0.1491	0.1472
EUR	1	1.1186	1.1720	1.0930	1.0760
HKD	1	0.1263	0.1252	0.1279	0.1320
JPY	100	0.8800	0.8685	0.9121	0.8785
USD	1	0.9849	0.9790	0.9930	1.0235

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.

As of 2018, sales-related transaction costs such as credit card fees, for example, will be recognized as Other operating expenses and no longer directly in net sales (see Note 2e).

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 (maximum 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 (maximum 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 (maximum 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 maximum 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 were 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 it is permitted and intended to 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

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.

Property, plant and equipment are only leased in exceptional circumstances. At the end of the year under review, the net book value of property, plant and equipment under finance lease contracts amounted to less than CHF 1 million (previous year: less than CHF 1 million).

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)	31.12.2017	31.12.2016
Cash and cash equivalents (Note 9)	1 291	1 136
Marketable securities and derivative financial instruments (Note 10)	340	326
Short-term accessible liquidity reserves	1 631	1 462
Committed credit facilities	772	657
./ Utilized credit facilities	- 35	- 142
Total short-term accessible liquidity reserves and undrawn credit facilities	2 368	1 977

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 2017, equity represented 83.8% of total assets (previous year: 84.5%).

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

2017 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 701	254	5		7 960
– Group	1	13	5	– 19	–
Net sales	7 702	267	10	– 19	7 960
Operating result	1 104	5	– 107	–	1 002
– In % of net sales	14.3	1.9			12.6

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet and other information

2017 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	12 261	301	5 138	– 4 278	13 422
– Investments in associated companies and joint ventures	5		52		57
Total assets	12 266	301	5 190	– 4 278	13 479
Total liabilities	– 5 682	– 125	– 661	4 278	– 2 190
Net assets	6 584	176	4 529	–	11 289

Other information

Investments in property, plant and equipment	400	19	8		427
Investments in intangible assets	37	7	2		46
Investments in other non-current assets	22	0	0		22
Depreciation on property, plant and equipment	– 395	– 19	– 19		– 433
Amortization on intangible assets	– 38	– 2	– 3		– 43
Impairment	0	–	–		0

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

b. Information on geographical regions

(CHF million)	2017		2016	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	748	2 619	756	2 635
Other Europe	1 680	338	1 589	334
Total Europe	2 428	2 957	2 345	2 969
Greater China	2 790	207	2 532	242
Other Asia	1 927	279	1 872	277
Total Asia	4 717	486	4 404	519
Total America	679	173	663	151
Total Oceania	82	7	89	6
Total Africa	54	1	52	1
Total	7 960	3 624	7 553	3 646

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)	2017	2016
	Sale of goods	7 931	7 533
	Rendering of services	29	20
	Total net sales	7 960	7 553

b. Other operating income In 2017, other operating income amounted to CHF 116 million (previous year: CHF 249 million). The decrease is mainly due to the timekeeping services rendered in 2016 for the Olympic Games.

c. Personnel expense	(CHF million)	2017	2016
	Wages and salaries	1 889	1 891
	Social security costs	327	323
	Share-based compensation (Note 29)	14	15
	Pension costs (Note 24)	109	113
	Total personnel expense	2 339	2 342

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

(unaudited)	2017	2016
Average annual headcount	35 057	35 827
Total headcount at 31 December	35 360	35 705
Men	17 089	17 073
Women	18 271	18 632
Swiss contracts	16 709	16 878
Non-Swiss contracts	18 651	18 827

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)	2017	2016
	Marketing, sales and administration	1 267	1 216
	Subcontracting and other direct costs of sales	236	242
	Maintenance, rents and energy	1 044	1 026
	Other operating expenses	60	169
	Total other operating expenses	2 607	2 653

e. Research and development costs Costs for research and development activities amounted to CHF 221 million in 2017, representing 2.8% of net sales (previous year: CHF 219 million or 2.9%).

f. Net financial result	(CHF million)	2017	2016
	Interest income	10	9
	Result from marketable securities at fair value	15	- 2
	Net currency result	- 37	- 28
	Other financial expense	- 4	- 4
	Other financial income and expense	- 16	- 25
	Interest expense	- 3	- 3
	Share of result from associates and joint ventures	21	- 4
	Net financial result	2	- 32

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)	2017	2016
Current income taxes	-273	-232
Income tax of prior periods	4	0
Deferred taxes	17	48
Total income taxes	-252	-184

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.

	2017	2016
	%	%
Group's average expected tax rate	20.4	20.4
Effect of:		
- Tax rate changes on deferred taxes	1.1	-0.2
- Recognition and offset of tax loss carry-forwards not recognized in prior years	-0.1	-0.3
- Non-recognition of tax loss carry-forwards	4.1	2.9
- Non-taxable income	-0.6	-0.4
- Non-tax-deductible expenses	0.7	1.3
- Items taxable at reduced rates	0.0	-0.2
- Income tax of prior periods	-0.4	0.0
- Other items	-0.2	0.2
Group's effective tax rate	25.0	23.7

The effective tax rate based on the ordinary result in the year under review was 25.1% (previous year: 23.8%).

