

Swatch Group Annual Report 2012



Contents

| | |
|---|-------|
| Message from the Chair | 2 |
| Operational Organization | 4 |
| Organization and Distribution in the World | 5 |
| Organs of Swatch Group | 6 |
| Board of Directors | 6 |
| Executive Group Management Board | 8 |
| Extended Group Management Board | 9 |
| Development of Swatch Group | 10 |
| Big Brands | 11 |
| Watches and Jewelry | 12–72 |
| Retailing and Presence | 73–78 |
| Production | 79 |
| Watches, Jewelry | 80–88 |
| Electronic Systems | 89 |
| Corporate, Belenos | 95 |
| Swatch Group in the World | 103 |
| Governance | 127 |
| Environmental Policy | 128 |
| Social Policy | 129 |
| Corporate Governance | 131 |
| Financial Statements 2012 | 143 |
| Consolidated Financial Statements | 144 |
| Financial Statements of the Holding | 206 |



Swatch Group's Annual Report is published in French, Swiss-German and English. The text on pages 1 to 130 is originally published in French, the text on pages 131 to 142 in German and the text on pages 143 to 216 in English. These original versions are binding.

Message from the Chair



**Dear Madam, Dear Sir,
Dear Fellow Shareholders,**

You may be surprised to see that the 2012 Annual Report is strongly associated with Swatch's thirtieth birthday. All of our shareholders and most Swiss, as well as many people in other countries, know that Swatch was born in 1983. And they are right: Swatch's market launch in Switzerland, which marked a renaissance in the Swiss watchmaking industry and the beginning of our company's success story, did indeed take place in March 1983. Happy birthday, Swatch!

But, as with all stories, there is a back-story. It began in 1982. In November. In Texas. And it wasn't a very promising beginning.

First, though, let's take a look at the present. In 2012 Swatch Group registered gross sales of eight billion 143 million Swiss francs, which was an increase of 14% over 2011 – a billion francs more than the previous year. 1982 was a completely different situation. ASUAG had gross sales of one billion 143 million francs, a loss of more than 19% compared to 1981.

The Swiss watchmaking industry was practically bankrupt, as our tried and tested mechanical movements were increasingly displaced by cheap Japanese electronic watches. In this situation something had to be done to beat the Japanese at their own game... cheap watches. At the time, ETA had in its files an idea for a technical gem. The watch barons of the day showed little enthusiasm for entering this business that had so little prestige. But it was a business. So it was decided to give it a try with this new "thing".

But in typically Swiss fashion, it moved forward slowly and prudently. In Switzerland, you don't just forge full speed ahead. Not even if you are at death's door – and the watchmaking industry, the pride of the nation, was indeed dying. First, you test it to see if it will really work. A few watches were made to see how they'd sell through an American distribution partner in Texas. An ad campaign was prepared for an inexpensive, colored plastic watch with the Swiss Made label: *Swatch, the Swiss watch that knows life should be an adventure. Strap It On!* The result? A flop!

In contrast with today: in 2012 Swatch Group, with an operating profit of one billion 984 million francs, did everything but flop. This is an increase of nearly 23% from 2011. During the same period, there was a net income of one billion 608 million francs, an increase of 26%.

According to conventional logic, a project that was a flop was not worth pursuing. A list of names was soon being circulated suggesting companies to which a license to produce this

unsellable item might be sold to pick up a little spare change. Today, can you imagine a Swatch that was not from Swatch Group? We must bear in mind that the income recorded in 1982 by the company that was, after many years and a lot of hard work to become Swatch Group, was a net loss of over 156 million francs.

Luckily there was someone, who at the time worked as an external consultant, who said to himself that after all, the United States – especially Texas – was perhaps not the best place for such a provocative and humorous item, an item that was more fun than cheap, an impertinent "wink and a nudge," a conspicuous presence in the world of mass consumption. This same someone also said to himself – and repeated it to others – that perhaps not everything had been done, marketing-wise, that needed to be done to make the American test a success. That it was a little absurd to try to sell a watch in Texas, where nobody knew about it while the Swiss, on the other hand, had heard of it but weren't able to buy it. And he insisted that a launch be tried in Switzerland, then in Germany and England; and that this time it be done using all the advertising resources that were available at the time. The entrepreneurial spirit!

He was an intuitive person, made gut decisions, loved challenges, and never let convention get in his way. He was also a great communicator. Above all, he was a tireless worker, he had ideas, and he was persistent about their implementation.

And really, the end of the story should have been predictable – and he predicted it correctly: what the Texans didn't like, the Swiss – then the Germans, Italians, French, men and women, young and old alike – loved. With the "Second Watch", Swatch was really on the way! The company that was the best embodiment of the Swiss watch industry had recaptured the success that had eluded it for so long. By virtue of commitment, innovation, ideas and dreams, a lot of emotion, and a huge amount of hard work, it pulled itself up to where it is today. In 2012 it boasted an operating margin of more than 25%, with an equity-capital ratio of more than 83%, nearly 30 000 employees, more than half in Switzerland; and today it has the financial strength to make important acquisitions such as the exclusive jewelry and watch brand Harry Winston in early 2013.

In our 2012 Annual Report, you will find thirty legendary Swatch models that celebrate this young adult. And who knows if the brand won't surprise us again soon with some sensational innovations?

For our Swiss readers, the Annual Report contains another surprise. The Annual Report in Swiss German! We want to spotlight to an even greater extent our strong identity with our country and its values. Among these are dependability, quality work and



intelligence, but especially diversity, simplicity and modesty. In this spirit, we have again done something positively provocative: we have published the German version of our report entirely – from A to Z – in Swiss-German! This act of true Swissness was done partly to shake up our compatriots who – in their fondness for what is safe – sometimes allow themselves to follow a rather conventional, prudent, and comfortable path. We intend it as a positive provocation, completely in the spirit of Swatch Group. We did something that was not necessarily required but which makes a bold statement – something that only a company like ours can afford to do. I am certain that our friends from French-, Italian- and Romansh-speaking parts of Switzerland will respond to this expression of our deep connection to our roots with a wink.

In 2012, we were pleased to welcome Simon Et Membrez of Delémont into Swatch Group. This case maker, with its modern production facilities, is truly a little jewel. At the end of the year, we added a new subsidiary in Turkey, a highly promising market. We continued our efforts to save trades essential to our industry by aggressively pursuing our policy of training young people. We created 1500 jobs, including 900 in Switzerland. We have opened and expanded significant industrial sites, for example, in Boncourt, Grenchen, and Le Locle, which is also an expression of our desire to strengthen our country's real economy. In 2012 we joined Breguet in celebrating the 200th anniversary of the first wristwatch.

We have all worked with a healthy attitude in a spirit of consensus, remaining motivated as usual by a reasonable salary structure. The Board of Directors unanimously decided to go back to using the Swiss GAAP ARR standards for our financial statements, as they are much better suited to our national industrial needs than those from the English-speaking world. Effective as of January 1, 2013, we have added four new members to our management team.

We have continued to fight for the truly important Swiss Made by making such decisions concerning the manufacture of our products as seemed to us essential and beneficial in the long run. And this, despite the fact that unfortunately a large segment of our political representatives does not appear to understand us.

These various acquisitions, decisions, and strategic advances – all of which strengthen Swiss industry, which create real products and real value – allow us to present the General Meeting of Shareholders with particularly outstanding results, results that justify our proposal to the General Meeting to significantly increase the dividend per bearer share, raising it from last year's 5.75 Swiss francs to 6.75 francs, and the dividend per registered share from last year's 1.15 Swiss francs to 1.35 francs. Thank you, Swatch! And thank you to the Swatch Group family!



I would particularly like to express my thanks to the Board of Directors, the Executive Group Management and Extended Group Management Boards, as well as to all our employees in Switzerland and around the world for their support of our strategic directions and their commitment to making them a reality. And thanks also, of course, to all of our shareholders, without whom none of this would be possible.

Nayla Hayek
Chair of the Swatch Group Board of Directors

Swatch Group Operational Organization

as at December 31, 2012

Swatch Group Brands and Companies

Watches

Prestige and Luxury Range

Breguet
Blancpain
Glashütte Original
Jaquet Droz
Tiffany & Co.
Léon Hatot
Omega

High Range

Longines
Rado
Union Glashütte

Middle Range

Tissot
Balmain
Certina
Mido
Hamilton
ck watch & jewelry

Basic Range

Swatch
Flik Flak

Retailing

Tourbillon
Hour Passion

Production

Watches

ETA
Meco
François Golay
Nivarox-FAR
Comadur
Rubattel et Weyermann
MOM Le Prélet
Universo
Manufacture Ruedin
Lascor
Simon Et Membrez
Novi
Swatch Group Assembly

Jewelry

Dress Your Body (DYB)

Electronic Systems

EM Microelectronic
Renata
Micro Crystal
Oscilloquartz
Swiss Timing and
ST-Sportservice

Corporate

Swatch Group
Research and
Development
(Asulab, Moebius,
CDNP)
ICB Ingénieurs Conseils
en Brevets
Swatch Group Quality
Management
Swatch Group Services
(European
Distribution Center,
Logistics, IT Services,
Corporate Customer
Service)
Swatch Group
Immeubles

Swatch Group Organization and Distribution in the World

as at December 31, 2012

Swatch Group Subsidiaries

| <u>Europe</u> | <u>Americas</u> | <u>Oceania</u> | <u>Far East</u> | <u>Middle East</u> | <u>Africa</u> |
|-------------------------------|-----------------|----------------|-----------------|----------------------|---------------|
| Austria | Brazil | Australia | China | United Arab Emirates | South Africa |
| Belgium | Canada | | Hong Kong | | |
| Denmark | Mexico | | India | | |
| Finland | Panama | | Japan | | |
| France | USA | | Macau | | |
| Germany | | | Malaysia | | |
| Greece | | | Singapore | | |
| Italy | | | South Korea | | |
| Luxemburg | | | Taiwan | | |
| The Netherlands | | | Thailand | | |
| Norway | | | | | |
| Poland | | | | | |
| Russia | | | | | |
| Spain | | | | | |
| Sweden | | | | | |
| Switzerland | | | | | |
| Turkey | | | | | |
| United Kingdom and Ireland | | | | | |

In countries where Swatch Group has no actual distribution subsidiary, the company is represented by local distributors.

Swatch Group Board of Directors

as at March 1, 2013



Nayla Hayek

Chair of the Board of Directors

Company Secretary

Jennifer Meyer-Kluge

Auditors

PricewaterhouseCoopers
St. Jakobs-Strasse 25
CH-4052 Basel

Administrative Headquarters

Seevorstadt 6
CH-2501 Biel/Bienne
Phone: +41 32 343 68 11
Fax: +41 32 343 69 11
E-mail: www.swatchgroup.com/contactus
Internet: www.swatchgroup.com

Registered Offices

Faubourg de l'Hôpital 3
CH-2000 Neuchâtel



Ernst Tanner
Vice-Chairman



Esther Grether



Nick Hayek



Prof. Dr. h.c. Claude Nicollier



Dr. Jean-Pierre Roth

The function descriptions and responsibilities of the Board of Directors members at December 31, 2012, are outlined in the Corporate Governance chapter on pages 134 to 135 of the present Annual Report.

Swatch Group Executive Group Management Board

as at March 1, 2013



Nick Hayek
President of the Group Management Board



Florence Ollivier-Lamarque



Pierre-André Bühler



Dr. Mougahed Darwish



Marc A. Hayek



Dr. Thierry Kenel



Dr. Hanspeter Rentsch



François Thiébaud

Swatch Group Extended Group Management Board

as at March 1, 2013



Matthias Breschan



Yann Gamard



Walter von Känel



Thomas Meier



Kevin Rollenhagen



Dr. Peter Steiger



Stephen Urquhart

The function descriptions and responsibilities of the members of the Executive Group Management Board and of the Extended Group Management Board at December 31, 2012, are outlined in the Corporate Governance chapter on pages 136 to 139 of the present Annual Report.

New Members of the Swatch Group Extended Management Board as at January 1, 2013



Raynald Aeschlimann
Sales International, Omega
Reporting to the Swatch Group
Extended Management Board for
Swatch Group India



Jean-Claude Eggen
Business Unit Swatch & Quartzline,
ETA Manufacture Horlogère Suisse



Hans Rudolf Gottier
Micro Crystal, Oscilloquartz
Reporting to the Swatch Group
Extended Management Board for
EM Microelectronic, Renata and
Swiss Timing



Calogero Polizzi
Information Technology (IT)

Development of Swatch Group

| Swatch Group consolidated | | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|--------------------|---------------|--------|--------|--------|--------|
| Gross sales | CHF million | 8 143 | 7 143 | 6 440 | 5 421 | 5 966 |
| – Change from previous year | % | 14.0 | 10.9 | 18.8 | – 9.1 | 0.4 |
| Net sales | CHF million | 7 796 | 6 764 | 6 108 | 5 142 | 5 677 |
| – Change from previous year | % | 15.3 | 10.7 | 18.8 | – 9.4 | 0.5 |
| Operating profit | CHF million | 1 984 | 1 614 | 1 436 | 903 | 1 202 |
| – As a % of net sales | % | 25.4 | 23.9 | 23.5 | 17.6 | 21.2 |
| Net income | CHF million | 1 608 | 1 276 | 1 080 | 763 | 838 |
| – As a % of net sales | % | 20.6 | 18.9 | 17.7 | 14.8 | 14.8 |
| – Change from previous year | % | 26.0 | 18.1 | 41.5 | – 8.9 | – 17.4 |
| Cash flow from operating activities | CHF million | 999 | 705 | 1 353 | 890 | 511 |
| – As a % of net sales | % | 12.8 | 10.4 | 22.2 | 17.3 | 9.0 |
| Equity | CHF million | 9 344 | 8 071 | 7 101 | 5 981 | 5 451 |
| – As a % of total assets | % | 83.3 | 82.3 | 82.4 | 77.6 | 75.3 |
| Total assets | CHF million | 11 222 | 9 805 | 8 614 | 7 706 | 7 235 |
| Personnel as at 31.12. | Employees | 29 788 | 28 028 | 25 197 | 23 562 | 24 270 |
| Annual average | Employees | 28 942 | 26 777 | 24 240 | 23 727 | 24 269 |
| Salaries and social benefits | CHF million | 1 982 | 1 818 | 1 634 | 1 596 | 1 633 |

| The Swatch Group Ltd | | 2012 | 2011 | 2010 | 2009 | 2008 |
|-------------------------------|--------------------|----------------------------|-------|-------|-------|-------|
| Dividend income | CHF million | 1 065 | 739 | 564 | 431 | 795 |
| Net income | CHF million | 1 085 | 756 | 581 | 433 | 672 |
| Investments | CHF million | 2 493 | 2 137 | 2 091 | 2 063 | 2 045 |
| Share capital | CHF million | 125 | 125 | 125 | 125 | 125 |
| Equity | CHF million | 3 926 | 3 151 | 2 666 | 2 294 | 2 084 |
| – As a % of total assets | % | 95.0 | 93.3 | 91.9 | 82.5 | 71.4 |
| Total assets | CHF million | 4 131 | 3 377 | 2 901 | 2 780 | 2 920 |
| Dividend ¹⁾ | CHF million | 375.6 ²⁾ | 310.3 | 270.2 | 209.9 | 222.7 |
| – As a % of share capital | % | 300.5 | 248.2 | 216.2 | 167.9 | 178.2 |

¹⁾ No dividend paid on own shares held by the Group.

²⁾ Proposal by the Board of Directors to the Annual General Meeting.

Big Brands

Watches and Jewelry

Retailing and Presence





swatch[®]+

www.swatch.com

Joie de vivre is contagious!

Trends

- In 2012, Swatch continued to embody *joie de vivre*, something to which everyone aspires and which the brand successfully infuses into both its products and its communications. Over the past year, this *joie de vivre* was expressed again through a feeling of freedom derived from color and movement.
- If 2012 was the year of vibrant color, it was largely thanks to the New Gent Lacquered watch, a new product introduced in the spring that saw Swatch combine industrial production with product personalization. Featuring a visible movement with colored lacquered components, this model enjoyed a high-profile launch and has since proved popular all over the world, particularly in European countries.
- The Swatch Touch is another key product that enjoyed continued success. This touch-screen digital watch was a technological innovation when it was launched in 2011, and has continued to appeal to customers, generating excellent results at points of sale and for the Swatch online store. Enthusiasm was especially strong in Asia, particularly in China, Hong Kong, Taiwan and Japan. This watch was also well received in European countries such as in France, where the advertising campaign featuring MC Hammer's song, *U Can't Touch This*, which burst onto TV sets around the country.
- The June launch of the Chrono Plastic was another high point of the year, particularly in European markets. The advertising campaign for this model, which combines plastic modernity and summery shades, was very sporty and featured Swatch Proteam athletes in action: the "Push the Button of Fun" slogan invaded the world's cities in a wave of dynamism and youth.
- Glamour was the watchword for the end of the year, when Swatch gave pride of place to its Night Glows collection, inspired by the black and gold trend of autumn 2012. The brand took on a classic, chic look, with this series of Irony models, which brought sparkle and shine to Swatch stores. The collection's black and gold tones brightened up the end of year celebrations, generating excellent results in Europe. Its launch was also particularly well received in Latin America and throughout the Middle East.
- Swatch stepped up its repositioning activity in Asia by refurbishing its main stores, opening boutiques in strategic locations and closing points of sale that no longer met its quality criteria. These actions boosted visibility and sales, and enhanced brand image in the region. In 2012, Swatch continued to win market share in these fast-growing Asian countries, positioning itself as the leader in its business segment.
- Despite the still-uncertain economic climate in several countries, the brand's new collections were very successful in Europe. The refurbishment of Swatch boutiques in the main European cities was also in full swing throughout the year.
- In the United States, all Swatch stores were refurbished in line with the Ice Dunes retail concept, thereby strengthening the brand's positioning and sales. A new online store was also rolled out in North America, which has achieved double-digit growth since going live. Finally, sales rose in Latin America, where the brand was able to build on its strong recognition.
- Swatch also improved its position in the Middle East, by focusing on the quality of its distribution network. Over thirty new stores were opened, underlining the brand's uncontested leadership in this market. Intensive training provided in Dubai for regional store managers again proved essential, helping to achieve very high sales and strengthen the sense of loyalty to the brand.
- Swatch's travel retail activity enjoyed marked growth in 2012, thanks to increased foot traffic in airports and the success of the brand's colorful plastic product strategy. Swatch also continued to open new stores in airports and optimized its presence by launching a new range of furniture adapted to this distribution channel.

01/30

SWATCH
WHITE LACQUERED





PUSH
THE BUTTON
OF FUN

swatch 
CHRONO PLASTIC



02/30

SWATCH
HARAJUKU

Creations

Swatch's new products for 2012 were again inspired by the worlds of fashion, sport and art. As a result, the new collections were full of color, movement and surprises.

New Gent Lacquered, color reigns supreme

Swatch went back to its non-conformist roots with a creation that shows the inner workings of the watch through a transparent face. There are ten brightly colored New Gent models in the collection. For five of them, the color of the lacquered inner mechanism components and the parts themselves are selected at random during assembly, thus offering a huge range of combinations and giving rise to unique watches. This customization of an industrial product is synonymous with freedom and stems from an extremely complex procedure, thereby delighting fans of self-expression.

Chrono Plastic, Push the Button of Fun

With its 42-mm diameter plastic case on a supremely comfortable silicon strap, the Chrono Plastic captivates with the vitality of its design, materials and range of colors. Featuring a range of soft or glittering designs, the ten models in the collection suit all moods, so long as they are firmly focused on fun.

Sports Collection, energy and action

The 2012 Sports collection comprises six models, each designed by a member of the Swatch Proteam. Snowboarders Anne-Flore Marxer and Xavier De Le Rue, motocross freestyler Mat Rebeaud and surfers Courtney Conlogue, Kasia Meador and Coco Ho have each infused the collection with some of the energy, spirit and breath-taking action of their respective disciplines.

Birdhead, the subtlety of black and white

The watch designed for Swatch by Chinese contemporary art duo Birdhead is called Majestic Bird. It is inspired by the grain of the black and white photos that Ji Weiyu and Song Tao exhibited at the Swatch Art Peace Hotel in their native Shanghai, where their watch was unveiled, before taking part in another photography exhibition at the prestigious MoMA in New York. This 1888-piece limited edition presented in a dedicated Birdhead box vividly demonstrates Swatch's special links with the art world.

Swatch & Art

The other new creations for 2012 in the Swatch & Art collection bear the signature of Italian illustrator Lorenzo Petrantoni, French street artist Fafi, Chinese fashion designer Uma Wang, British artist Fred Butler, Swiss video director and visual artist Emmanuelle Antille, French tattoo artist Tin-Tin and American musician and DJ Moby, who each provided their own interpretation of the brand.

Seasonal collections and specialties

The festive season was the perfect time to launch sparkling, glamorous collections. The richness of gold and black, or gold and white tones in the Night Glows collection is further enhanced with crystals on some of the watches. The Deep Shine collection, with its vibrant colors, combines the metallic sheen of the dial with the sparkle of the glitter in the strap. Finally, the special Christmas 2012 model christened *Snow your time away* is a real celebration of the festive spirit that makes the end of the year so special.

Presence

Birdhead at the Swatch Art Peace Hotel, Shanghai, China

Swatch teamed up with Birdhead, a Shanghai collective formed by Song Tao and Ji Weiyu, to create the limited edition Majestic Bird watch (1888 pieces). This product was launched at the preview of the exhibition of Birdhead photos from their book *Xin Cun* (New Village). Around a hundred guests – professionals from the art world, representatives of the press and local personalities – attended the event in the exhibition space at the Swatch Art Peace Hotel; the journalists were given a tour of the hotel and an opportunity to speak with the artists working there.

Swatch Girls Pro France 2012, Hossegor-Seignosse, France

At this surfing event, the brand unveiled the Chrono Plastic collection and the Sports collection, designed by members of the Swatch Proteam, which includes the winner of the 2012 edition, Courtney Conlogue from the USA, and French competitor Pauline Ado.

Swatch Girls Pro China 2012, Hainan Island, China

The winner of this latest surf competition on the female professional circuit was the Hawaiian Kelia Moniz, who was crowned world champion in the discipline. In the spectacular setting of Hainan Island, over 120 journalists from Asia and the rest of the world had a first-hand look at the latest Swatch collections.





Swatch Proteam

In 2012, Swatch continued to support many sporting talents who share its innovative values and non-conformist attitude. These athletes have a real passion for their sport and wield considerable influence in their disciplines.

Snowboard: Anne-Flore Marxer (CHE), Jeremy Jones (USA), Xavier De Le Rue (FRA), Jan Scherrer (CHE), Christian Haller (CHE) and Nadja Purtschert (CHE).

Freeski: Phil Meier (CHE), Sverre Liliequist (SWE), Kaj Zackrisson (SWE), Cody Townsend (USA), Richard Permin (FRA), Seb Michaud (FRA), Marja Persson (SWE), Ane Enderund (NOR), Samuel Anthamatten (CHE) and Markus Eder (ITA).

Surf: Coco Ho (USA, Hawaii), Pauline Ado (FRA), Courtney Conlogue (USA) and Kassia Meador (USA).

FMX (freestyle motocross): Mat Rebeaud (CHE) and Levi Sherwood (NZL).

Beach Volleyball: Talita Antunes da Rocha & Maria Elisa Antonelli (BRA), Sara Goller & Laura Ludwig (GER), Simone Kuhn & Nadine Zumkehr (CHE), Jefferson Bellaguarda & Patrick Heuscher (CHE), Raul Mesa & Inocencio Lario Carrillo (ESP) and Clemens Doppler & Alexander Horst (AUT).



03/30

SWATCH
RISK A DARE**Swatch Skiers Cup, Valle Nevado, Chile**

This freeskiing event brought Team Americas and Team Europe head-to-head on the extreme slopes of the Chilean Andes. Led by Swatch Proteam member Cody Townsend, Team Americas beat the Europeans, the defending champions, who were led by Sverre Liliequist.

Other sporting events

- In 2012, Swatch was title partner for the tenth time of the FIVB Beach Volleyball Swatch World Tour, which featured eight Grand Slams and returned to Berlin for the first time since 2008. The Brazilian players from the Swatch Proteam, Talita Antunes da Rocha and Maria Elisa Antonelli, finished third in the world rankings.
- Almost 25000 people gathered in Estavayer-le-Lac in Switzerland for the 20th Swatch Free4Style alongside freestyle motocross Swatch Proteam rider and local lad Mat Rebeaud, accompanied by his New Zealander training partner Levi Sherwood.
- Swatch renewed its partnership with the Red Bull X-Fighters, in which Levi Sherwood from the Swatch Proteam took the 2012 title, winning the final stage of the international freestyle motocross tour in Sydney.
- Swatch again stepped onto the international freeride ski and snowboard circuit as title partner. The Swatch Freeride World Tour 2012 season had new races in Revelstoke (Canada) and Courmayeur (Italy) in addition to the four existing stops in Chamonix (France), Røldal (Norway), Fieberbrunn (Austria) and Verbier (Switzerland).

Advertising

The launch of the New Gent Lacquered was supported by a campaign focused on the interplay of colors and the design of the product. It also benefited from the visibility provided by Swatch's Ice Dunes retail concept: from Times Square to the Champs-Élysées, from the Swatch Art Peace Hotel in Shanghai to the new Swatch megastores in Saint-Petersburg, Hong Kong and Jeddah, the brand's boutiques were decorated with a riot of color.

The Chrono Plastic collection was launched as a peaceful invasion of energy and youthfulness. Its advertising campaign featured members of the Swatch Proteam emerging from the waves or leaping from desert dunes.

Swatch online

The SwatchTV video platform, now available in 18 languages, was integrated into the swatch.com website.

Swatch Club

In spring 2012, 130 members of the Swatch Club took part in the Gold & Pioneer event, held in Geneva with a Time Lapse theme, and visited CERN, the Cité du Temps and the United Nations Office.

The Open'It, New Gent Lacquered watch, designed exclusively for members of the Swatch Club, shows the watch's inner workings through an opening cut into the dial in the shape of a keyhole. It comes with a key with a personal code that can be used to activate or renew membership online as of September 2012.

A virtual interface was implemented to improve the management of the Swatch Club, which is now fully integrated into swatch.com and is available in six languages. Online registration has been simplified and there are new exclusive features for fans of the brand.

The X-mas Event in Madrid, for which a limited edition watch was specially produced, was an opportunity for Swatch Club members to discover how the Spanish celebrate Christmas and experience the countdown to the New Year in Puerta del Sol square.







www.omegawatches.com

04/30

SWATCH
DON'T BE TOO LATE

Bridges to London: the Olympic Games and James Bond

Trends

Omega's solid performance was built on the success of its exclusive Co-Axial movements, enhanced distribution through monobrand boutiques and a continued streamlining of its retail network, and three far-reaching partnerships: the Olympic Games, golf's Ryder Cup and the incredible legacy of James Bond.

In July and August, some four billion viewers watched as Omega served as Official Timekeeper at the London 2012 Olympic and Paralympic Games. At The PGA of America's events, including the thrilling Ryder Cup in September, the brand's on-course presence elevated its profile in the sport.

Skyfall, released in autumn, was the seventh film to feature James Bond wearing an Omega Seamaster. The most successful movie in the history of the franchise, it was a perfect platform for the brand.

More than 90% of Omega's mechanical movements now feature Co-Axial technology. The year also saw the debut of Omega Ceragold™, a world premiere of a process that seamlessly bonds 18K gold with ceramic.

In 2012, Omega opened new boutiques at select locations around the globe. Some 285 monobrand stores are located at the world's best shopping addresses.

The year was also defined by Omega's social engagement, with support of Orbis International and its Flying Eye Hospital, the launch of *Planet Ocean* with a strong message to protect the planet and the partnership with Solar Impulse, which saw the first-ever intercontinental flight of the solar-powered plane.

Creation

Constellation 38mm Day-Date

The Constellation 38mm Day-Date introduced the Omega Co-Axial caliber 8602/8612. It is the first in Omega's family of proprietary Co-Axial movements to feature day and date indication with instantaneous jump.

The James Bond 007 50th Anniversary Collector's Piece

To celebrate fifty years of James Bond on screen, Omega released an update of the Seamaster Diver 300 M long associated with 007. The James Bond 007 50th Anniversary Collector's Piece was created in 41- and 36.25-millimeter versions featuring the Co-Axial caliber 2507.

Seamaster Planet Ocean 600 M "Skyfall" Limited Edition

Omega launched the Seamaster Planet Ocean 600 M "Skyfall" Limited Edition to mark its seventh role in a James Bond film. Its bezel is distinguished by a matt black ceramic ring. On the dial at the 7 o'clock position is a 007 logo. The commemorative timepiece is powered by the Omega Co-Axial caliber 8507; only 5007 pieces were produced.

Seamaster Planet Ocean Ceragold™

In 2012, Omega launched a collection of Seamaster Planet Ocean Ceragold™ watches featuring a bezel whose diving scale is made of an innovative product called Ceragold™. The incrustation of Ceragold™ into zirconium-based ceramic bezels is a world premiere.

Omega Seamaster Aqua Terra GMT

The Seamaster Aqua Terra GMT premiered the Omega caliber 8605/8615, the first of the brand's proprietary Co-Axial movements equipped with a GMT complication. The 43-millimeter case is produced in 18K red gold, stainless steel or bicolor, presented on a matching bracelet or leather strap.





05/30

SWATCH
JELLY FISH

The Omega Speedmaster “First Omega in Space” Numbered Edition chronograph

So much has been written about the rigorous testing that led to the Speedmaster’s being the only watch qualified for every manned NASA mission that it is easy to forget the first Omega in space was the Speedmaster worn by Wally Schirra during his Mercury Atlas 8 mission in 1962. The Speedmaster “First Omega in Space” honors the 50th anniversary of the mission.

Speedmaster Spacemaster Z-33

The Speedmaster Spacemaster Z-33 was inspired by Omega’s “Pilot Line” and is equipped with a new multifunction quartz movement, caliber 5666. Designed with pilots in mind, it combines an iconic design with cutting-edge technology. Floating above the digital dial is a set of analogue hands. Four pushers and the crown set on the grade 5 titanium case allow full control over its digital features.

A Ladymatic with nearly 900 diamonds

In 2012, Omega presented a new star in its Ladymatic collection. A dramatic 34-millimeter 18K red gold case is fitted with a bezel paved with diamonds, as are the links of the 18K red gold bracelet. The sides feature a wave pattern of artfully-set diamonds. Its 894 diamonds have a total weight of 5.46 carats!

Presence

In a year highlighted by the London 2012 Olympic Games where Omega served as Official Timekeeper, the brand’s impressive media presence also included boutique openings, an increased presence in the sport of golf, a renewed commitment to global social issues and a featured role in the most successful James Bond film of all time.

Some of the year’s highlights were:

The Co-Axial caliber 9300 assembly line

A new assembly line in Grenchen is dedicated to the production of the Co-Axial caliber 9300/9301 chronograph. Repetitive operations are assigned to robots while tasks requiring greater know-how and a human touch are done by hand. The automation results in an unprecedented level of traceability.

Boutique Openings / Distribution

Omega opened flagship boutiques in the European capitals of Vienna and Prague and new locations in the United States as well as at other prestigious addresses around the world. The global network at the end of 2012 included some 285 boutiques.

Time for Women

Time for Women is a unique global network designed to bring exceptional women together online. The website (timeforwomen.com), accessible by invitation, was conceived as a way to continue the inspired conversations generated at exclusive Omega-hosted dinners.

Golf

The brand’s active year on golf courses included title sponsorships of the European Masters, the Dubai Desert Classic and the Dubai Ladies Masters. Media highlights included the Ryder Cup and the PGA Championship, where Omega had a significant on-course and on-screen presence.

Sports timing

Omega’s profile as the world’s leading sports timekeeper was maintained at the London 2012 Olympic and Paralympic Games, and at events such as the FINA World Cup and the Diamond League’s series of athletics events.

Omega and Orbis International

Omega continued its support of Orbis International whose Flying Eye Hospital delivers quality eye care to some of the world’s remotest regions. In April, Omega helped to raise awareness of Orbis’ work and invited guests visited the Orbis team in Vietnam. In July, an event at the Omega House in London celebrated the partnership.

Yann Arthus-Bertrand and GoodPlanet

Omega continued to develop its partnership with filmmaker/ecologist Yann Arthus-Bertrand and his GoodPlanet organization. In June, the *Planet Ocean* film directed by Arthus-Bertrand and Michael Pitiot and produced by Omega was screened at the Earth Summit in Rio and at the Omega House in London during the Olympic Games.





06/30

SWATCH
SPICY**Solar Impulse**

Omega continued its active role as one of Solar Impulse's Main Partners, providing key technology that contributed to the success of the world's first fully solar-powered intercontinental flight.

Communication

Global advertising campaigns, an impressive roster of ambassadors, a lifestyle magazine and a strong web presence continued to figure prominently in Omega's communications strategy. The brand also produced short films about its products and technologies.

Advertising

In 2012, Omega's advertising highlight was the "Start Me Up" TV spot with Olympic athletes and a classic soundtrack by the Rolling Stones. The Ladymatic campaign with Nicole Kidman played a key role in the year's advertising strategy. To complement Omega's presence in the world of professional golf, print and online campaigns were developed around the Ryder Cup and other PGA of America events. Print, online and TV advertising focused on the brand's role in the 007 thriller, *Skyfall*.

Lifetime magazine

Lifetime, Omega's lifestyle magazine, was available in eight major languages in 2012 along with an interactive iPad edition. The year saw the publication of the "London" and "Movie" issues.

Omega online

omegawatches.com, the official website, had more visitors than ever before and the brand enjoyed a dramatic increase in the traffic on its mobile site thanks to the addition of three new languages. Independent sources confirmed the Seamaster was again the watch "most searched for" by name. Reflecting global interest in the brand, the website is available in twelve languages.

The London 2012 Olympic and Paralympic Games**Omega and 25 Olympic Games**

The London 2012 Olympic and Paralympic Games represented a number of milestones for Omega. In London, the brand assumed its Official Timekeeper role for the 25th time since 1932; thus, in 2012, Omega celebrated the 80th anniversary of its partnership with the IOC. The Organising Committee and the people of London committed themselves to revitalising an entire section of the British capital, while using some of the most iconic venues.

The Omega House

The Omega House, a stunning Georgian townhouse in the heart of Soho, provided a central home for Omega's invited guests and welcomed a who's who of Londoners and visitors. Events focused on some of the brand's key communications themes; prominent guests included astronaut Buzz Aldrin, ecologist Yann Arthus-Bertrand and actress Nicole Kidman. Omega's Olympic athlete ambassadors Michael Phelps, Chad Le Clos, Jessica Ennis and Jenn Suhr also visited the House. The location belongs to a charity, the House of St. Barnabas, and Omega's improvements – including new exterior landscaping and lasting interior renovations – were part of a legacy left by the brand.

Advertising and Promotion

The "Start Me Up" TV spot featured Olympic athletes immediately prior to the start of a competition. They were shown against a soundtrack of a classic hit by the Rolling Stones.

Omega's timekeepers and data handlers

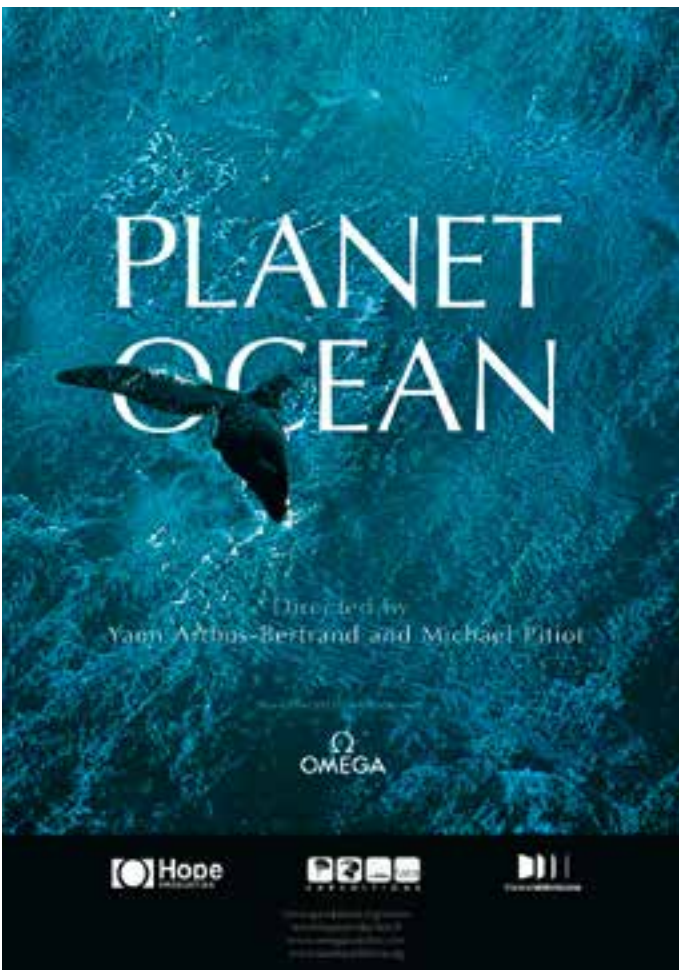
Omega's commitment to the Olympics was impressive: 450 timekeepers and data-handlers deployed 420 tons of equipment from Switzerland to London by road, rail and ship. Following the Olympic Games, Omega's timekeepers and volunteers turned their energies to the Paralympic Games which began on the 29th of August.