c. Current income tax

(CHF million)	2017	2016
Net current income tax liability		
Balance at 1 January	-26	-70
Recognized in income statement	-269	-232
Recognized in equity	0	-1
Income taxes paid	185	277
Translation differences	-3	0
Balance at 31 December	-113	-26
thereof current income tax assets	22	49
thereof current income tax liabilities	-135	-75

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)	31.12.2017			31.12.2016		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	272	-332	-60	330	-359	-29
Trade and other receivables	2	-15	-13	4	-17	-13
Property, plant and equipment	15	-142	-127	13	-149	-136
Intangible assets	10	-8	2	10	-9	1
Provisions	18	-45	-27	18	-44	-26
Retirement benefit obligations	6	-1	5	4	-1	3
Accrued expenses	66	-33	33	63	-36	27
Tax losses	40	-	40	40	-	40
Other	12	-5	7	15	-41	-26
Total deferred tax assets (liabilities)	441	-581	-140	497	-656	-159
Deferred tax assets			392			410
Deferred tax liabilities			-532			-569

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 2017
One year	2	5	7
Two years	4	0	4
Three years	14	0	14
Four years	12	2	14
Five years	19	10	29
Six years	20	41	61
More than six years	323	121	444
Total at 31.12.2017	394	179	573

(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

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 95 million in the year under review (previous year: CHF 67 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Earnings per share**a. Basic**

	2017	2016
Net income attributable to shareholders of The Swatch Group Ltd (CHF million)	733	574
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.1%	44.2%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.9%	55.8%
Registered shares		
Net income attributable to registered shareholders (CHF million)	323	254
Average number of shares outstanding	116 755 450	118 672 611
Basic earnings per share (in CHF)	2.77	2.14
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	410	320
Average number of shares outstanding	29 567 412	29 987 419
Basic earnings per share (in CHF)	13.86	10.69

b. Diluted

	2017	2016
Registered shares		
Net income attributable to registered shareholders (CHF million)	324	254
Average number of shares outstanding – basic (as above)	116 755 450	118 672 611
Potential number of shares from options outstanding	195 736	215 130
Average potential number of shares outstanding – diluted	116 951 186	118 887 741
Diluted earnings per share (in CHF)	2.77	2.14
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	409	320
Average potential number of shares outstanding	29 567 412	29 987 419
Diluted earnings per share (in CHF)	13.85	10.68

8. Dividends paid and proposed

On 23 May 2017, the Annual General Meeting approved the distribution of a dividend of CHF 1.35 per registered share and CHF 6.75 per bearer share. The distribution to holders of outstanding shares totaled CHF 357 million (previous year: CHF 403 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 18 million.

At the Annual General Meeting on 24 May 2018, the payment of the following dividends for the year under review will be proposed:

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

The financial statements ending 31 December 2017 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Cash and cash equivalents

(CHF million)	31.12.2017	31.12.2016
Current accounts and liquid assets	1 105	884
Short-term deposits with financial institutions	186	252
Total cash and cash equivalents	1 291	1 136

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)	31.12.2017	31.12.2016
Cash and cash equivalents	1 291	1 136
Current account overdrafts (Note 20)	0	0
Total funds net cash	1 291	1 136

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2017	31.12.2016
Equity securities	96	97
Bond securities	224	213
Investment funds and other investments	12	13
Total marketable securities at fair value	332	323
Derivative financial instruments	8	3
Total marketable securities and derivative financial instruments	340	326

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

(CHF million)	31.12.2017			31.12.2016		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
AUD	13	-	0	18	0	-
CAD	14	-	0	12	0	-
CNY	50	-	0	50	0	-
EUR	509	-	-4	444	-	-1
GBP	53	-	0	40	1	-
HKD	7	0	-	-	-	-
JPY	6	0	0	7	-	0
RUB	13	0	0	25	-	0
SGD	14	0	0	15	0	-
USD	1 171	8	-	1 144	2	-10
Other currencies	26	0	-1	17	0	0
Total	1 876	8	-5	1 772	3	-11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade receivables

(CHF million)	31.12.2017	31.12.2016
Trade receivables – gross	1 089	914
Allowance for impaired receivables	– 13	– 11
Total trade receivables – net	1 076	903

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

(CHF million)	2017	2016
Balance at 1 January	– 11	– 11
Translation differences	0	0
Utilization	1	1
Reversal	1	1
Creation	– 4	– 2
Balance at 31 December	– 13	– 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)	31.12.2017	31.12.2016
CHF	160	157
AED	19	23
CNY	341	208
EUR	171	166
HKD	34	31
JPY	36	31
KRW	22	15
USD	104	107
Other currencies	189	165
Total trade receivables – net	1 076	903

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

12. Other current assets

(CHF million)	31.12.2017	31.12.2016
VAT to be refunded	118	112
Other receivables	60	29
Total other current assets	178	141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

(CHF million)	31.12.2017	31.12.2016
Raw materials, auxiliary material and supplies	427	303
Goods in progress	527	505
Semi-finished goods	1 745	1 995
Finished goods	3 260	3 109
Spare parts for customer service	359	347
Total inventories	6 318	6 259

Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2017, the Group recognized write-downs of CHF 48 million (previous year: CHF 49 million). In addition, an amount of CHF 9 million was reversed (previous year: CHF 8 million). The net impact of these adjustments was a charge to the income statement of CHF 39 million (previous year: CHF 41 million).