No sporting event in the world attracts more global attention than the Olympic Games and Omega's highly visible role as Official Timekeeper enhances the awareness of the brand in the more than 200 nations that participate.

80 years of sports timekeeping innovation

Omega's Olympic legacy began at the Los Angeles 1932 Olympic Games and in addition to its timekeeping role, it has been behind the development of much of the most important technology in sports timing, including photoelectric cells, swimming pool touchpads and false start detection systems. In London, the most innovative new product was the Quantum Timer, the beginning of a new generation of Omega Timing products.





Fine Jewellery

2012 was marked by the launch of three new jewelry collections. The Constellation Collection, takes its inspiration from the distinctive bezel of the Constellation watch, defined by the four claws and engraved Roman numerals. The free and creative interpretation of the Ω gives birth to the Omegamania Dewdrop Collection. The Omega Flower Collection is subtly formed by five interwoven Omega logos. The collections are feminine and lively, and have a true link with the brand. This launch was supported by a new catalog, visual merchandising materials and a press-kit, strengthening the collections in the boutiques.

Fine Leather

Omega's Fine Leather Collection enjoyed continued success with its Symbol products whose pattern features the Ω engraved in the leather. The new belt collection introduced late in the year is hand made from fine Italian leather. The belts are secured by a buckle in the shape of the Ω , and are offered exclusively at Omega Boutiques.



07/30

SWATCH
FRISCHE FISCH







www.breguet.com

Rooted in history

Trends

Responding to a marked increase in demand, Breguet enjoyed an excellent year in 2012, making substantial progress in relation to previous years. Sales in the brand's own boutiques in particular recorded the highest growth.

For Breguet, 2012 was the year of women. Two hundred years after Abraham-Louis Breguet delivered the first wristwatch ordered by the Queen of Naples, Caroline Murat, and ten years after the launch of the Queen of Naples collection, Breguet held an exhibition retracing the mysteries of this emblematic piece. Inaugurated at the Cité du Temps in Geneva, this travelling exhibition was presented in the biggest cities in Asia, the United States and Europe, prior to being celebrated with an international event in the Gulf of Naples.

The manufacture from L'Abbaye in the Vallée de Joux (VD) organized a series of events telling the story of other chapters in its history. The year 1815 – when Abraham-Louis Breguet was appointed "Horologer to the Royal Navy" by King Louis XVIII of France – was commemorated in Geneva with an exhibition presenting historical marine chronometers. The fifties were illustrated through an exhibition entitled, "Breguet: Watchmaker, Aviator, Innovator", inaugurated in New York. Marked by the advent of silicon and high frequency, the first decade of the third millennium was highlighted by several dedicated events, notably in Singapore.

In 2012, Breguet also increased its communication activities. The brand launched the first edition of a yearly magazine entitled *Le Quai de l'Horloge*, complemented by an iPad version. The enormous success of the electronic format resulted in Breguet launching a corporate app for iPad and iPhone. A new advertising campaign was also launched, celebrating Breguet's motto that "in every woman is a queen".

Under the leadership of Marc A. Hayek, Breguet continued its research and development activities. The brand presented its recent innovations in fundamental watchmaking at Baselworld, paying tribute to complications such as the time-zone function and presenting developments in the realm of magnetism, notably those resulting in increased operating precision and stability of the classical mechanical watch.

Creation

Classique Chronométrie 7727, white or rose gold

Thanks to its frequency of 10 Hertz – a first for a non-chronograph watch – this timepiece has mechanical energy of about 800 microwatts, in contrast to the less than 200 microwatts found in most of the best-performing chronometers. Breguet's mastery of silicon enabled this high frequency to be reached with a conventional balance-spring. The mechanism offers an unprecedented solution for improving the pivoting, rotation and stability of the balance shaft. This involves the use of two endstones incorporating powerful micro-magnets, one for each end of the balance shaft. As one of the magnets is stronger than the other, one end of the balance shaft is kept in permanent contact with its ruby endstone. Magnetic induction generates a magnetic flux through the balance shaft, developing a force that acts with the gyroscopic inertia affecting it. The construction thus results in a self-centering, self-correcting dynamically stable system.

08/30

SWATCH
KAMMERMUSIK





Tradition 7067 GMT, white or rose gold

The stylistic elegance of this piece is commensurate with its ease of operation. A button on the caseband at 10 o'clock quickly sets the time zone, which can be seen on an off-center dial at 12 o'clock. A second engine-turned dial at 8 o'clock shows the reference time with its day/night indicator, alternating between silver and black at 10 o'clock.

Marine GMT 5857, steel or rose gold

The Marine collection gained an unprecedented time zone model in a steel or rose gold case. Local time is displayed by two central hands. A chapter ring of hours, off-center at 6 o'clock, and a 24-hour indicator at 2 o'clock show the reference time. An aperture for the dates in the reference time zone makes the watch even more practical. The dial is engine-turned in a wave pattern on silvered gold for the steel version and on blackened rhodium for the model in rose gold. The hour markers are also differentiated by Roman numerals for the reference time and Arabic numerals for the time zone.

Héritage Phases de lune rétrograde 8860 and 8861

The Heritage collection was enriched with a new model featuring a moon-phase indication. The self-winding caliber 586L movement in the watch follows the vagaries of a moon matched with the colors of the case, while the hours and minutes are indicated in the dial center of engine-turned mother-of-pearl. Although invisible to the naked eye, the face on the moon is actually winking. A number of versions of this model offer a choice between a curved *tonneau* case in rose or white gold, with or without a gem-set bezel.

Reine de Naples special anniversary 8973

This *en passant* or automatic striking mechanism sounds each hour with two chimes repeated three times – a function that may be disabled by a push piece at 2 o'clock. Displayed through the back of the watch, the geometry of the bridges, the oscillating weight and the decoration form the image of a Mediterranean style garden pavilion, identical to the stately residences of Caroline Murat. The bezel and the attachment are set with 28 brilliant-cut diamonds and 27 blue sapphires. The silvered gold dial and its flange are paved with 233 brilliant-cut diamonds and 303 blue sapphires featuring different nuances forming a subtle color grading.



Presence

Exhibitions

With its travelling exhibition called "1810–1812, Breguet makes the first wristwatch fit for a queen", the Manufacture earned internationally acclaimed visibility. Geneva, Shanghai, Beijing, New York, Las Vegas, Paris, Tokyo and Zurich were among the cities where fans of the brand were able to discover its exceptional pieces, including the Reine de Naples collection. In order to celebrate the bicentenary of the first wristwatch, Breguet organized an exclusive event in the Gulf of Naples, with nearly 300 guests from all over the world. A smaller commemorative event also took place attended by clients and well-known English journalists at the Wallace Collection National Museum in London.

Breguet invited clients of its boutique in Ginza to an exhibition dedicated to arts and crafts and engraving in particular, with a master cameo engraver coming to Tokyo for the occasion. This exhibition around the tradition of cameo was subsequently hosted by the Breguet boutique in Cannes, prior to going to Porto Cervo in Sardinia where special guests had an opportunity to admire the expertise cultivated by the Manufacture. Finally, clients and the Hong Kong press alike were invited to a VIP evening dedicated to the same art, featuring the presence of a Breguet craftsman.

Breguet also hosted an exceptional international exhibition in Yekaterinburg dedicated to the *Classique Hora Mundi*, which provided an opportunity to launch the *Classique Hora Mundi Haute Joaillerie* in Russia for the first time.

Breguet also devoted three days to the theme of silicon and high frequency in Singapore, an event at which influential media and connoisseurs familiarized themselves with these technological innovations and had a chance to interact with an expert in research and development from the Manufacture.



Breguet continued to promote the heritage of its founder, Abraham-Louis Breguet, through an exhibition entitled “Breguet: Watchmaker, Aviator, Innovator”, celebrating a century of watches inspired by aviation. This was inaugurated in New York with a squadron of fighter planes aboard the aircraft carrier, *Intrepid*, in the background. More than 300 guests were invited to visit the exhibition and enjoy a preview of the *Space Shuttle Enterprise*. The inaugural evening was marked by the presentation of 26 Breguet watches, including ten vintage pieces exhibited for the first time in the United States.

Finally, Breguet opened the doors of its boutique in Geneva to an exhibition paying tribute to the historical links between A.-L. Breguet and the French Royal Navy. Historical high-precision chronometers from collections in the Breguet Museum and more recent pieces from the Marine line created in 1990 were presented to the public.

Partnerships

Breguet supports art and culture through various partnerships and sponsorships. In this context, Breguet and the Tourbillon boutique in Puerto Banús sponsored a charity concert given by well-known Spanish singer, Montserrat Caballé, in support of the not-for-profit organization, The Children for Peace. Breguet also celebrated the third year of its partnership with the New York Philharmonic during a gala evening marking the opening of the great American symphony orchestra’s 2012/2013 season. The brand strengthened its presence in New York through a new partnership with Carnegie Hall, launching a Breguet clock with a tourbillon specially designed to decorate the “Morse” lobby of the legendary concert hall. In tribute to the famous composers and musicians who have marked its history, in 2012, Breguet also partnered with the Geneva International Music Competition for the 11th consecutive year, as well as the Mezzo television channel dedicated to classical music.

Boutique openings

2012 was marked by the extension of and a new concept for the Breguet boutique network. Ten new shops were inaugurated or renovated in contemporary style. Echoing the Manufacture’s attributes, the color of the glass walls brings to mind Breguet’s traditional *clous de Paris guilloché* patterns. Launched in Gstaad at the end of 2011, this new interior design was the reason for a second inauguration in Seoul in May 2012, followed by the reopening of the Breguet boutique in Vienna, decorated in the same style, the opening of the first Italian boutique in Milan and Breguet boutiques in Taipei, Abu Dhabi and Shanghai.

Rewards

A timepiece equipped with an instant-jump time zone display, the *Classique Hora Mundi 5717*, was selected by *Robb Report* magazine for the 2012 award of its *Best of the Best* prize, acclaimed for its beauty and functionality. *Montres Passion* magazine awarded Breguet three (of a total of six) of its most prestigious prizes at its 10th annual Watch of the Year competition. The *Héritage Phases de Lune rétrograde* watch captivated the jury with its aesthetic daring and was awarded the *Watch of the Year* and *Ladies’ Watch of the Year* prizes. Having proved a standout model from among some 40 finalist watches preselected by the jury, the *Tradition GMT* also won the 2012 Public Prize.

09/30

SWATCH
FRANCO



Breguet High Jewelry

When elegance springs to life

While Breguet's art is first and foremost expressed in watchmaking, the brand also presents High Jewelry creations rooted in traditional skills. Every year, Breguet pushes the boundaries of the art of jewelry-making to new limits in order to redefine the very concept of elegance.

Crazy Flower Full Baguettes

An even more exceptional model than the Crazy Flower presented in 2010, this piece is entirely paved with diamonds. Its bracelet is set with 120 baguette-cut stones. In the heart of this crystal flower, the dished dial consists of 206 brilliant cut diamonds in an "inverted" setting, while the dial edge is decorated with 20 baguette-cut diamonds. The trademark Breguet hands in polished steel have been bent by hand to parallel the curve of the dial. Every movement of the wrist brings the diamond petals to life, an effect achieved by the mobile attachment of 193 baguette-cut diamonds to the watchcase.

Marie-Antoinette Dentelle

Breguet introduced a new version of the Marie-Antoinette watch in tribute to the French queen's love of fashion, and lace in particular. The lace-inspired decoration is set with 70 brilliant-cut diamonds following the curve of the case and continues onto the mother-of-pearl dial. A sphere paved with 98 brilliant-cut diamonds and attached to the case at 6 o'clock reveals a magnificent oval ruby of almost 1.2 carats.

Petite Fleur expands its universe

In 2011, Breguet presented the Petite Fleur, a High Jewelry watch based on the mobile setting concept. In 2012, Breguet's jewelers completed the Petite Fleur collection with a set of regalia composed of a ring, a pendant and earrings. The centerpiece of all of these items is a solitaire diamond surrounded by brilliant-cut diamonds. Baguette-cut diamonds lift the heart of this exceptional piece, based on an ingenious setting system of pivots.



10/30

SWATCH
TYPICAL SQUARE

2000



Tradition through Movement

Trends

Blancpain had its most successful year ever in 2012 and consolidated its status as well as its independence within the field of Fine Watchmaking. Several factors contributed to this excellent performance:

- the dynamism of the Blancpain Research & Development department, which enabled it to present five new calibers in 2012 and to thereby confirm its 100% *manufacture* status;
- the success of the Villeret Traditional Chinese Calendar model, a watchmaking world première that became a new horological benchmark within just a few months;
- the development of the Blancpain Artistic Crafts department, which creates its masterpieces 100% in-house, with the installation of an enamel painting workshop and the strengthening of the engraving unit;
- the opening of several Blancpain boutiques, notably in South Korea, China and Hong Kong;
- Blancpain's significant range of activities in terms of events, particularly in the field of motorsports, where the brand is acquiring a consistently higher profile;
- the boom in the brand's digital communications thanks to a stronger presence on the social networks and the web, as well as the development of new applications.

Blancpain achieved this exceptional growth on all world markets, with Europe and the United States showing the strongest rise. In terms of sales, Switzerland, China and Hong Kong were the three top-ranked markets in 2012 for the Manufacture in Le Brassus (Vallée de Joux, VD). Its reputation in Asia also positively influenced other countries that are travel destinations for Chinese tourists.

Creation

In 2012, the Research & Development teams of the Manufacture Blancpain once again displayed a remarkable spirit of innovation, highlighted at the famous Baselworld yearly event by the presentation of five new calibers powering the brand's creations.

Villeret Collection, Traditional Chinese Calendar, Caliber 3638

The first wristwatch equipped with a traditional Chinese calendar

At once useful and symbolic, this extraordinary achievement is based on principles established for millennia and closely bound to Chinese tradition. In addition to hours, minutes and the Gregorian calendar, its dial also displays the main indications of the Chinese calendar: double hours, the day and the date with a mention of the intermediate months, the zodiac signs, as well as the five elements and the celestial stems. The moon phases, which serve to determine the months of the Chinese calendar and are an integral part of all Blancpain complete calendars, are also presented and symbolize the parallels between Chinese culture and the world's oldest watch brand.

The mechanical soul of the Villeret Traditional Chinese Calendar, Caliber 3638 has a 7-day power reserve, despite its 469 parts including 36 jewels. Its complexity lies both in the number of indications displayed and in the irregular nature of their cycles.

For most other complications – whether tourbillons, minute repeaters or perpetual calendars – watchmaking history enables movement constructors to determine the means of achieving the desired goal. Nothing of the kind existed for the traditional Chinese calendar, since this complication had never been previously attempted, which meant that the Blancpain watchmakers were keenly aware of facing a huge challenge when they took on this project. The sheer complexity of the final result far exceeds the making of a perpetual calendar and, on the scale of watchmaking achievements, ranks just below the creation of a minute repeater.





12/30

SWATCH
COLOR-FULL

Contrary to the Gregorian solar calendar based on the solar day, the traditional Chinese calendar is a lunisolar calendar, meaning a solar calendar with the lunar cycle (29.53059 days) as its base unit. Each month of the Chinese calendar conventionally begins on the day of the new astronomical moon and its length is either 29 or 30 days. Since a year comprising 12 lunar months (354.36707 days) is approximately 11 days too short compared with the tropical or solar year (365.242374 days), an intermediate month is sometimes added to preserve the match with the cycle of the seasons. This distinctive feature is the reason behind the variable date of the Chinese New Year.

Each aspect of the Villeret Traditional Chinese Calendar model complies with the classic signature features of the Villeret collections: a round double-stepped case, a *grand feu* enamel dial with a chapter ring composed of gold appliques and enamel-painted indications transferred before the firing process, as well as slightly hollowed sage leaf-shaped central hands. Moreover, the blued steel serpentine-type hand of the Gregorian calendar is reminiscent of the grand 18th century watchmaking tradition. Historically, the hands used for indications other than showing the time appeared in this distinctive shape and color so as to distinguish them from the hour and minute hands.

The Villeret Traditional Chinese Calendar is equipped with five Blancpain patented under-lug correctors enabling fast correction of the indications, while the crown serves to adjust the zodiac signs and the elements according to the sixty-year Chinese cycle. Moreover, the movement is entirely secured and protected so as to enable the use of the correctors at any time of the day or night without any risk of damaging the movement.

Villeret Collection, Skeleton 8 Days, Caliber 1333SQ

This unique timepiece that is both technical and aesthetically pleasing is driven by a hand-wound Caliber 1333SQ equipped with three series-coupled barrels ensuring an 8-day power reserve. This entirely open-worked and decorated movement can be viewed in full through the two sapphire crystals of its white gold 38mm case which simply surrounds it, accentuating its light, airy aesthetic. Skeleton-working, beveling and engraving are used to support the watchmaker's efforts to achieve the greatest possible transparency and to reduce the surface to an absolute minimum. Everything is hand-engraved, right down to the tiniest parts. Several hundred hours of filing and beveling culminate in a visually perfect result constituting an authentic work of art!

Villeret Collection, Inverted movement, Caliber 152B

Caliber 152B is a perfect illustration of the ingenuity exercised by the Blancpain engineers. In order to make the hand-wound movement accessible at all times and not only when the watch is no longer on the wrist, the caliber has been inverted, or turned the other way around. The reverse side thus appears on the dial side, and vice versa. The bridges that are, as a result, made visible are duly decorated, hollowed and filled with a white or black ceramic substance. This reversal naturally entails a modification of the gear train so that the hands continue to run in the usual direction! The Villeret Inverted Movement comes fitted with a 43mm white gold case.

L-evolution Collection, Split-seconds Flyback Chronograph Large Date, Caliber 69F9

This watch inspired by the automobile world lends a new facet to Blancpain's most provocative line. Within this technical feat embodying the brand's innovative strength, the bezel, case-back and dial are all made from carbon fibers. The movement combines a split-seconds flyback chronograph with a large twin-aperture date display. Caliber 69F9 is equipped with a column wheel that guarantees the precise reaction of the push-pieces and a vertical coupling clutch that avoids any inadvertent jerking of the hand when the chronograph is activated. This movement with its distinctive decoration, which can be admired through the sapphire crystal caseback, consists of 409 parts, including 44 jewels.

Women's Collection, Retrograde Calendar, Caliber 2650RL

Developed in a resolutely feminine and contemporary spirit, the Retrograde Calendar model displays a blend of refinement and horological expertise. Driven by Caliber 2650RL, this is the first watch with off-centered time display ever presented by Blancpain. The innovative new Retrograde Calendar features an appealing mother-of-pearl marquetry dial graced with off-centered hour and minute hands at 6 o'clock. The moon phase at 12 o'clock appears against a star-studded sky, while the blue star-tipped serpentine hand ensures optimal readability of the date.





Presence

2012 witnessed a number of events that enabled Blancpain to reinforce its presence in its favorite fields.

Blancpain, always faster in motorsports!

The Manufacture in Le Brassus (Vallée de Joux, VD) pursued its commitment to the world of GT racing in 2012 and was for the first time exported to Asia with the launch of the Lamborghini Blancpain Super Trofeo Asia. This new championship made stop-overs in Malaysia, Japan and China, and proved an immediate hit with the teams and an enthusiastic public. The European version also attracted its highest ever participation since its creation in 2009.

In Europe, the growing success of the Blancpain Endurance Series was confirmed with this second season, which included the participation of multiple MotoGP world champion Valentino Rossi. The Spa-Francorchamps 24 Hours drew a record line-up of 67 cars. The Lamborghini GT3 Blancpain-Reiter driven by Marc A. Hayek earned a superb sixth place in this legendary race.

In 2012, Blancpain officiated for the second consecutive season as partner and official timekeeper of the ADAC GT Masters, a German automobile championship that is enjoying considerable success. The stage is already set for the 2013 season, which looks set to be equally rich.

Blancpain and the aquatic world

Since 1953, Blancpain has been regularly involved in various activities aimed at raising awareness among up-and-coming generations of the need to preserve ocean floors.

Keenly aware that people only protect that which they love and that they only love that which they know, the Manufacture in Le Brassus (Vallée de Joux, VD) supports the National Geographic Society and its Pristine Seas Expeditions. This exploration, research and conservation project aims to discover, study and contribute to protecting the last remaining healthy and intact ocean areas. The first of the “Pristine Seas Expeditions with Blancpain” took place last spring in the Pitcairn Islands of the Pacific. The results were presented at the Royal Society in London on November 28th 2012, in order to encourage the British government to classify this zone a nature reserve.

Blancpain experienced another underwater adventure in 2012 with a new world record set by its ambassador, Italian diver Gianluca Genoni. In September, it took him just three minutes and 41 seconds to put a new freedive performance in the record books after descending to a depth of 160 meters with his Blancpain 500 Fathoms on his wrist.

Auctions

The past year was highlighted by two exceptional auctions. The first was organized on behalf of the Monaco Association against Muscular Dystrophy (AMM). Blancpain donated its Lamborghini Gallardo LP 600 GT3 racing car with which President and CEO Marc A. Hayek won the ADAC GT Masters in 2011, thereby raising 155 000 euros on behalf of the AMM.

At an exclusive charity gala evening that took place in Shanghai, Blancpain also auctioned a one-of-a-kind model on behalf of the China Disabled People’s Performing Art Troupe (CDPPAT). The Manufacture in Le Brassus (Vallée de Joux, VD) presented its first model with a dial decorated using the enamel painting technique. Over 300 guests – including intellectual Liang Wendao, famous TV presenter Dou Wentao and the members of Blancpain’s top management – witnessed an emotion-packed show. The high point of the evening undoubtedly came when this one-of-a-kind watch went under the hammer at 1 100 100 Chinese yuans (around 160 000 Swiss francs) – twice its initial price.



Glashütte
ORIGINAL

www.glashuette-original.com

Glashütte Original on the path to growth

Trends

The year at Glashütte Original was characterized above all by sustained strong global demand. Growth was particularly high in the key markets – Germany, the USA, Asia and the Middle East.

The watchmaker responded to the growth in demand with an increase in the number of employees at the Glashütte production facility. The integration of the Deutsche Zifferblatt Manufaktur in Pforzheim, under the name Glashütter Uhrenbetrieb GmbH Zifferblattmanufaktur, brought the number of employees to around 450 and strengthened the vertical integration of the brand's in-house production.

Thanks to Swatch Group's investments it was possible to move the customer service department to the new building in the Frühlingsweg by the end of August, as planned. The space made available in the main building as a result, along with additional production areas, will be restructured in 2013 without impacting production, in order to achieve the necessary increase in production capacity.

2012 saw further expansion of the worldwide network of Glashütte Original corporate boutiques. The five locations already in operation were joined by two more, in Shanghai and Dresden. The latter was the first boutique with the new corporate design to open in the home market. The boutique's interactive wall display, conceived specifically for the Dresden location, is another milestone in the company's history.

The brand strengthened its visibility around the world through the installation of shop-in-shop systems. This made it possible to improve end consumer brand awareness, particularly in the USA, Asia and the Middle East.



14/30

SWATCH
HAPPY JOE

Creation

Grande Cosmopolite Tourbillon

This timepiece, limited to 25 pieces, is a true world first: the Grande Cosmopolite Tourbillon indicates simultaneously the time of day or night in any two of the currently 37 official time zones, taking standard and daylight savings time into account in the process. The watch also features a perpetual calendar that can be adjusted both forwards and backwards. The model is crowned by a Flying Tourbillon positioned at 12 o'clock.

Senator Observer

The design of the Senator Observer model is based on that of historic observation watches from Julius Assmann's atelier. The contemporary watch is presented in a 44mm stainless steel case and is offered in two versions with different dials.

Pano Collection

After 12 years Glashütte Original refreshed the overall design of its successful Pano Collection. The new versions of the PanoGraph, PanoMaticLunar, PanoReserve and PanoInverse now capture attention with larger cases and dials.

Presence

Grande Cosmopolite Tourbillon Roadshow

Following the inaugural presentation of the Grande Cosmopolite Tourbillon at Baselworld, this extraordinary timepiece was introduced to journalists, retailers and customers in a worldwide road show. A multi-media presentation illustrated the highlights of the timepiece most effectively. Among the stops on the tour were Hong Kong, Singapore, Shanghai, Beijing and Zurich, along with New York and Los Angeles.

Film Festivals

The past year saw the expansion of Glashütte Original's involvement in art and culture to include an additional film festival. It will support the next two editions of the Zurich Film Festival as a partner. In its second year with the Berlinale the brand awarded, together with the Perspektive Deutsches Kino section, the "Made in Germany – Förderpreis Perspektive" prize supporting young German directors. The unique award trophy was designed and made by an apprentice at Glashütte Original's own Alfred Helwig School for Watchmaking.

Alfred Helwig School of Watchmaking – 10 Years On

A special exhibition entitled "German Watchmaking School Glashütte – 10 Years On" in the German Museum of Watchmaking in Glashütte celebrated the school's 10th anniversary.

German Museum of Watchmaking Glashütte Honors Pioneer

The German Museum of Watchmaking titled its first special exhibition of the year, "Hermann Goertz – Precision Watchmaker and Cosmopolitan". The museum honored the master watchmaker and inventor Hermann Goertz with an impressive display of exhibits.





The art of wonderment

Trends

Automates & Merveilles

In 2012, Jaquet Droz supported an exceptional exhibition entitled “Automates & Merveilles: an exhibition, 3 cities, 3 museums”. In order to highlight the genius of the Jaquet-Droz and Leschot families – who were the pioneering horologers behind the brand’s origins – the three museums in Neuchâtel, Le Locle and La Chaux-de-Fonds pooled their competencies and their collections for the very first time, enriched by a number of pieces loaned from private and public sources. Simultaneously presented in the three institutions from April 28 to September 30, 2012, this international-scale artistic and technical event took visitors on a journey from the 18th century to the 21st, and contributed to the brand’s extraordinary development in 2012 in terms of both its visibility and its growth.

The Bird Repeater

Created by the Jaquet Droz artisans, including both painters and sculptors, The Bird Repeater was unveiled in October 2012. This masterpiece combines the history, the skills and the imaginary world of the brand, expressing them in a precious and original manner. An authentic automaton equipped with a cam system directly inherited from the technique used in the Age of Enlightenment, The Bird Repeater depicts a pair of Blue Tits – symbolizing the Jura region – perched atop the nest, sheltering their young. No less than eight different animations are orchestrated in this model. Jaquet Droz also chose to equip The Bird Repeater with a minute repeater mechanism, one of the most sophisticated complications in the field of Fine Watchmaking and which enables the user to sound the hours, quarters and minutes on demand, thereby activating the delightful animations.

Creation

Tourbillon SW

In 2012, Jaquet Droz introduced the first-ever marriage of one of the most iconic watchmaking complications and its SW sports line, whose first model was launched in 2008. The tourbillon appearing in the upper part of the dial reveals the extraordinary complexity of its mechanism. The upper bridge serves as a seconds hand graced with an elegant profile that matches the model’s sporting mood.

The classic signature: ivory-colored enamel and red gold

On the Grande Seconde Off-Centered Ivory Enamel and the Eclipse Ivory Enamel, Jaquet Droz offers the warm glow of red gold with the power of fire, giving rise to the unique Grand Feu enamel dials that have forged its legend. Model after model, the brand perpetuates and reinvents the meticulous nature and broad range of skills that constitute its authentic treasures.

New trends: steel and onyx

With the Eclipse Onyx and the Grande Heure Onyx, Jaquet Droz stages a stunning show graced with a simplicity combining the black color of onyx with the gleam of steel for the first time ever on a complication watch. These timepieces represent the quintessence of the brand’s love of pure, uncluttered design, which will appeal to a public of connoisseurs and initiates.

15/30

SWATCH
SKY FLY



Presence

Jaquet Droz celebrates its fabulous heritage

On the occasion of the Automates & Merveilles Association project, a gala dinner was organized on June 21 in Neuchâtel for friends of the brand. Jaquet Droz provided them with a two-day opportunity to discover the story and the genius of its founder, Pierre Jaquet-Droz, through three exceptional exhibitions. The amazing content exhibited in the museums, as well as in the Jaquet Droz Fine Watchmaking workshops, fascinated guests who had traveled from around the world. The elegant, travel-oriented philosophy born in the Age of Enlightenment remains at the very core of the brand identity.

Les Ateliers d'Art

Jaquet Droz, which unites within its workshops a range of artisans endowed with unique expertise, repeatedly offers opportunities to discover the world of miniature enameled painting, one of its fascinating specialties. Through events held in the United States, Switzerland, Italy and China, various VIP clients and journalists enjoyed a chance to try their hand at this painting art and to appreciate its subtle intricacies.



16/30

SWATCH
BROWN REBEL



2010

TIFFANY & CO.

www.tiffanywatches.com

Tiffany & Co.

In 2012, Tiffany Watch Co. Ltd continued its dynamic commitment to the distribution of Tiffany & Co. watches through the Tourbillon boutiques, as well as through a network of retail partners. Throughout the year, Tiffany Watch Co. Ltd also organized events in the company of its partners. The brand's products, with their superb and inimitable style, enjoyed significant success in all markets where they are distributed.



LÉON HATOT

MAÎTRE JOAILLIER 1905

www.leonhatot.com

Léon Hatot

Inspired by Art Deco in keeping with the heritage of master-watchmaker Léon Hatot, the watch and jewelry creations of the brand that bears his name are intended for people with a penchant for the exceptional. In 2012, Léon Hatot creations continued to be offered to clients keen on exclusivity. The policy of distribution through the network of Tourbillon boutiques established in the finest locations worldwide was successfully pursued throughout the past year. This highly selective presence accentuated the exclusive nature of the brand and of its prestige products.





www.longines.com



Elegance, tradition and performance for 180 years

Trends

In 2012, Longines pursued its growth on markets and celebrated its 180th anniversary, taking this opportunity to present a new collection called The Longines Saint-Imier Collection, in tribute to the village where the brand has remained firmly rooted since 1832. Moreover, Longines reinforced its product strategy based on four pillars – Elegance, Watchmaking Tradition, Sport and Heritage – through timepieces expressing its longstanding legacy and expertise. The brand also renovated its Museum in Saint-Imier.

On the occasion of its anniversary, Longines enriched its Elegance segment with the ladies' model called La Grande Classique de Longines 180th Anniversary Limited Edition, representing a continuation of the brand's tradition of extra-thin watches. The Watchmaking Tradition segment welcomed a new line in the shape of The Longines Saint-Imier Collection. In the Heritage segment, Longines presented a series of re-editions, including The Longines Avigation Watch Type A-7 inspired by the world of aviation, and The Longines Column-Wheel Single Push-Piece Chronograph 180th Anniversary Limited Edition, which evokes the brand's historical involvement in the realm of timekeeping.

In 2012, Longines further extended its commitments in the world of sport, expressing its values in terms of performance, tradition, precision and elegance, as well as its support of young athletes. At the start of the 2012–2013 ski season, the brand presented the Longines Rising Ski Stars prize that will be awarded to the best young male and female skiers in the Alpine Skiing World Cup. This distinction is in line with the Longines Rising Tennis Stars tournament at the Roland-Garros French Open; as well as the Longines Future Racing Stars for promising young jockeys on the occasion of the Prix de Diane Longines in Chantilly.



17/30

SWATCH
GROOVE MOOVE



2009





Creation

Elegance: La Grande Classique de Longines 180th Anniversary Limited Edition

Launched to mark the brand's 180th anniversary, this ultra-slim steel ladies' watch is set with the same symbolic number of diamonds. It features a mother-of-pearl dial adorned with 12 diamond hour-markers. Fitted with a steel bracelet and a quartz caliber, this watch enriches one of Longines' stellar collections that for 20 years has proved consistently appealing to men and women with a penchant for elegance.

Watchmaking Tradition: The Longines Saint-Imier Collection

Representing the signature feature of this new collection, the shape of the case is inspired by a 1945 Longines model. Offering a subtle balance between classical and modern styling, it comprises watches displaying the hours, minutes, seconds and date, along with chronographs and a prestigious model equipped with a day/night display as well as a moon-phase indication along with the four retrograde functions. All are powered by mechanical movements.

Heritage: The Longines Avigation Watch Type A-7

The Longines Avigation Watch Type A-7 is inspired by models developed in the thirties that were required to meet extremely stringent criteria in terms of aesthetics, quality and precision in order to be worn by pilots and designated as "Type A-7" by the American military. The dial orientation, angled 50° to the right, was designed for the watch to be worn inside the wrist, thus ensuring that the generously sized dial was in line with the cockpit instruments and could thus be read by the pilot without letting go of the aircraft's controls.

Heritage:

The Longines Column-Wheel Single Push-Piece Chronograph 180th Anniversary Limited Edition

With its characteristic single push-piece serving to control the various chronograph functions, this rose gold model is directly inspired by the first wrist chronograph developed by Longines in 1913. The white dial and its painted red 12 numeral are a nod to the vintage Agassiz dial and the mobile strap loops are in line with the prestigious Longines heritage.

18/30

SWATCH
GN701

1983



19/30

SWATCH
TENDER TOO

Presence

Boutiques

Longines continued to reinforce its international presence in 2012, notably inaugurating new boutiques in Malaysia, Indonesia, Singapore, Vietnam, China, Hong Kong, Macau, Taiwan, India, Kazakhstan, the United Arab Emirates, Saudi Arabia, Chile and Andorra.

Simon Baker appointed Longines Ambassador of Elegance at Chantilly

At the famous Prix de Diane Longines held in Chantilly, the brand presented its new Ambassador of Elegance, Simon Baker. Famous for his role in the TV series *The Mentalist*, the Australian actor exemplifies the Longines values and perfectly embodies its slogan "Elegance is an Attitude".

Equestrian sports

Longines' passion for equestrian sports began in 1878 with the production of a chronograph engraved with a jockey and his mount. Already present in hippodromes in 1881, and extremely popular among jockeys and race fans, this model served to time performances to the nearest second. It was also used by most of the judges in New York in 1886. Serving as an equestrian timekeeper since 1926, in 2012 Longines further broadened its field of involvement that now encompasses racing, show jumping and endurance competitions. The brand has established a number of partnerships as official timekeeper and partner of prestigious competitions. In the field of endurance, these include the H.H. Sheikh Mohammed bin Rashid al-Maktoum Endurance Cup and the FEI World Endurance Champions. As far as show jumping is concerned, Longines partners most of the Nations Cup CSIO and CHIO events, as well as the Dubai Show Jumping Championship, the Emirates Longines Show Jumping League, the Longines Equestrian Beijing Masters, the Longines Hong Kong Masters, the Longines Speed Challenge in Paris, as well as several stages of the Global Champions Tour. The Longines Press Award for Elegance, which for the past twelve years has rewarded the season's most elegant and successful male and female riders, was presented in 2012 to Pénélope Leprevost of France, and Pius Schwizer of Switzerland. Longines' commitments also include some of the most famous races such as the Prix de Diane Longines, the Dubai World Cup, the Qatar Prix de l'Arc de Triomphe, the Longines Hong Kong International Races, Royal Ascot, the Longines Singapore Gold Cup, the Melbourne Cup and the Kentucky Derby.

Tennis

Official timekeeper of the Roland-Garros French Open, Longines is engaged in a talent search for future champions with the Longines Future Tennis Aces tournament. In 2012, the brand invited 16 girls under 13 years of age for this event that was won by Australian player Destanee Aiava who defeated Haruna Arakawa of Japan. The young finalists later played an exhibition match with Longines Ambassador of Elegance Stefanie Graf, and Sabine Lisicki. That evening, Longines held a charity dinner at which the Longines Prize for Elegance was awarded to Stefanie Graf's Children for Tomorrow foundation which supports projects aimed at helping children and their families who are victims of war, persecution, exile and violence.

Alpine skiing

Longines is the official timekeeper of the Alpine Skiing World Cup and the FIS's Alpine World Ski Championships. For the 2012–2013 season, Longines announced its return to Kitzbühel to time the Hahnenkamm races. The brand also makes its mark on the slopes with its Longines Ambassador of Elegance, the Norwegian skier Aksel Lund Svindal.

Gymnastics

As official partner and timekeeper of artistic and rhythmic gymnastics competitions for over 20 years, Longines has a roster of Ambassadors of Elegance that includes Russian gymnast Evgenia Kanaeva and the Chinese men's artistic gymnastics team.

Archery

Longines was official partner of the Archery World Cup for the third time running, and awarded its Longines Prize for Precision in Tokyo to Ki Bo Bae of South Korea and Brady Ellison from the USA.



WWW.RADO.COM



RADO
S W I T Z E R L A N D

**RADO HYPERCHROME
AUTOMATIC CHRONOGRAPH**

MONOBLOC CASE
ENGINEERED IN HIGH-TECH CERAMIC

Mrithik Roshan

RADO
S W I T Z E R L A N D

www.rado.com

Material Magic

Trends

Material mastery

Materials always take center stage at Rado. This was a position reinforced to great effect in 2012 as Rado launched its new HyperChrome collection. Featuring models using a range of durable materials including high-tech ceramic – first introduced by Rado more than 25 years ago – and Ceramos™, which is unique to the brand, Rado cemented its status as an innovative and design-led brand with a mastery of high-tech materials.

Design evolution

In the past, Rado's distinctive designs have been strongly influenced by the materials used to make them and the technology required to shape the materials. As that technology has progressed due to the determination of the Rado design team, and under the guidance of the brand's technical experts, so, too, have the Rado designs. While retaining the edgy, angular and faceted designs which the core customers love, Rado reached out to a new audience this year with sleeker, more streamlined models including Rado HyperChrome and Rado D-Star 200. Interestingly, each new product relies on a mix of materials, creating even more of a challenge as the materials must work together.

A perfect blend of traditional and modern

The new collections as well as traditional bestsellers such as the Rado Centrix, Integral and Sintra saw the brand go from strength to strength. Also featuring heavily and helping the brand to reach a new audience was the increased use of automatic movements as well as the continued male-female balance of each family in the Rado collection.

Rado also opened monobrand stores in some of the world's major shopping streets, including on the famous Wangfujing Street in Beijing. There were 74 Rado stores worldwide at the end of 2012.

New website

In October Rado launched a new smartphone and tablet-friendly website with its complete new collection and a new design. The new website also included a spin-off website focusing on the new HyperChrome collection.

Creation

In 2012, Rado's design evolution, linked to its use of high-tech materials, continued apace with a number of exciting new developments.

Rado HyperChrome collection

The newest Rado family finds its roots in Rado's Golden Horse collection from the year the brand was established. Taking inspiration from the original steel series, Rado put its signature material mark on the new collection. Featuring models made of high-tech ceramic, Ceramos™, and stainless steel with hardening treatment and a choice of quartz and mechanical movements, the collection represents a balanced male-female offering, a feature of all Rado families.

20/30

SWATCH
LUCKY SHADOW



The collection highlights are the two XXL-sized black and white high-tech ceramic chronographs made using the ground-breaking Rado “monobloc” case construction. Monobloc describes a case that is made in one single injected piece, with no steel heart. This was first introduced on the Rado True Thinline in 2011. Rado has since developed its ceramic injection technology to produce larger watch cases using revolutionary precision mold technology.

R-One

Also showcasing Rado’s material mastery and striking designs was 2012’s much talked about Rado R-One. Created using high-tech ceramic, the futuristic chronograph was presented as a limited edition series of just 300 pieces. Drawing on Rado’s history of producing angular, black timepieces, the R-One continued the more rounded theme with a smoother, more streamlined and altogether more modern form. Its bright blue neon inlay gave another new face to the Rado collection while retaining the brand’s famous DNA.



Presence

Anyone for tennis?

Rado's main focus for 2012 was its return to the world of tennis and the brand was the official timekeeper of a raft of international tournaments including the Rakuten Open in Japan, the Erste Bank Vienna Open, the Bank of Moscow Kremlin Cup, the Malaysian Open and the Mubadala World Tennis Championship. Rado made its presence felt with corner clocks, VIP seating, branded hospitality areas and the ever-popular smash corners. The strong presence at tournaments by Rado was supported by targeted sponsorship packages of tennis programs on international broadcast platforms such as CNN.

Rado ambassadors

Rado's newest global ambassador also helped to underline the tennis connection. ATP world number three Andy Murray had a spectacular year on the international circuit with victory at the London 2012 Olympic Games as well as his first major win at the US Open in September propelling him to megastar status across the world. This was fantastic news for Rado, which counted him as a testimonial from May 2012 and will rely upon his services for the next three years.

Also joining Andy as a tennis ambassador was up and coming German star Julia Görges, who was introduced at a spectacular "Tennis in the Dark" event in Berlin in October.

Bollywood hero Hrithik Roshan was the star of an exciting new print campaign and television commercial to promote the brand. The mini-film sees him test the scratch-resistance of the new Rado HyperChrome as he races to a friend's engagement party. The filming took place in Jaipur in October and is guaranteed to help cement Rado's status as one of the leading watch brands in India.

In 2012 actress and model Lisa Ray was present at the Indian launch of the Rado True Thinline, using her Bollywood fame and natural glamour and elegance to great effect for the brand.

Russian style icon, director, actress and screenwriter Renata Litvinova seemed to be everywhere at the service of the brand. Her award-winning new film features several Rado models and she proved a glamorous presence at all the major film festivals. With fashion editors and journalists following her every move she graced the pages of every major fashion magazine in her native Russia and appeared on numerous television shows.

Rado HyperChrome – watch of a champion

Of the many regional and local events to promote the new Rado HyperChrome collection, the largest and most exciting took place at the Science and Technology Museum in Shanghai in early October. Guest of honor Andy Murray joined Rado brand President Matthias Breschan and journalists for a spectacular introduction to Rado's newest watch family. Guests were treated to a breath-taking laser show as well as a question and answer session with Andy Murray. Coverage of the event featured on some of China's major television networks, as well as in print and online media throughout Asia.

Designs on the future

Design has been a major focus for Rado for many years. In 2012 Rado continued its commitment to promoting as yet undiscovered designers, offering them a platform for their work and an outlet for their ideas. Presence at major design events including Paris Design Week and Vienna Design Week as well as the launch of the latest version of the Rado Star Prize underlined this dedication to design.

World Mind Games

Once again in 2012 Rado was the official timekeeper of the SportAccord World Mind Games in Beijing. The games reflect Rado's core values of dedication and determination and celebrate the extraordinary intellectual capacity of the participants who include grand masters in chess, Chinese chess, bridge, checkers and Go. Rado was also the official timekeeper of the 2011 tournament.



UNION
GLASHÜTTE/SA.

www.union-glashuette.com

German watchmaking tradition



VON CHRONOGRAPHEN, KILOMETERN
UND UNENDLICHER HINGABE.

NORAMIS
 Unverkennbar für hochwertige
 Präzisionsarbeit, die unvergleichliche
 Kunst, Qualität und die
 Liebe zum Detail verbindet, sind die
 Union Glashütte Chronographen auch
 heute die besten. Und das ist
 in Union, da es die Präzisionsarbeit
 der Uhrmachermeister aus dem
 Ort Glashütte, der die
 traditionsreiche Haus MANICA
 der UNION GLASHÜTTE, die in der
 Noramis Chronographen im
 Bereich der Schweizer Uhren
 einen neuen Einbruch markiert.

UNION GLASHÜTTE/SA.
 www.union-glashuette.com

Trends

Union Glashütte has firmly established itself in the sphere of German watchmaking at affordable prices. The greatest challenge in 2012 was to meet the significantly increased production demand. The move to new premises in September fortunately allowed capacity to be increased. Union Glashütte's innovative, high-quality watches delight not only local end consumers in Germany and Austria, but also Asian visitors in particular, who truly value the merits of the mechanical watches from Glashütte (Saxony).

Creation

Belisar Chronograph – Titanium

The case of the chronograph, including its screwed-on flanks, is entirely made of titanium. The dial comes in an elegant anthracite shade, which perfectly matches the case. This model is fitted with a brown leather strap or with a solid titanium bracelet, thereby giving the chronograph a more elegant or sportier feel depending on the version.

Noramis Chronograph

Successfully launched in 2011, the Noramis chronograph product line was enriched last year with a new model exuding timeless elegance. The new model has a silver-colored dial which, in combination with the cornflower-blue hands, numerals and hour-markers, gives it a very elegant and fresh feel. The Noramis chronographs are some of the best-selling watches in the Union Glashütte collection.

Noramis Power Reserve

The Noramis Power Reserve model from Union Glashütte boasts a power reserve of 42 hours. The stainless steel case and the curved dial feature the same retro style as the other Noramis models, radiating a blend of pure, timeless elegance.

Presence

Sachsen Classic – Oldtimer Rallye

The vintage car scene fits perfectly with Union Glashütte and its timepieces. In 2012, the brand was again one of the main partners in the Sachsen Classic Rallye. The brand was omnipresent throughout the event, whether around the start and finish lines, along the route, or at the events organized in the evenings. On this occasion, Union Glashütte once again launched a limited run of Noramis chronographs that soon sold out.

Vienna Classic – Oldtimer Rallye

Union Glashütte took part in the Oldtimer Rallye Vienna Classic in the center of the Austrian capital for the first time in 2012. An enthusiastic crowd attended this event held at the beginning of September. As one of the main partners, Union Glashütte was prominently spotlighted.

Press dinner in Munich

In 2012, Union Glashütte's newest creations were once again presented at an extremely chic press dinner. Over an aperitif and a refined dinner, press representatives had the opportunity to chat with Union Glashütte's managers about the brand's development, products and activities. The latest models generated considerable interest among guests.





You Touch It Tells

Trends

- True to its DNA of innovation born of tradition, the Tissot brand has retained and developed its leadership in tactile watch technology since 1999. In 2012 these embraced stunning new touch-activated products for him and for her culminated with a lead role in a global TV and cinema spot titled “You Touch It Tells”. Other product families, also in the mechanical segment, followed this path of success, seamlessly merging deep-rooted expertise with thoroughly modern design, creating huge demand around the world.
- The powerful Tissot brand presence was fuelled by dynamic growth in its expansive retail network and international visibility across a huge spectrum of international sports events. Tissot again achieved double-digit growth in all of its 160 markets. The signature of this success was added by the high-profile family of Tissot ambassadors, who relentlessly contributed their energy, charisma and success to activities in all markets.

Creation

Tissot Le Locle Automatic Chronometer Edition

The *Tissot Le Locle Automatic Chronometer Edition* incorporates deep-rooted pride in the brand’s heritage. Having obtained first prize in the “Classic – Enterprise” category of the prestigious International Timing Competition in 2011, it emerged as a great market success in 2012. It elegantly demonstrates watchmaking finesse in the art of creating exceptional mechanical movements. The sophisticated ‘soul’ of this timepiece is visible through a finely engraved see-through caseback. Mirroring the sophisticated expertise inside are fine details such as a double anti-reflective sapphire crystal and a patterned guilloché dial.

New Tissot tactile watches

Tissot has led the field in tactile technology for watches since 1999 and 2012 was no exception. The new *Tissot T-Touch Classic* firmly established itself as the ultimate watch for the sporty gentleman. It is equipped with eleven touch-activated functions, from chronograph to compass, as well as with the capability to make powerful style statements in environments as diverse as the golf club or a cocktail party. The *Tissot T-Touch II Lady Diamonds* proved to be a girl’s best friend in 2012. Thirteen functions brought dependable versatility to its wearers, elevating this watch to the well-deserved status of a “must-have” accessory for action-packed lifestyles. Feminine charm was not compromised for a moment thanks to black or white mother-of-pearl dials and diamond detail.

Tissot T12

Totally in touch with its feminine side, the *Tissot T12* takes its name from the famous *Tissot T-Collection*, first introduced in 1999, and continued the tradition of success in style. Its continuous yet flowing lines and smoothly intertwining T-links create a strong bridge between contemporary design and confident grace. It satisfies the needs of varying moods, occasions and looks with a palette of options including sparkling diamonds on the dial or case, angelic mother-of-pearl dials, trendy bicolor versions, right through to an intriguing sundial effect.





Presence

In 2012 Tissot partnered over 500 sports events in locations all around the globe. Its unrivalled timekeeping know-how was again put to the test in the challenging roles of Official Timekeeper of MotoGP, FIM Superbike, FIBA, AFL, and the World Championships of cycling, fencing and ice hockey. A further sporting highlight of the year was the signing of a contract appointing Tissot as Official Timekeeper of the 17th Asian Games 2014 in Incheon, South Korea. From September 19 to October 4, around 13000 athletes from 45 countries and territories will put their trust in Tissot as they compete in the 36 different disciplines that make up the Games. In addition to traditional international sports, such as swimming, athletics, basketball and cycling, the Games also feature Asian disciplines such as sepaktakraw, wushu and kabaddi, enabling Tissot to showcase its tailored approach to sports timekeeping.

Tissot became the first “Official Timepiece of Madison Square Garden” through a marketing partnership agreement signed in April 2012, a key to premiering brand integration at the world’s most famous arena. Tissot now enjoys a prominent presence on The Garden’s 7th Avenue marquee, with over 600 million passers-by each year, as well as on the 8th Avenue marquee. Its equipment counts down the minutes to Knicks and Rangers home games, displaying this information on the marquee. Fans can also ensure they are on time by checking the Tissot clocks in the lobby as they enter Madison Square Garden’s box office area. During the games, the brand will feature on GardenVision, the center-hung scoreboard, highlighting each of the team’s histories.

By the end of 2012, the dynamic and constantly growing Tissot retail network included 150 monobrand stores, spreading the brand and product universe across all continents. A selection of new locations provided spectacular highlights during the year. Literally at the top of the list was the opening of the highest Tissot boutique in the world. On Swiss National Day, August 1, Tissot opened its shop at the peak of the Jungfrau, destination of its partner, the Jungfrau Railway. Each year hundreds of thousands of passengers complete the unforgettable trip to the “Top of Europe” at 3454 meters above sea level. The sleek Tissot store complements the spectacular mountain panorama.

Building on the success of its first store on the Champs-Élysées in Paris, opened in 2010, Tissot proudly inaugurated a second one, just in time for the festive season, located in La Galerie des Arcades des Champs-Élysées.

A further festive retail highlight was the opening of a Tissot boutique in Moscow’s iconic GUM Emporium in December. Both the building and the Tissot brand are products of a long and rich heritage. At the time GUM was built, around 120 years ago, Tissot already had a presence in Russia, even creating pocket watches for the Tsar. The new Tissot boutique blends seamlessly into the elaborate surroundings and offers a product range reaching from contemporary pocket watches to touch-activated timepieces to appeal to the diverse tastes of the fifty thousand people who frequent the mall each day.

Under the heading, “You Touch It Tells”, a new global advertising campaign from Tissot worked its magic across TV and cinema screens from the end of November. It is a cocktail of suspense, adrenaline and beautiful scenery. Against this backdrop, the hero and his *Tissot T-Touch Expert* master the mountains and much more on the search for the “one and only” Deepika Padukone, guided by the watch’s intelligent functions. An accompanying iPad Application reveals otherwise unseen footage and offers interactivity with both the film and the timepiece featured.

The gateway to the Tissot world remains its innovative website. In 2012 stylish outfit and content were optimized to the needs of the many different markets that are home to Tissot fans. Here too, the tagline, “You Touch It Tells” could quite easily be applied.







Calvin Klein

www.calvinklein.com

Pure, ultra-trendy design

Trends

ck watch & jewelry achieved excellent results in 2012 – the year that saw Laura Burdese take over its management in July – attaining new records both in terms of sales and visibility in certain regions of the world. As a result, the brand was able to strengthen its already dominant position in the Swiss Made fashion watch sector. The combination of unique design – at the forefront of current trends – and Swiss watchmaking tradition propelled the brand born of a joint venture between Calvin Klein and the world's number one watch group to an enviable global position, enabling it to remain the undisputed leader in its sector.

ck watch & jewelry managed to remain unscathed by the extremely competitive environment confronted in a complex economic climate in Europe. The brand also increased its market share in 2012 by focusing on the quality of its distribution.

In Asia, a region where the brand whose considerable renown is reflected by a very strong demand for its products, ck watch & jewelry achieved excellent results, not only in increased sales but also in terms of image improvement. The point of sale network in particular was successfully developed in this part of the world. Turnover achieved in ck watch & jewelry shop-in-shops in China and Taiwan exceeded all expectations and demonstrated the extent of the brand's potential in Asia. With this in mind, it inaugurated a boutique in Hong Kong whose windows can be admired in Kai Chiu Road, in the heart of the vibrant Causeway Bay area.

With the opening of a boutique in Dubai – the first in the region – ck watch & jewelry also enjoyed a success-filled year in the Middle East, where the brand experienced extensive growth and increased market share.



25/30

SWATCH
PRIMITIVE ART

2008



Creation

In 2012, ck watch & jewelry's activity in terms of product creation was synonymous once again with launches in sync with the seasons and fashion collections.

ck watch & jewelry chose to celebrate its 15th anniversary with a special watch, greatly talked about by both the fashion press and fans of the brand. ck cogent, a product as innovative as it is representative of ck watch & jewelry's creativity, was launched as a limited edition. It is an assertive, architectural piece with four visible screws supporting the glass raised over the dial like the pillars of a building.

Timeless and feminine, ck equal made an impression with the simplicity of its elegance and the retro note of its dial. Launched in the second semester, this piece constitutes one of the milestones of the past year. It was promoted on the wrist of Calvin Klein exclusive muse, fashion model Lara Stone, in a new ck watch & jewelry advertising campaign.

Remaining in the realm of watchmaking, 2012 was also the year of the ck dart. This powerful chronograph is striking to look at and draws attention to its dial whose graphic clarity is composed of apparently superimposed concentric circles. The strength of this model lies in the links of the rubber strap whose stepped relief contrasts with the roundness of the bezel. It is precisely these qualities that made ck dart one of the flagship products in 2012.

Finally, the story of jewelry over the past year was particularly expressed by ck born. Hugely popular with the press and retailers, this collection is characterized by the fluidity and sensuality of its lines. Ring, bracelet and earrings compose all-of-a-piece shapes, like gentle waves, exuding an aura of minimalism that accentuates their elegance.

Presence

ck watch & jewelry's greatly anticipated meetings with the highly demanding fashion press took place in Beijing and Zurich. The Chinese capital and the Swiss city on the banks of the Limmat hosted more than a hundred journalists who were welcomed to exclusive meeting to discover the most recent ck watch & jewelry creations. In November, the Milanese smart set also celebrated the launch of the new ck dress, a watch that has become a veritable icon of the brand, during an event graced with the exceptional presence of Lara Stone.

Featuring Calvin Klein fashion models Lara Stone and Sean O'Pry, ck watch & jewelry's new advertising campaign was shot this time by leading photographer Patrick Demarchelier. Picking up on the theme of preceding campaigns while expressing them through a warmer atmosphere, the photographer skillfully captured the magic of intimate moments, conveying this enchantment as a means of sharing time and beauty.

ck watch & jewelry's presence was also concretized with the inauguration of some 30 shop-in-shops and kiosks, as well as three new boutiques. The brand opened its first boutique in the Middle East, in the well-known and prestigious Dubai Mall. Also inaugurating its third and fourth boutiques in Hong Kong, it also established itself in the famous Causeway Bay shopping district, where it now has its first Asian street-front store. Together with an address in London, there are now six boutiques worldwide with the ck watch & jewelry name.

26/30

SWATCH
CLASSIC TWO

BALMAIN
swiss watches

www.balmainwatches.com

The art of self-renewal



Trends

In 2012, its 25th anniversary year, Balmain pursued its growth and set a new record in terms of turnover and sales volume, thereby extending the success achieved in previous years in all markets, particularly in the Middle East and the Far East. Loyal to its traditional heritage and to its potential for innovation in the field of design, Balmain stands out as a must-have brand combining watchmaking expertise with accessibility. During the past year, Balmain made significant progress in Asia and particularly in China, performing well among both distributors and consumers. This success was highlighted by the opening of shop-in-shops in the most popular shopping districts and malls, as well as by the organization of arabesque-themed events celebrating the brand's DNA.

The Middle East has always been a key market for Balmain, which reaffirmed its position in this region during 2012 with a renewed increase in sales, especially in the United Arab Emirates and in Saudi Arabia. Thanks to a solid marketing strategy and a strong product offering, it also performed well in India.

Moreover, Balmain consolidated its market share in the Benelux countries, asserting itself more strongly than ever as a well-established brand. It achieved strong growth in Russia, a country that looks set to offer high potential for expansion. Switzerland is still Balmain's main market in Europe, where the brand further reinforced its position by developing its selective distribution strategy.



Creation

Classica Lady 25th Anniversary

To celebrate its 25th anniversary, Balmain created the Classica Lady 25th Anniversary dedicated to all women with a love of watchmaking and design. Issued in a 2012-piece limited edition, this watch is equipped with an automatic movement visible through an arabesque-shaped dial aperture. Fitted with a steel bracelet, it features a case set with 48 diamonds and comes in a single version serving to accentuate the exclusive nature of this anniversary edition. It is delivered in a special box designed to house both timepieces and jewelry.

Elysées Lady

The Elysées Lady watch celebrated its 15th anniversary in 2012, an event marked by the introduction of a new collection. The ties with the world of *haute couture* are not just a tribute to the brand's past, but are instead enriched with fashion references expressed right the way through to the shoulder pad-style case lugs. Thanks to its concave rectangular case, the new Elysée Lady continues to cut an ideally proportioned and neatly waisted figure. It thereby highlights its 15th anniversary in a year when Balmain is also celebrating its quarter of a century – a twin event representing the brand's ever-growing success.

Balmain Opera

Launched in the late nineties, the Opera Round watch once again took center stage. In its new gala dress lit up by 60 diamonds, it is an anthem to elegance and femininity, while also celebrating concern for details with its crown perfectly integrated into the steel case and a dainty leather strap. Numerals play a leading role, as they appear to dance around the hands against the deep black dial backdrop in a perfectly orchestrated stage setting graced with inimitable elegance and delicacy. This theatrical, dreamy touch makes the jewelry watch perfect for evening wear.

Presence

For its anniversary year, Balmain signed a partnership with Christa Rigozzi. Voted Switzerland's most beautiful woman in 2006, the Ticino-based model is now an international Balmain ambassador. Not only will she showcase Balmain products the world over, but will also play an active part in creating her very own line.

Balmain also pursued its development strategy in China by presenting its new collections at an event organized in May in Nanjing and perfectly illustrating the values that lie behind the confidence inspired by the brand and its appeal among its many aficionados around the world: heritage, quality, design and affordability.



27/30

SWATCH
BLACK SHEEP

1995



www.certina.com

Sporting precision

Trends

In 2012, Certina was able to further strengthen its position in those regions of the world where the brand has a market presence. On the one hand, distribution was improved in terms of quality in the established European markets, leading to significantly higher turnovers despite the market situation being tough at times. On the other hand, Certina experienced a highly satisfactory level of growth in its more recent markets such as Russia, China and Hong Kong. Demand for Certina watches in Asia and among Asian tourists across the world also increased.

Creation

DS Action Diver Chronograph – Automatic **Extremely reliable and the perfect underwater companion**

The masculine DS Action Diver Chronograph easily fulfills the requirements of ISO standard 6425 for diving watches and truly deserves to bear the words “Diver’s watch 200m/ISO 6425” on the dial. The embossed turtle logo, which Certina used in the fifties and sixties to denote extremely high water resistance, adorns the back of the watch case and is a nod to the long tradition of producing extremely



PREMIUM PARTNER OF SAUBER F1 TEAM



ENERGETIC & PRECISE
precisely you...



DS PODIUM
GMT – SECOND TIME ZONE (24 H)
12-HOUR CHRONOGRAPH
Sapphire crystal
Water-resistant up to a pressure of 10 Bar (100 m) •
Stainless steel • **Swiss Made**

WWW.CERTINA.COM



tough sports watches. With its dynamic design, the DS Action Diver is built in accordance with the strictest specifications and guarantees divers and other adventurers very high precision and extraordinary resistance.

DS Podium GMT Chronograph

Precision for globetrotters

The DS Podium GMT is a typical Certina watch. The stainless steel case with its black PVD coating and red elements features an authentic sporting spirit clearly evoking the world of automobiles. This watch is equipped with a twelve-hour chronograph and displays a second time zone.

DS Podium Lady

Irresistibly feminine with a sporty chic twist

Certina enriched the DS Podium Lady line with new models radiating an undeniably feminine aura. The entirely polished stainless steel case, framing a dial featuring refined details and a crown topped with a cabochon, give the models a modern, fresh look. This collection comprises a range of quartz chronographs as well as three-handed models in both quartz and automatic versions.

Presence

Launch of the DS Action Diver in China

In April, Certina launched the DS Action Diver with a press event in China. A large stage was constructed in the style of a submarine inside the Orient Shopping Center. The event kicked off with a diver who plunged in among the turtles and sharks, in the large aquarium by the main entrance to the shopping center, in search of a treasure: the latest Certina watches. Former professional swimmer –and now singer and actor – Alex Fong was the star guest at this media-friendly event.

Launch of the DS Podium GMT Chronograph – Limited Edition – Sauber F1 Team

Certina launched the DS Podium GMT Chronograph, with a limited production run of 2012 watches, in honor of the Sauber F1 Team, at a large-scale press event at the Swiss team's wind tunnel building in Hinwil (ZH). The watch was officially launched by both Peter Sauber and team driver Sergio Pérez. Presenter Michael Stäubli, who has been a Formula 1 commentator on Swiss television since 1992, moderated the event and launched the racing sessions on the Formula 1 simulator. Sergio Pérez took on racing journalists who had been selected in a draw and who wished to try their luck against the young Mexican driver. This event attracted substantial media coverage. Now in its eighth partnership year with the Sauber F1 Team, Certina is celebrating a successful season and a number of podium finishes for the Swiss Formula 1 racing team.



28/30

SWATCH
FRITTO MISTO

MIDO
SWISS WATCHES SINCE 1918

www.mido.ch

Timeless precision

Trends

Mido has always made precision a top priority in creating its timepieces. The brand once again confirmed the leadership position within its price segment with the chronometer certification of its models by the Swiss Official Chronometer Testing Institute (COSC).

2012 was a record year for Mido. This strong progress is explained by growth in all the regions represented, and particularly in Asia. Airports and tourist zones also benefitted from this significant expansion in sales.

For many years, Mido has distinguished itself with its sturdy and reliable mechanical watches that offer excellent value for money. Its collections, with their timeless designs, were once again enriched with new models this year.



Creation

Commander

Maintaining the authenticity and the retro nature of the collection featuring a design that has remained virtually unchanged since 1959, the new Commander has been enriched with technical details testifying to its evolution. Also delivered with COSC certification, the self-winding models with a 40 mm diameter feature a sunray satin-brushed dial. The curves, the hour-markers and the steel of these timepieces all evoke the Eiffel Tower, the edifice chosen to represent this line because it gives Paris such a strong identity, similar to that enjoyed by the Commander within the Mido range for over 50 years.

Great Wall

The brand's latest creation made its grand entrance in 2012. It has a relief-finished dial, along with hour markers and fluted case sides inspired by the Great Wall of China. Available in 31, 39 and 42 mm-diameter versions, the Great Wall fascinates with its distinctive and contemporary design.

Multifort

In keeping with the spirit of the Multifort collection born in 1934, several sturdy new models enriched the existing range in 2012. Offering a combination of colors and finishes, the timepieces launched this year come in three-hand or chronograph versions, clothed in brown or black, and equipped in some variations with a power-reserve display.

Baroncelli

In 2012, the range of existing Baroncelli models was complemented by a remarkably feminine model. The date window at 6 o'clock is surrounded by twelve diamonds, while the other days glide gracefully by on the exquisitely crafted dial that is open-worked to form a smile. The irresistible Baroncelli Lady epitomizes the collection's distinctive characteristics of harmony and elegance.

All Dial

To celebrate the tenth anniversary of the collection, Mido created an exclusive model issued in a 1000-piece limited edition.

Presence

Officially launched in 2012, Mido's new advertising campaign displays a graphic evolution that expresses its collections' strengthened ties with the field of architecture. The monuments staged in this campaign reflect the same spirit as the brand's timepieces. Among the edifices selected by Mido, the extraordinary Great Wall of China directly inspired the new Great Wall line that was introduced to impressive effect this year.

A new roadshow concept, combined with special decorations for window displays at many retailers, also offered Mido a perfect showcase for its campaign and enabled the brand to convey its message to a broad audience.

Several boutiques and numerous points of sale were opened in 2012. Mido pursued its development and was able to underscore the quality of its presence at an international level.

China is a strategic market in which a 360° communication strategy was implemented on the brand philosophy and values. The Commander model is an authentic icon in Mexico and its new model was introduced on this market through events organized at the major distributors and retailers. Finally, 2012 was punctuated by a number of events that consolidated Mido's timeless identity in all the regions where the brand is represented.





www.hamiltonwatch.com

120 years of performance on land, in the air and at sea



Trends

In 2012, Hamilton successfully grew its turnover and brand presence in all markets, including mature ones. The year saw the opening of the first Hamilton boutiques – one in Interlaken, Switzerland, the other in Chongqing, China. The Hamilton online store also went live, serving customers across the United States.

A major Hamilton highlight impacting the entire year was the brand's 120th anniversary. From the early years of bringing safety to the American railroads with punctual pocket watches, and efficiency to the skies and seas with wristwatches and navigational equipment, Hamilton has always been ahead of its time. The brand's unique mix of yesterday and today was again a vital ingredient of success in 2012. Exemplifying this trend were extremely strong sales of the Hamilton Khaki Navy Pioneer and the Hamilton Khaki X-Patrol, inspired by the aviation heritage of the brand.

Creation

Star of the brand's 120th anniversary year line-up was the Hamilton Khaki Navy Pioneer Limited Edition. Inspired by the marine chronometers produced by Hamilton in the forties, this timepiece doubles as a wristwatch and table-clock. This 1892-piece limited edition – a tribute to the year of the brand's founding – is presented in a Pará rubber tree wooden box reminiscent of its wartime "ancestors". This and various other 2012 new releases elegantly convey the unique Hamilton spirit of modernity rooted in a history of performance, on land, in the air and at sea.

Presence

In 2012, the relationship between Hamilton and Hollywood that began in the fifties headed east, as the famous Hamilton Behind the Camera Awards (BTCA) ventured to Beijing for the first time. Behind-the-scenes artists as well as Chinese film and entertainment stars, including judges Zhang-Ke Jia, Nan Yu, Timmy Yip and Ge-Ling Yan, gathered for a sparkling awards ceremony at the Water Cube in September. The winners' list covered a broad spectrum of Chinese productions, from the blockbuster *The Flowers of War* to the low-budget literary film *The Piano in a Factory*; and from the award-winning, moving *A Simple Life* to the derisive, darkly humorous *Hello! Mr Tree*.

In October, Los Angeles welcomed the 6th Annual Hamilton Behind the Camera Awards on American soil, held at the legendary House of Blues. Chris Harrison was MC and introduced award presentations by an elite list of award-winning actors and actresses including Harrison Ford, Mena Suvari, and Ewan McGregor. The talent of off-screen heroes, embracing such professions as producer, screenwriter, costume designer and property master, was rewarded by 14 individual awards. Movies in the spotlight included *Life of Pi*, *Argo*, *The Amazing Spider-Man* and *Lincoln*.

Hamilton also strengthened its position as the favorite brand for pilots, through both new aviation watches and breathtaking aerobatics events. For the second year running, Hamilton was official timekeeper of the unique Free Flight World Masters Tour in France. Hamilton ambassador Nicolas Ivanoff joined seven other of the world's leading stunt pilots in a series of three aerobatics competitions. Nicolas Ivanoff also flew all over the world with his Hamilton-branded airplane, and won the European Aerobatic Championships with the aerobatic French team. Across the Atlantic, Hamilton also displayed its reliable precision timing as official timekeeper of the EAA AirVenture in the American city of Oshkosh, otherwise known as the world's greatest aviation celebration. The brand's command both of pilots' wrists and of the skies spread to South Africa, Canada, South Korea, Spain and Russia too, through cooperation with several local squadrons.



30/30

SWATCH
COLOURED LOVE

1988



www.flikflak.com

Time to blow out 25 candles!

Trends

In 2012 Flik Flak celebrated its 25th birthday and its “grown-up” position as the world’s best-selling Swiss-made children’s watch with popular activities and strong sales. Available in 80 countries across five continents, Flik Flak remains a favorite with children and adults alike, thanks to its unique combination of laughter and learning.

Creation

Two stunning collections put the fun into function for children of all ages. Educational value got top marks in the Cute-Size range, with brother-and-sister team Flik and Flak moving around the dial to make telling the time a walk in the park. Older kids were invited to enter exciting stories of the great outdoors through themed designs taking in butterflies, bugs and pirates. Wannabe grown-ups loved the new Full-Size models with their evident passion for fashion.

Sharing kids’ love of famous cartoon characters, Flik Flak continued its successful collaborations with Warner Bros®, Disney and Sanrio.

Presence

An international children’s drawing contest marked Flik Flak’s 25th birthday. Entries flooded in from all corners of the globe and winners were thrilled to receive ten personalized Swiss watches in their individual designs. A party atmosphere characterized the entire year, with goodies like anniversary coins to search for on the Internet and themed drawing templates.

Also celebrating a major birthday in 2012 – in this case 15 years – was the Colette concept store in Paris. Flik Flak took part in the Colette Carnaval, held in a 4000 square meter marquee in the *Jardin des Tuileries*, which was transformed into a magical world of colorful confetti.

In 2012 Flik Flak continued to demonstrate its commitment to selective distribution, ensuring its products took pride of place in top retail locations around the world. A great example of this is the brand new Flik Flak corner in Harrods, the famous London department store. Opening in time for the festive season, it attracted great attention from both youngsters and adults in search of meaningful gifts. In a sunnier climate, a beautiful new point of sale opened in Jeddah’s sumptuous new Salama Center.

Born in Switzerland, Flik Flak had even more reason to celebrate its roots this year. The home market mirrored the brand’s international success, while adding some special ingredients of its own. A major home-market highlight was the opening of the Flik Flak e-store, ensuring that customers in Switzerland have 24/7 access to the world’s favorite children’s watch.





TOURBILLON

www.tourbillon.com

The Tourbillon Experience

In 2012, Tourbillon, the *haute horlogerie* distribution network for Swatch Group brands Breguet, Blancpain, Glashütte Original, Jaquet Droz, Léon Hatot and Omega, as well as the exceptional Swatch models and Tiffany & Co.'s watches, continued its strategy rooted in a broad choice and excellent service, within a luxury environment that respects the values of the Fine Watchmaking pieces that compose its universe.

Achieving a double-digit increase in turnover for 2012, Tourbillon's 22 boutiques on three continents enjoyed an excellent year marked by the inauguration of new locations and the redeployment of some of its stores.

Tourbillon strengthened its expansion in North America, with a new presence in San Francisco, Short Hills and Chicago, resulting in a total of seven boutiques in the United States. Capitalizing on the brands they host, Tourbillon boutiques provide an environment based on a design that emphasizes the essence of each brand's individual identity. Their carefully thought-out cohabitation under the same retail banner offers the most demanding clientele the option of getting to know them and of moving from one to the next in perfect harmony. Additionally, Tourbillon transformed its Nice address into a boutique dedicated to Omega.

Working in close collaboration with the brands, Tourbillon deployed an intensive public relations campaign in 2012, brought to life through exclusive events offering its guests the opportunity to discover the atmosphere of its boutiques and to experience a moment of Tourbillon emotion.

The St. Petersburg International Economic Forum was the setting for an exclusive presentation of Breguet creations. Enamel painting workshops, focusing on a skill emblematic of Jaquet Droz's expertise, were held in Lugano, Geneva, Porto Cervo and Amsterdam. A number of intimate *Breakfast at Tiffany's* occasions that took the form of brunches, enabled Tiffany & Co.'s watches to be promoted in Lausanne, Moscow and St. Petersburg. The opening of the London Olympic Games provided the Tourbillon boutique in Moscow with the opportunity to host a much talked about event, organized in honor of the Russian team, during which the Omega Seamaster Aqua Terra Olympic Collection "London 2012" was unveiled. The premières of the most recent James Bond film, *Skyfall*, provided opportunities to organize events in Switzerland, Russia and in the Tourbillon boutique in Baden-Baden. Tourbillon also set up an ice-bar in front of its St. Moritz boutique, thus providing a pleasant, luxurious stopping-off place for the entire winter season.





HOURLY PASSION

www.hourpassion.com

A growing specialist network

Throughout 2012, Swatch Group's multi-brand store, Hour Passion, continued to develop an already extensive network in the world of airports. Enjoying the benefit of the matrix organization of the number one watch manufacturer in the world, Hour Passion today consists of more than 40 boutiques in 18 international airports in Switzerland, France, Germany, Ireland, the United Kingdom, Italy, Singapore and China. By strengthening its presence in key European and Asian locations, Hour Passion consolidated its position as a specialist in watch and jewelry distribution to an international clientele in 2012.

With a portfolio of brands that is as prestigious as it is diversified and with local and international expertise, Hour Passion continued to maximize every opportunity to successfully offer a custom-made concept, with attractive, innovative boutiques. Situated in first class locations, its sales areas contribute to strengthening the expression of the brands and allow its clientele to enjoy a new experience of watches and jewelry.

Two new addresses were inaugurated in Italy in Linate and Malpensa Airports in Milan, with the boutique being elected "Best Watch Concept" during the 2012 Duty Free News International (DFNI) Product Awards. In Geneva, one of the emblematic locations for watchmaking, Hour Passion also renovated its entire shop and extended it to a total of 150 square meters, benefiting from the Omega Boutique's move to a larger space in the heart of Geneva's Cointrin Airport. At the end of 2012, Hour Passion "landed" in London for the first time, with the opening of a sales area in Gatwick's North Terminal. The seven Chinese boutiques inaugurated in 2011 at Chongqing, in Changsha, Wuhan and Beijing, took off in 2012, and registered good results. The brand's presence in Beijing's Terminal 3 was also strengthened by the opening of an additional 45 square meters.