14. Prepayments and accrued income

(CHF million)	31.12.2017	31.12.2016
Prepaid sales, marketing and administration costs	78	91
Income tax assets	22	49
Prepaid leasing costs	60	52
Other prepayments and accrued income	95	88
Total prepayments and accrued income	255	280

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 2016	2 230	3 873	623	210	6 936
Translation differences	9	18	8	-1	34
Additions	47	205	90	85	427
Disposals	-4	-78	-27	0	-109
Transfers	108	-12	18	-114	-
Historical cost, 31 December 2017	2 390	4 006	712	180	7 288
Accumulated depreciation, 31 December 2016	- 735	- 2 587	- 338	-	- 3 660
Translation differences	-2	-13	-5	-	-20
Annual depreciation	-67	-273	-93	-	-433
Impairment	-	0	-	-	0
Depreciation on disposals	3	76	27	-	106
Transfers	-5	7	-2	-	-
Accumulated depreciation, 31 December 2017	- 806	- 2 790	- 411	-	- 4 007
Net book values:					
Balance at 31 December 2016	1 495	1 286	285	210	3 276
Balance at 31 December 2017	1 584	1 216	301	180	3 281

¹⁾ The category Land, buildings and properties includes investment properties with a carrying amount of CHF 443 million (previous year: CHF 450 million) and undeveloped properties with a carrying amount of CHF 27 million (previous year: CHF 27 million).

(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
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
Historical cost, 31 December 2016	139	153	103	395
Translation differences	0	1	5	6
Additions	10	16	20	46
Disposals	–	–4	–1	–5
Transfers	10	6	–16	–
Historical cost, 31 December 2017	159	172	111	442
Accumulated amortization, 31 December 2016	–95	–118	–40	–253
Translation differences	0	–1	–2	–3
Annual amortization	–21	–18	–4	–43
Impairment	–	–	–	–
Amortization on disposals	–	4	0	4
Transfers	–	0	0	–
Accumulated amortization, 31 December 2017	–116	–133	–46	–295
Net book values:				
Balance at 31 December 2016	44	35	63	142
Balance at 31 December 2017	43	39	65	147

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
Historical cost, 31 December 2015	120	135	113	368
Translation differences	0	0	–1	–1
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
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Investments in associates and joint ventures

(CHF million)	2017	2016
Balance at 1 January	59	62
Share of result from associates and joint ventures	21	- 4
Dividends received	- 18	- 2
Investments	0	-
Translation differences	- 5	3
Balance at 31 December	57	59

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.

In the years 2017 and 2016, there were no significant changes in investments in associates and joint ventures.

Sales to and purchases from associates and joint ventures amounted to CHF 481 million (previous year: CHF 885 million) and CHF 43 million (previous year: CHF 43 million) respectively.

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

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

There were no significant acquisitions in 2017 and 2016.

b. Divestments of businesses

No companies were sold in 2017 and 2016.

In 2015, the Swatch Group sold the company Zhuhai SMH Electric Co. Ltd in China to a subsidiary of Hengdeli Holdings Limited. In the year under review, the remaining payment of CHF 3 million was made, in accordance with the sale contract.

c. Changes in non-controlling interests

In December 2015, the remaining minority interest of 49% in the company ASI Centrum spol.s.r.o. was acquired. The Swatch Group already had control over the company. The transaction is settled in annual instalments of treasury shares in 2016, 2017 and 2018, valued at a total of CHF 2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Other non-current assets

(CHF million)	Prepaid marketing and leasing cost	Security deposits	Other financial assets	Total
Balance at 31 December 2016	56	106	12	174
Translation differences	2	-2	0	0
Additions	8	11	3	22
Disposals	0	-10	-1	-11
Transfers to current assets	-25	-15	-1	-41
Balance at 31 December 2017	41	90	13	144

(CHF million)	Prepaid marketing and leasing cost	Security deposits	Other financial assets	Total
Balance at 31 December 2015	103	102	12	217
Translation differences	-4	2	0	-2
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

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)	31.12.2017	31.12.2016
Current account overdrafts	0	0
Short-term bank debt	11	113
Derivative financial instruments	5	11
Total current financial debts and derivative financial instruments	16	124
Total non-current financial debts	26	31
Total financial debts	42	155

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 2017	16	24	2	42
At 31 December 2016	124	31	0	155

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

(CHF million)	31.12.2017	31.12.2016
CHF	5	11
JPY	28	33
USD	0	102
Other currencies	9	9
Total	42	155

At the end of 2017, no short term bank loan in USD was open (previous year: USD 100 million or CHF 102 million at an interest rate of 1.0%). The long-term financial debts at the end of 2017 included a mortgage of JPY 2 750 million or CHF 24 million (previous year: JPY 3 250 million or CHF 29 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)	31.12.2017	31.12.2016
Advance payments received	37	38
Income tax liabilities	15	13
VAT liabilities	52	28
Other tax liabilities	14	14
Social benefits liabilities	36	32
Other liabilities	55	41
Total other liabilities	209	166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Accrued expenses