Hour Passion is more than ever benefiting from the large trust base acquired through its experience. An urban multi-brand orientation, offering exclusively brands from entry-level to high-level market segments of the Swatch Group – from Flik Flak to Longines – was launched over the past year. Following the openings in Moscow and Paris, the Hour Passion network's expansion is not slowing down.





斯沃琪和平飯店藝術中心

THE SWATCH ART PEACE HOTEL

www.swatch-art-peace-hotel.com

The Swatch Art Peace Hotel

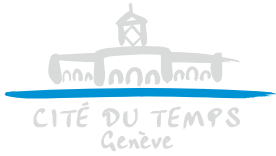
The Swatch Art Peace Hotel enjoyed a very successful year in 2012. The unique program in support of contemporary artists from China and around the world attracted a great deal of interest, especially among artists. From several hundred artists that submitted applications through the hotel's web site in 2012, sixty were selected from twenty countries to live and work in the hotel. Feedback from the artists was very favorable, with many highlighting not only the superb facilities but also the opportunity to cook, eat, watch movies and exchange ideas with other artists in the common areas on the 2nd and 3rd floors. They represented such diverse disciplines as video and sound art, painting, writing, sculpture, graphic design and installation art. As part of The Swatch Art Peace Hotel artist program, many performed or exhibited in local galleries and invited fellow artists and members of the public to view their work at "open studio" evenings at the hotel. All artists are requested to leave a "trace" of their work upon completion of their stay; these works are being displayed in the "virtual museum" at swatch-art-peace-hotel.com.

Milestones reached in 2012 include the opening to hotel guests of the exclusive 4th floor suites and rooms: the first guests arrived in November, and the hotel now accepts reservations online. The hotel's management team welcomed a series of important visitors, among them Johann Niklaus Schneider-Ammann, member of the Swiss Federal Council and Head of the Department of Economic Affairs, who visited in July. The frequent visits by delegations of Chinese government officials are evidence of the administration's continuing high interest in the hotel's concept. The 4th floor's luxurious interiors served as a backdrop in July for a dramatic photo shoot for Omega starring Bérénice Marlohe, the dazzling "Bond Girl" featured in the most recent James Bond film.

The prestigious location on the Bund and historic importance of the landmark building drew the first wedding couple to celebrate in The Gallery (catered by Shook!), while The Terrace hosted its official launch party in June and has since entertained a steady stream of guests. The exhibition space on the 1st floor hosted a number of high-profile exhibitions during the year, including that of the internationally-renowned Shanghai photo-duo, Birdhead, who designed a watch for Swatch (Majestic Bird) and presented their work in autumn. Breguet, Blancpain and Omega also took advantage of the generous space with exhibitions complementing their ground-floor boutiques.

The lavishly restored hotel continues to attract significant interest in the press, with excellent coverage in 2012 appearing in, among others, *Architectural Digest*, *GQ*, *Surface Asia* and *U+ Weekly*, as well as in prominent Shanghai and Chinese national media. Given the significance of the China market for Swatch Group, the growing media presence of The Swatch Art Peace Hotel is undoubtedly welcome.





www.citedutemps.com

Cité du Temps



Reflections on time

In 2012 the Cité du Temps was a meeting point for artistic journeys whose destinations stretched from Brazil to Bashkortostan. A total of 22 exhibitions made up the itinerary, featuring 40 artists and four Swatch Group brands.

Horological highlights

Breguet paid tribute to the Queen of Naples and the 200th anniversary of the first wristwatch ever made, a piece commissioned by Caroline Murat, sister of Napoleon and the Queen of Naples. The exhibition documented the love affair that ensued between the Queen and Abraham-Louis Breguet's creations. Tissot also proved it has always been ahead of the times through "Innovative Touch", showcasing its unrivalled leadership in tactile technology from revolutionary beginnings in 1999.

Blancpain celebrated the Swiss premiere of the most high-performance mechanical watch of all time, the Blancpain X Fathoms diving watch, in the water-surrounded Cité du Temps. The aquatic theme was extended by an accompanying photography exhibition on the world of scuba diving, featuring shots from the *Fifty Fathoms* book. And to celebrate its 120th anniversary, Hamilton invited 30 historical and contemporary timepieces to document the brand's rich history, conveying the pioneering spirit it has demonstrated on land, at sea and in the air.

Time for diversity

A common denominator of the venue's calendar of art exhibitions was diversity. The camera lens of Julian Kilker opened a door on the wide open spaces of the American Southwest's Mojave Desert in "Time in the Mojave". This documented the beauty of decay, focusing on the interactions between people and artefacts. In "India, Eruptions and Whispers", the well-known lyrical expressionist painter Béatrice Mazzuri presented her ventures into photography. Inspired by her own trip to India, she blended photographed reality and painted elements. The year closed with an expression of freedom, as "Evasion" by Swiss artist Simone Monney explored the ability of Plexiglas to reflect the concept of infinity.



Production Watches, Jewelry







ETA Manufacture Horlogère Suisse

www.eta.ch

ETA ended the 2012 fiscal year on an excellent note, both in terms of results and quantities produced. The effort invested in organization, simplification and verticalization during the past few years began to bear fruit. Through products developed over the year, ETA continued its policy of strengthening industrial and technological competencies. These activities were undertaken with the aim of ensuring the growth of Swatch Group brands and increasing capacity for their specific products in the near future.

With regard to mechanical products, the evolution of new developments once again proved considerable, as demonstrated by the production of the A08L11 caliber dedicated to the Single Push-Piece Chronograph designed by Longines for its 180th anniversary, as well as the C07 caliber for Tissot. The latter innovatively incorporates technologies derived from the injection of high-performance materials for its oscillating weight. The production of movements for Omega was another fruitful example with the GMT 24h A16A32 caliber, the Day-Date A16A62 caliber and the A29A21 column-wheel chronograph. To fulfill the qualitative and quantitative demands required by the production of Omega Co-Axial movements, a brand-new flexible machining and finishing method for A22 movement *ébauches* was implemented. These new methods are a conclusive step towards vertical integration and were coupled with the assembly line dedicated to the A22 movement.

Products made for Swatch were also a great success, notably those used for the Chrono Plastic, New Gent Lacquered and Deep Shine collections, which use new technologies developed internally in the realm of decoration (shiny cases, colored parts).

In order to meet the strong demand from Swatch, machining of Swiss Made steel cases was reinforced. Incorporating state-of-the-art technologies, an assembly line dedicated to the G10 caliber and Swatch's 521 caliber was installed on the ETA site in Sion (VS). A new automated optical control for the manufacture of injected glass was deployed in the department for the injection of high-performance synthetic materials (SHP). Parallel to these endeavors in the domain of production facilities, the use and machining of new materials are in the pre-industrialization phase.

In addition, a new vertical integration project was launched for Swatch. Grouped on the Bettlach (SO) site, the departments for synthetic material injection and dial production each benefited from areas for their future developments. Consequently, SHP injection activity will be focused on the factory in Bettlach. The production of entry and mid-level dials for Swatch Group brands will benefit from the new ETA site in Grenchen (SO). The construction of new sites further reinforced collaboration between the brands, and the industrial park of the Swatch Group companies in Boncourt (JU) also enables grouping and simplification of industrial operations for the manufacture of quartz and Swatch parts. The two above-mentioned sites have begun the industrial equipment installation phase. Construction work also continued in Villeret (BE), a site designed for the assembly of Omega movements. This building will allow the maximization of synergies in the integration of silicon between ETA and Nivarox-FAR.

The operational implementation of new sites requiring staff recruitment and ambitious training programs enabled excellent integration of a large number of new employees and strengthening of competencies. With nearly 200 apprentices, particular emphasis was placed on core business and watchmaking trade apprenticeships. In-service training enabled employees to follow the development of their activities and keep pace with new technologies introduced to the company.

Investments made by Swatch Group in the vertical integration of production on the different sites enabled ETA to further develop its efficiencies. Verticalization and industrialization achieved in line with the volumes thus ensures an appropriate response to the needs of the brands. These investments are part of a long-term vision, further reinforcing the competitive edge of Swatch Group with Swiss Made products.

Meco

www.meco.ch

In 2012, Meco increased its market share, especially in the premium segment. Strong demand from Swatch Group brands led to an increase in turnover and optimization of the production process.

Targeted investment to increase production capacity enabled the implementation of new machining techniques. These included electro-chemical machining for the production of crowns, notably for Omega and Rado, as well as automatic polishing of various external parts or industrialization of shaped pushers. These developments offer the brands additional options in terms of the design of different external watch parts. These industrial developments were accompanied by new management of logistic flows, contributing to a reduction in lead times and providing an appropriate response to the needs of the market. Parallel to these activities, a training program continues to reinforce employee skills and know-how.

The various activities conducted in 2012 enabled Meco to offer quality Swiss Made products and further strengthen its position.



François Golay

www.francoisgolay.ch

Following its 2010 merger with Valdar, 2012 was a year of growth and development both from a technological and financial standpoint for François Golay.

The initial positive effects of investments made in 2011 were felt at the beginning of 2012, with the watchmaking wheel manufacturer enjoying a double-digit increase in its turnover and productivity. These results were partially due to the reinforcement of the workforce resulting from the hiring of new employees who are highly specialized in various competencies. In order to fulfill its clients' requirements in terms of responsiveness, flexibility and quality, the company from Le Brassus (Vallée de Joux) increased and modernized its production facilities. Considerable investments were made, principally in the profile-turning department, with the acquisition of high-precision lathes and a turning-milling center. Air conditioning was installed in the building on the Rue des Ordon. The process of internalizing certain operations such as electro-plating and *mise en bouclard* – which is the watchmaking term for attaching parts to a dipping frame immersed in a bath for electroplating – continued in 2012, along with modernization of the machine park with the replacement of straightening machines, upgrading of various presses and the installation of a robot on a transfer machine.

Launched in 2011, the SAP software package implementation project in 2012 represented no fewer than 6000 working-hours for François Golay's teams, indicating how eagerly the implementation of this new management tool was anticipated. Optimal steering of the company will thus enable it to increase both its performance and its productivity in the near future.

Understanding and achieving the objectives in place resulted from hard, meticulous work, calling upon the know-how and the commitment of everyone. The success enjoyed by François Golay in 2012 was clearly due to each and every member of its staff.

Nivarox-FAR

www.nivarox.com

Punctuated by an increase in its capacity requirements, especially for the new Breguet, Blancpain, Jaquet Droz, Omega, Longines, Rado and Tissot calibers, Nivarox-FAR developed its skill base along two main lines. The company enjoyed a remarkable evolution in the area of new materials, notably in terms of silicon. In parallel there was substantial development of its facilities and production means in order to implement the industrial production of future ETA calibers.

This development is the reason for moves to strengthen the Fontaines (NE) industrial park, chiefly in the barrel spring and primary component sector, as well as its counterpart in Le Locle (NE) whose escapement and oscillator production line capacity was also increased. On the horizon for 2013, all these activities – for several calibers – will be partly carried out at the Swatch Group production companies' new industrial park in Boncourt (JU).

In 2012, Nivarox-FAR also focused on preparing an oscillator production line in Villeret (BE), principally for Co-Axial calibers equipped with silicon balance springs. It will be complete in 2013 and will enable the company to be as close as possible to the assembly activities of Omega movements in a planned factory to be located a few meters from the current site.

On the marketing front, 2012 enabled Nivarox-FAR to support Breguet, Blancpain, Omega and Tissot by hosting guests of these brands for visits to the company, as well as through a number of exhibitions in New York, Shanghai and Seattle.

Pursuing its endeavors to highlight its age-old industrial skills, Nivarox-FAR created a showroom at its Fontaines (NE) site that is entirely devoted to the production methods of its specific trades. Inaugurated in October 2012, this area includes an array of rare and exceptional machines along with displays of the oscillating and escapement parts that for more than three centuries were produced in the mountains of Neuchâtel and since 1850, within companies that are now part of Swatch Group.

Also at Fontaines, the Nicolas G. Hayek Foundry was inaugurated on November 7, 2012 by the Chair of the Board of Directors, Nayla Hayek, and the President of the Executive Group Management Board, Nick Hayek. The foundry had been the wish of Nicolas G. Hayek, Swatch Group's founder, and was developed through the work and support of Hayek Engineering, especially through the collaboration with the late Werner Risch. The foundry provides a new tool offering non-negligible metallurgy independence in the production of balance springs and barrel springs, as well as for all future developments in the realm of materials within Swatch Group.



Comadur

www.comadur.com

For Comadur, 2012 was a year in which its three production units – for the production of ceramic watches, the development of sapphire crystals and the shaping of watch jewels – all enjoyed an increase in capacity during the first semester, as well as optimization and integration of manufacturing processes in the second half of the year.

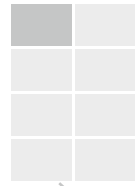
The process of ceramic injection enabled the production of solid cases which have not only an aesthetic dimension but also technical functions related to the assembly movement integration. The vertical integration process is now complete and all stages – from the design to the assembly of the case via the manufacturing of ceramic items – are performed at Comadur. The company at Col-des-Roches (Le Locle, NE) has thus mastered the entire value chain involved in developing two major watch parts – specifically, the case and the bracelet.

The need for sapphire crystals is also constantly increasing in the dynamic watch market. Responsible for the production of raw material through crystal growth, the first step in producing a sapphire crystal, the factory at Zurzach (AG) reviewed its capacity and management model in 2012 in order to respond to the brands' needs more quickly.

The watch jewel production line was restructured among various manufacturing sites with the aim of changing platforms and keeping pace with the long-term needs of movement producer, ETA.

As Comadur produces its parts for all watchmaking sectors, dedicated production units were set up in order to adapt to the specific needs of the prestige sector for all component types.

Comadur is continuing its integration of manufacturing and operational processes, working on synergies between its product lines in order to make improvements and to offer an ever-faster response to brands' needs.



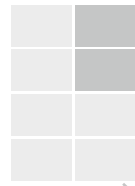
Rubattel et Weyermann

For Rubattel et Weyermann, 2012 was once again marked by strong growth and by the launch of major new product lines. The quest to optimize production facilities, in synergy with MOM Le Prélet, was also reinforced.

Coupled with the efficient implementation of logistics flows in certain workshops, related investments contributed to improving productivity and guaranteeing volumes required by Swatch Group brands.

Representing one of the pillars of the dial maker's corporate culture, specific attention was paid to training employees properly with the introduction of new know-how, notably that related to the finishing and assembly of Breguet prestige watches, like the Hora Mundi or the Héritage Chronograph.

Referring to these specializations, Rubattel et Weyermann's research and development department continued to work in close collaboration with other Swatch Group companies in a continuous quest for new processes and materials. This sharing of know-how provides indispensable support for its clients' creations and innovations.



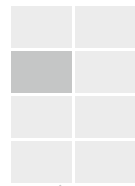
MOM Le Prélet

Building on the strategy that has been implemented for the past three years, the development, concentration and rationalization of large volume dial production provided MOM Le Prélet with pleasing growth. Synergies with Rubattel et Weyermann have now been established and allow client demands to be fulfilled in terms of quality and quantity.

MOM Le Prélet developed in-house skills linked to working with authentic mother-of-pearl, done in a workshop where activities began last spring following a training period at Rubattel et Weyermann. The introduction of this material required the reinforcement of the machine tools department, a process that involved hiring new personnel and switching to teams working in shifts.

Establishing an increasingly industrial approach enabling large volume requirements to be met, there was a major investment made in an automated line of movement *ébauches* in 2012.

A joint work group with Rubattel et Weyermann was created with the aim of initiating and deploying a "zero-paper" philosophy. This large-scale project will accompany the activities of both firms over the coming years.





Universo

www.universo.ch

World leader in the production of watch hands and dial appliques, Universo achieved very encouraging results in 2012. The large number of new watch model projects conducted by Swatch Group brands was an indication of the important development potential and solid growth prospects.

Hands Division

With large volumes throughout 2011, Universo Hands Division reinforced its area of excellence through an intense policy of industrial investment based on high-tech machines. Several dozen of these recently acquired will make it possible to meet volume increase forecasts. Production lines worked to capacity, both in terms of industrial conveyor belt manufacturing and piece-by-piece. Projects to industrialize processes – linked with constant quality improvements, or the reduction of lead times and handling – and the quest for new materials continue to be a priority.

Dial Appliques Division

Dial appliques are decorative elements that are indispensable to all premium sector products. In two years, Universo Appliques Division succeeded in developing production facilities able to meet the needs of Rubattel et Weyermann and of MOM Le Prélet. With this experience, the entity aims to continue its investments in high quality industrial goods able to meet the demand for appliques from both the most prestigious watchmakers and those oriented towards the highest volumes. A large number of operational and logistics projects are underway to meet this challenge.

A unifying project

The future of Universo's three production sites brought together under one roof is being firmed up and becoming an unquestionable reality. Excavation work is underway on land bought in 2011 and the installation of the first workshops is planned for 2013. The realization of this project will create significant synergies, as much in terms of product rationalization as in terms of collaborative links within Universo.

Manufacture Ruedin

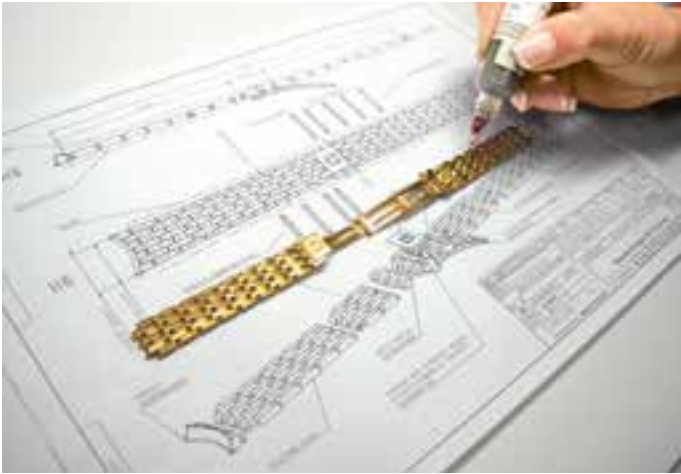
In 2012, considerable investment was made in production facilities, which enabled Manufacture Ruedin to continue meeting its clients' exacting quality demands and, in response to the high demand from Swatch Group brands, to achieve double-digit growth.

The reorganization of the production areas represented a major challenge in the past year, with the relocation of the stamping and mechanical departments to an additional 1300 square meter space rented in the Bassecour (JU) industrial zone and the resulting empty workspace enabling the installation of new machining centers. This rejuvenation of the production facilities is in line with Manufacture Ruedin's desire to strengthen its position in the watch case sector, combining metal and hard materials such as ceramics, hard metals and sapphire crystal.

Reinforcing its collaboration in the design of new products with Swatch Group's brands, Manufacture Ruedin enjoyed particular success working with Omega on the development of the Seamaster James Bond 007 50th Anniversary watch, the new De Ville Prestige and the titanium Speedmaster Spacemaster Z-33. The company also consolidated its position with Longines during the launch of The Longines Master Collection and focused on the development of new materials for Rado's D-Star models.

Thanks to its highly qualified staff, Manufacture Ruedin intends to continue offering more comprehensive service to Swatch Group's brands.





L A S C O R

SIMON & MEMBREZ
HABILLAGE HORLOGER HAUT-DE-GAMME



Lascor

After significant production increases in the previous year Lascor continued its development in 2012, consolidating its manufacturing processes. Investments in technology and human resources enabled the creation of a new bracelet production line. An extensive training program was implemented to strengthen and harmonize employee skills in the technical sector. A complete management handbook was developed, defining and profiling the different processes in the company and providing the basis for future organizational developments. The implementation of specific indicators to evaluate the company's key processes established the conditions required to improve production follow-up and more efficient gold management. The self-regulated quality control process in the finishing workshops was reinforced with the aim of increasing a sense of responsibility in operators and improving product quality. A quality certification unit was created internally in order to put products onto the market that are finished according to the same strict evaluation criteria as those used by customers, thus ensuring their long-term satisfaction.

Simon Et Membrez

www.simon-membrez.ch

2012 was a pivotal year for Simon Et Membrez, which joined Swatch Group on 30 March. The high-end case manufacturer has enjoyed strong growth in its sector for several years. In January, no less than 6000 square meters of additional production area were inaugurated; a 3000 square meter floor, ready for use, will enable Simon Et Membrez to contribute to Swatch Group's industrial development in the decoration of watch exteriors.

The increase in production also resulted in the Delémont (JU) manufacturer making a considerable investment in its ultra-modern machine park and reinforcing its human resources. The company has 260 employees, in addition to some 50 people at Termiboîtes, the polishing workshop in which Swatch Group also acquired a majority shareholding on 30 March 2012.

Thanks to the commitment of its staff and proud to be part of the number one watchmaking company in the world and able to contribute to its development, Simon Et Membrez achieved double digit growth in 2012, both in parts delivered and in turnover. Today, the manufacture is completely autonomous and capable of manufacturing watch cases from the technical product design stage, in close collaboration with its clients, to the delivery of water-resistant examples, including stamping, machining, soldering, welding, electroplating, and assembling. The acquisition of Simon Et Membrez has given Swatch Group a new manufacturing unit that will enable it to achieve its objectives in the area of decoration for its brands in the prestige, luxury and high-end segments.

Novi

2012 was a pivotal year for Novi, which continued and finalized its integration into Swatch Group. The company continued to comply with its primary objective, which remains to offer quality service to ETA as well as to the different Swatch Group brands, while remaining flexible, responsive and competitive.

The increase in assembly volumes of mechanical movements (T1) and watch finishing (T2) was the most noteworthy factor in the past year. At the T1 level, an assembly line for a mechanical chronograph movement for a Swatch Group brand was transferred to Novi. T2 activities were also developed in the premium segment, as well as in the prestige and luxury segments. Perfectly balanced in terms of the competencies and resources they involve, these two activities are complemented by an after-sales service unit. Each of these three areas call upon the expertise and specific skills of employees to meet the needs of ETA and Swatch Group brands fully and flexibly.

The year concluded with the formalization of a new organization of logistics flow. This structural basis will serve to further improve the company's operations before progressively reinforcing internal versatility and the technical capacity of the equipment in order to ensure readiness for a possible increase in volumes and to fulfill future customer expectations.



Swatch Group Assembly

In 2012, Swatch Group Assembly's activities once again focused on increasing the capacity available to the brands and on the development of new lines and flexible production cells.

The transformation of traditional lines into production cells and regulated flows made it possible to enhance flexibility to an even greater extent, and to increase production significantly. Swatch Group Assembly continued to expand its flexible production cells, providing the brands with greater capacity and new possibilities, notably in terms of types of caliber and batch size. With the additional surface area available, the company continued to offer additional services in the areas of storage and parts logistics. Created to manage the rapid growth of the past two years, the training division focused on developing and supporting versatility, as well as offering new opportunities. Finally, the integration of bracelet fitting into the production cells allowed the creation of new spaces designed for better regulated flows.

With these activities in the areas of environment, processes, assembly tools and human resources, Swatch Group Assembly remains the biggest finisher in Switzerland for products in the mid-range segment. The company continued to develop the versatility that enables it to assemble all types of watches, from quartz models to chronographs and mechanical timepieces – not to mention Tissot's T-Touch touch screens – and to offer identical assembly time regardless of the level of complexity.

Dress Your Body (DYB)

Dress Your Body (DYB) reported strong growth for all its activities in 2012.

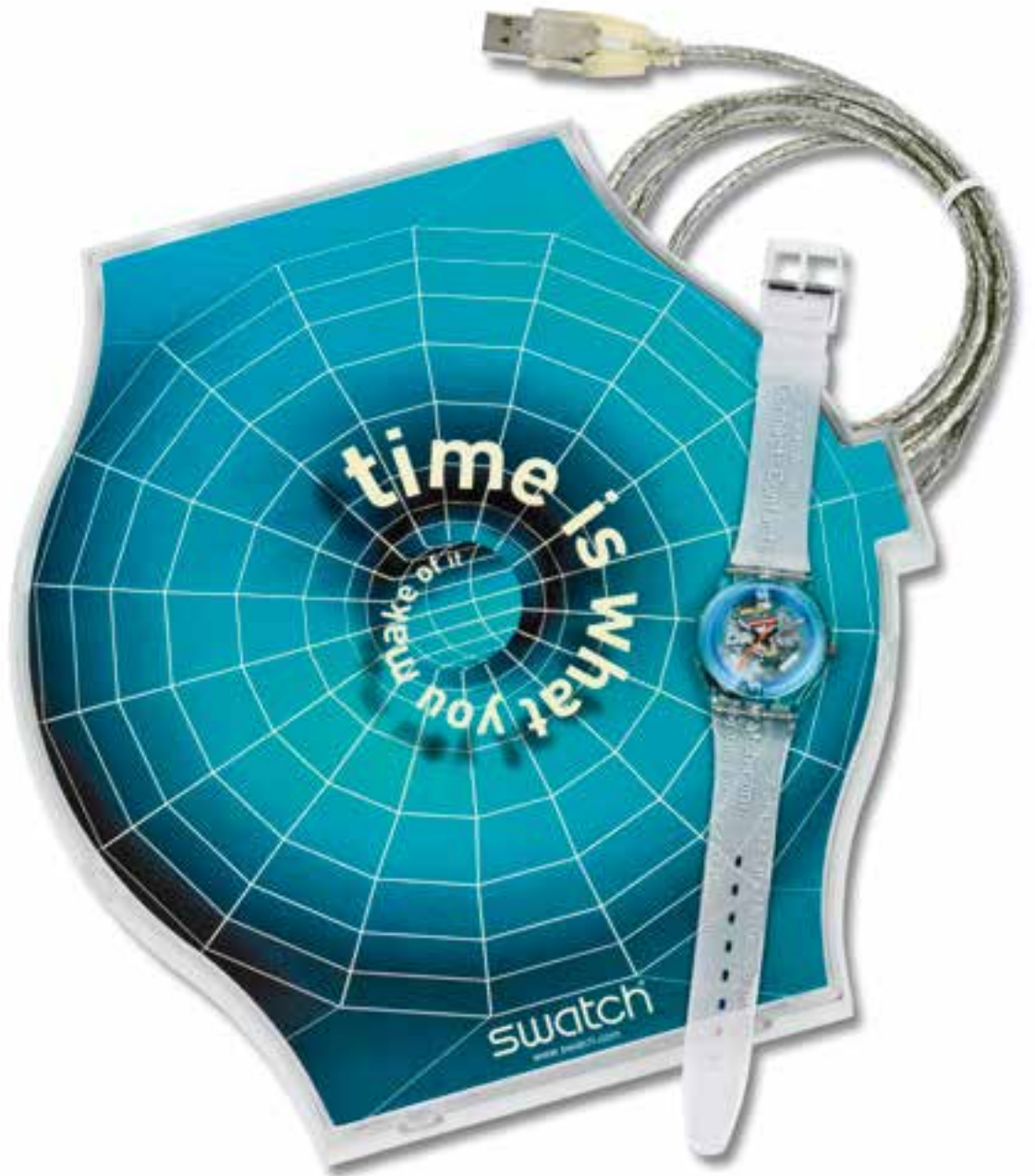
Made up of designers, jewelers, prototype technicians and polishers, the jewelry department once again successfully developed and produced brand new jewelry lines for its clients and in particular for Breguet. The Marie-Antoinette Dentelle watch and the Crazy Flower Full Baguettes watch demonstrated the company's mastery of technical jewelry.

The gem-setting and manufacturing department increased its production to achieve the highest levels since its inception. Traditional gem-setting activities, mechanical gem-setting, beveling and engraving met increased client demand, due to improved productivity resulting from the re-organization initiated in 2011 as well as to the development of employee skills along with the hiring of new staff. The creation of certain finished products, such as dials or cufflinks, reached maturity and met its objectives in terms of quality, volume and lead times.

Specialized in small series of complex products made of precious metals, the machining-type manufacturing sector further increased the range of decorative references offered. Dial parts and finished dials thus joined the high jewelry cases, inner bezel rings, buckles and cufflinks that have already been made. The success these enjoyed led to the hiring of new prototype-makers and setting technicians, as well as to the acquisition of new CNC machining centers, which – complementing the reactive nature of the technical department – made it possible to nearly double the number of parts delivered compared to 2011.

As the purchasing center for diamonds and precious stones for Swatch Group brands, DYB Gems comprises specialists in gemology as well as in the sourcing and cutting of stones. Participating in product development for its clients, DYB Gems continued to advise them on selecting and purchasing gems, and subsequently supplying them with calibrated stones. The diamond market was characterized by a stabilizing of demand in 2012. Maximizing its knowledge of the players in this market and optimizing synergies between complementary purchases by the brands, DYB Gems once again ensured a supply under the best market conditions with significantly better lead times while maintaining strict quality standards.

Electronic Systems







EM Microelectronic

www.emmicroelectronic.com

EM Microelectronic's sales increased slightly in 2012. With a persistently strong Swiss franc and the enduring global economic crisis resulting in decreased purchasing power, the company maintained its efforts to control and reduce costs. The many concrete actions included switching a large part of EM Microelectronic's packages from gold to copper wire.

Significant efforts were also dedicated to product development, leading to a steep increase in the number of newly qualified products, representing the groundwork to consolidate and improve revenue growth.

To reinforce profit, the product strategy was focused on higher added value products and on offering unique features and exclusive characteristics to customers. This was done in parallel with a plan for technological adaptations of the manufacturing process. Within its internationally located design centers, EM Microelectronic took initial actions to streamline the design process towards a more agile and efficient product development cycle.

In the second half of the year, the process development team successfully qualified its new 0.18µm low-power and low voltage Flash process. Watch microcontrollers and new RFID circuits will be the first products to benefit from this technology.

For Swatch Group brands, EM Microelectronic introduced new sets of circuits to ensure temperature-independent precision for quartz watches. Furthermore, new microcontrollers with integrated LCD drivers for analog/digital or digital watches were qualified and are manufactured with the advanced 0.18µm Flash process. A microcontroller with the same technology will be produced for chronometer watches in 2013.

The Displays and Touch Modules segment experienced encouraging growth in flexible plastic LCD products, which contributed substantially to its revenue. Millions of plastic LCD modules are now being produced for the watch (in 20 colors for Swatch Touch) and smartcard markets. New market segments are being addressed and extended capacitive tactile functions are in development.

In the Wireless & Sensing business segment, EM Microelectronic launched its Bluetooth® smart-qualified controller, the EM9301. Optimized for ultra-low power wireless sensing, remote control and monitoring applications, it can be powered by a wide range of common single-cell batteries or energy harvesters such as solar cells or piezo-electric elements. EM Microelectronic won the Best Product Award for this controller in the Communications & Networking IC category of the EDN China Innovation Awards 2012.

In the RFID segment, EM Microelectronic qualified the EM4124, its new generation of EPC circuit aimed for retail, logistics and supply chain applications. GS1® EPCglobal® awarded its software certification mark to EM Microelectronic for this product. EPCglobal, part of the not-for-profit supply chain standards organization GS1, is dedicated to the adoption of the Electronic Product Code™ (EPC) for supply chain excellence. Battery-less Electronic Vehicle Recognition ICs enabling vehicle identification and road tolling are ramping up to high volume production with an initial application in Brazil.

With the vast majority of its smartcard customers in Asia, EM Microelectronic flourished in this competitive market, despite high price pressure where prices are renegotiated every four months. The development team qualified three new products. The smartcard segment introduced the market's first full dual ISO 15693/14443 multi-application smartcard which allows the bridging of public transport (proximity) and access control to leisure (vicinity) applications.

In the Motion & Optical Sensing segment, EM Microelectronic's sensor integrated circuits (motion, pressure) were adopted in high volumes in major consumer platforms, notably mobile phones. The year also saw a significant increase in volume of sensor ICs for optical mice. In the microcontroller area, EM Microelectronic contributed key technology (high efficiency converters with microcontrollers) to a new generation of solar chargers used in consumer platforms (solar mobile phones, rechargeable lighting).

EM Microelectronic was present at three major trade shows in 2012: Electronica in Munich, Cartes in Paris and Sensor Expo in Chicago.

Renata

www.renata.com

With new products and an improved market position, Renata enjoyed a successful year in a complex business climate. Innovative technologies and products allowed the Swiss specialist for watch- and micro-batteries to improve in all areas. A highlight was the successful introduction of new packaging for watch batteries, ergonomically and economically tailored to the demands of watchmakers and repair centers. A fully-automated packaging machine was installed in Itingen (BL) for the new product, which is available exclusively for environmentally-friendly mercury-free batteries. It meant that processes previously outsourced to other countries were returned to Switzerland.

Presented in Renata's fresh new colors, the products were well received in the market and will support the company's continuous growth. The design concept led to a reduction of packaging material for the highly reliable coin cells delivered to customers. This, along with reduced transportation and energy consumption during manufacturing, contributed to the protection of the environment. Pursuing a strategy set out at the beginning of the year, Renata completed the ISO 14001 certification of its premises in Switzerland and China.

There was a successful optimization of the supply chain in the industrial sector as several new suppliers for cell manufacturing were approved. This significantly improved competitiveness in these demanding cost-driven demanding markets and contributed to the improvement of Renata's sales volume.

New products including battery holders and a selection of rechargeable miniaturized batteries led to high demand at the Electronica Trade Fair in Munich, which was once again a joint presentation of the Electronic Systems Companies EM Microelectronic, Micro Crystal and Renata.



Micro Crystal

www.microcrystal.com

In 2012, Micro Crystal, the only occidental manufacturer of small low frequency quartz crystals, continued to supply Swatch Group brands with low frequency tuning fork quartz crystals, ensuring that, along with other European watch companies, they can operate independently of Japanese manufacturers. This position has particular strategic importance despite the fact that most of Micro Crystal's turnover comes from business outside the watchmaking industry.

In addition to miniature watch crystals resulting from new quartz patented designs in collaboration with EM Microelectronic in 2012, Micro Crystal developed a temperature compensated watch module, which provides quartz watches with greatly improved operating accuracy. A new assembling technology enables the joint integration of a quartz crystal and an electronic circuit in a ceramic package, creating a much smaller watch module.

Mobile electronic devices are the main applications for the low frequency miniature crystals made by Micro Crystal. Mobile telephone manufacturers are the biggest clients in this sector, despite the company's reduced dependency on them. The cumulative over-capacity of Japanese quartz manufacturers once again resulted in a noticeable decrease in prices for which Micro Crystal compensated partially with the introduction of new rationalization measures and by process simplification.

While tablet computers constitute a new market for Micro Crystal, the medical sector remains highly significant. In addition to the use of quartz crystals in pacemakers and defibrillators, new markets are developing, notably in the domain of implantable neuro-stimulators used for various forms of treatment.

The percentage of turnover linked to integrated products with a quartz crystal and electronic circuit continues to increase. In 2012, Micro Crystal launched several Real Time Clocks and developed other integrated products equipped with special functions, innovations with the potential to generate higher margins.

The competition in the market for quartz crystals used for consumer applications represents a significant challenge for Micro Crystal. The increasing market share from newly integrated products and new applications in the medical and industrial sectors should, however, enable the company to a great degree to withstand the pressure on its profit margins in the consumer product sector.

Oscilloquartz

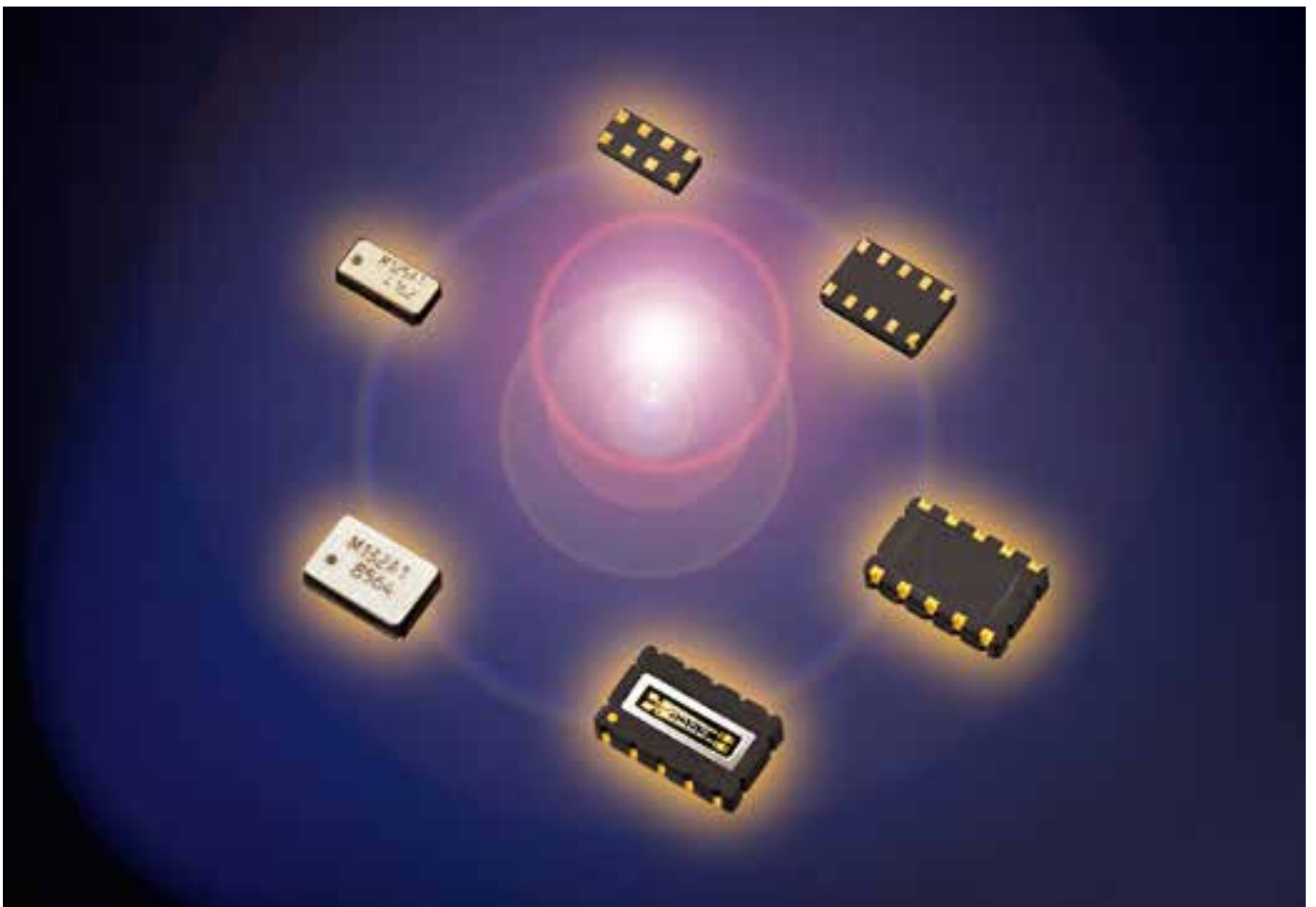
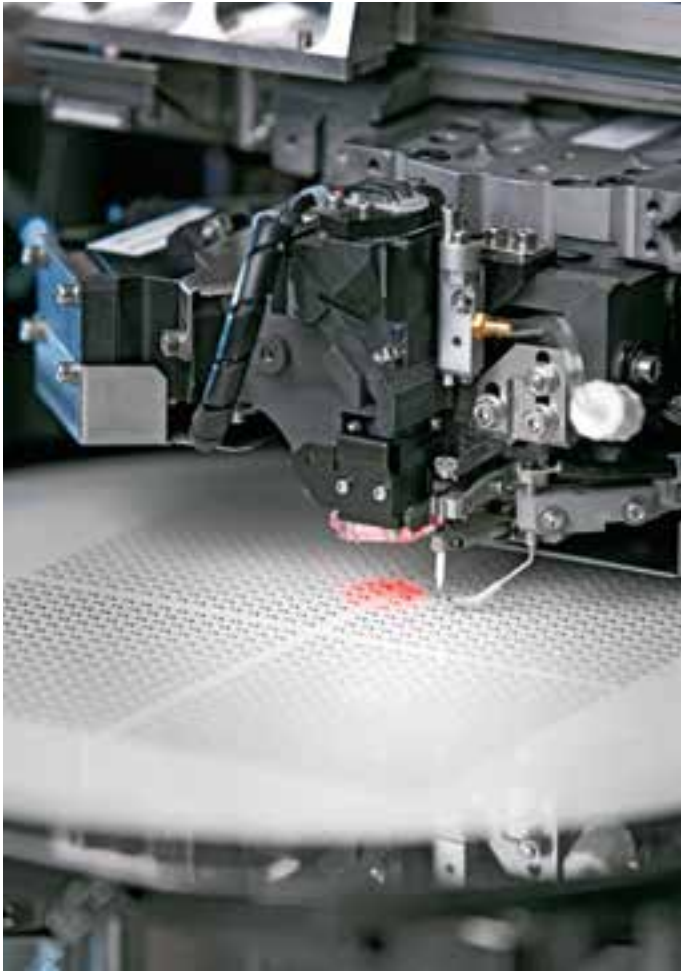
www.oscilloquartz.com

For Oscilloquartz, 2012 was a year of continued transition with a marked evolution of network technologies towards internet protocol (IP) and further development and deployment of IP synchronization solutions. This technical evolution, coupled with the on-going demands of the complex markets, proved a very difficult challenge to meet.

Nevertheless, significant milestones were achieved on several fronts, including the successful Network Equipment – Building System (NEBS) Level 3 approval of a new US version of the OSA Timing Signal Generator that is currently in the final phase of field qualification at a Tier 1 operator. The first large-scale deployments of Oscilloquartz' cost effective IP Sync Grandmaster solution are now at several leading operators in Russia, Asia, and Switzerland. There was also exceptional growth in the demand for the flagship BVA ultra-stable low-noise oscillator (USO).

New products designed to serve the telecom IP market will arrive in the near future, along with some innovations for the Time and Frequency market.

Despite the global financial situation and difficulties in the telecom industry in 2012, Oscilloquartz continued to see good long-term prospects in its key identified growth areas such as IP synchronization and Time and Frequency programs. The company's strategy is focused on controlling expenses to effectively manage the business through this period of transition while ensuring that key developments can be realized.





Swiss Timing

www.swisstiming.com

For Swiss Timing, 2012 was another very active year, due especially to the London 2012 Olympic and Paralympic Games which, under the auspices of Omega, represented an ideal opportunity to demonstrate globally its know-how in the world of timing. To fulfill its mission in conjunction with 450 technicians spread across 36 Olympic and 20 Paralympic venues in the British capital and the surrounding areas, Swiss Timing deployed more than 450 tons of state-of-the-art equipment, laid 175 kilometers of cable and fiber optics, and installed 70 giant display screens. Its professionals were helped by the 800 volunteers – 250 for the Paralympic Games – they had trained.

Paradoxically, it is never time to stop at Swiss Timing, which was also involved in various other diverse competitions in 2012: the downhill skiing World Cup and acrobatic gymnastics World Championships with Longines; the Swimming World Cup and Athletics Diamond League for Omega; the track and road cycling World Cup and World Championship with Tissot; the FIA GT1 World Championship, the Blancpain Endurance Series and the ADAC GT Masters for automobile sport with Blancpain; and the FIVB Beach Volleyball World Tour tournament with Swatch.

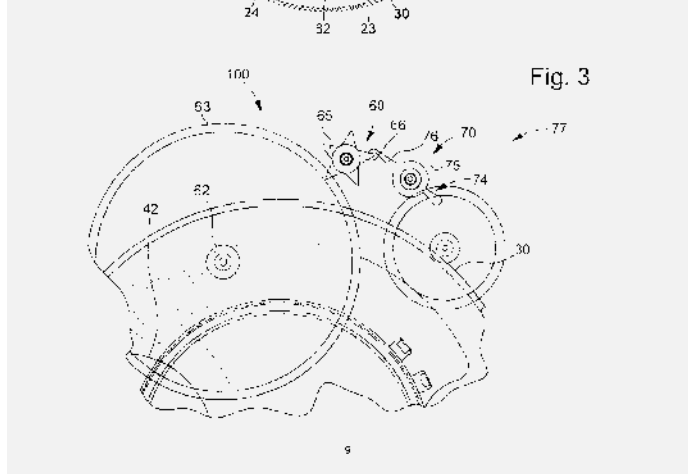
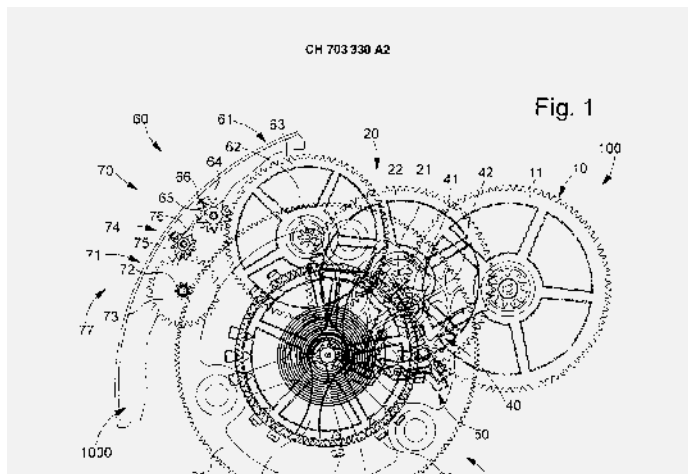
Other multi-sport games were also part of the list, including the inaugural Youth Olympic Winter Games which took place in January in Innsbruck (Austria) for Omega, the Asian Beach Games contested in Haiyang (China) in June for Tissot and the SportAccord World Mind Games that were held in Beijing (China) in December for Rado. Tests for the Sochi 2014 Winter Olympics also began in 2012.

Fully aware of its responsibilities, Swiss Timing represented the image of the brands to which it supplies its services with its characteristic professionalism, honored to extend the Swatch Group brands' reputation for tradition, quality and precision around the world.



Corporate, Belenos







ASULAB



CDNP

Swatch Group Research and Development

The Swatch Group Research and Development Ltd, founded in 2005, encompasses the activities of Swatch Group's research divisions as well as certain ones responsible for pilot productions and special products. Aside from these activities, the company is also involved in coordinating technological innovations for various other Swatch Group companies.

Division Asulab

www.asulab.ch

As Swatch Group's central research and development laboratory, Asulab's core mission is to design technically innovative watch products, subsystems and components and to develop state-of-the-art manufacturing technologies. To accomplish this mission, in 2012 Asulab strengthened its technical teams and implemented new equipment enabling the company to more appropriately meet the technological challenges in several areas of competency, such as thin films, electro-chemistry and the shaping and machining of special materials.

Asulab further reinforced its contacts and undertook a number of joint projects with various Swatch Group companies and brands, so that the technical results obtained correspond as closely as possible to the needs expressed by them. To acquire new skills and technologies, Asulab also continued to follow up on and extend collaboration with the most renowned research institutes in Switzerland and abroad, through targeted mandates and active participation in projects uniting several partners.

With the perspective of the internal industrialization of Swatch Group, the past year saw the development and transfer of a ceramic-based composite material for high-quality decorative pieces. The perfecting of the initial material as well as the optimization of the process for shaping purposes meant that the various homologation tests such as resistance to shocks or corrosion were passed successfully. The first products born of this development will soon be marketed by one of the Swatch Group brands.

A new ceramic powder-based decorative method was also tested on several types of material with colored finishes. This approach allows the pieces inside the movement as well as the watch exterior elements to be decorated, due to a hard layer several dozen microns thick. This easy-to-implement process with its highly interesting aesthetic effects paves the way for new possibilities in terms of design.

A significant effort has also been made to find, characterize and validate new sources of high-quality metallic alloys in industrial quantities that are sufficient to meet the brands' needs. This activity enables a reduction in the number of operations required to make the final pieces without sacrificing either the quality or the aesthetics of the product.

Division Moebius

www.moebius-lubricants.ch

Moebius is a company specialized in the production and commercialization of lubricants and epilames, used primarily for watchmaking applications. In 2012, Moebius continued its close collaboration with an academic partner in order to ensure the long term manufacturing of state-of-the-art lubrication products for watchmaking and micro-technology in Switzerland.

An investment program based on the internalization and increase of production capacities was also launched. To maintain and increase its technological lead and to offer even higher-performance products for watchmaking in the future, Moebius pursued its innovation-driven strategy, drawing on developments in partnership with the Asulab division and well-known university institutes. Finally, Moebius' Internet site was launched to facilitate contact with clients who can now locate distributors with whom Moebius collaborates internationally.

Division CDNP (Centre de développement des nouveaux produits)

CDNP develops models for the Swatch Group brands. The benefit of its employees' great experience in the field of watch exteriors in 2012 once again enabled them to make the brands' wildest dreams come true. Mastery of technical issues and confirmed skills in the realm of aesthetics are key to the original solutions that they offer. Throughout the year, CDNP also continued to contribute to the resolution of a number of technological challenges for the benefit of all the companies, notably thanks to close collaboration between the research and development teams and the Swatch Group production centers.

Modern machining equipment enables the execution of these developments. Production tools are produced by the CNC machine park linked to a state-of-the-art CAD network. A brand-new machining center allows increased efficiency in stainless steel machining. Mock-ups and models created by rapid prototyping remain the brands' preferred aesthetic approach. Thanks to a polymer stream installation, different colored rubber straps can be produced. A new generation UV printer was also acquired in order to produce dial prototypes.

Educational films using computer-generated images were once more produced in 2012. They are very useful as they serve as instruction manuals and highlight new designs. The decoration of watch movements was also an important activity for CDNP.

The standards and technical specifications for external watch parts according to ISO and NIHS criteria were made available on the Intranet at the end of 2011; the development, follow-up and adaptation of these standards represented another important task for CDNP specialists in 2012.



With its packaging department, CDNP is also capable of advising the brands and production companies, notably on all aspects of conditioning products ecologically and economically.

The close ties that unite CDNP and Asulab teams finally led to the use of new materials in 2012 and continuing investigations into new technologies. In this respect, several patents were registered by CDNP, thus enriching an already impressive portfolio.

Belenos Clean Power

www.belenoscleanpower.com

The first fuel cell demo car developed by Belenos Clean Power was field-tested over several thousand kilometers during 2012. The hydrogen and oxygen fuel cell system delivered reliable performance in all weather conditions and reached a record efficiency of 70% in normal driving conditions on different types of Swiss roads.

The two gases are now being produced through a water electrolysis process designed for a world premiere filling station delivering hydrogen at 400 bar as well as oxygen at 200 bar. The polymer membrane electrolyzer, together with the hydrogen and oxygen compressors, was integrated in a 20 foot container installed on the company's research site in Marin near Neuchâtel. About 10kW of photovoltaic modules were installed on the roof of the Belenos offices. Over the year they will harvest enough solar energy to compensate for the annual electricity consumption required to refill the car twice a week.

On the same solar energy topic, significant progress was made with the development of a very compact power electronic unit, allowing the maximization of the energy output of individual photovoltaic modules and enabling a direct grid injection of the generated electricity. This micro-inverter uses a unique solution integrated behind the solar module and replacing the common junction box, while maintaining an optimum cooling of the electronic circuitry. Its patented topology also offers an independent power optimizer for every string of solar cells within the solar module, thus enabling even higher energy yield than competitive products.

Remarkable steps forward throughout the year were also reported for research and development activities in the field of lithium-ion batteries. The team performed regular synthesis of a promising cathode material and was able to improve its stability greatly over multiple charge/discharge cycles. At the same time, a new high-density anode material was developed with a low cost process. In parallel, a pilot production line was put into operation and 10Ah (ampere hour) cells were successfully manufactured.

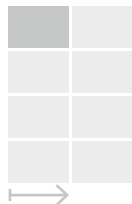
ICB Ingénieurs Conseils en Brevets

The essential missions of ICB Ingénieurs Conseils en Brevets – Swatch Group's own patent attorney firm – are the protection of Swatch Group's technical innovations, the enhanced valuation of acquired technological know-how, market intelligence and the fight against counterfeits.

ICB continued its activities to identify technical innovations in the various research and development companies and entities of Swatch Group, in order to ensure optimal protection of its technological assets. The number of new patent applications filed to protect developments of the Swatch Group's companies remained high compared to previous years. This is the result of the continued awareness of all those involved in research and development of the importance of patents as part of the strategy of an innovative group, and an efficient synergy between all the engineering and research teams from the different Swatch Group companies and ICB. This collaboration was once again particularly important, not only in the watchmaking domain but also in Swatch Group's non-watchmaking activities.

Substantial efforts were made to support the Swatch Group brands in their strategy to penetrate international markets through patent protection. With this in mind, the financial investments to obtain patent protection for their new products abroad continued in a targeted manner in 2012, so as to cover the main markets and production sites. In collaboration with Swatch Group's legal department, ICB continued to support the various companies and departments, to ensure that their rights were defended.

In 2012, ICB management maintained its strategy of controlling its operating costs. It also focused on the stabilization of operational expenses relating to the maintenance and acquisition of patent rights. This meant that ICB's yearly financial results were positive, in line with those in previous years.



Swatch Group Quality Management (SGQM)

The mission of Swatch Group Quality Management (SGQM) is to define the quality assurance and safety requirements for products placed on the market. The aim is to guarantee that these products conform to legal and environmental requirements by providing Swatch Group companies with the necessary information and control procedures that allow them to manage their production and manufacturing processes independently. SGQM's services make use of specific expertise and are based on a horizontal approach to its business activities.

Legal compliance

In 2012, SGQM followed the development of a number of laws:

RoHS: This directive imposes new marking requirements for quartz watches (the CE symbol) and traceability through complete documentation.

REACH: In 2012, this regulation covered 62 additional substances and introduced new restrictions that particularly concerned the reduction of concentration thresholds of, or a complete ban on, certain substances in external watch parts. It includes an obligation to provide information and transparency regarding the use of certain substances.

Lacey Act, Timber Regulation: These laws impose some regulations and documentation regarding the use of natural materials such as leather and wood. Due to its concerns for sustainable development and ethical, responsible use of these natural resources, Swatch Group has implemented a specific directive in this respect.

Product conformity

Since March 2012, the RESULT initiative (REsponsibility of SUPplier for Lot Testing) has made it possible to intervene earlier on product quality, and using a secure Extranet site, offers Swatch Group suppliers access to information concerning the minimum standards to be respected for materials, processes and homologation methods.

Materials and processes

Specifications on decorative coatings for external watch parts: Updated deposition techniques and surface treatments, a catalogue of decorative coatings and the proper characterization and quality control of these coatings were successfully completed in 2012.

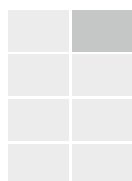
The leather industry: The exotic leather industry has been subject to strict monitoring following a decision to use only *Mississippiensis* alligator skins from the United States. Swatch Group has an intimate knowledge of the exotic leather industry and of the traceability of the supply chain comprising controlled breeders and its other stakeholders.

Continuous improvement

Threading: The Screw Threads project continued in 2012 with the calculation of tightening torques, a campaign to measure the capability of standard gauges, a simulation of the constraints by the finite element method and the drafting of a tightening standard.

ISO 1413 Method: SGQM headed the international committee responsible for revising the norm regarding shock resistant watches. ETA developed a machine that simulates free fall and meets the updated standards. Its release is scheduled for the next ISO Congress scheduled to take place in Tokyo.

Swatch Group Services



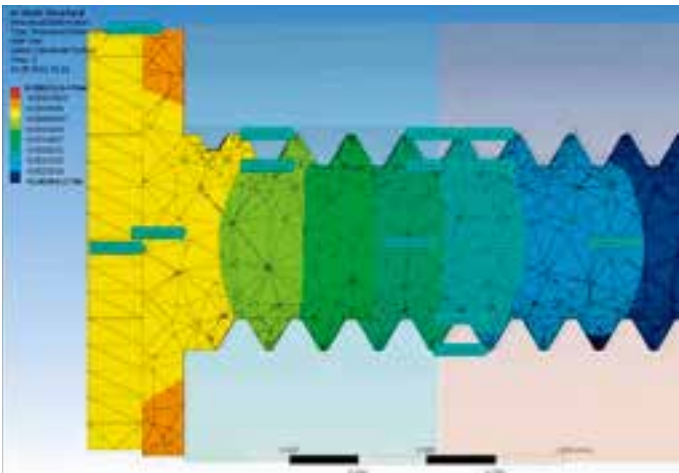
Division European Distribution Center (EDC)

The European Distribution Center (EDC) division had a successful year in 2012, thanks in large part to consistent benchmarking and strategic negotiations with service providers. The average cost per parcel was reduced compared to 2011 and warehouse productivity levels increased as a result of organizational measures implemented during the year.

A strong focus was placed on the integration of additional services and products. The Biel/Bienne warehouse started to incorporate CITES shipments (watches with leather straps), eliminating the need for the one in Vienna and establishing a basis for logistic synergies. The integration of accessories into the sales channel created a platform for additional brands and markets in coming years.

Commercial Applications

Swatch Group reinforced its e-commerce presence in Europe. Successful projects included new online sales platforms and an increased level of logistics services. Commercial activities focused on the optimization of a well-received Sales Force iPad application. Improved communication between the commercial and logistics services and the management at European subsidiaries was actively pursued.





Division Swatch Group Logistics (SGL)

The Swatch Group Logistics (SGL) division was created to support Swatch Group companies world-wide in optimizing their supply chains by:

- reducing backorders and ensuring adequate stock levels at brand headquarters, countries and retail stores;
- speeding up lead-times in production and distribution through state-of-the-art planning and forecasting systems;
- increasing productivity in warehouses and reducing costs through improved processes;
- exploiting Swatch Group's purchasing power in negotiations with freight forwarders;
- benchmarking and transferring best practices between entities;
- providing access to a central logistics database.

In 2012, the team was reinforced with additional resources directed primarily toward projects concerning distribution and the brands, as well as the interactions between them. An expansion of activities involving specific projects related to the production companies is anticipated in 2013.

Division Swatch Group IT Services

The Swatch Group IT Services division implemented strategic projects in all business areas, resulting in further synergies and cost reductions. The team continued the roll-out of its workplace services, managing more than 5000 computers in the brands and subsidiaries. A new computer-based communication system was integrated in Swatch Group Hong Kong and several Internet sites used by the companies were moved to the new Internet hosting platform in Switzerland, while the global enterprise resource planning (ERP) system was migrated to new, more powerful hardware. Swatch Group IT Services set up the infrastructure for Swatch Group companies at the London Olympic Games. A number of Swatch Group brands and subsidiaries invested in new technology and the team worked actively on setups in new construction sites. A third Disaster Recovery Data Center was added in Switzerland. An iPad-based Sales Force automation system made it easier to process orders and customer information for the workforce around the world. E-commerce platforms were implemented at brands and subsidiaries. Other successful projects included the IT infrastructure at the Swatch Art Peace Hotel, an ERP system for Swatch Group Research and Development, a customer service system for Swatch Group France, new ERPs for François Golay, Swiss Timing and Swatch Group HQ, and the replacement of Swatch Group's sales reporting system.

Division Swatch Group Corporate Customer Service (CCS)

Swatch Group Subsidiaries: The development and continual adaptation of customer service centers and reception areas in Asia and Europe played an important role in 2012. The competence center in Shanghai was doubled in size. In Hong Kong, Delhi and Mumbai new workshops and reception areas were built, while in Shanghai and Guangzhou, existing workshops were renovated and reception areas were enlarged. The customer service center in Milan was moved and entirely redesigned and now welcomes customers in an even warmer, friendlier environment.

Schools and Training: To meet the long-term worldwide need to service Swatch Group's products, a new Nicolas G. Hayek Watchmaking School was set up in Hong Kong to educate skilled watchmakers. A training program for watchmakers working in a customer service environment was drawn up and approved by the Swiss education authorities. A dedicated Swatch Group Technician Training initiative was also established to support the less complex work of customer service organizations.

Selective Spare Parts Distribution: The Selective Spare Parts Distribution (SSPD) scheme, aimed at enhancing the quality of service within the customer service network, is already bearing fruit in key European markets and will be expanded throughout Europe for all Swatch Group brands. The scope of this project is being consolidated by the ongoing integration of watchmakers' associations and spare parts wholesalers.

IT Systems: The integration of the flagship stores into the Swatch Group Corporate Customer Service IT network division was another important step in customer communication and integration. Customers are now able to choose optional service items, approve estimates and track their watch service from beginning to end via the Internet. Further important steps were taken to expand the integration of information technology with regard to all customer service activities, thus bringing the brands closer to the customer.


Swatch Group Immeubles

Rental sector

www.swatchimmo.ch

In 2012, Swatch Group Immeubles' rental sector was characterized by intense activity in the management of a large rental base consisting of more than 5100 rental or farming properties, mainly in the cantons of Bern, Jura, Neuchâtel, Solothurn and Vaud. Following its strategic reorganization and the decision not to manage contracts outside the Swatch Group, in 2012 the company successfully introduced a new IT system enabling it to best fulfill the ever increasing demands of its clientele.

The company manages the real estate that is part of the Swatch Group Pension Fund and Fondation d'Ebauches SA, as well as other employer pension funds and several other affiliated companies. During the year, its real estate management focused on close monitoring of renovation and sanitization work, as well as brokerage agreements that Swatch Group Immeubles rental sector successfully managed on its clients' behalf. The company intends to continue advising its clients on real estate matters and on follow-up in the implementation of real estate operations.



Industrial and retail sector

The industrial and retail sector of Swatch Group Immeubles was characterized in 2012 by continued activity in Switzerland and abroad with affiliated companies.

The process of modernizing and renovating the real estate portfolio and making improvements to facilities continued, notably at Longines in Saint-Imier (BE), Rado in Lengnau (BE), Swatch Group Assembly in Genestrerio (TI), Tissot in Le Locle (NE), as well as in Biel/Bienne (BE) at Omega, Swatch Group and Swatch Group Services. This work was part of a policy aimed at improving the safety of people at work and supporting such values as the consolidation of the sustainability of production facilities. It also stemmed from a desire to optimize and vertically integrate production flows to improve technical infrastructures for increased product quality. Last but not least, the work belonged firmly within the context of sustainable development according to a policy of reducing consumption of fossil and electrical energies.

A sizeable project began in Boncourt (JU) on behalf of ETA, in which the first 25 000 square meter building will commence production at the beginning of 2013. This industrial park will house the first photovoltaic installation built for Swatch Group. The buildings on the Energizer site in La Chaux-de-Fonds (NE) were knocked down and will be replaced by an industrial park for Universo and for Rubattel et Weyerhann. The building in Biel/Bienne for Omega and Swatch entered the advanced planning phase. The Swatch Group Pension Fund commissioned Swatch Group Immeubles to coordinate and supervise the construction of 96 apartments in Berne Brünnen that will be available for rent from autumn 2013.

Outside Switzerland's borders, Swatch Group Immeubles also closely collaborated with the extension and relocation of Swatch Group Italy in Milan and the Competence Center in Shanghai, as well as the creation of the future headquarters for Swatch Group Turkey. Additionally, Swatch Group Immeubles conducted a consultation that included feasibility and design development studies for the various subsidiaries and brands, also coordinating the participation of the latter at Baselworld 2012 and supervising the development and construction of their future new stands.

Swatch Group Immeubles actively contributed to the development and renewal of the vast Swatch Group retail network, with boutiques for Breguet in Abu Dhabi, Beijing, Cannes, Shanghai, Milan, Seoul, Taipei and Vienna; for Blancpain in Shanghai; for Omega in Geneva and Vienna; for Tourbillon in Chicago, Mexico City and Short Hills; for Hour Passion in Berlin, Geneva, London and Milan (Linate and Malpensa), as well as in Paris with a first new downtown boutique; and with shop-in-shop areas for different brands within the Manor stores in Geneva, Lausanne, Lugano and Vevey. Boutiques of more than 500 square meters inaugurated by Breguet and Blancpain in Shanghai's Xintiandi district represent new milestones in the retail universe.

Swatch Group in the World







Swiss Market

On the Swiss market, Swatch Group's multi-brand distribution increased in 2012 through the Tourbillon stores, the Hour Passion boutique at Geneva Airport and in areas run in partnership with Manor. The brands were also very active once again throughout the year.

Breguet celebrated the Reine de Naples with a traveling exhibition, inaugurated at the Cité du Temps in Geneva and with its last stop in Zurich, and devoted a retrospective to Abraham-Louis Breguet, "Horloger de la Marine Royale" (Horologer to the French Royal Navy), in its Geneva boutique. In the field of classical music, the brand supported the Lucerne Festival and the Geneva International Music Competition. Two antique watches were acquired by the Breguet Museum at an auction at Christie's in Geneva. Blancpain had a record year, influenced by the presence of tourists from China, and presented the first watch in the world equipped with a traditional Chinese calendar in the Chinese Garden in Zurich. Glashütte Original's Pano collection was received with great enthusiasm. The brand became the new partner to the Zurich Film Festival and supported young culinary talents at the 2013 Marmite Youngster. With record results, Jaquet Droz continued its activities at points of sale and invited retailers to become acquainted with its rich heritage during visits to its workshops and the Automates & Merveilles exhibitions. Tiffany & Co. watches as well as Léon Hatot watch and jewelry products continued to be a big success. The Bobsled World Cup in Saint-Moritz and the European Masters golf tournament in Crans-Montana were the sporting high points for Omega, which also arranged 29 advance screenings of the latest James Bond film.

Longines strengthened its position through its sports partnerships, such as the CSIO Suisse in St-Gallen and ski competitions in Adelboden and Wengen, and celebrated its 180th anniversary in Saint-Imier (BE), attended by 180 guests. Rado launched its Rado D-Star 200 and Rado HyperChrome. The brand awarded the Rado Star Prize to Katrine Korfmann for her project, "Count for Nothing", and by renewing its participation in Designer's Saturday in the context of Design Preis Schweiz, emphasized its links with the world of design. The Union Glashütte collections presented at Baselworld met with keen interest.

Tissot's strong growth continued, further improving its image and strengthening its presence in strategic locations. With the experience gained from its partnership with the Jungfrau Railways, the brand inaugurated its highest boutique in the world on the Jungfraujoch. Balmain achieved impressive results, consolidating its position and attracting new audiences. Miss Switzerland 2006, Christa Rigozzi, became the international ambassador of the brand which is reinforcing its image as a Swiss quality ladies' watch. Certina increased its sales, notably in the tourist sector. Launched on the premises of the Sauber F1 Team in Hinwil (ZH) attended by Peter Sauber and Formula 1 driver, Sergio Pérez, the 2012 pieces of the DS Podium GMT chronograph were all swiftly sold. Mido achieved a record year, with solid growth and increased visibility. Hamilton inaugurated its first boutique on Swiss soil in Interlaken (BE) and invited eight acrobatic pilots to take part in an acrobatic formation which was coached by great acrobatic pilot and Hamilton ambassador, Nicolas Ivanoff. ck watch & jewelry maintained its growth, particularly supported by ck agile and ck equal watches and by ck spellbound and ck born jewelry.

Swatch launched its Sports collection during the Swatch Freeride World Tour in Verbier, attended by Swatch Proteam athletes who have put their signatures to certain models. Sponsor of ArtYou Basel, the brand presented its Tattoo collection created with tattoo artist, Tin-Tin. Flik Flak celebrated its 25th anniversary and launched an online shop.



Swatch Group Germany

Swatch Group Germany enjoyed an exceptional year, with double-digit growth. The improvement in the quality of selective distribution and the implementation of a shop-in-shops program by brands such as Longines and Tissot contributed to this success.

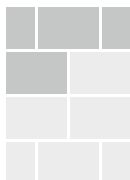
Breguet achieved excellent results with all of its collections. Blancpain emphasized its presence at the ADAC GT Masters, the Blancpain Endurance Series and the Blancpain Lamborghini Super Trofeo. Glashütte Original inaugurated its first boutique on German soil in Dresden, offering a multimedia experience of its universe. Jaquet Droz successfully expanded its distribution network. Omega's enormous presence was visible through exhibitions on timing at the KaDeWe and at the Glashütte German Watch Museum.

Longines was present at the Global Champions Tour showjumping event in Wiesbaden and organized a special exhibition at Frankfurt Airport to celebrate the brand's 180th anniversary. Rado presented its new ambassador, tennis player Julia Görges, at a "Tennis in the Dark" event in Berlin. Union Glashütte moved into new premises in Glashütte (Saxony) and affirmed its presence at the Sachsen Classic Rallye.

Tissot implemented 30 new shop-in-shops and attracted attention with giant billboards. Certina intensified its relationships with retailers through events, cooperative activities and training. Mido strengthened its visibility by optimizing its distribution, media presence and special decorations. Hamilton revealed its innovations to the press at an event before Baselworld. ck watch & jewelry organized a trade exhibition during the end-of-year festivities and lounge moments with the press.

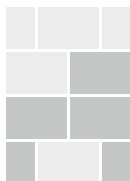
Swatch was part of the action, notably at the FIVB beach volleyball tournament in Berlin and during the Red Bull X-Fighters event. A thousand children took part in a drawing competition that celebrated Flik Flak's 25th anniversary.





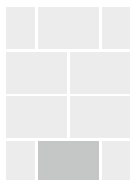
Swatch Group Austria

Swatch Group Austria enjoyed a record year in 2012 with double-digit growth for nearly all brands as well as the acquisition of new market share. The Tourbillon Boutique increased its visibility through local events. Breguet had an event to celebrate the re-opening of its enlarged boutique. Glashütte Original strengthened its market share and increased sales. Omega obtained its best results since opening in Austria. The opening of the first Omega Boutique in Vienna was the main event during the first semester, while the second was themed with the Olympic Games and James Bond. Longines also acquired considerable new market share and celebrated its birthday with a product presentation, special decoration and an event targeting the press. Rado once again partnered with the Vienna Design Week and was Official Timekeeper for the 2012 Erste Bank Open tennis tournament. Union Glashütte signed a partnership with the Oldtimer Rallye Vienna Classic Days and continued to expand its distribution network. Tissot focused on its presentation in points of sale, whose activities were reinforced by a poster campaign and advertising in the print media. Certina maintained high sales levels and emphasized its presence with captivating display windows, training and point of sale activities. ck watch & jewelry arranged a presentation of its innovations targeting distributors, and partnered with the Elite Model Contest. Swatch officially launched its Chrono Plastic collection at an event and inaugurated its new boutique in Innsbruck. Flik Flak arranged an event to celebrate its 25th anniversary.



Swatch Group Belgium

Swatch Group Belgium made considerable progress, particularly in the prestige and luxury segments. Having achieved record results, Breguet positioned itself as the leader in its market and presented a superb collection at the Palais Royal in Antwerp, the former home of Napoleon I. Blancpain also signed off a record year and once again organized the Blancpain Endurance Series in Spa-Francorchamps, a key venue for lovers of speed and watchmaking. Omega's news was sports-oriented, with the Belgian Borlée brothers participating in the London 2012 Olympic Games and in the Van Damme Diamond League Memorial. Longines also enjoyed a record year and successfully launched The Longines Saint-Imier Collection. Rado strengthened its position with its Rado Centrix and Rado D-Star collections. Tissot attained a new record due to its visibility, strengthening its number one ranking in the mid-range segment. Balmain reinforced its image as a refined ladies' watch through its partnership with Miss Belgium. Certina increased turnover even further by maintaining selective, quality distribution. In May, Hamilton organized the Volken in de Wolken Hamilton Airshow. ck watch & jewelry focused on its distribution network with tailor-made advertising campaigns. Swatch launched its Chrono Plastic at an event on the Belgian coast. Flik Flak celebrated its 25th birthday in fitting style, strengthening its position as the leader in the children's watch market.



Swatch Group Netherlands

Swatch Group Netherlands enjoyed an excellent year. The strategy to expand direct sales was further developed by opening company-owned shop-in-shops in Rotterdam and Eindhoven. Omega had a temporary boutique at Schiphol. Longines celebrated its 180th anniversary with an exhibition during the CHIO. Rado successfully introduced the Rado D-Star collection. Tissot, assuming its role as Official Partner, timed the World Cycling Championships. Balmain reinforced its image with a decidedly feminine and elegant collection through its partnership with Miss Switzerland. Certina organized a successful sales event with a driving safety course while Hamilton had an event that raised awareness of its connection to aviation. ck watch & jewelry concentrated on its distribution network with tailor-made window campaigns and POS decorations. Swatch enhanced its visibility with its new boutique in Utrecht, renovated stores in Rotterdam and Schiphol and many new shop-in-shops.

Swatch Group Luxemburg

During 2012, Swatch Group Luxemburg's companies further assisted Swatch Group's international growth with their support activities by providing their services in the areas of operation financing, liquidity management and optimization of insured risk, this in a still challenging and volatile financial market environment; a certain stabilization around some currencies could even be observed. Located in the financial heart of Europe, Swatch Group Luxemburg benefits from the vast range of services provided by an internationally recognized and efficient banking and insurance system.

Swatch Group France

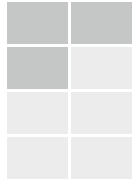
Swatch Group France took advantage of exceptional growth to improve visibility of the brands via billboards appearing on emblematic Parisian monuments, and the opening of the first Hour Passion multi-brand boutique in France.

Pursuing its development, Breguet continued to invest in heritage preservation with a sponsorship benefitting the Louvre Museum, the celebration of the 200th anniversary of the first wristwatch and the exhibition of unique pieces for the tenth anniversary of the Reine de Naples watch. Blancpain also enjoyed a record year, both in relation to its retailers and to its boutique, and arranged the Blancpain Endurance Series as well as the Lamborghini Blancpain Super Trofeo on the Castellet race track. Maintaining its growth, Glashütte Original strengthened its unique positioning thanks to a digital communication strategy. Two years after its inauguration, the Jaquet Droz boutique saw a constant increase in its results. With the 2012 London Olympic Games, and the launch of the film *Skyfall*, Omega achieved one of the best performances in the market and in Nice, opened its sixth French boutique.

Longines achieved an exceptional year and strengthened its events strategy with the presence of Simon Baker at the Prix de Diane Longines in Chantilly. Rado emphasized its design positioning with its presence at the Paris Design Week and cemented its renown with the Rado True Thinline and Rado HyperChrome collections.