(CHF million)	31.12.2017	31.12.2016
Accrued salaries and social benefits	165	153
Accrued sales, marketing and administration costs	202	122
Accrued income taxes	120	62
Accrued sales reductions	78	75
Accrued leasing costs	158	150
Other accrued expenses	125	88
Total accrued expenses	848	650
thereof current	701	518
thereof non-current	147	132

23. Provisions

(CHF million)	Warranties	Litigation	Dismantling	Other	Total
Balance at 31 December 2015	108	6	10	15	139
Translation differences	- 1	0	0	0	- 1
Additional provisions	88	2	9	5	104
Reversal of provisions	- 14	- 1	- 1	- 2	- 18
Provisions used during the year	- 83	- 2	0	- 1	- 86
Balance at 31 December 2016	98	5	18	17	138
thereof current provisions	67	1	1	14	83
thereof non-current provisions	31	4	17	3	55
Translation differences	1	0	0	1	2
Additional provisions	97	3	11	3	114
Reversal of provisions	- 9	0	0	- 2	- 11
Provisions used during the year	- 77	0	- 2	- 2	- 81
Balance at 31 December 2017	110	8	27	17	162
thereof current provisions	74	3	5	11	93
thereof non-current provisions	36	5	22	6	69

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. Dismantling / restoration

Some Group companies have contractual or legal obligations to return objects to their original state at the end of the term of the contract. At the beginning of the contract term, dismantling and restoration costs are estimated on the basis of contractual elements and/or empirical values and provisions are recorded. These obligations arise primarily from contracts for rental premises.

d. 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 4 064 964 registered shares (previous year: 4 273 500 shares) and 5 440 bearer shares (previous year: 2 250 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses**2017**

(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	404	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–6	–6
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–85	–3	0	0	–97	–97
Pension plans without own assets	–	–40	2	–6	–	–6
Total	319	–43	2	–6	–103	–109

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

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

Summary of pension benefit expenses

(CHF million)	2017			2016		
	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Contributions to pension plans charged to Group companies	–92	–11	–103	–94	–14	–108
Contributions to pension plans paid from employer contributions reserve	–	–	–	–	–	–
Total contributions	–92	–11	–103	–94	–14	–108
Change of employer contributions reserve from evolution of fortune, impairments, discounting, etc.	0	–	0	0	–	0
Contributions and change in employer contributions reserve	–92	–11	–103	–94	–14	–108
Increase / decrease of Group's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	–6	–6	–	–5	–5
Total changes of economic effects from surpluses / deficits	–	–6	–6	–	–5	–5
Pension benefit expenses within personnel expenses of the period	–92	–17	–109	–94	–19	–113

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

At 31 December 2017, guarantees to third parties as security for commitments of Group companies amounted to CHF 40 million (previous year: CHF 45 million).

Total assets pledged by Group companies to guarantee their commitments amounted to CHF 137 million at 31 December 2017 (previous year: CHF 139 million), of which CHF 28 million served to secure financial debts (previous year: CHF 33 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)	31.12.2017	31.12.2016
Less than 1 year	443	540
Between 1 and 5 years	1 238	1 401
Over 5 years	1 185	1 261
Total	2 866	3 202

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 2017. Leasing costs amounting to CHF 697 million were recognized in the 2017 income statement, compared to CHF 698 million in the previous year.

At 31 December 2017, other open long-term and irrevocable payment obligations entered into by the Group, which cannot be cancelled within 12 months, had a non-discounted value of CHF 885 million (previous year: CHF 647 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
31.12.2015	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
31.12.2017	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At year-end 2017, as well as 2016, 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 2017, the reserves of the holding company, The Swatch Group Ltd, included a non-distributable amount of CHF 888 million (previous year: CHF 685 million). This amount consisted of CHF 863 million related to treasury shares held (previous year: CHF 660 million) and non-distributable legal reserves of CHF 25 million (previous year: CHF 25 million).

d. Treasury shares

On 5 February 2016, the Group commenced a share buyback program with a total value of CHF 1 billion. This program will continue until 4 February 2019 at the latest. In 2017, treasury shares with a market value of CHF 204 million were repurchased. The total volume repurchased since the beginning of the program amounts to CHF 536 million. 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
	Quantity	Value	Quantity	Value	
		CHF million		CHF million	CHF million
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
Acquisitions ¹⁾	1 467 500	103	280 800	101	204
Disposals ²⁾	- 242 521	- 1	-	-	- 1
Balance at 31 December 2017	7 766 415	441	1 389 650	422	863

¹⁾ In 2017 the Group acquired 1 467 500 registered shares (previous year: 2 689 767) at an average price of CHF 70.11 (previous year: CHF 61.52). In addition, 280 800 bearer shares (previous year: 538 850) at an average price of CHF 360.45 (previous year: CHF 308.21) were acquired.

²⁾ In 2017, disposals of 231 325 registered shares relate to the employee stock option plan (previous year: 236 148 registered shares). Details of stock options issued in connection with the stock option plan are disclosed in Note 29 of the consolidated financial statements. In 2017, in connection with the acquisition of the remaining minority interest in ASICentrum spol. s.r.o., 11 196 registered shares were granted to the former shareholders (previous year: 10 500 registered shares). Details of the transaction are disclosed in Note 18 of the consolidated financial statements.