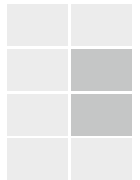
Tissot enjoyed uninterrupted growth, supported by the opening of a second boutique in Paris and a great many activities such as its partnership with Tony Parker and MotoGP trials timing and the Superbike World Championships. Balmain achieved encouraging growth in its segment, with a double-digit increase. Hamilton confirmed its position as leading brand in its segment and continued its commitment to aerobatics and the cinema. The new ck watch & jewelry models, ck agile, ck equal and ck dart, were very well-received by the market and were supported by a highly successful press event.

Swatch continued its partnerships with international sliding-sports events and distinguished itself with exceptional advertising campaigns both on TV and billboards, notably on the Place Vendôme in Paris. The drawing competition celebrating Flik Flak's 25th birthday was enthusiastically received by 800 children who took part to see their dream watch become a reality!



Swatch Group Spain

Swatch Group Spain made a great effort to maintain and increase its brands' presence in the market in an unstable economic situation. Breguet's exclusive presentations included those for the Réveil Musical and the Hora Mundi. The Lamborghini Blancpain Super Trofeo in Navarra was the main focus of Blancpain's communications. Glashütte Original launched its impressive Art & Technik Collection. Omega inaugurated a new boutique in Madrid and helped organize the Solar Impulse landing in the city. Longines celebrated its 180th anniversary at different events, including the CSIO in Barcelona. Rado made a VIP presentation of its HyperChrome collection with brand President Matthias Breschan in attendance. Tissot held four MotoGP Championship Races and coordinated the "Women in touch with our time" event. Certina focused its energies on the new DS Action Diver. Hamilton welcomed brand President Sylvain Dolla to its presentation in Madrid before Baselworld. ck watch & jewelry found creative ways to communicate its new products to the press. Swatch and Flik Flak Spain actively organized events including the International Malasaña Swatch Experience, a number of press presentations and the Christmas event for Swatch Club.



Swatch Group Italy

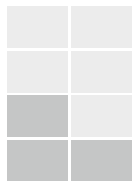
Swatch Group Italy's excellent year in an unstable economic situation was evidenced by remarkable growth, driven mainly by a consistent selective distribution strategy and an enhancement of its retail activities.

Breguet opened its first Italian boutique on Via Montenapoleone in Milan. Gianluca Genoni, world free diving champion and Blancpain ambassador, set a new record in Rapallo. Glashütte Original showed its new collections at Milan's Bagatti Valsecchi Museum. Jaquet Droz introduced its first "painting workshop". Omega's record year was highlighted by the opening of the Venice boutique with "Bond girl" Bérénice Marlohe.

Longines celebrated its 180th anniversary with a party in Milan. Rado participated in Venduto 4, a non-profit art show in Milan. Tissot launched a contest benefitting the Wings of Life Association at the Eicma Exhibition. Hamilton exhibited Nicolas Ivanoff's plane at the Rome and Naples train stations. ck watch & jewelry celebrated the global preview of the new edition of its ck dress in Milan.

Swatch launched designer Lorenzo Petrantoni's collection and partnered with Vogue Fashion Night Out. Flik Flak raised brand awareness with licensing products and its presence in the Aquafan Park.

Hour Passion Boutiques were opened at two Milan airports.









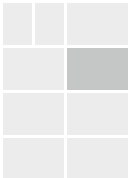
Swatch Group United Kingdom

Swatch Group United Kingdom continued its momentum in an Olympic year with an exceptional performance. Omega opened new boutiques in prime locations and the first Hour Passion store was introduced. Brands focused on expanding the networks of dedicated shop-in-shops, increasing exposure and raising their profiles.

Breguet had a fantastic year; the celebration of the 200th anniversary of the first wristwatch provided an opportunity to revisit the historical legacy with a private dinner for media. Blancpain invited guests for an exhilarating weekend of motorsport at the Lamborghini Blancpain Super Trofeo. Omega took center stage for a sensational London 2012 Olympic and Paralympic Games as Official Timekeeper. Global broadcast coverage and media interest resulted in a great boost for the brand. Omega hosted celebrities and VIPs at Omega House and featured appearances from ambassadors including Nicole Kidman and UK golden girl Jessica Ennis.

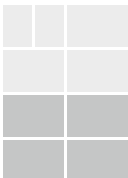
The elegance of Longines was showcased at a number of equestrian events including Royal Ascot and the Royal International Horse show where the brand is Official Timekeeper. The 180th anniversary was celebrated with a VIP dinner at Bocket Hall. In an exciting year for Rado, Andy Murray was announced as an ambassador; Rado became the Official Watch Partner of the AEGON Championships at the prestigious Queens Tennis Club. Tissot proudly launched its e-commerce site where customers can now buy products online. The new platform enhances brand presence in the UK and allows further engagement with the target audience. Certina opened new doors and Hamilton went back to the movies in *Men in Black 3* and *The Sweeney* with themed retailer events and competitions. ck watch & jewelry focused on its retail strategy.

Swatch took to the beach, creating a surf shack for the launch of Chrono Plastic. Thirty-four iconic London taxis were wrapped for the launch, contributing a visual and impactful social media campaign in support of the collection. Children's watch of choice Flik Flak enhanced its UK status with its presence in the world renowned department store Harrods.



Swatch Group Ireland

Swatch Group Ireland continued to build on its strong gains in market share in recent years, again achieving double digit growth and turnover levels consistent with those prior to the economic downturn. This positive trend was achieved through a qualitative selective distribution strategy that elevated both the position and presence of its market leading brands in each price sector. The implementation of brand training programs across the entire distribution network also greatly enhanced brand presence. Realizing the importance of tourist business in Ireland, the Hour Passion stores in Dublin Airport experienced significant growth on 2011 due to increased passenger numbers and a strategic marketing campaign to develop awareness of the Airport stores. The renovation of the multi-brand concession in Arnotts Department store generated a substantial increase in turnover and saw the welcome launch of Hamilton watches in Ireland.



Swatch Group Nordic

Denmark

The Swatch Group brands outperformed the watch market in Denmark with another record-breaking year. A concentrated distribution strategy for Omega, Longines and Tissot reinforced their presence with key third party retailers. Tissot, Certina and ck watch & jewelry strengthened their business relationships by presenting novelties on the "tour of products" in spring. Longines celebrated its 180th anniversary with an exhibition in the historic Børsen building in central Copenhagen.

New products like Omega's Seamaster Planet Ocean Skyfall, The Longines Saint-Imier Collection, Rado HyperChrome and Certina's DS Podium GMT – enhanced by outdoor advertising – made the brands especially desirable for the Danish consumer, generating leadership in this sector.

Finland

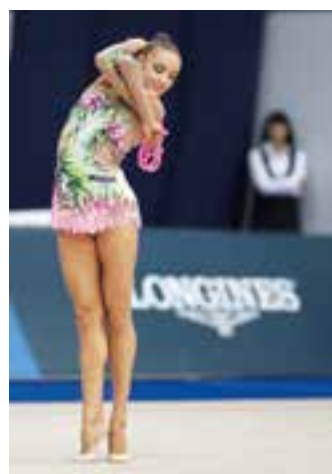
Swatch Group Nordic Finland enjoyed positive growth. Omega's Co-Axial calibers were strong performers and it had a high profile at Helsinki's European Athletic Championships. Rado continued its success with True Thinline and Centrix models. The Longines Saint-Imier Collection was well received. Tissot's year was highlighted by the Ice Hockey World Championships. There was strong demand for Certina's DS Podium GMT and automatic watches; ck watch & jewelry's collections had great success. Swatch continued to be a major player at travel locations.

Norway

Swatch Group Nordic Norway had another record-breaking year in sales. Omega continued its Ambassador Training Program and opened new shop-in-shops. The launch of The Longines Saint-Imier Collection was well received. Tissot's T-Touch series remained popular and new ladies' models were successfully introduced. Certina's solid year was buoyed by its presence at The Blink Ski Festival with ambassador, biathlete Ole Einar Bjørndalen. For Swatch, the Night Glows collection was a particular hit.

Sweden

Swatch Group Nordic Sweden again achieved good results. Remaining one of the strongest prestige brands, Omega continued to gain market share. Longines had a successful year – the Longines Grand Prix at Falsterbo and the 180th Anniversary exhibition in Stockholm had great media coverage. The innovative HyperChrome collection was successfully launched by Rado, while Tissot prospered with products perfectly suited to the market. Certina maintained a position of strength through intensive PR, more space in POS and the launch of particularly strong products. ck watch & jewelry had excellent results thanks to optimal POS and its fine collection. Swatch e-commerce sales grew constantly and adaptations during the year were successfully implemented.



Swatch Group Greece

Despite the recession, Swatch Group Greece achieved a stable level of performance through drastic readjustments in its sales and communication strategy. Focus was placed on the tourist sector, resulting in a positive overall performance and offsetting expected losses in the domestic market. Omega, with emphasis on its retail strategy, enjoyed an increase in turnover. It organized two successful events around the Olympic Games and the *Skyfall* film. Longines's solid growth in 2012 was buoyed by the re-organization of the network, retail training programs and national communications efforts. Rado successfully launched the Rado True Thinline, D-Star and D-Star 200 with strong web and radio campaign support; it also held two summer club events. Tissot focused on promotions in duty-free stores, complemented by a hospitality event for retailers. New window decorations raised brand awareness. The Hamilton Ventura's starring role in the new *Men in Black 3* film was the centerpiece of a campaign that included themed POS displays, cinema tickets for retailers and a contest using radio and social media. ck watch & jewelry increased its market share through successful communications, compelling window decorations and innovative trade partnerships. Swatch sustained its outstanding performance, implementing global launch campaigns and organizing a key media event at its renovated Acropolis store. Creative window decorations helped maintain the brand's profile in the fashion market.

Swatch Group Poland

Swatch Group Poland had a banner year in 2012 and is well positioned for continued strong growth in the future. Much of the success was the result of dramatic changes in Poland.

The UEFA European Football Championship in June proved to be a major catalyst for these changes. Four stadiums were inaugurated in Warsaw, Poznan, Gdansk and Wroclaw. Even more significantly, a highway now links Warsaw with the rest of Western Europe and the country boasts new airport terminals, train stations and an enhanced tourist infrastructure.

Many visitors discovered Poland during the year and tourist travel to Poland is destined to grow, boding well for Swatch Group and its brands.

Omega prepared for the *Skyfall* release by training twelve sales ambassadors in May; Olympic gold medalist Mateusz Kusznierewicz provided sailing instruction following the training. Longines celebrated its 180th anniversary all year long. A young Polish tennis player was selected to travel to Roland-Garros in Paris following a competitive tournament in Warsaw. Tissot remained the leading watch brand in Poland with its successful product offerings. While presenting its Le Locle collection at a press conference in October in Warsaw, several stylists were awarded for their proposals of optimal ways to present the brand's watches. Certina again met with its leading sales associates for a weekend of training and active participation in sporting activities.

In November Swatch opened its first Warsaw store at the Galeria Mokotow, its eighth corporate store in Poland.

Swatch Group Russia

For the fifth straight year Swatch Group Russia registered double-digit sales growth, achieving positive results with a flexible and aggressive marketing policy that attracted buyers not only in major cities but also in the Russian regions. One of the main contributing factors was the intensification of the corporate retail network.

The focus on improving the quality of existing points of sale resulted in considerable sales growth per POS. It was a year of optimization and enhancement of Swatch Group Russia's business activities.

Following its renovation, Breguet celebrated the fifth anniversary of its flagship store in Red Square with a considerable sales increase. The brand's landmark events included exhibitions of its watches at the World Economic Forum in Saint Petersburg and in Yekaterinburg as well as sponsorship of a charity project in support of people in the arts. Timepieces from brands in the prestige watch segment like Blancpain, Jaquet Droz, Glashütte Original were exhibited in the GUM Department Store in Red Square, as were Tiffany & Co.'s watches.

In the Olympic year, Omega's activities raised awareness of its timekeeping role. Russia Night at London's Omega House featured violinist/skier Vanessa Mae. The Olympic Farewell in Moscow's Tourbillon Boutique welcomed prominent sportsmen and artists. Other events promoted the Seamaster Planet Ocean collection, the *Skyfall* film and Omega's high-profile charitable sponsorships.

To celebrate its 180th anniversary, Longines featured presentations of The Longines Saint-Imier Collection in Moscow supported by two Brand Ambassadors, actress Ingeborga Dapkunaite and gymnastics Olympic and world champion, Evgenia Kanaeva. Rado had strong sales and resumed its sponsorship of the Kremlin Cup, a Moscow tennis tournament that attracted Russian and foreign fans. The standout event among mid-range brands was the opening of the Tissot boutique in GUM, the only watch so positioned in the prestigious department store. Tissot-sponsored sports competitions kept it in the public eye. Other mid-range brands such as Balmain, Certina, Hamilton and ck watch & jewelry strengthened their positions in the market during the year, positively impacting the overall result.

Swatch helped boost Swatch Group's profile with the expansion of its client base, especially among young people. It regularly renewed its product mix at all POS and renovated key stores, including the boutique at GUM. The new concept allows the presentation of the amazing timepieces in a suitable interior with a modern, high-profile and invariably lively style. The brand took part in numerous youth sports competitions. Together with Bosco, the official outfitter of the Russian Olympic team, Swatch launched watches featuring the pattern used in the outfits.

Swatch Group USA

Tremendous growth across all brands was attributed to a prominent retail expansion focused on the demand of quality Swiss timepieces. Increased visibility and better brand partnerships were major factors in the dynamic development of the Omega and Tourbillon boutique networks.

Breguet expanded its cultural partnership with Carnegie Hall, crafted an exceptional Tourbillon clock for its lobby and is now the Exclusive Timepiece of this historic venue. The founder's legacy was highlighted with an exhibit at New York's Intrepid Museum, which included ten vintage timepieces displayed for the first time in the United States. Blancpain presented the first wristwatch ever to combine traditional Chinese and Gregorian calendars, introducing a symbolic model in honor of this age-old culture and ranking among the finest horological achievements. Glashütte Original launched its most complicated timepiece to date, the Grande Cosmopolite Tourbillon. Viewers at Griffith Observatory in Los Angeles and The Explorer's Club in New York were amazed by this world first for global travelers. Jaquet Droz held a series of events highlighting the Art of Painting on Enamel, allowing guests to discover the skill in crafting these exquisite models. Omega increased its visibility to 27 locations, welcoming four additional boutiques to its retail network, and celebrated its role as Official Timekeeper of the 39th Ryder Cup and Patron partner of The PGA of America.

2012 was a year of record growth for Tourbillon. The exclusive network expanded its key market retail presence with the openings of three additional boutiques.

Longines celebrated its 180th anniversary with a new shop-in-shop and exhibit at Tourneau TimeMachine in New York. The brand expanded its mark in equestrian sports with the Kentucky Derby and the Belmont Stakes. Olympic tennis gold medalist, US Open champion and Rado ambassador Andy Murray hosted an event in New York City where he met fans and talked about his Rado D-Star 200. Tissot became the first ever Official Timepiece of Madison Square Garden and, with ambassador Danica Patrick, unveiled new lobby clocks and the new special-edition Madison Square Garden watches. Tissot also became the Official Timekeeper for the Men's Health Urbanathlon in Chicago, New York and San Francisco. For the second consecutive year Mido achieved tremendous sales growth due to improved branding, new shop-in-shops and successful launches of its bold Multifort models. Hamilton focused on developing multi-door accounts, enhancing brand presence in key locations throughout the country. They hosted the 6th Annual Hamilton Behind the Camera Awards in Hollywood, with exposure on major national entertainment television shows. 2012 was pivotal for ck watch & jewelry with the high-profile launch of collections that attracted new consumers.

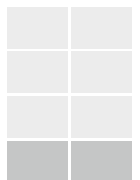
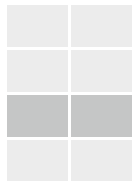
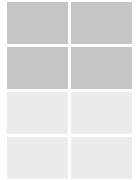
Swatch offered its fans a history lesson with an exhibit at New York's Park Avenue Armory where 200 pieces of The Blum Collection were on display. This gathering of Swatch watches featured dozens of prototypes from past decades. The brand also held an exclusive event in Culver City to announce the winner of the Swatch Art Rules contest.

Swatch Group Canada

Swatch Group Canada continued its double digit growth in 2012. Blancpain, Breguet, Glashütte Original and Jaquet Droz enjoyed record growth, solidifying their presence in the prestige segment. Omega maintained its leadership in the luxury watch market. Its Vancouver boutique hosted Olympic and *Skyfall* events. The Longines Saint-Imier Collection, celebrating the brand's 180th anniversary, was warmly received. New Ambassador of Elegance Simon Baker and a focused advertising campaign contributed to its success. Rado hosted a media event at a Toronto hotel showcasing the launch of D-Star 200, True Thinline and the show stopper, HyperChrome. Tissot's A Touch of Time and In a Tissot Minute events resulted in great media coverage. Celebrating its 120th anniversary, Hamilton deepened its relationship with the Canadian film industry, becoming the official timekeeper of the "Festival des films du monde" in Montreal. ck watch & jewelry strengthened its distribution and reinforced its leading position within the Hudson's Bay Company department stores. Swatch kicked off the first quarter with the launch of New Gent Lacquered, energizing the market with this unique piece. Swatch also created a strong foundation for growth and expansion in 2013 with its corporate stores.

Swatch Group Brazil

2012 was a remarkable year for Swatch Group Brazil. The retail strategy that was implemented for Omega at the end of the year means that in early 2013, there will be three Omega boutiques located at the most luxurious malls in São Paulo and Rio de Janeiro. Tissot and Mido retained their positions among the five top-ranked Swiss brands in the country, thanks primarily to selective distribution complemented by a continuation of the brands' efficient marketing strategy. The first corporate Swatch Store was opened in São Paulo. The Swatch brand has started a transitional phase in Brazil. It is now being marketed exclusively in Swatch Stores, reinforcing Swatch's concept and image in the country.







Swatch Group Mexico

Swatch Group Mexico enjoyed an excellent year with record turnover for most brands. The first corporate multibrand store was opened at the Palacio de Hierro. It hosts Rado, Tissot, Mido, Hamilton, ck watch & jewelry and a Longines shop-in-shop. Guests and media from Mexico took part in a celebration in Capri (Italy) of the 200th anniversary of the first wristwatch, which inspired Breguet's Queen of Naples Collection. Blancpain opened its first POS and presented its products to media.

Omega renewed its official timekeeping alliance with the Mayakoba Golf Classic. Its flagship store celebrated *Skyfall* with Bond-themed PR events. Tiffany Watch Co. Ltd products are now available in the newly opened Tiffany & Co. boutique on Altavista Avenue. Longines sponsored the "Handicap of the Americas," considered the year's main equestrian event. Rado held various tennis tournaments and launched the D-Star in the Soumaya Museum complex. To solidify its position in the sports segment, Tissot organized an event celebrating popular sports commentators. Mido successfully introduced the Commander II with a nationwide launch at premium retailers. Hamilton enjoyed record growth and, for the first time in Latin America, created strong visibility by exhibiting its plane at malls in Mexico. ck watch & jewelry presented new collections to the fashion press in Riviera Maya. Swatch had a challenging year with an aggressive reorganization of its distribution, allowing the brand to consolidate its leadership position. Flik Flak followed the same strategy. The Swatch Boutique in Paseo Interlomas was opened in an environment of color and fun.

Swatch Group Panama

This was a year of re-structuring in many Latin American markets. Breguet further reinforced its status as a benchmark in the field of *haute horlogerie* and updated the concept of its shop-in-shop in Argentina. Jaquet Droz strengthened its position in South America by revealing its fine watchmaking craftsmanship and exceptional history and by sharing its vision through innovative products. Omega prepared for the opening of its corporate boutiques in Brazil and for the first franchise store in Chile. Longines opened its first flagship store in Chile and presented The Longines Saint-Imier Collection in all the countries

in the region to celebrate the 180th anniversary of the brand. Rado introduced the Centrix collection in all markets with great success. Tissot benefitted from the additional and numerous SIS installed in key markets including Duty Free, further strengthening its position as the leader in the mid-price segment. In a year of consolidation, Mido's market share increased. Certina launched its new collections DS First Gent Ceramic and DS Action Diver with great success. ck watch & jewelry's 2012 collection enjoyed great acceptance in the market, supported by new marketing and advertising activities. Continuous implementation of the new Swatch Store concept in the region's major cities increased the strong presence of the brand. In Chile the opening ceremony of the new Swatch Store was combined with the 2nd Swatch Skiers Cup competition.

Swatch Group Australia

2012 was a year of growth achieved through strong brand activity and a continued focus on operational excellence. Breguet and Blancpain achieved good results with efficient local distribution, new products and marketing activity; Tiffany & Co.'s watches were also well received. Omega had another strong year across the Australian and New Zealand markets, with campaigns based on the brand's Olympic involvement and its *Skyfall* connection.

Longines continued to strengthen its position through point-of-sale and marketing activity and enhanced PR coverage. Rado's exceptional growth was driven by a strong focus on distribution consolidation, new product introductions and marketing activity.

Tissot had a strong year with a focus on driving sales to increase market share, streamlined distribution and increased productivity per door. Brand image across the market was upgraded by premium advertising and improved retail positioning. ck watch & jewelry performed strongly in sales and distribution development, expanding jewelry POS with key accounts. It reinforced its presence with an expanding shop fixture program.

Swatch hosted the Red Bull X-Fighter World Tour Finale with Swatch Proteam member, Levi Sherwood taking the overall trophy. Dr Swatch was held over four days in corporate and outlet stores resulting in a sales boost. Flik Flak hosted a successful drawing contest for children. Winners received watches produced with their designs.

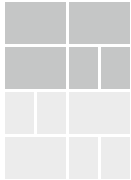
Swatch Group China

Swatch Group China maintained solid growth in 2012. High- and middle-range brands were major contributors. The Swatch Art Peace Hotel welcomed artists and distinguished guests from around the world. The renovated Swatch Group China Customer Service Reception Area offered improved service in an advanced facility. The Customer Service Competence Center doubled in size to support increased demand.

Breguet reinforced its position in China, unveiling three new boutiques and celebrating the 200th anniversary of the creation of the first wristwatch in history. Blancpain's increased turnover confirmed its momentum in the prestige segment. Two boutiques opened and marketing events kept the brand in the public eye. Glashütte Original attracted new fans with its German watchmaking excellence. A second boutique gave customers closer access to the brand. Jaquet Droz had a breakthrough year in China with new markets and its first Chinese corporate store. Special events explained the art of painting on enamel – a defining part of the brand's legacy. Omega maintained its leadership in China with new monobrand stores in Beijing and in the southwest. Marketing campaigns complemented themed exhibitions; key product launches contributed to a strong media presence.

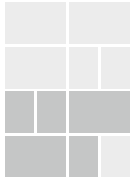
Longines had a year of vigorous momentum and encouraging sales growth. For Rado, it was a year of important breakthroughs and challenges met. A 50th anniversary exhibition tour in support of the Rado DiaStar and the opening of the first two corporate boutiques carried the brand's innovative spirit. Some of the world's top riders participated in the first Longines Equestrian Beijing Masters.





Tissot continued to expand distribution and there are now over a thousand POS in the country. Road shows and PR events communicated the brand's messages. It was Balmain's 25th anniversary in China. In an uncertain economy, it achieved dramatic growth in sales, opening 165 POS in 76 cities. Certina also expanded its market coverage. At the end of 2012, there were more than 280 authorized POS in China. Mido's Inspiration Creating Timelessness campaign included events linking architecture and the brand's design inspiration. The first corporate store in mainland China was another Mido milestone. Hamilton also opened its first Chinese corporate store and the inaugural Chinese Hamilton Behind the Camera Awards ceremony raised brand awareness. ck watch & jewelry introduced 20 concept kiosks in China, enhancing its image and turnover. Sales were substantially higher than in the previous year.

Swatch continued its positive growth by upgrading the distribution network and opening MegaStores. To express the brand's spirit and culture, events were organized around passion, fashion, art and sport. Flik Flak maintained its momentum by focusing on key markets. A watch design contest attracted consumer and media attention.



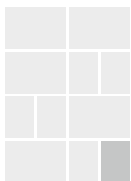
Swatch Group Hong Kong

Swatch Group Hong Kong continued its strong growth in 2012. In March, Breguet presented a Celebration of Excellence concert featuring acclaimed conductor Lorin Maazel and the Philharmonia Orchestra, with renowned cellist Trey Lee as soloist. "The Grand Arrival of the 2012 Blancpain Novelties in Hong Kong" in April brought together special guests, Blancpain enthusiasts and journalists. In September and November, Blancpain opened its third and fourth boutiques in Hong Kong at Russell Street, Causeway Bay and IFC Mall respectively. To celebrate the launch of the remarkable Grande Cosmopolite Tourbillon, Glashütte Original held a press preview during the ART HK in May and celebrated German luxury at an event with Audi in September. Jaquet Droz opened its second Hong Kong boutique at Russell Street and highlighted its traditional elements and modern designs, charming visitors with refined craftsmanship and know-how. Omega re-enforced its retail network in Hong Kong with a significant expansion of its Russell Street boutique. To celebrate the 50th anniversary of 007, Omega hosted a gala cocktail reception for hundreds of guests ahead of the Hong Kong premiere of *Skyfall*.

Longines celebrated its 180-year history with an exhibition at Times Square. Three new flagship stores were opened in Hong Kong, and the brand announced its partnership with the Jockey Club for the Longines Hong Kong International Races in December. Rado revealed its D-Star collection at a press event in March and unveiled its fourth Hong Kong corporate store in November. Celebrities, retailers and journalists attended the opening, where the HyperChrome Collection was introduced.

In June, Tissot opened a flagship store and launched the latest T-Touch Expert 2012 Year of the Dragon. In August, an antique watch exhibition in Harbour City showcased a series of historical Tissot timepieces. In October, the brand opened another flagship store in Tsim Sha Tsui along Canton Road. Certina continued its market penetration using bus wrapping and outdoor billboards to launch the first DS Action Diver Chrono watch with the ISO 6425 dive standard. Mido enjoyed double-digit growth and opened its second Hong Kong boutique on Nathan Road in Tsim Sha Tsui. Hamilton celebrated the Khaki X-Patrol with its 1:1 airplane exhibited in Causeway Bay in June and the *Men in Black 3* gala premiere in May. ck watch & jewelry continued its growth, focusing on retail development. A new concept boutique in Causeway Bay opened in July – the brand's fourth in Hong Kong and the first street level store of its kind in Asia. Times Square Boutique was renovated in May. The shop-in-shop in Sogo Department Store was selected as the first Asian location with the new design concept.

Swatch opened two flagship stores, including the first Hong Kong Megastore. The grand opening ceremony and waves of integrated marketing campaigns generated awareness and brought traffic to the store.

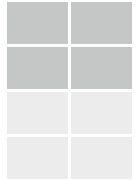


Swatch Group Macau

In 2012 Swatch Group Macau's distribution was upgraded substantially while sales continued their upward climb. With the expansion of the DFS Galleria shop at the Four Seasons Hotel, Breguet entered this prestigious location for the first time with its latest store decoration. To offer a more attractive and comfortable environment to its customers, the Blancpain Boutique at The Venetian Macau was renovated in March. Omega further expanded its retail network in Macau by opening two new flagship stores. The first was in Macau Square in March followed by a second boutique opening in the Macau Shoppes Cotai Central in April. Longines continued to expand its retail network by opening its third flagship store at Macau Square. Rado demonstrated its pioneering spirit through the placement of a large new billboard in the heart of Macau to enhance brand awareness and exposure in this important market. Mido again enjoyed high growth rates due to the first full year of operation of its Venetian Macau store and investments in high-impact outdoor advertising. Hamilton continued to enhance its sales network in Macau by providing sales training and introduction of a new shop-in-shop concept.

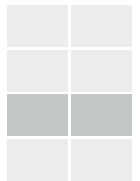
Swatch Group Taiwan

Swatch Group Taiwan expanded its retail market in 2012. Breguet opened a boutique at Taipei 101 with a new concept while maintaining its network and accelerating SIS renovations in the market. Blancpain strengthened its retail position with the Time Zone and Fifty Fathom collections. Glashütte Original communicated its “German quality” profile through VIP events. Jaquet Droz demonstrated its engraving and introduced the PHM Relief Dragon and The Draughtsman. Omega opened a new boutique at Taipei MegaCity, integrating the *Planet Ocean*’s environmental focus with Taipei 101’s “Eco-City” vision. Longines celebrated the 180th anniversary with a “Searching the oldest Longines in Taiwan” event at the National Palace Museum. Rado opened a new boutique and launched its D-Star collection. Tissot expanded its retail network to eight boutiques; ambassador Huang Xiao Ming helped launch the T-Race collection. With 62 POS, Mido improved its brand image with launch events for the new Multifort chronograph and Baroncelli Lady Smile. Hamilton enhanced its brand image with its mock-up plane in six cities and a new boutique opening in Taipei MegaCity. ck watch & jewelry opened a new shop-in-shop in Hsinchu Big City and located its Christmas tree there. Swatch impressed the market with innovative images and the New Gent collection while Flik Flak’s drawing contests delighted Taiwanese children.



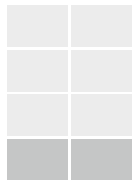
Swatch Group Singapore

Swatch Group Singapore rose to the challenges of stiff competition and an uncertain economy with strong double-digit growth in 2012. In June, Breguet had a warmly-received three-day event to acquaint VVIPs with its revolutionary use of silicon, concluding with an intimate dinner at a fine restaurant. Blancpain reinforced its brand presence with the opening of a street-facing boutique-in-shop concept in Wisma Atria along Orchard Road. Glashütte Original treated its premium customers to an exclusive cocktail event at the ION Sky, where the evening’s highlight was the Grande Cosmopolite Tourbillon. Jaquet Droz enjoyed an eventful night with VIP golfers at the prestigious Singapore Island Country Club. Omega hosted its top clients and partners for a memorable movie premiere of the latest James Bond installment, *Skyfall*. Longines enhanced its brand recognition when Aishwarya Rai Bachchan, its Ambassador of Elegance, graced the prestigious horse-racing event, the Longines Singapore Gold Cup. In November, a two-week long exhibition at The Shoppes at Marina Bay Sands was held to celebrate Rado’s 55 years of scratch-resistance. Tissot achieved yet another milestone with the opening of a boutique-in-shop concept in TimeWise along Orchard Road. ck watch & jewelry rolled out an aggressive advertising campaign featuring eye-catching posters at 40 prime bus stops island-wide. Swatch continued to reinforce its selective retail presence by renovating key stores and opening prime locations in strategic new shopping malls.



Swatch Group Malaysia

2012 was a year in which the intense commitment and dynamism of Swatch Group Malaysia and its brands were put to a great test due to the uncertain local political climate and a tenuous global economic situation. Nevertheless, the brands managed to reassert their leadership positions in the market with increased presence and visibility. Indeed, the year under review was characterized by numerous ‘firsts’ achieved by the brands. Blancpain successfully conducted the first Asia Series Lamborghini Blancpain Super Trofeo on the Sepang circuit. Longines opened an elegant boutique – its first in the country – at The Pavilion, one of Malaysia’s premium shopping destinations. ck watch & jewelry kicked off its first off-white kiosk concept at three different retail complexes. The brands with existing monobrand stores – including Omega, Rado, Tissot and Swatch – continued to generate positive results, expanding their presence in Malaysia with the opening of additional stand-alone stores at strategic locations outside the capital city of Kuala Lumpur. In terms of marketing activities, some of the year’s most prominent road shows were Omega’s celebration of the 50th anniversary of the James Bond movie franchise, Rado’s official timekeeping of the Malaysian Tennis Open 2012, Tissot’s MotoGP and Certina’s DS Podium GMT launch.







Swatch Group Thailand

In June, Breguet and Cortina Watch, the brand's retailer in Thailand, organized an exhibition at Cortina's Erawan Bangkok boutique to celebrate the 20th anniversary of the Breguet Marine Collection. Guests were serenaded by the Bangkok Symphony Orchestra and popular Thai singer, Panadda Ruangwut.

In July, the Swiss Ambassador to Thailand, Christine Schraner Burgener, cut the ribbon to open Omega's new-look flagship boutique at Siam Paragon. The boutique also hosted Omega's celebration of the new Bond film and the Seamaster Planet Ocean 600 M "Skyfall" Limited Edition. The event was attended by Omega's devoted fans, celebrities and the media.

In February, Rado launched its new D-Star collection, a sporty, chic and modern watch whose new material, Ceramos™, represents a breakthrough in high-tech ceramic. Harmoniously in tune with the times, the collection satisfies the market's desire for longevity and sustainability, tailoring dynamic materials and innovative design to suit wearers' lifestyles.

Pursuing Tissot's commitment to high-profile sports sponsorships, the brand started sponsoring the Thailand Basketball League in September and awarded watches to the league's Most Valuable Players.

Swatch opened a new corporate kiosk inside the Central Plaza Ladprao Bangkok mall when it was reopened after a major facelift; in August, the brand highlighted the Chrono Plastic by showcasing the collection in a temporary "pop-up" store just outside the Siam Center mall, as part of the popular Siam Pop Cont concept set up during the mall's renovation.

Swatch Group South Korea

In 2012 Swatch Group Korea reached a new sales record with dynamic, aggressive promotions and improved quality distribution throughout all sales channels.

Breguet maintained its unique status, attracting considerable attention with its 'new concept' boutique at Hyundai Department Store. Blancpain brand awareness was enhanced with VIP events and a promotion with Lamborghini.

Omega hosted Olympic Games and James Bond events. In July, the brand presented a retrospective of its timekeeping equipment to media. Some 200 guests celebrated the release of *Skyfall* in November.

Longines showed strong sales growth, conveying brand identity through quality distribution and an improved POS environment. Rado's exposure in targeted media resulted in enhanced sales and brand awareness.

Tissot recorded the best year since its launch in the country, celebrating its timekeeping role at the 17th Incheon Asian Games with events and exhibitions. Mido enjoyed positive growth with aggressive development of its retail business. Hamilton increased its market share and solidified its aviation image with watches for the Korean Air Force. Promotions with *Men in Black 3* also generated brand awareness. ck watch & jewelry improved its POS environment, emphasizing jewelry collections, enlarging POS space and delivering product training to trade and press.

Swatch reached target customers with relocated and improved SIS in department stores. The brand worked with K-pop stars, maximizing brand visibility with their music fans.

Swatch Group Japan

In a stagnant Japanese market, Swatch Group brands showed a healthy double-digit increase. This was achieved through optimized distribution and strong retail network performance. Targeted campaigns and events gave the brands an edge over the competition, allowing gains in market share.

In the prestige segment, Breguet consolidated its leading position. The year's highlight was an exhibition dedicated to the 200th anniversary of the first wristwatch and the 10th anniversary of the Queen of Naples collection, held at the Cité du Temps in the Hayek Center. Blancpain's numerous VIP events included a Blancpain & Lamborghini night celebrating the first Super Lamborghini Blancpain Trofeo Asia race in Japan. Both Jaquet Droz and Glashütte Original concentrated their activities around their boutiques in the Hayek Center. Private viewings of the collections delighted VIP customers.

Omega's Olympian year in Japan took the brand to new heights. In May, a delegation including several athletes and future medalists visited the Hayek Center for the Olympic campaign launch. Omega also held roadshows in major city centers where its displays of timekeeping devices attracted considerable interest. Riding on its Olympic success, Omega concluded the year in style with the launch of *Skyfall*. Bond actress Bérénice Marlohe inaugurated festivities at the Hayek Center, bringing the year to a successful conclusion.

Longines continued its steady growth by fine tuning its distribution. One of the year's focuses was the launch of The Longines Saint-Imier Collection. On this occasion, and to celebrate its 180th anniversary, the brand held "The Longines Saint-Imier Collection Photo Contest" in Tokyo's popular Anjin Lounge in Tsutaya Daikanyama. More than 200 guests enjoyed the event. Rado's year focused on the introduction of two new lines: True Thinline and HyperChrome. The brand also became the official timekeeper of the Rakuten Japan Open. It was announced at a press conference in the presence of two Olympic champions, Andy Murray and Shingo Kunieda. Tissot was active at the point-of-sales level, staging road-shows in key locations with special focus on the T-Touch line. In a country with a large number of motorbike makers, VIPs were delighted to be invited to attend the Motegi MotoGP race. Hamilton had an outstanding year, becoming the clear market leader in its segment. Its success was based on a product mix suited to the tastes of the savvy market and targeted marketing activities, including the movie tie-in with *Men in Black 3*. ck watch & jewelry enjoyed greater visibility through its enhanced retail presence. The 2012 collection – especially the minimal line – was well received.

Always close to its trendy customers, Swatch's launch of its Chrono Plastic Collection with a Facebook campaign had solid success. In March, the brand invited artist Hideaki Kawashima, who collaborated on the Art & Fashion collection, to its flagship stores in Tokyo and Osaka, to the delight of hundreds of Swatch Club members.





Swatch Group India

Swatch Group India continued its impressive growth in 2012. The brands improved their positions with qualitative distribution, increased POS and retail focus as well as with innovative marketing activities and leveraged launches and events with sustained PR efforts. A second international standard customer service center was opened in Mumbai.

An exhibition of Breguet's complications and *haute joaillerie* watches evoked strong popular and media response. Its Type XXII 10Hz watch was launched at a press presentation in Delhi. Blancpain enjoyed consistent coverage in leading magazines. Jaquet Droz introduced its unique pieces to up-market customers at a Delhi exhibition. Omega launched the new Planet Ocean with Abhishek Bachchan at an event in Mumbai. The Omega calendar included Olympic-themed events, a multi-city watch exhibition and a *Skyfall* screening for customers.

Longines enhanced its distribution with two boutiques and six shop-in-shops. The Longines Saint-Imier Collection and La Grande Classique de Longines 180th Anniversary Limited Edition were launched with Aishwarya Rai Bachchan in Delhi. Rado's ambassador Hrithik Roshan appeared in print and TV campaigns. The True Thinline was launched by Lisa Ray in Delhi.

Tissot opened five boutiques. Deepika Padukone promoted the Le Locle collection at the Trivandrum store opening. Balmain increased distribution in six new multi-brand outlets and three shop-in-shops. ck watch & jewelry opened 25 POS to strengthen its network. Swatch opened eight exclusive stores and two kiosks. Mall activations and a strong media presence supported its marketing strategy.



Swatch Group Middle East

Despite political tensions in the region in 2012, Swatch Group Middle East showed positive results and increased sales. The Time to Move event in Abu Dhabi was a great success. The Gala Dinner was attended by Andrea Reichlin, Switzerland's ambassador of the United Arab Emirates.

Breguet was again the leader in the prestige segment. Its third boutique in the UAE was inaugurated in Abu Dhabi's prestigious Etihad Towers in October. Blancpain maintained its position as a leading watch brand. Its exhibition in support of oceanic protection was held at The Dubai Mall Aquarium & Underwater Zoo in December; the timeline of the Fifty Fathoms dive watch collection was also showcased. A second Glashütte Original Boutique opened at the beginning of 2012 in Dubai-BurJuman. The brand continued its growth by improving its distribution channels and upgrading its appearance in points of sales. Jaquet Droz developed its distribution in the Middle East and strengthened its presence through regional fairs. It also invited key clients and journalists to the Automates & Merveilles event in Switzerland. Omega enjoyed rapid growth in the region and used its sponsorship of sporting and cultural events to increase brand awareness. Highlights included its Olympic Games connection and supporting role in *Skyfall*, as well as its title sponsorship of the Dubai Desert Classic and the Dubai Ladies Masters golf tournaments.

Longines strengthened its position with a commitment to the equestrian world, ending the 2012 season as Official Partner of the world's richest event, the Dubai World Cup Race. It opened monobrand stores in key locations; a marketing campaign featuring Ambassador of Elegance Simon Baker supported The Longines Saint-Imier Collection. Rado was the Official Timekeeper of the Mubadala World Tennis Championship for the second year. The tournament attracted top-ranked players, including ambassador Andy Murray. Rado's store in the Mushrif Mall in Abu Dhabi is its 16th in the region.

Tissot, the mid-price market segment leader, achieved record sales in the Middle East. Retail presence was enhanced with new boutiques and shop-in-shops. Local and regional marketing campaigns maximized brand equity. Balmain had its best year in the Middle East, maintaining momentum and upgrading its presence with additional shop-in-shops. Certina's year was highlighted by an enhanced market position in Saudi Arabia, complementing the existing retail presence and resulting in greater territorial coverage. Hamilton had great exposure in 2012. Its branded plane was displayed in various markets and increased brand awareness was reflected by positive sales. Additional shop-in-shops in the UAE further consolidated visibility in key malls. ck watch & jewelry's record year in Abu Dhabi was reinforced through its distribution networks. The opening of its first monobrand boutique in the Dubai Mall in November was a milestone and an indication of its developing importance in the region.

Swatch strengthened its position. The opening of more than 30 new Swatch stores underscored its indisputable market leadership.

Swatch Group South Africa

In 2012, Swatch Group South Africa grew substantially across all segments. The brands strengthened their market positions through increased marketing activities, improved in-store activations and enhanced visibility. Breguet entered into one of the most prestigious stores in the country, heightening brand awareness and its overall presence in the country. Omega had a record-breaking year in turnover and gained substantial market share. Its connections to the Olympic Games and *Skyfall*, the new James Bond film, contributed to a milestone year. Longines held special events with retailers and strengthened its foothold in the marketplace. Rado extended its reach in the market with the new Rado Centrix line and consistent brand building. Tissot showed consistent performance through qualitative distribution; it enjoyed great brand awareness. ck watch & jewelry enjoyed an excellent year, increasing its market share in the very competitive fashion segment. It hosted an exclusive event in Cape Town, the fashion hub of South Africa, where fashion editors and retailers alike were able to sample the 2012 collection of watches and jewelry. Swatch extended its distribution into Namibia with a new franchise kiosk. With a continued focus on Swatch retail, the brand renovated its flagship store in Sandton City and reinforced its retail presence with strategic store openings that contributed to the year's overall growth.



Governance

Environmental Policy

Social Policy

Corporate Governance



Environmental Policy

Environmental and Safety Policy

Environmental protection and safety represent key principles for all sectors of Swatch Group – principles that are respected, promoted and implemented daily by every employee. Each takes great care to respect and pays the greatest attention to our environment and to safety considerations in general. These dimensions are part of environmental, social and corporate governance values (ESG) that are of the highest importance to everyone, as it is also expressed in various sections of this Annual Report.

As a matter of principle, resources are used efficiently and sparingly in order to insure the ecological and sustainable production and commercialization of the products. Even at the very beginning of the planning and development phases for new products, only easily recyclable raw and auxiliary materials as well as ecological production methods are taken into consideration.

In particular, actions are implemented to reduce energy consumption, whether through production installations equipped with intelligent energy management systems or through the energy optimization and thermal insulation of facilities. For the construction of new sites – for example, the one in Boncourt (JU) for component production, the new dial factory in Grenchen (SO) or the extension of the Manufacture Breguet – all involve the use of state-of-the-art technologies and materials in order to minimize ecological impact and energy consumption. Examples to be highlighted include the rainwater recovery system with a 100-cubic-meter capacity and the planned photovoltaic installation with a 160 GWh per annum power supply.

All the relevant values related to operational ecology are annually collected and consolidated. The data are assessed and used to measure improvements made as well as to establish new targeted benchmarks. Progress achieved in terms of operational ecology during the reporting period is highlighted by the set of indicators presented here.

Progress achieved

The targeted measures taken once again focused on environment-related areas such as energy, water and air quality and waste management. As in previous years, the parameters observed in the various affiliated companies showed significant contrasts, thus reflecting the variety of activities covered by the Swatch Group companies. The results achieved during the reporting year, compared to 2011, were very positive, taking into consideration the significant increase in production in the watch and jewelry segment, and the production of movements and components, as well as the continued expansion of the distribution network. Here are a few examples of the progress achieved:

Energy consumption by floor space (kWh / m²)

Energy consumption of heating fuel, natural gas and remote heating further decreased by 1.2% during the reporting year despite very strong growth of production volumes in all segments, the extension of the distribution network and the increased number of days of heating due to weather conditions. This progress was achieved through investments in building insulation and renovation, heating installation improvements,

optimization or replacement of air-conditioning and water-cooling systems and the implementation of new heat recovery installations or solar-powered water heating installations. These regular investments over the past decade have enabled a 50% reduction in heating energy consumption by floor space unit.

Electrical consumption by floor space (kWh / m²)

Compared to the previous year, consumption of electricity by floor space unit decreased by 1.5%, despite the very high increase in production and the opening of new points of sale. This pleasing result was once again achieved through investments in machines and installations with improved energy consumption in several production units. Considerable investments were also made in new lighting, the renovation of existing lighting and in the use of LED lamps.

CO₂ emissions resulting from energy consumption

Compared to the previous year, total consumption of fossil fuels decreased by 0.7 million KWh or 0.8%. During the same period, CO₂ emissions decreased by 0.6%, due to the decrease in heating oil consumption and to an increase in the use of renewable energy (solar and hydraulic). Over the past decade, targeted investment contributed to reducing CO₂ emissions by nearly 40%.

Waste management

Despite the increase in production volumes, the amount of special waste (excluding watch batteries) was reduced by 5.0% and the share of recovered or recycled special waste decreased by 3.8%. Industrial waste such as paper, cardboard, synthetic material and electronic components also dropped by 8.5%. Meanwhile, the amount of incinerated waste decreased by 8.9% and that from recycling industrial waste by 2.8%. This is the result of sparing use of resources as well as efficient waste management.

Battery recycling

During the reporting year, the quantity of batteries collected and delivered to registered companies specialized in recycling increased to 5.4 tons, excluding the internal recycling of expired batteries and the liquidation of end-of-lines at Renata.

Water management

Considerable progress was again made in this area too. Consumption of drinking water increased by only 0.2% compared to the previous year, and this despite the very high increase in production, the increase in staff numbers, the increase in working days (increased use of drinking water for personnel), as well as the increase in the number of air-conditioning and cooling installations. Consumption of non-potable water decreased by 9.1%. Other positive results worth mentioning are the reduction in wastewater achieved by the installation of closed water circulation systems, the improved yield of wastewater treatment plants, the investments in rainwater recovery systems and the use of this rainwater for cooling and sanitary systems.

Emissions of VOCs (Volatile Organic Compounds)

The increase in production volumes during the reporting year led to a 7.4% increase in the consumption of products generating VOC emissions compared with the previous year. This was mainly due to an increased use of acetone, alcohol and benzene

as cleaning agents for produced components. This meant that VOC emissions increased by 11.1%, while 5.8% of the additional VOCs were recovered or recycled, notably due to the implementation of processes for recovering benzene and other volatile solvents. The increase in VOC emissions was also contained by the increased replacement of volatile substances with processes using aqueous solutions that do not contain solvents, or less volatile substances.

Paper consumption

During the reporting year, consistent encouragement of electronic data transmission and fewer printouts resulted in a 9.6% reduction in paper consumption.

Risk management

Risks deemed to be decisive factors are identified and covered in the Corporate Risk Management System. Appropriate measures are elaborated and implemented in order to eliminate – or at least reduce – potential risks from the perspective of Business Continuity Management. Internal and external experts pinpoint the important operational units and their interdependence, define the principal risks (fire, flooding, chemical substances, interruption of production) and determine the necessary measures to ensure business continuity and therefore, preventive and emergency measures are key elements in Swatch Group's risk management. Another essential aspect of the risk management is the independency policy. This implies that wherever it is useful, the company reduces its dependence on its suppliers, distribution partners or financial service providers. The measures taken in this respect notably include maintaining sufficient inventory stock levels, developing and modernizing production capacities, diversifying supply sources, acquisitions and a high equity ratio.

Swatch Group also pays close attention to the safety and health of its employees. Legal requirements in this regard are strictly adhered to and all the necessary resources are thus committed to achieving this objective in an optimal manner.

Environmental, ethical and social criteria are also an integral part of Swatch Group's procurement policy. The responsible procurement of specific raw materials such as precious metals, diamonds and exotic leathers is a priority for the company. Swatch Group has therefore freely decided to renounce the use of wood from threatened species of trees and to use only wood from sustainable plantations, in order to make an additional contribution to improving the ecological balance. Swatch Group also asks its suppliers to guarantee to the extent possible that precious metals delivered are mined according to ecological and ethical criteria. In the same way, the company ensures that the diamonds used for its products are sourced only from suppliers strictly complying with and following the certification system stemming from the Kimberley Process. Finally, with regard to the requirements for exotic leathers, the Swatch Group companies are careful to use only materials from controlled breeders.

With respect to sustainable production methods and products, Swatch Group fully complies with the applicable regulations, notably those of the European Union, such as the directive regarding the limitation of the use of certain dangerous substances (RoHS), the regulation governing the registration, evalu-

ation, authorization and restriction of chemical products (REACH), and the directive regarding the elimination of electrical and electronic equipment waste (DEEE).

Complementary information on energy and ecology contributions made by Belenos are covered on page 98; environmental protection and safety is provided by Swatch Group Quality Management on page 99 of this report.

Social Policy

www.swatchgroup.com/en/human_resources

General Principles

Swatch Group continues to ensure that it applies a social policy that expresses its will to be a competitive and attractive player in the employment market.

The human capital made up of competent, motivated men and women represents one of the greatest assets of a high-performance company and Swatch Group is committed to cementing the framework conditions necessary for the development of its employees.

Employment

Swatch Group staff complements increased in 2012, reaching nearly 30 000 employees all over the world, with more than 16 000 in Switzerland and around 14 000 spread over 37 countries where it has subsidiaries. This development allowed it to position itself as a significant employer, particularly in Switzerland, for a large number of professions, trades and activities.

With the increasingly somber economic climate, the end of 2012 saw an increase in unsolicited job applications from professionals who recognize Swatch Group as a solid, reliable employer, working towards maintaining jobs in the long term. They also identify the existence of the possibility of internal mobility, concretized in relation to competencies and a desire for professional development, and consider this opportunity when applying for a job.

The integration of positions in companies that joined Swatch Group in 2012 was supported by sister companies, close both geographically and in terms of activities, through resources and information being made available. Benefiting from synergies between the different entities belonging to Swatch Group, the search for very specific competencies can be conducted through a network of companies with similar needs. Swatch Group is committed to giving ancient watchmaking professions a new lease on life, thus developing and consolidating internal skills.

Training

Apprenticeship programs

Swatch Group's companies train apprentices in a wide range of industrial, craft, technical and commercial trades. Swatch Group is a major player in dual vocational training for 26 trades which, in a 2012 innovation, include programs for engravers and chemical laboratory assistants. Swatch Group continues its role as a



trainer, with 342 young apprentices hired in its different companies in the watchmaking, micro-technology and electronic sectors since the beginning of August 2012.

In 2012, the production companies also maintained their consistent commitment to offering a position to every young person who, after completing his or her final exams for the Federal Certificate of Proficiency, expressed a desire to work for Swatch Group.

Swatch Group's commitment to apprenticeships is also evident in its support of various events bringing together schools and the economic world. In 2012, the company was present as the sole official sponsor of Capa'Cité for the watchmaking sector, which took place over a week at La Chaux-de-Fonds (NE). In this context, the entire range of dual vocational training options offered in the canton of Neuchâtel was presented to 4500 young people about to finish school, to help them find a direction for their professional future in relation to their skills and aspirations.

Nicolas G. Hayek Watchmaking Schools

The six Nicolas G. Hayek Watchmaking Schools in the world are the subject of great interest. Individuals enrolled in the watchmaking training programs offered by these schools benefit from bespoke technical teaching over two or three years, allowing them the possibility of a professional position in one of Swatch Group's different customer services. In 2012, 52 students successfully passed their final exam and 65 new students were admitted to the 2012–2014 course.

Professional development

Aside from apprenticeships and professional development, Swatch Group encourages and creates a climate conducive to its companies developing internal training centers to enable personnel to improve their skills and acquire new technical competencies. These centers are implemented in one or several companies in the network, according to their specificities. The development of social and managerial competencies is also the subject of training programs for people bearing responsibilities on all levels.

Finally, technological awareness allows training needs in the mid to long term to be anticipated in order to prepare employees for upcoming technological changes and to direct apprenticeship programs towards meeting the future needs of the company.

Social partnership and working conditions

The new collective labor agreement for the Swiss Watchmaking industry was implemented on January 1, 2012 for a five-year period. This renewal coincides with the 75th anniversary of the first watchmaking collective agreement, one of the oldest in Switzerland, and often cited as an example of an indispensable tool in maintaining peaceful labor relations and to developing attractive framework conditions.

Additionally, together with sustainable development, health and safety at work represent important themes for Swatch Group. In this respect, companies devote special attention to various aspects of ergonomics in the workplace in order to offer employees an environment in which they can fulfill their missions under the best possible conditions, thus participating in Swatch Group's overall success.

Socially speaking, Swatch Group promotes a multi-cultural approach by advocating the richness of diversity and the integration of different identities while ensuring respect for regional values.

Corporate Governance

1. Group structure and shareholders

1.1 Group structure

The Swatch Group is active worldwide and represented in all market and price segments in the watch sector with 19 brands and in the jewelry sector. In addition, it holds an outstanding industrial position with a high degree of verticalization in the Production sector as well as the strategically important sector of Electronic systems. In the Corporate sector, the operational units which provide services for the whole Group are centralized.

The Swatch Group has lean and efficient management structures at all levels. While the Board of Directors deals with the overall management, strategic and supervisory tasks, the operative executive duties are incumbent on the Executive Group Management Board, which is supported by the Extended Group Management Board.

An overview of the operational and of the distribution organizations is given on pages 4 and 5. The fully consolidated companies, of which none but The Swatch Group Ltd is listed on the Stock Exchange, are given on pages 202, 203 and 204 with each company's name, domicile, share capital and the percentage of shares held.

The shares of The Swatch Group Ltd are listed on the SIX Swiss Exchange AG. The bearer shares are listed under the Swiss security numbers 1 225 515 at the SMI, SPI as well as SLI indices. The registered shares are listed under the Swiss security numbers 1 225 514 at the SPI Extra and SMIM indices.

| | | |
|-----------|--------------|-------------------|
| ISIN: | CH0012255144 | registered shares |
| | CH0012255151 | bearer shares |
| Reuters: | UHRN.S | registered shares |
| | UHR.VX | bearer shares |
| Telekurs: | UHRN, 1 | registered shares |
| | UHR, 1 | bearer shares |

Since February 2007 the shares of the Swatch Group are also listed on the BX Berne eXchange.

Further information concerning market capitalization and earnings per share is shown on page 216.

The corporation's registered office is located in Neuchâtel, Faubourg de l'Hôpital 3. The administrative headquarters are in Biel/Bienne, Seevorstadt 6.

1.2 Significant shareholders

As of 31 December 2012, the Hayek Pool, related parties, institutions and persons control 63 993 400 registered shares and 1 900 bearer shares, totalling 41.3% (previous year 41.7%) of the votes.

The Hayek Pool comprises the following members:

| Name/Company | Location | Beneficial owners |
|---|----------------------------|---|
| Community of heirs of N. G. Hayek represented by Marianne Hayek | Meisterschwanden | Community of heirs of N. G. Hayek |
| WAT Holding AG | Meisterschwanden | Community of heirs of N. G. Hayek |
| Ammann Group Holding AG | c/o Ernst & Young AG, Bern | Descendants U. Ammann-Schellenberg sen. |
| Swatch Group Pension Fund | Neuchâtel | – |

The companies and institutions close to the Hayek Pool but which do not formally belong to the Hayek Pool are:

| Name/Company | Location | Beneficial owners |
|---|----------------------------|-----------------------------------|
| Hayek Holding SA | 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 | – |
| Families Ammann (pension funds, foundations and individuals, Madisa AG) | c/o Ernst & Young AG, Bern | Represented by Daniela Schneider |
| Fondation d'Ébauches SA et des maisons affiliées | Neuchâtel | – |
| Swatch Group Pension Fund (uncommitted shares) | Neuchâtel | – |
| Various employer-funded foundations ¹⁾ | Diverse | – |

¹⁾ Wohlfahrtsstiftung der Renata AG, ETA Wohlfahrtsstiftung, Fonds de prévoyance d'Universo, Fondation Technocorp, Fondation de Prev. de SG Les Boutiques SA and CP Caisse cadre

The community of heirs of N. G. Hayek controls directly, through related parties and institutions and in the context of the Pool 40.8% (previous year 40.8%) of the votes; third party Pool members are represented therein, they comprise 4.7% of the Swatch Group voting rights.

Mrs Esther Grether's group controls 7.1% (previous year 7.2%) of the votes registered at 31 December 2012 in the share register. On 31 December 2012, no other individual shareholder or group of shareholders holding more than 5% is known to the Company.

Corporate Governance

1.3 Cross-shareholdings

The Swatch Group holds no cross-shareholdings.

2. Capital structure

2.1 Capital

On 31 December 2012, the capital structure of The Swatch Group Ltd was as follows:

| | | |
|---|------------|-----------------------|
| 124 045 000 Registered shares at CHF 0.45 par value | CHF | 55 820 250.00 |
| 30 840 000 Bearer shares at CHF 2.25 par value | CHF | 69 390 000.00 |
| Total share capital as of 31.12.2012 | CHF | 125 210 250.00 |

2.2 Authorized and conditional capital

No authorized and conditional capital existed as of 31 December 2012.

2.3 Changes in capital

Over the past three years the share capital of The Swatch Group Ltd changed as follows:

| Balance sheet date | Registered shares | Bearer shares | Share capital in CHF |
|--------------------|-------------------------|------------------------|----------------------|
| 31.12.2010 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2011 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2012 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |

The detailed evolution of equity, reviewed by the auditors for the consolidated financial statements for the years 2011 and 2012, is published on page 157. For The Swatch Group Ltd, it is published for the year 2012 in note 7 on page 211. With regard to the previous years we refer to the annual reports 2009, 2010 and 2011.

2.4 Shares and participation

The shares of the Company listed in point 2.1 are fully paid in. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value. No participation notes have been issued.

2.5 Benefit certificates

No benefit certificates exist.

2.6 Limitations on transferability and nominee registrations

The Statutes of the Swatch Group stipulate that the Board of Directors shall refuse the registration of new shares, if the new shareholder fails to give an express written declaration to the effect that he or she acquired the shares in his/her own name and for his/her own account. Furthermore, the Board of Directors refuses a registration if the purchaser, either alone or in conjunction with related persons, already holds 5% or more of the registered share capital (either directly or indirectly) at his disposal, or would exceed this threshold with the new acquisition (Art. 9 para. 3 of the Statutes). The Board of Directors may approve exceptions to this rule in special cases. No such exceptions were requested in the period under review.

Insofar as an individual or a legal entity was already entered in the share register before the reporting date of 31 May 1997 with 5% or more of the registered share capital, the Board of Directors must approve even though the percentage limits have been exceeded. The same exception applies for related persons (spouse, descendant, brother, sister), transfers due to inheritance or matrimonial property rights as well as certain transfers between legal entities or individuals subject to the exception (Art. 9 para. 6 and 7 of the Statutes).

Where a share purchaser presents an application for recognition as a shareholder of the company, he shall be regarded as a shareholder without voting rights until the company has recognized him as a shareholder with voting rights. If the company fails to refuse the purchaser's application for recognition within 20 days, he shall be acknowledged as a shareholder with voting rights. A shareholder who has no voting right may exercise neither the voting right nor the other associated rights.

2.7 Convertible bonds

The Swatch Group currently has no outstanding convertible bonds.

Corporate Governance

2.8 Options

In 1986, a block of shares was reserved in favor of a management stock option plan in connection with the takeover of control of the Swatch Group by the Hayek Pool. On 31 December 2012, the content of this portfolio amounted to 1 641 734 registered shares; this corresponds to 0.59% of the total share capital (previous year 1 888 220 registered shares, 0.68% of the total share capital). In 2012, 246 486 registered shares (or 0.09% of the total share capital per 31.12.2012) were consequently sold at a preferential price of CHF 4.– per registered share in accordance with the following details:

| Year of issue | Number of registered shares | Number of beneficiaries | Year of subscription/payup |
|---------------|-----------------------------|-------------------------|----------------------------|
| 2010 | 78 899 | 204 | 2012 |
| 2011 | 86 222 | 228 | 2012 |
| 2012 | 81 365 | 237 | 2012 |
| Total | 246 486 | | |

In addition, the Group gave participating managers the following options to subscribe in future to further registered shares at the following preferential prices:

| Year of issue | Number of registered shares | Number of beneficiaries | Year of subscription/payup |
|---------------|-----------------------------|-------------------------|----------------------------|
| 2011 | 82 282 | 225 | 2013 |
| 2012 | 81 433 | 237 | 2013 |
| 2012 | 81 531 | 236 | 2014 |
| Total | 245 246 | | |

The allocation results from personnel reviews and proposals for employees who stood out through special achievements in the past year and have performed with above-average commitment. The allocation is then approved by the Compensation Committee. It allows a first purchase of a third of the promised number of registered shares in the current year, which can be paid up and claimed immediately, and another third in one and two years respectively. With the exception of Mrs Nayla Hayek and Mr G. N. Hayek no members of the Board of Directors received options or shares under this plan.

Corporate Governance

3.1 Members of the Board of Directors (incl. 3.2 and 3.3)

3. Board of Directors

The Board of Directors on 31 December 2012 is composed as follows:

Nayla Hayek, Swiss citizen, Dr h.c. European University Montreux, Montreux, is Chairwoman of the Board of Directors of the Swatch Group since June 30, 2010. Mrs Nayla Hayek has been on the Board of Directors of the Swatch Group since 1995; from May 12, 2010 she was Vice-Chairwoman of the Board of Directors. As a member of the World Arabian Horse Organization (WAHO), and as international Arabian horse judge, Mrs Hayek's top-level contacts contribute to many of the business and promotional activities of the Swatch Group and she is responsible for the local organization in Dubai (Swatch Group Middle East) on site. In the middle of 2007, her advisory mandate was converted into an employment agreement. Following the signature of collaboration agreements with Tiffany & Co, New York, Mrs Hayek took over the operational leadership of the new business entity Tiffany Watches, which was incorporated on January 22, 2008 (Tiffany Watch Co. Ltd). As Board member of the Hayek Group, she is responsible for Hayek Engineering AG, Hayek Immobilien AG and Hayek France SA. Mrs Hayek is member of the Board of Directors of the Rivoli Group, Dubai and represents the interests of Swatch Group. She is also a member of the Board of Directors of Belenos Clean Power Holding Ltd. She holds no official function or political office.

Esther Grether, Swiss citizen, has been on the Board of Directors of the Swatch Group since 1986. Mrs Grether is Chairperson of the Board of the Doetsch Grether Group, Basle. She has headed this group for over 30 years. As the second-largest shareholder after the community of heirs of N. G. Hayek, she neither performs any operative functions nor entertains any commercial relations with the Swatch Group. Otherwise, Mrs Grether neither exercises permanent executive or advisory functions nor holds official function or political office.

Nick Hayek, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010. Mr Hayek has worked with the Swatch Group since 1994, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1st prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and of Belenos Clean Power Holding Ltd.

Prof. Dr h. c. Claude Nicollier, Swiss citizen, graduated in Physics and Astrophysics from the Universities of Lausanne and Geneva. Mr Nicollier has been a member of the Board of Directors since 2005. Mr Nicollier resigned from his activities as astronaut at the European Space Agency ESA in March 2007. As an astronaut he was particularly active in the space missions Atlantis 1992, Endeavour 1993, Columbia 1996 and Discovery 1999. The aim of the Endeavour and Discovery missions was the execution of reparation works on the Hubble Space Telescope which were a complete success. The Universities of Geneva and Basel and the École Polytechnique Fédérale de Lausanne, where Mr Nicollier teaches as a titular professor at the school of engineering, have conferred honorary doctorates on him. Mr Nicollier is involved in the «Solar Impulse»-Project and is responsible for the test flights. He is member of the Board of Directors of Belenos Clean Power Holding Ltd. Mr Nicollier does not exercise any operative functions at Swatch Group, does not have any business relationship with Swatch Group and holds no political office.

Dr Jean-Pierre Roth, Swiss citizen, Dr oec. Graduate Institute (HEI) Geneva, has been a member of the Board of Directors since 2010. Following postgraduate studies at the Massachusetts Institute of Technology in the USA, Mr Roth taught at the University of Geneva and at the Graduate Institute (HEI). In 2009 the University of Neuchâtel conferred him a honorary doctorate in economics. Jean-Pierre Roth joined the Swiss National Bank in 1979 where he was active in various areas in Zürich and Bern. On May 1, 1996 he was appointed Vicepresident of the board and director of the II. Department (equity market, bank notes, business relationships with the federal government, administration of the gold reserves) in Bern by the Swiss federal council. On January 1, 2001 he was elected President of the board and chief of the I. Department (political economics, international affairs, law and services) in Zürich. Jean-Pierre Roth was Swiss governor of the International Monetary Fund (IMF) in Washington. From March 1, 2006 until end of February 2009 he was Chairman of the Board of Directors of the Bank of International Settlements (BIS) in Basel. From end of March 2007 until end of 2009 he represented Switzerland in the Financial Stability Forum, an international committee consisting of representatives from the ministries of finance, central banks and regulatory authorities to tighten the collaboration on surveillance of the international financial system. End of 2009 Mr Roth resigned as President of the Swiss National Bank. Mr Jean-Pierre Roth was elected a member of the Board of the Swiss Re and of Nestlé Ltd in 2010. Since July 1, 2010 Mr Roth is President of the Banque Cantonale de Genève (BCGE).

Corporate Governance

Ernst Tanner, Swiss citizen, has been on the Board of Directors of the Swatch Group since 1995. He has been Vice-Chairman of the Board of Directors since June 29, 2011. Mr Tanner is Chairman and Delegate of the Board of the Lindt & Sprüngli Group. Before his activity with Lindt & Sprüngli, he was for over 25 years in leading management positions with the Johnson & Johnson Group in Europe and the USA, ending up as Company Group Chairman Europe. In addition, he is a member of the Board of Directors of the German Krombacher Brauerei GmbH & Co. KG, as well as a member of the Board of Directors of the Zurich Chamber of Commerce and delegate of the Society for the Promotion of the Swiss Economy. Otherwise, he exercises no other executive or advisory functions and holds no official function or political office.

3.4 Elections and terms of office

The members of the Board of Directors are elected at the Ordinary General Meeting of the shareholders for a term of three years. The period between two Ordinary General Meetings is regarded as one year. The members of the Board shall be eligible for re-election at any time. There is no limit on the age and/or term of office. According to Article 18 of the Swatch Group Statutes the votes and elections take place openly, except where the Chairman orders a written election or vote. One or more shareholders, who together dispose of not less than 10% of the represented votes, may require written votes or elections.

First-time election and remaining term of office of the members of the Board of Directors:

| | First-time election | Term of office |
|--------------------------------|---------------------|----------------|
| Nayla Hayek | 1995 | Up to 2013 |
| Esther Grether | 1986 | Up to 2013 |
| Georges Nicolas Hayek | 2010 | Up to 2013 |
| Prof. Dr h.c. Claude Nicollier | 2005 | Up to 2013 |
| Dr. Jean-Pierre Roth | 2010 | Up to 2013 |
| Ernst Tanner | 1995 | Up to 2013 |

Mrs Esther Grether has been designated representative of the bearer shareholders and Mrs Nayla Hayek as representative of the registered shareholders.

Changes in the Board of Directors

There were no changes to the composition of the Board of Directors during the reporting period.

3.5 Internal organizational structure of the Board of Directors

The Board of Directors is self-constituting. It has appointed a Chairwoman (Mrs Nayla Hayek) and a Vice-Chairman (Mr Ernst Tanner) from its midst. Mrs Meyer Kluge has taken office as Secretary to the Board of Directors since 27.06.2012. In this function, she has taken over from Mr Roland Bloch, who performed this role since 22.01.1985 and retired with effect from 27.06.2012. The Secretary to the Board of Directors is not a member of the Board. The term of office of the Chairman, the Vice-Chairman and the Secretary is, in each case, three years. They are all re-eligible for a further term of office. If an officer is substituted, the successor completes the remainder of the term of the predecessor. The Board of Directors has an Audit Committee and a Compensation Committee at its disposal. These committees, which sit separately (normally immediately following an ordinary meeting), because of the relatively small number of company directors, comprise all the members of the Board of Directors; the committees are chaired by Mrs Nayla Hayek.

The Audit Committee is mainly responsible for the supervision of the financial reporting and for the evaluation of the internal and external audit. The Audit Committee has particularly fulfilled the following functions:

- Review of the Audit reports,
- Reinforcement of points which the auditing firm raised,
- Determination of the audit focal points,
- Discussions of the efficiency of the internal control system including risk management,
- Appraisal of the performance, remuneration and independence of the external auditors,
- Dealing with special questions of the financial statements (for further details see also point 8.4).

The Compensation Committee determines the principles of compensation of the members of the Board of Directors, members of the Executive Group Management Board and members of the Extended Group Management Board and supervises the compliance with these principles (see point 5.1 hereafter). In addition, the salaries and bonuses of the managerial staff (Executive Group Management Board/Extended Group Management Board) including stock options are decided.

In the year under review, the Board of Directors met five times. The meetings lasted approximately three to four hours. Furthermore, the Compensation Committee met twice and the Audit Committee met once.

The members of the Executive Group Management Board regularly attend the ordinary meetings of the Board of Directors (second part). Beside the President (CEO) of the Executive Group Management Board, the Chief Financial Officer (CFO) and the Chief Legal Officer (CLO) and, if necessary, any other members of the Executive Group Management Board, attend the meetings of the Audit Committee. The Chief Legal Officer (CLO) participates in the meetings of the Compensation Committee as he attends to the personnel issues of the members of the Executive Group Management Board and Extended Group Management Board. Where there are discussion points concerning a person present, such person withdraws from the meeting.

Corporate Governance

3.6 Definition of areas of responsibility

The Board of Directors is the highest executive body responsible for the overall administration of the Group. It adopts strategic decisions and defines the means necessary for attaining the long-term goals. It determines, inter alia, the participation and appointment of the members of the Executive Group Management Board, the Extended Group Management Board and the heads of the main Group companies. Moreover, the Board of Directors approves the annual budget of the Group and its affiliated companies and decides on investments over CHF 3 million, as well as on each commercial operation of the affiliated companies which exceeds CHF 10 million. The Board of Directors prepares the General Meeting and drafts the annual report as well as the half-year report.

The Board of Directors has delegated the current operative business to the Executive Group Management Board, the Extended Group Management Board and to the Holding Company Management.

The Executive Group Management Board is responsible for implementing Group strategies. It sets strategies and objectives for the Group companies and supervises their management.

The Extended Group Management Board supports and advises the Executive Group Management Board in its operative tasks. It makes suggestions for the development of the Group strategy.

The individual members of the Executive and Extended Group Management Boards manage their allocated areas within the framework of the Group policy and in accordance with guidelines set by the Executive Group Management Board.

The Holding Company Management is responsible for the current operative business of the Holding Company.

3.7 Information and control instruments

Each member of the Board of Directors can request to receive information on all issues concerning the Company and on important issues concerning the Group companies.

The members of the Executive Group Management Board report at the Board of Directors meetings on current business and important business issues. In particular, the members of the Board of Directors regularly receive detailed information regarding turnover and results trends for the Group and Group Divisions. Furthermore, important business issues, new products and the Group's financial status are reported in detail. Moreover, extraordinary occurrences are immediately brought to the attention of the Board.

Outside meetings, each member of the Board of Directors may seek information on the general progress of business from authorized management (after informing the Chairwoman). With due authorization of the Chairwoman, they may also demand direct information on individual business transactions. Should the Chairwoman reject an application for information, a hearing or an inspection (which has never occurred so far), the entire Board of Directors shall decide at the request of the applicant.

To ensure the implementation and compliance of the statutory provisions and the Group's directives (including the rules of the statutes), a Compliance Officer has been appointed at the beginning of 2005. Moreover, the Chairwoman of the Board of Directors has an Audit-Team available, which she may deploy in specific cases.

4. Group Management (Executive Group Management Board/Extended Group Management Board)

At December 31st, 2012

4.1.1 Members of the Executive Group Management Board (incl. 4.2)

Nick Hayek, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010, Mr Hayek has worked with the Swatch Group since 1994, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1st prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and of Belenos Clean Power Holding Ltd.

Corporate Governance

Arlotte-Elsa Emch, Swiss citizen, holds a degree in Ethnology and History as well as a certificate in Journalism. She has been a member of the Extended Group Management Board since 1998 and of the Executive Group Management Board since December 1999. She joined the Swatch Group in December 1992 as Communications Manager to which position she brought her broad experience as a journalist. She was appointed President of ck watch in 1997 and managed this brand, which is a joint venture between the Swatch Group and Calvin Klein Inc., New York, until 15.07.2012. In the years 2000 until 2010 she managed the company Dress Your Body (DYB) and from 2002 to 2009 the brand Léon Hatot. From 2009 to 15.07.2012 she managed the brand Swatch. Ms Emch was responsible for Swatch Group Japan and Swatch Group South Korea.

Florence Ollivier-Lamarque, French citizen, is a lawyer and has been a member of the Extended Group Management Board since 1992 and of the Executive Group Management Board since 2005. She is President of Swatch Group France, Swatch Group France Les Boutiques, responsible for Swatch Group Italy, Swatch Group Spain, Swatch Group Belgium and Swatch Group Netherlands as well as for the watch brand Flik Flak. She has been with the Group since 1988 when it took over the Société Inthor, Paris, which distributed some of the Group's watches in France. At that time, she worked as Swatch and Tissot Brand Manager. In 1990, she took over the management of Swatch Group France and in 2002 the management of Swatch Group France Les Boutiques. She is member of Board of the Colbert Committee, Paris.