In 2017 and 2016, 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:

	2017			2016		
	Goodwill Group associated companies	Goodwill associated companies	Total	Goodwill Group associated companies	Goodwill associated companies	Total
(CHF million)						
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	– 764	– 36	– 800	– 648	– 33	– 681
Theoretical annual amortization	– 111	– 3	– 114	– 116	– 3	– 119
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Theoretical accumulated amortization 31 December	– 875	– 39	– 914	– 764	– 36	– 800
Theoretical net book value 31 December	514	9	523	625	12	637

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.

b. Theoretical impact on equity

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

(CHF million)	2017	2016
Equity, per balance sheet	11 289	11 073
Theoretical capitalization of net book value of goodwill	523	637
Theoretical equity including net book value of goodwill	11 812	11 710

c. Theoretical impact on net income

(CHF million)	2017	2016
Net income, per income statement	755	593
Theoretical amortization of goodwill	– 114	– 119
Theoretical net income after goodwill amortization	641	474

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items	(CHF million)	Notes	2017	2016
Reversal of non-cash items				
		(17)	– 21	4
		(6a)	252	184
		(15)	433	394
		(16)	43	43
			0	0
			– 4	– 17
			2	5
			– 38	– 8
			4	27
		(5f)	– 10	– 9
		(5f)	3	3
		(29)	14	15
			11	1
			3	3
			692	645

b. Changes in working capital	(CHF million)	2017	2016
Changes in working capital and other items included in cash flow from operating activities			
		– 83	– 78
		– 151	79
		2	92
		15	– 47
		179	23
		16	– 28
		– 22	41

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 trea-sury 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 2017, this portfolio comprised 449 319 registered shares (680 644 at the end of 2016). In 2017, 231 325 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:

	2017	2016
	Options	Options
Options outstanding at 1 January	230 671	234 953
Granted	208 930	232 570
Forfeited or lapsed	– 989	– 704
Exercised	– 231 325	– 236 148
Options outstanding at 31 December	207 287	230 671

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	31.12.2017	31.12.2016
2017		153 423
2018	137 609	77 248
2019	69 678	
Total	207 287	230 671

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 2017 and 2016 was based:

	2017		2016	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	31 May 2017	31 May 2017	17 May 2016	17 May 2016
Expiration date	31 May 2018	31 May 2019	17 May 2017	17 May 2018
Closing share price on grant date	CHF 73.90	CHF 73.90	CHF 59.25	CHF 59.25
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 69.90	CHF 69.90	CHF 55.25	CHF 55.25

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

The personnel expense recorded in the 2017 income statement amounted to CHF 14 million (previous year: CHF 15 million).

30. Related party transactions

a. Principal shareholders

On 31 December 2017, the Hayek Pool and its related companies, institutions and individuals held 61 981 814 registered shares and 5 990 bearer shares, equivalent to 40.0% of all voting rights (previous year: 40.1%) 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 39.6% of all voting rights (previous year: 39.7%).

In 2017, 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 8.8 million). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2017	2016
Audit, feasibility studies and process optimization	1.8	1.2
Executive functions	1.0	0.9
Project management in the construction sector	3.6	4.8
Support for projects in the materials and surface treatment technology sector	0.8	0.6
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.4	0.3
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.2	1.0
Total	8.8	8.8

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)	2017	2016
Short-term employee benefits	24.8	24.3
– of which in salaries	8.2	8.6
– of which in bonus	16.1	15.2
– of which in expense allowances	0.5	0.5
– of which in other benefits	0.0	0.0
Share-based compensation	10.1	9.4
Contributions to pension plans	0.6	0.7
Other social benefits	3.2	2.8
Total	38.7	37.2

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. Final payments totaling CHF 0.9 million were made to former members of the Group's governing bodies for their past functions (previous year: none).

c. Share ownership

At 31 December 2017, 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 56 742 642 registered shares and 590 bearer shares, representing 36.6% of all voting rights (previous year: 36.6%).

In addition, at 31 December 2017, 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 2017 and 2016, 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 2017 and 2016, 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)	2017		2016	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	43	481	43	885
Other related parties	0	0	0	0

At the end of 2017, receivables from associates amounted to CHF 9 million (previous year: CHF 165 million), and payables to associates were CHF 2 million (previous year: CHF 3 million). At the end of 2017, the Group held no guarantees from associated companies (previous year: CHF 168 million). At the end of 2017, the Group had granted loans in the amount of CHF 4 million at a rate of 4.0% to associated companies (previous year: none).

In 2015, the Swatch Group sold the company Zhuhai SMH Electric Co. Ltd in China to a subsidiary of Hengdeli Holdings Limited. In the year under review, the remaining payment of CHF 3 million was made, in accordance with the sale contract.

At the end of 2017 and 2016 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 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Europe					
Switzerland					
The Swatch Group AG, Neuchâtel	Holding	CHF 125.21			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
Belenos Clean Power Engineering SA, Bienne	Research and development	CHF 0.25	60	●	▼
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 Prêlet 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 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 Weyermann 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 31.12.2017

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 (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	● ◀
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					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK	0.30	100	● ▶
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK	0.10	80	● ▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK	9.00	100	● ◀
Turkey					
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY	206.00	100	● ◀

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	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	●	◀
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 5 280.00	100	●	◀
Swatch Group (India) Retail Private Ltd, New Delhi	Retail	INR 150.10	100	●	◀
Indonesia					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 189 295.90	100	●	◀
Japan					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 100.00	100	●	◀
Qatar					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29	●	◀
Tissot W.L.L., Doha	Retail	QAR 0.20	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	●	◀
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	●	◀
Marcolin Middle East FZCO	Distribution	AED 0.10	29	○	◀
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	●	◀
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 31.12.2017

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 79.30	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	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 1.01	100	●	◀
Oceania					
Australia					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	◀
Africa					
South Africa					
The Swatch Group (South Africa) (Proprietary) Ltd, Edenvale	Distribution	ZAR 125.00	100	●	◀

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

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 2017 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 173 to 211) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 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 Group materiality: CHF 50 000 000



We concluded full scope audit work at 115 Group companies in 31 countries. The audit scope of these 115 Group companies addressed more than 95% of the Group's total assets, net sales and net income.

As key audit matter, the following area of focus has been identified:

- Valuation 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 are 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 2017 consolidated financial statements, we participated in the audit closing meetings of five of the main Group companies in Switzerland and made site visits to discuss the audit with the local auditors and the management of the main Group companies in the USA, China, Hong Kong, Macau and United Arab Emirates.

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 Group 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 50 000 000
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.

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 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 of inventories

Key audit matter

We consider the valuation of inventories to be a key audit matter because they amounted to CHF 6 318 million on the balance sheet as at 31 December 2017 and they represent a significant share of total assets (about 47%).

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 differing product life cycles.

Please refer to page 180 (Summary of significant accounting policies) and page 194 (Notes to the consolidated financial statements, Note 13 Inventories) in the 2017 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:

- By reference to historical and expected inventory usage figures, we assessed at subsidiary level the process for identifying slow-moving inventories (raw materials, semi-finished goods and spare parts for customer service) and the appropriateness of the resulting write-downs.
- For finished goods subject to market 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 as well as 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 material unrealised gains.

In performing these audit procedures, we addressed the risk of error in the valuation of 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 either intends 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 judgment 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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 to communicate with 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, 28 February 2018

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INCOME STATEMENT OF THE SWATCH GROUP LTD

	Notes	2017 CHF million	2016 CHF million
Income from investments in subsidiaries	(1)	903	1 060
Other income	(2)	5	5
Personnel expense		- 47	- 43
Other expenses		- 14	- 14
Depreciation and impairment	(3)	- 10	- 7
Financial expenses	(4)	- 50	- 43
Financial income	(5)	54	37
Ordinary result		841	995
Non-operating result	(6)	0	0
Extraordinary result	(6)	0	- 1
Profit before income taxes		841	994
Income taxes		- 1	- 2
Net income		840	992

BALANCE SHEET OF THE SWATCH GROUP LTD

Assets	Notes	31.12.2017		31.12.2016	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		136	1.9	54	0.8
Assets with an observable market price	(7, 10)	121	1.6	115	1.6
Other current receivables					
– from Group companies	(8)	3 145	42.8	3 106	43.4
– from third parties		41	0.6	37	0.5
Prepayments and accrued income		2	0.0	2	0.0
Total current assets		3 445	46.9	3 314	46.3
Non-current assets					
Loans to Group companies	(8)	415	5.7	417	5.8
Investments in subsidiaries and associates	(9)	3 475	47.3	3 422	47.8
Property, plant and equipment		7	0.1	8	0.1
Intangible assets		1	0.0	1	0.0
Total non-current assets		3 898	53.1	3 848	53.7
Total assets		7 343	100.0	7 162	100.0

BALANCE SHEET OF THE SWATCH GROUP LTD

Equity and liabilities	Notes	31.12.2017		31.12.2016	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(10)	6	0.1	116	1.6
Other current liabilities					
– to Group companies		122	1.7	120	1.7
– to third parties		9	0.1	12	0.2
Accrued expenses		16	0.2	16	0.2
Non-current liabilities					
Non-current provisions		90	1.2	90	1.2
Total liabilities		243	3.3	354	4.9
Equity					
Share capital		125	1.7	125	1.8
Statutory capital reserve		122	1.7	109	1.5
Statutory reserve		10	0.1	10	0.1
Reserve for treasury shares		1	0.0	1	0.0
Voluntary reserve		6 813	92.8	6 193	86.5
– Profit brought forward		52		37	
– Net income for the year		840		992	
Available earnings		892	12.2	1 029	14.4
Treasury shares		– 863	– 11.8	– 659	– 9.2
Total equity	(11)	7 100	96.7	6 808	95.1
Total equity and liabilities		7 343	100.0	7 162	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 2017 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)	2017	2016
	Dividends	848	1 005
	Other income from investments in subsidiaries	55	55
	Total	903	1 060

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 2017, other income was CHF 5 million (previous year: CHF 5 million).
- 3. Depreciation and impairment** Depreciation and impairment was CHF 10 million (previous year: CHF 7 million).

4. Financial expenses	(CHF million)	2017	2016
	Interest expense	-2	-2
	Result from marketable securities at fair value	-2	-11
	Net currency result	-45	-29
	Other financial expense	-1	-1
	Total	-50	-43

5. Financial income	(CHF million)	2017	2016
	Interest income	35	29
	Income and gains on securities	19	8
	Total	54	37

- 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 less than CHF 1 million in the year under review (previous year: loss of CHF 1 million).

NOTES TO THE FINANCIAL STATEMENTS

7. Assets with an observable market price	(CHF million)	31.12.2017	31.12.2016
	Marketable securities	100	100
	Precious metals	13	10
	Derivative financial instruments (see Note 10)	8	5
	Total	121	115

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 161 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 47.3% of total assets at 31 December 2017 versus 47.8% at end-2016. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 475 million at end-2017. This amount corresponds to consolidated investments and investments in associates, and is CHF 53 million higher than in 2016.

10. Financial debts and derivative financial instruments At year end 2017, no short term bank loan was open (previous year: CHF 103 mio).

The contract and fair values of derivative financial instruments at 31 December 2017 and 2016 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	1 818	271	2 089	7	1	8	-5	-1	-6
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2017	1 818	271	2 089	7	1	8	-5	-1	-6

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

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2017 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2017 relate to 33 positions held in precious metals and in foreign currencies (previous year: 32). Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions. At 31 December 2017, there was no option contract outstanding (none in the previous year).

NOTES TO THE FINANCIAL STATEMENTS

11. Equity

Compared with end-2016, equity increased by CHF 292 million to CHF 7 100 million in 2017. In percentage of total assets the equity ratio amounted to 96.7% at 31 December 2017 (previous year: 95.1%).

The table below shows the changes in equity:

	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
(CHF million)								
Balance at 31.12.2015	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
Allocated in 2017					620	- 620		-
Dividend paid out						- 357		- 357
Change in treasury shares		13					- 204	- 191
Creation / dissolution								-
Net income for the year						840		840
Balance at 31.12.2017	125	122	10	1	6 813	892	- 863	7 100

Share capital

At 31 December 2017, 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
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2017	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 2017

At 31 December 2017, the Hayek Pool, its related companies, institutions and individuals held 61 981 814 registered shares and 5 990 bearer shares, equivalent to 40.0% of all voting rights (previous year: 40.1%). 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'Ébauches 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 39.6% of all voting rights at end-2017 (previous year: 39.7%).

At 31 December 2017, 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 2016 (previous year: CHF 620 million).

Reserve for treasury shares

At 31 December 2017, there was a reserve for treasury shares amounting to CHF 1 million for shares held indirectly through Group subsidiaries (previous year: CHF 1 million).

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 23 May 2017, a dividend of CHF 1.35 per registered share and of CHF 6.75 per bearer share was appropriated from available earnings as at 31 December 2016. The total dividend amount paid to shareholders in 2017 came to CHF 167 million on the registered shares and CHF 208 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 18 million, thus remains as an integral part of equity at 31 December 2017. Finally, CHF 620 million was appropriated from available earnings at 31 December 2016 and allocated to the voluntary reserve.

NOTES TO THE FINANCIAL STATEMENTS

Treasury shares / Share buyback program

On 5 February 2016, the Group commenced a share buyback program with a total value of CHF 1 billion. This program will continue until 4 February 2019 at the latest. In 2017, treasury shares with a market value of CHF 204 million were repurchased. The total volume repurchased since the beginning of the program amounts to CHF 536 million.

Treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2017 corresponded to 5.3% (versus 4.3% at end-2016) 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	
	2017	2016	2017	2016
The Swatch Group Ltd				
Balance at 1 January	6 519 044	4 065 425	1 108 850	570 000
Acquisitions ²⁾	1 467 500	2 689 767	280 800	538 850
Disposals ³⁾	- 231 325	- 236 148	-	-
Balance at 31 December	7 755 219	6 519 044	1 389 650	1 108 850
Other consolidated companies				
Balance at 1 January	22 392	32 892	-	-
Acquisitions	-	-	-	-
Disposals ⁴⁾	- 11 196	- 10 500	-	-
Balance at 31 December	11 196	22 392	0	0
Total balance at 31 December	7 766 415	6 541 436	1 389 650	1 108 850

¹⁾ Of which, at the end of 2017, a total of 449 319 registered shares are reserved for the management stock option plan (previous year: 680 644 registered shares)

²⁾ In 2017, The Swatch Group Ltd acquired 1 467 500 registered shares at an average price of CHF 70.11. In addition, 280 800 bearer shares at an average price of CHF 360.45 were acquired. In the previous year, 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.

³⁾ All disposals of registered shares in 2017 and 2016 relate to the employee stock option plan (see Note 29 of the consolidated financial statements for details). In 2017 and 2016, no bearer shares were sold.

⁴⁾ In 2017, in connection with the acquisition of the remaining minority interest in ASICentrum spol. s.r.o., 11 196 registered shares were granted to the former shareholders (previous year: 10 500 registered shares). Details of the transaction are disclosed in Note 18 of the consolidated financial statements.

Off-balance-sheet items**Number of full-time equivalents**

In 2017, the annual average number of full-time equivalents was 147 (previous year: 145).

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 1 million at end-2017 (previous year: CHF 10 million).

Liabilities to pension plans

The balance sheet as at end-2017 contained no liabilities to pension plans (previous year: none).

Assets pledged

None of the company's assets are pledged.

Guarantees

At end-2017, 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-2017 and 2016, 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, 5 980 registered shares resp. options valued at CHF 0.4 million (previous year: 5 630 registered shares resp. options valued at CHF 0.3 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 2017 and 2016:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2017	2016	2017	2016	2017	2016
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	148 208	128 208			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	111 991	90 991			24 000	24 000
Pierre-André Bühler	MB Member	30 466	25 966			8 002	8 002
Dr. Mougahed Darwish	MB Member	78 868	76 268			2 602	2 602
Marc A. Hayek	MB Member	130 898	118 398			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	62 252	54 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	56 000	60 000			12 000	12 000
François Thiébaud	MB Member	128 623	116 123			12 502	12 502
Raynald Aeschlimann	EMB Member	18 867	14 867			4 001	4 001
Matthias Breschan	EMB Member	2 034	1 034			3 000	3 000
Jean-Claude Eggen	EMB Member	4 816	4 316			2 501	2 501
Yann Gamard	EMB Member	2 750				5 501	5 501
Hans-Rudolf Gottier	EMB Member	34 698	33 698			5 002	5 002
Walter von Känel	EMB Member	60 879	54 879	40	40	6 000	6 000
Thomas Meier	EMB Member	6 000	4 800			1 200	1 200
Calogero Polizzi	EMB Member	4 000	5 750			1 500	1 668
Kevin Rollenhagen	EMB Member	64 148	56 148			8 002	8 002
Dr. Peter Steiger	EMB Member	93 000	84 925			9 000	9 000
Total		56 742 742	56 634 867	2 600	2 600	145 319	145 487

¹⁾ Member of the BoD since May 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 2017, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2016: 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 28 February 2018 and will be submitted to the Annual General Meeting of Shareholders for approval on 24 May 2018.

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:

	2017	2016
	CHF million	CHF million
Net income for the year	840	992
Profit brought forward from previous year	52	37
Available earnings	892	1 029
Allocation to special reserve	- 450	- 620
Payment of a 2016 dividend, i.e.:		
– 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
Payment of a 2017 dividend, i.e.: ¹⁾		
– CHF 1.50 per registered share with a par value of CHF 0.45	- 186	
– CHF 7.50 per bearer share with a par value of CHF 2.25	- 231	
Dividends not paid out on own shares held by the Group ²⁾		18
Balance carried forward	25	52

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 23 May 2017, 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 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 217 to 225 and pages 208 to 211) as at 31 December 2017 comply with Swiss law and the company's 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 35 000 000



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 key audit matter, the following area of focus has been 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 35 000 000
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

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 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 2017, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 3 475 million (about 47% 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, manufacturers, 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 2017 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 either intends 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 judgment 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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 or its relevant 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 to communicate with 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, 28 February 2018

THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding / Average share capital		2017	2016	2015	2014	2013
		basic	basic	basic	basic	basic
Number of registered shares of CHF 0.45		116 755 450	118 672 611	119 847 161	119 894 096	119 514 584
Number of bearer shares of CHF 2.25		29 567 412	29 987 419	30 308 846	30 320 769	30 335 000
Total average number of shares outstanding		146 322 862	148 660 030	150 156 007	150 214 865	149 849 584
Share capital registered shares of CHF 0.45		52 539 953	53 402 675	53 931 222	53 952 343	53 781 563
Share capital bearer shares of CHF 2.25		66 526 677	67 471 693	68 194 904	68 221 730	68 253 750
Total average share capital		119 066 630	120 874 368	122 126 126	122 174 073	122 035 313
Key data per registered share (nom. CHF 0.45) in CHF						
Consolidated net income attributable to shareholders		2.77	2.14	4.01	5.10	7.08
Cash flow from operating activities		4.78	3.76	5.17	6.81	4.83
Consolidated equity		42.67	41.22	41.42	39.32	35.30
Dividend		1.50 ¹⁾	1.35	1.50	1.50	1.50
Key data per bearer share (nom. CHF 2.25) in CHF						
Consolidated net income attributable to shareholders		13.86	10.69	20.07	25.49	35.41
Cash flow from operating activities		23.89	18.80	25.87	34.03	24.13
Consolidated equity		213.33	206.12	207.12	196.58	176.52
Dividend		7.50 ¹⁾	6.75	7.50	7.50	7.50
Stock price of registered shares (adjusted)						
	High	80.95	74.00	88.90	108.00	104.40
	Low	60.60	48.25	61.25	75.35	80.20
	31.12.	74.50	62.25	68.00	86.00	100.40
Stock price of bearer shares (adjusted)						
	High	414.60	373.00	462.50	597.00	606.50
	Low	307.50	246.20	324.10	417.10	473.00
	31.12.	397.40	316.70	350.20	444.20	589.50
Market capitalization (CHF million)						
	31.12.	21 497	17 489	19 235	24 367	30 634
Key ratios (year-end)						
Average return on equity	%	6.8	5.3	10.2	14.0	21.2
Dividend yield registered shares	%	2.0	2.2	2.2	1.7	1.5
Dividend yield bearer shares	%	1.9	2.1	2.1	1.7	1.3
Price/earnings ratio – registered shares		26.9	29.1	17.0	16.9	14.2
Price/earnings ratio – bearer shares		28.7	29.6	17.4	17.4	16.7

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 (1988–2017)