Dr Mougahed Darwish, Swiss citizen, holds a doctorate in Physics from the ETHL. He has been a member of the Extended Group Management Board since 1994 and of the Executive Group Management Board since 2005, responsible for EM Microelectronic, Micro Crystal, Renata and Oscilloquartz. Mr Darwish has been with the Group since 1979, starting as Project Manager for the Xicor-Ébauches joint venture. Previously, he had been active in research and development for the Centre électronique horloger (CEH, today Centre Suisse de l'électronique et de microtechnique SA, CSEM). From 1985 to 2007 he managed EM Microelectronic as CEO. Mr Darwish represents the Group on the Board of Directors and the Science Council of the CSEM as well as on the Board of FLRH; he is a member of the Swiss Academy of Technical Science. Since 2008, Mr Darwish actively accompanies the project Belenos Clean Power; since July 2010 he is a delegate of the Board of Directors of Belenos Clean Power Holding AG.

Marc Alexander Hayek, Swiss citizen, Dr h.c. European University Montreux, Montreux, holds a bachelor degree in Economics and has undergone training in Marketing and Economics. He became a member of the Extended Group Management Board in 2002 and of the Executive Group Management Board in 2005 with responsibility for Blancpain, the Caribbean, Central and South America, François Golay and Deutsche Zifferblatt Manufaktur and furthermore, since July 2010 for Breguet and Jaquet Droz. He joined Blancpain as Marketing Manager in 2001. Mr Hayek had previously worked as an independent entrepreneur (Restaurant Colors, Zurich) and had been employed by Swatch in the PR area and by Certina in marketing.

Dr Thierry Kenel, Swiss citizen, holds a doctorate in Economics, a degree in Mechanical Engineering and a postgraduate degree in Management of Technology. As a Member of the Extended Group Management Board since 2009 and of the Executive Group Management Board since 10.02.2012, he is responsible for Corporate Finance, Reporting and Investor Relations. Mr Kenel has been with the Swatch Group since 2003, first as Group Controller in the business segment Electronic Systems and subsequently as head of Finance, IT and Administration at Montres Breguet SA. Prior to joining the Swatch Group, Mr Kenel was a lecturer and researcher in the field of economics at the University of Lausanne; earlier, he was a member of the Board of Directors and the management of the Flumroc-Sperry group of companies. Mr Kenel represents the Swatch Group in the Board of the Convention Patronale and in the Federation of the Swiss Watch Industry FH, where he presides over the Economic Commission. Mr Kenel continues to be a private lecturer of Finance and Financial Reporting at the University of Lausanne (HEC) as well as at the Swiss Institute of Certified Accountants and Tax Consultants. He is also a member of the Liaison Committee University-Industry at the University of Lausanne (HEC).

Dr Hanspeter Rentsch, Swiss citizen, holds a doctorate in Law and a degree in Economics (from HSG St. Gallen and Bern University). As member of the Extended Group Management Board since 1991 and of the Executive Group Management Board since 1995, he is responsible for legal affairs, licenses, strategic projects and patent matters (ICB), as well as for Swatch Group Greece and Swatch Group Poland. He joined the legal department of ASUAG in 1978. From 1980, he headed the legal and trademark department of the General Watch Co. Ltd and, after the merger, became General Counsel to the new group. He subsequently assumed additional functions in the areas of licenses, real estate and as Human Resources Responsible. Before joining the Swatch Group, he had been active as scientific assistant (Prof Dr W. R. Schluep, Economic, Commercial and Competition Law chair) at Zurich University. He represents the Swatch Group on the Executive Committee of Economiesuisse, on the Executive Board of the Swiss Employers Association, on the Executive Board of the Swiss section of the International Chamber of Commerce (ICC), and on the Executive Board of the Federation of the Swiss Watch Industry FH. Since 20.09.2012 he performs the role of a Vice President of the Executive Board of the FH.

François Thiébaud, French citizen, studied at the ICG Institut Contrôle de Gestion, Paris and Law at the University of Besançon, and he has been a member of the Extended Group Management Board since 1998 and of the Executive Group Management Board since 2006, with responsibility for Tissot, Mido, Certina as well as Swatch Group Brazil and the Swiss market. He joined the Swatch Group in 1996 as Manager of Tissot. Previously, he had been active as Delegate of the Board of Directors of Juvenia and Manager of Breitling. He represents the Group in the AMS Association des fournisseurs d'horlogerie, marché suisse (Vice-Chairman), he is member of the Baselworld Consulting Committee and President of the Baselworld Swiss Exhibitors Committee.

Corporate Governance

4.1.2 Members of the Extended Group Management Board (incl. 4.2)

Matthias Breschan, Austrian citizen, graduated from the Vienna School of Economics, has been a member of the Extended Group Management Board since 2005 and is responsible for Rado, Hamilton, for Swatch Group Mexico and Swatch Group Austria. Mr Breschan manages Rado since January 1, 2011. Before he managed Hamilton for seven years and worked as Area Sales Manager for three years at Swatch Telecom. Between his activity for Hamilton and Swatch Telecom he was Managing Director of Aldi in France (Aldi Marché Est). Before joining Swatch Group Mr Breschan worked for Texas Instruments and Alcatel Mobile Phones in the product marketing, international marketing and sales areas.

Pierre-André Bühler, Swiss citizen, technical education, member of the Extended Group Management Board since 2008, responsible for ETA. Mr Bühler started his career within the Group in 1977 as workshop manager at Michel SA in Granges. Later Mr Bühler held executive functions at ETA (Technical manager of the division Michel) and at Nivarox (Production manager). Before taking over the general management of ETA, Mr Bühler worked as managing director of Nivarox-Far (Le Locle). He represents the Swatch Group on the Executive Board of the Federation of the Swiss Watch Industry FH, is a member of the Board of Directors of CSEM.

Yann Gamard, French citizen, holds an MBA from Lausanne and has been a member of the Extended Group Management Board since 1998, responsible for Swatch Group Germany, Swatch Group Nordic (Denmark, Finland, Sweden, Norway) and Swatch Group UK. Mr Gamard is also responsible for the logistic planning of the Swatch Group and for the distribution logistic in Europe, as well as being responsible for Glashütte Original. He joined the Swatch Group in 1995 (Finance Department, Swatch AG). He subsequently assumed responsibility for the telecom business of the Swatch Group and was thereafter appointed as Country Manager for the USA. Before joining the Group, Mr Gamard held various posts with Procter & Gamble and Cartier.

Walter von Känel, Swiss citizen, with a commercial training, has been member of the Extended Group Management Board since 1991, with responsibility for Longines. He entered Longines in 1969 and became its President in 1988. Before joining Swatch Group Mr von Känel worked for a watch-dial factory and with the Federal Customs Administration. Mr von Känel is a member of the «Conseil du Jura Bernois».

Thomas Meier, German citizen, is a graduate engineer FH from the University of Applied Sciences Karlsruhe (Micromechanics and Microelectronics), with additional training in Business Administration at the University of Munich and an apprenticeship as watchmaker. He has been a member of the Extended Group Management Board since 2005. Mr Meier began his activities for Swatch Group in 1994 as project manager at Mido. Later he became project manager for Swatch Access. After a break he returned to Swatch Group in 1999 as project manager and later as production manager a.i. of Breguet. From 2004 until 2008 he was responsible for ETA. Before joining Swatch Group, Mr Meier worked as development engineer for Junghans in Germany.

Kevin Rollenhagen, American citizen, graduated in Economics (BA) at the Michigan State University, has been a member of the Extended Group Management Board since 2005 and is responsible for Swatch Group China and Swatch Group Taiwan, Swatch Group Australia and Country Manager of Swatch Group Hong Kong (he represented these countries from 2000 onwards in the Extended Group Management). Mr Rollenhagen joined Swatch Group in 1989. He started his career as trainee at Tissot and became Regional Sales Manager for Tissot and Omega. Since 1994 he has been active in Hong Kong and China (first as Brand Manager Omega). Before joining Swatch Group Mr Rollenhagen worked with Caterpillar in sales. Mr Rollenhagen represents Swatch Group in the Hong Kong Watch Importers Association where he acts as Treasurer.

Dr Peter Steiger, Swiss citizen, who has a doctorate in Public Economics, has been a member of the Extended Group Management Board since 2002, with responsibility for The Swatch Group Corporate Controlling and Logistics, Swatch Group Malaysia, Swatch Group Singapore, Swatch Group Thailand and Swatch Group South Africa. He started his career with the Group in 1989 as Head of Finance and Administration with PC Quartz. Later, he held leading financial posts with various Group companies (among others Swatch and Longines). Before joining the Swatch Group, he had worked with international groups in Switzerland and abroad (Shell, Philips).

Stephen Urquhart, Swiss and British citizen, who studied Industrial Management at the University of Neuchâtel, has been a member of the Extended Group Management Board since 2000 and is President of Omega. Mr Urquhart began his career at Omega in 1968. From 1974 to 1997 he pursued his career with Audemars Piguet, where he became Joint Chairman and Delegate of the Board of Directors from 1989 onwards. Mr Urquhart returned to the Swatch Group in 1997 as President of Blancpain.

The contracts of employment with the members of the Executive and the Extended Group Management Board are entered into for an indefinite period of time and can be terminated by both parties with a six month notice period. In case of a cancellation no termination payment will be due. No entry bonus is paid by Swatch Group when entering new contracts (Golden Hellos).

In case of retirement there are no entitlements to any compensation.

Corporate Governance

4.1.3. Changes in the Executive Group Management Board resp. Extended Group Management Board

Mr Roland Streule left the Executive Group Management Board at the end of March 2012 upon retirement. With effect from 15.07.2012, Mrs Arlette-Elsa Emch discontinued her operational activity and handed over her responsibility for the companies that she looked after to Mr G. N. Hayek (Swatch, Japan, South Korea) and Mrs Laura Burdese (ck). Mrs A. Emch will retire at the end of February 2013 upon reaching retirement age.

At the end of 2012, Mr Mougahed Darwish reduced his working time to 20-30%. He will in future focus his activity heavily on Belenos Clean Power Holding.

With effect from 01.01.2013, Mr Pierre-André Bühler will transfer from the Extended Group Management Board to the Executive Group Management Board. Mr Raynald Aeschlimann (head of international sales of Omega), Jean-Claude Eggen (member of the Management Board of ETA), Hans Rudolf Gottier (head of Microcrystal) and Calogero Polizzi (head of Group IT) were newly appointed to the Extended Group Management Board with effect from 01.01.2013. All of these persons have kept their previous responsibilities.

4.3. Management Contracts

Within the framework of a global contract, Hayek Engineering AG, Zurich, placed its management personnel in particular at the disposition of the operational activities of Lascor S.p.A., Tiffany Watch Co. Ltd, as well as in the area of real estate and logistics.

5. Compensation, shareholdings and loans

5.1 Content and method of determining the compensation and the shareholding programmes

The Compensation for the members of the Board of Directors, the Executive Group Management Board and the Extended Group Management Board is determined by the Compensation Committee (see point 3.5). The results-related part of the total compensation of the members of the Executive Group Management Board and the Extended Group Management Board carries importance.

The performance-related payment is bound to quantitative and qualitative objectives. The quantitative objectives comprise elements of the sphere of influence of the function bearers and of the whole Group. The qualitative objectives are defined individually and are function related. The achievement of objectives is evaluated once a year.

The Compensation Committee decides on salaries, bonuses and stock options of the Executive Group Management Board and Extended Group Management Board, based on proposals jointly submitted by the Chairwoman of the Board of Directors, the CEO and CLO.

In past years, adjustments have been made to the basic salary component and bonus potential only where there was a change of responsibility.

Elements of remuneration

Basic Salary

The basic salary is paid in thirteen equal instalments. The thirteenth instalment is paid each year in December.

Lump sum expenses

Members of the Board of Directors, of the Executive Group Management Board and of the Extended Group Management Board receive a lump sum compensation for expenses in the amount of CHF 30000, respectively CHF 24000 (EKL). This lump sum compensation payment covers representation and small expenses and has been agreed with the tax authority of the Canton of Berne. Upon request by an employee, this amount can be integrated in the basic salary.

Bonus Program

The executive members of the Board of Directors, of the Executive Group Management Board and of the Extended Group Management Board annually receive a variable bonus, which depends on the development of the Group and the sector of activities supervised by the respective person (brands, countries, domain of activities) as well as individual achievements.

At the beginning of the year, a so called bonus potential is defined, which is paid out if the objectives are achieved. If the objectives are surpassed, more than 100% of the potential bonus will be paid. Where individual objectives are not achieved, a proportionate reduction will be made. The bonus is determined and paid out at the beginning of the year, once the annual accounts are available. Provided that the set objectives (turnover, operating profit) will foreseeably be achieved, the beneficiaries receive an advance payment of 70% of the bonus potential in December, if not, a payment of 50% will be made.

The assessment criteria being considered are among other things: turnover growth, evolution of operating profit, EBIT, changes in market shares, evolution of stocks and receivables, accomplishment of development projects, success in negotiations, successful implementation of cost reduction programs, fluctuation of employees, motivation of employees.

For the particular promotion of the Group's interests, a part of the bonus will be awarded as Group bonus.

Corporate Governance

5.2 Compensation for acting members of governing bodies

In 2012, the members of the Board of Directors received a total amount of CHF 4 433 493. The highest amount reached CHF 3 797 179. For details please refer to the table on page 199. The members of the Executive Group Management Board and the Extended Group Management Board received in 2012 an amount of CHF 31 591 345. In this category the CEO has received the highest remuneration of CHF 6 269 479. Details may be seen on the table on page 200.

No compensation was paid out to former members of governing bodies.

Share Program

Members of the Executive Group Management Board as well as the Extended Group Management Board were, under the management stock option plan mentioned under Point 2.8, allocated 137 700 options in total to take up registered shares at an issue price of CHF 4.– each. One third of these was immediately available to be subscribed, paid and claimed. In one and two years respectively, the other thirds will be available.

With the exception of Mrs Nayla Hayek (cf. page 199, footnote 3) and Mr G. N. Hayek (cf. page 200), no members of the Board of Directors received any options or shares.

The aims of the management stock option plan of the Swatch Group are to honour performances of the main Management members, strengthen the motivation and the sense of responsibility in the Group, further the loyalty to the firm as well as the stability of the managing employees and promote a favorable wealth increase. The allocation of shares results from an individual performance report. The voting rights of the shares in possession of the plan will not be exercised.

No compensation was paid to former members of governing bodies.

An overview of the shares and options owned by the members of the Board of Directors, Executive Group Management Board and Extended Group Management Board and persons being closely related to them at 31 December 2012 may be consulted on page 201.

Loans to members of the governing bodies

Group employees have the possibility of taking out a mortgage loan with the Swatch Group Pension Fund for the construction or acquisition of primary residences in Switzerland.

The conditions of this mortgage loan are set by the Swatch Group Pension Fund Foundation Board. The conditions are equally applied to all employees of the Swatch Group. At the end of 2012, one such loan had been advanced to one member of the Executive Group Management Board in a total amount of CHF 0.32 million (see note 29d on page 198).

Pension-/Management Funds

The members of the Executive Group Management Board and of the Extended Group Management Board are covered by the Swatch Group Pension Fund under the same insurance regulations that apply to all employees. The insured salary for the year under review is subject to an upper limit of CHF 320 000.

Since 1 January 2003 the members of the Executive and Extended Group Management with employment contracts in Switzerland are additionally insured by the Management Fund of the Swatch Group. The Management Fund supplements the benefits of the Swatch Group Pension Fund. It insures all salaries over CHF 320 000 up to a maximum of CHF 842 400. The contributions to the Management Fund amount to 10%, whereof three quarters (7.5%) are paid by the employer and one quarter (2.5%) is paid by the employee. The administration of the Management Fund has been taken over by the Management of the Pension Fund.

Termination Payment

No termination payments have been made to members of the Board of Directors, the Executive Group Management Board or to the Extended Group Management Board in the reporting year. Such termination payments are not foreseen in the employment agreements with members of governing bodies.

6. Shareholders' participation

6.1 Voting rights and representation restrictions

For the exercise of voting rights, no shareholder may combine, either directly or indirectly, more than 5% of the total shareholders' equity in respect of his own shares and those represented by him. This limitation does not apply to the shares which are excluded from the registration prohibition (point 2.6 above). Nor does this restriction apply to the exercise of voting rights in accordance with Art. 689c CO relating to representation by a member of a company body and by independent voting-right representatives or to bank representatives with reference to the shares deposited with them.

Furthermore, pursuant to Art. 16(4) of the Swatch Group Statutes, the Board of Directors is entitled to make exceptions to the limitations in special cases. No exceptions were requested or granted during the business year. A change of the representation restrictions is only possible through a change of the provisions of the Statutes. For such change a decision of the General Meeting with a relative majority is required.

Shareholders may arrange to be represented at the General Meeting only by other shareholders who duly hold a written power of attorney. Registered shareholders may only be represented by other registered shareholders.

Corporate Governance

- 6.2 Statutory quorums** In addition to the special quorum regulations provided in Art. 704 CO, the Statutes also apply the same quorum regulation (two-thirds of the votes represented and an absolute majority of the par values of shares) for dismissing members of the Board of Directors.
- 6.3 Convocation of the General Meeting of Shareholders** The General Meeting is convened pursuant to Articles 13 and 14 of the Swatch Group Statutes. Shareholders who together own at least 10% of the share capital can, at any time, request in writing the convening of an extraordinary general meeting. Such an extraordinary general meeting shall be held within 40 days of the date of receipt of such a request.
- 6.4 Agenda** Shareholders who represent shares with a par value of one million Swiss francs may submit a written request for a meeting to be held to discuss a particular subject; the motions tabled shall likewise be indicated (see Article 13.2 of the Swatch Group Statutes in conjunction with Art. 699 and 700 OR).
- 6.5 Entries in the share register** The share register is closed for entries 20 days before each General Meeting.

7. Changes of control and defence measures

- 7.1 Duty to make an offer** Art. 10 of the Statutes provides that a shareholder who acquires shares either directly or indirectly or in agreement with third parties and by so doing exceeds the limit of 49 % of voting rights, including the shares that he already possesses, regardless of whether those rights can or cannot be exercised, shall be required to make an offer to purchase all the listed shareholding papers of the Company (Art. 32 BEHG).
- 7.2 Clauses on changes of control** There are no agreements with members of the Board of Directors, the Executive Group Management Board or other managerial staff for the case of a change in the shareholder structure.

8. Auditors

- 8.1 Duration of the mandate and term of office of the lead auditor** «PriceWaterhouseCoopers Ltd» performs since 1992 the function of external auditor of the Group. Before that, the predecessor organizations already served as auditors for the Group and many of its companies. Gerhard Siegrist, as head auditor (Engagement Partner), has been responsible for the audit and Group audit since the 2011 accounting year.

- 8.2 Auditing fees and additional fees (incl. 8.3)** The following auditor's fees have been charged to the 2012 annual accounts:

| (CHF million) | Audit | Taxes | Other Services | Total |
|--------------------------|------------|------------|----------------|------------|
| PriceWaterhouseCoopers | 3.5 | 0.3 | 0.2 | 4.0 |
| Other Auditing Companies | 1.1 | 0.5 | 1.0 | 2.6 |
| Total 2012 | 4.6 | 0.8 | 1.2 | 6.6 |
| Total 2011 | 4.5 | 1.3 | 1.4 | 7.2 |

- 8.4 Supervisory and control instruments pertaining to the audit** The supervision and final verification of the external audit is exercised by the Audit Committee, and by the full Board of Directors, respectively (see also the duties and functions as described under 3.5). The Audit Committee evaluates together with the Group Management the performance of the auditors and recommends the independent external auditor to the Board of Directors for election by the General Assembly. The Audit Committee meets annually with the auditors. The auditors prepare a report for the Audit Committee regarding the findings of the audit, the financial statement and the internal control. At the annual meeting the audit focus points for the following review period are determined and the audit related key risks established by the auditors are discussed. In collaboration with Group Management the independence of the auditors is evaluated annually. In particular and for this purpose the worldwide fees of the audit are presented, discrepancies with the estimated costs analysed and explained and the budget for the following audit period is determined. The appointment of the auditor is subject to an approval procedure.

Corporate Governance

9. Information policy

The Swatch Group reports on the business of the Group at the following times:

- January 10, 2013 Turnover of 2012
- February 4, 2013 Key figures 2012
- March 6, 2013 Press conference and annual report
- May 29, 2013 General Meeting of Shareholders
- August 15, 2013 Half-year figures 2013

The information is always published in the Swiss and international press and also published and processed in the publications of leading international banks.

This information can also be obtained from the Swatch Group website at www.swatchgroup.com, and in particular under the «Investor Relations» section. The annual report can also be viewed and downloaded using the link www.swatchgroup.com/annual_report. In addition, the [swatchgroup.com](http://www.swatchgroup.com) homepage allows for the possibility of subscribing to the Push-and-Pull information service in order to receive ad-hoc-financial announcements.

For queries, there is a contact form at www.swatchgroup.com/contactus. Queries may also be sent by post (The Swatch Group Ltd., Seedorstadt 6, CH-2501 Biel) or by fax to +41 32 343 69 11 or by telephone on +41 32 343 68 11.

Financial Statements 2012

Consolidated Financial Statements

Financial Statements of the Holding



Table of contents

| | |
|--|----------------|
| Consolidated financial statements | 144–205 |
| Financial review | 145 |
| Consolidated income statement | 152 |
| Consolidated statement of comprehensive income | 153 |
| Consolidated balance sheet | 154 |
| Consolidated statement of cash flows | 156 |
| Consolidated statement of changes in equity | 157 |
| Notes to the consolidated financial statements | 158–204 |
| 1. General information | 158 |
| 2. Summary of significant accounting policies | 158 |
| 3. Financial risk management | 168 |
| 4. Critical accounting estimates and judgments | 172 |
| 5. Segment information | 174 |
| 6. Revenues and expenses | 176 |
| 7. Income taxes | 177 |
| 8. Earnings per share | 179 |
| 9. Dividends paid and proposed | 179 |
| 10. Property, plant and equipment | 180 |
| 11. Investment property | 181 |
| 12. Intangible assets | 182 |
| 13. Investments in associates and joint ventures | 183 |
| 14. Business combinations | 184 |
| 15. Other non-current assets | 185 |
| 16. Inventories | 186 |
| 17. Trade receivables | 186 |
| 18. Other current assets | 187 |
| 19. Marketable securities and derivative financial instruments | 188 |
| 20. Cash and cash equivalents | 189 |
| 21. Share capital and reserves | 190 |
| 22. Financial debts and derivative financial instruments | 191 |
| 23. Retirement benefit obligations | 191 |
| 24. Provisions | 194 |
| 25. Other liabilities | 194 |
| 26. Commitments and contingencies | 195 |
| 27. Details to the consolidated statement of cash flows | 196 |
| 28. Employee stock option plan | 196 |
| 29. Related party transactions | 197 |
| 30. Management compensation disclosures | 199 |
| 31. Events after the balance sheet date | 201 |
| 32. The Swatch Group Companies | 202 |
| Report of the statutory auditor on the consolidated financial statements | 205 |
| Financial statements of the Holding | 206–215 |
| The Swatch Group Ltd securities | 216 |

Financial review

Key financial developments in 2012

- **Gross sales:** Gross sales increase by one billion to CHF 8 143 million, up 14% on 2011.

- **Segments:** Excellent performance with double-digit growth in the Watches & Jewelry segment as well as in the Production segment.

- **Operating profit:** Operating profit amounts to CHF 1 984 million, a rise of 22.9% compared with 2011. Operating margin increases from 23.9% to 25.4%.

- **Net income:** Net income rises 26% to CHF 1 608 million.

- **Earnings per share:** Basic EPS of CHF 5.93 per registered share (2011: CHF 4.70) and CHF 29.64 per bearer share (2011: CHF 23.50).

- **Equity:** Equity of CHF 9 344 million, equal to an equity ratio of 83.3%.

- **Dividend:** Proposed dividend increase of 17.4%, CHF 6.75 per bearer share (2011: CHF 5.75) and CHF 1.35 per registered share (2011: CHF 1.15).

- **Headcount:** Over 1 500 new jobs created, total headcount of over 29 700.

- **Outlook:** The 2013 financial year started well in January with continued healthy growth.

Financial review

1. Operating results

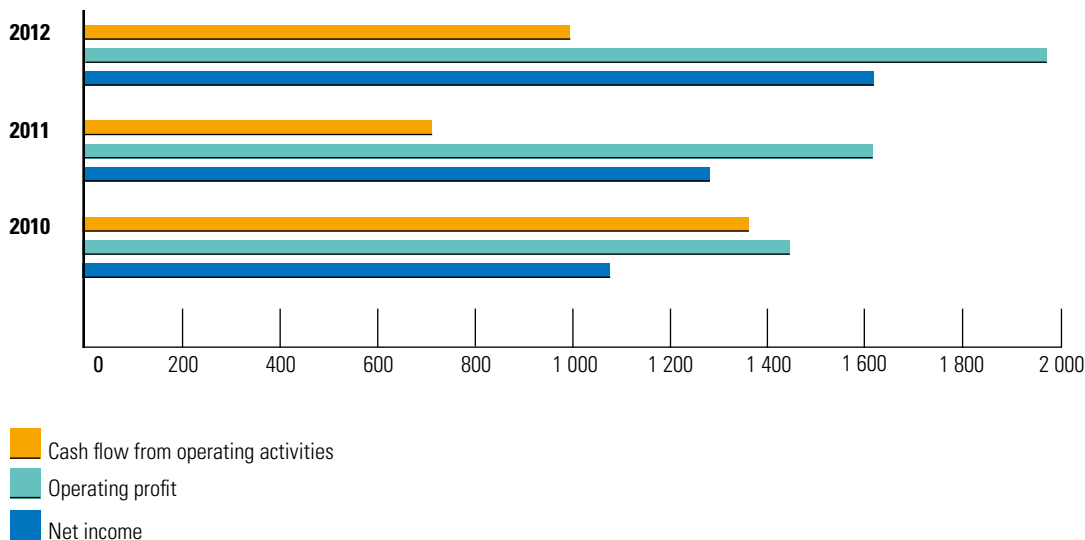
Key figures Group

| (CHF million) | 2012 | 2011 | Change in % | | Total |
|---------------------------------------|--------------|-------|-------------------|-----------------|---------|
| | | | at constant rates | currency effect | |
| Gross sales | 8 143 | 7 143 | + 10.9% | + 3.1% | + 14.0% |
| Net sales | 7 796 | 6 764 | | | + 15.3% |
| Operating profit | 1 984 | 1 614 | | | + 22.9% |
| – in % of net sales | 25.4% | 23.9% | | | |
| Net income | 1 608 | 1 276 | | | + 26.0% |
| – in % of net sales | 20.6% | 18.9% | | | |
| Equity | 9 344 | 8 071 | | | + 15.8% |
| – as % of total assets | 83.3% | 82.3% | | | |
| Average return on equity (ROE) | 18.5% | 16.8% | | | |

Financial review

Performance trends

(CHF million)



In 2012, the Swatch Group exceeded its eight-billion-franc target for gross sales. In an economic environment that remained extremely nervous, the Group increased gross sales by 14.0% to CHF 8 143 million, one billion more than in 2011. Foreign currencies stabilized somewhat against the Swiss franc but remain significantly weaker than two years ago. Had the currency situation been the same as in 2010, sales would have been some CHF 500 million higher in the year under review.

Thanks to a high level of capacity utilization, innovative production methods and traditionally strong cost controls, operating profit increased to CHF 1 984 million, a rise of 22.9% compared to 2011. The operating margin improved from 23.9% to 25.4%. Overall, this resulted in net income of CHF 1 608 million, a rise of 26.0% on 2011.

With equity of CHF 9 344 million and an equity ratio of 83.3%, the Group has an extremely solid and independent financing. The average return on equity was 18.5% (16.8% in 2011). The Group generated an operating cash flow of CHF 999 million, despite further investments in net working capital. In addition, a total of almost CHF 500 million was used for investments. Around 1 500 new jobs were created in 2012, thereof 900 in Switzerland, and a further 280 positions were added as a result of acquisitions. This increased the total headcount of the Swatch Group around the world to over 29 700.

The Board of Directors of the Swatch Group will propose the following dividend for 2012 to the Annual General Meeting on 29 May 2013: CHF 6.75 per bearer share and CHF 1.35 per registered share. This increase in the dividend payment to shareholders of 17.4% versus the previous year is a result of the good results achieved in 2012 and underscores the continued optimistic outlook for business performance in 2013.

Financial review

Segment performance

Watches & Jewelry

| (CHF million) | 2012 | 2011 | Change in % | | Total |
|-------------------------|-------|-------|-------------------|-----------------|---------|
| | | | at constant rates | currency effect | |
| Gross sales | | | | | |
| – Third parties | 7 295 | 6 309 | | | |
| – Group | 3 | 3 | | | |
| – Total | 7 298 | 6 312 | + 12.2% | + 3.4% | + 15.6% |
| Net sales | 6 955 | 5 953 | | | + 16.8% |
| Operating profit | 1 633 | 1 352 | | | + 20.8% |
| – in % of net sales | 23.5% | 22.7% | | | |

The Watches and Jewelry segment saw a further significant increase in sales. Gross sales amounted to CHF 7 298 million, up 15.6% on 2011. All segments contributed to this good result, with the high range and middle range price sections recording very strong growth. In geographic terms, sales growth was distributed over all continents, in particular outside the Greater China area, such as Europe, the United States, Russia and the Middle East.

The segment's operating profit increased by 20.8% to CHF 1 633 million, which corresponds to an operating margin of 23.5%. Despite ongoing unfavorable currency developments, the Swatch Group maintained its long-term policy of not implementing any short-term price increases, which allowed it to continue gaining new market shares across all areas. In marketing, continuing high investments, some amounting to hundreds of millions of Swiss francs, have been spent for the further development of the various brands, in particular for Omega during the very successful Olympic Games in London.

In the multibrand retail sector, the already well established Tourbillon retail brand continued to develop extremely well, with new openings in the United States in particular. The introduction of the new and innovative retail concept for brands in the segments from Swatch to Longines, which operates under the name "Hour Passion", was extremely successful. In addition to airport operations, the first boutiques were opened in Paris and Moscow and "Hour Passion" stores will be opening soon in London and Rome.

Financial review

| Production (CHF million) | 2012 | 2011 | Change in % | | Total |
|-----------------------------|-------|-------|----------------------|--------------------|---------|
| | | | at constant rates | currency effect | |
| Gross sales | | | | | |
| – Third parties | 559 | 518 | | | |
| – Group | 1 658 | 1 497 | | | |
| – Total | 2 217 | 2 015 | + 10.1% | – 0.1% | + 10.0% |
| Net sales | 2 215 | 1 972 | | | + 12.3% |
| Operating profit | 442 | 322 | | | + 37.3% |
| – in % of net sales | 20.0% | 16.3% | | | |

In the year under review, the Production segment continued to benefit from strong demand. This gratifying situation resulted in sales growth of 10.0% to CHF 2 217 million. Production capacities were adapted and extended further, which eased some of the production bottlenecks. Simon Et Membrez, acquired in 2012, was incorporated into the Group's financial statements for the first time. The lower level of growth in this segment in the second half of the year is due mainly to the sharp drop in diamond prices and a change in the mix of diamonds used.

The segment achieved a significant further increase in profitability, due not least to the high level of capacity utilization and new revolutionary production methods. Operating profit increased by 37.3% to CHF 442 million, corresponding to an operating margin of 20.0% (2011: 16.3%).

Financial review

Electronic Systems

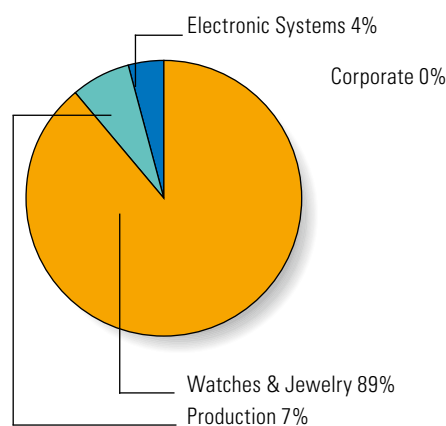
| (CHF million) | 2012 | 2011 | Change in % | | Total |
|-------------------------|------|------|-------------------|-----------------|--------|
| | | | at constant rates | currency effect | |
| Gross sales | | | | | |
| – Third parties | 281 | 308 | | | |
| – Group | 30 | 28 | | | |
| – Total | 311 | 336 | – 9.0% | + 1.6% | – 7.4% |
| Net sales | 308 | 334 | | | – 7.8% |
| Operating profit | 1 | 13 | | | |
| – in % of net sales | 0.3% | 3.9% | | | |

The market environment for the Electronic Systems segment failed to improve significantly. In the year under review, performance continued to be impacted by both the weak US dollar and ongoing uncertainty in some key markets. The segment posted gross sales of CHF 311 million, down 7.4% on 2011.

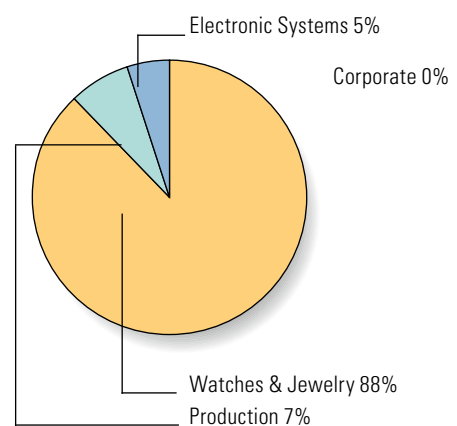
The segment margins also continued to suffer in 2012 as a result of massive price pressures and an unchanged unfavorable currency constellation. Operating profit was only just in positive territory. Our goal is to significantly increase both sales and profits in this segment in 2013 with our unique, high-quality products, despite the difficult environment.

Segment share of net sales

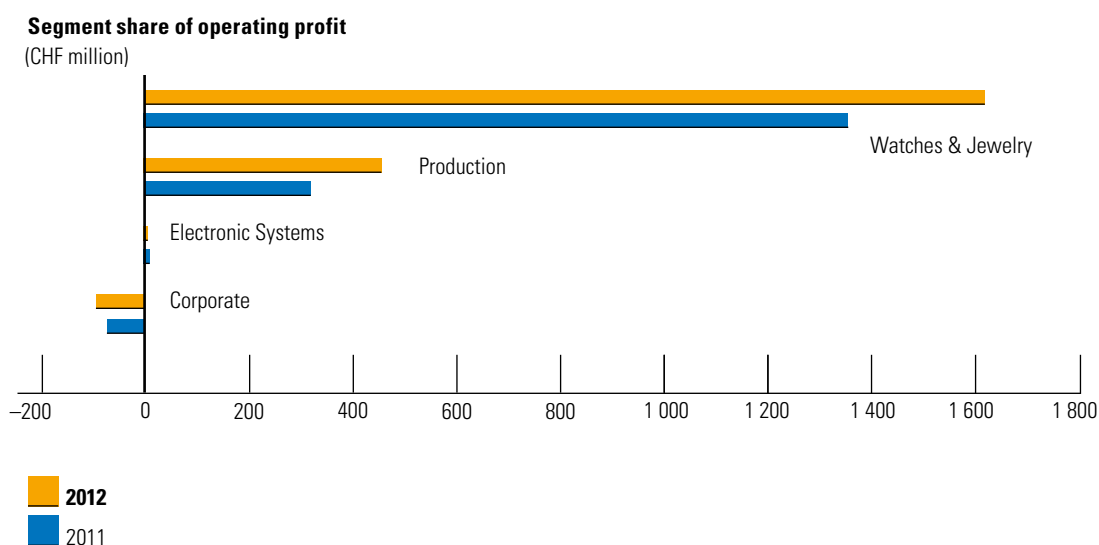
2012



2011



Financial review



Financial result

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

| (CHF million) | 2012 | 2011 |
|---|-----------|-----------|
| Interest income | 10 | 7 |
| Result from marketable securities at fair value and derivatives | 27 | -4 |
| Net result from investment property | 2 | 5 |
| Share of result from associates and joint ventures | 18 | 6 |
| Net currency result | -17 | -10 |
| Interest expense and other financial expense | -7 | -7 |
| Total net financial result | 33 | -3 |

Thanks to a certain recovery in the financial markets in 2012, the result from marketable securities was a gain of CHF 27 million (compared to a loss of CHF 4 million in 2011). On the other hand, the volatile development of foreign currencies led to net currency losses of CHF 17 million (2011: CHF 10 million). The share of result from associates rose from CHF 6 million in 2011 to CHF 18 million in the current year, which is mainly due to the increased stake in Rivoli Group and also to the results of Hengdeli Group. Overall, the net financial result for the year 2012 was a gain of CHF 33 million (2011: loss of CHF 3 million). Depending on the foreign currencies and given the fact that all marketable securities held by the Group are included in the category «fair-value-through-profit-or-loss», the financial result will continue to be volatile in the future and influence the Group's net income.

Income tax

An analysis of the income tax charge is set out in Note 7 to the consolidated financial statements. With 20.3%, the Group's effective tax rate remained at a similar level as in the previous year (20.8%).

Proposed dividend

At the General Meeting on 29 May 2013, a dividend for the financial year 2012 of CHF 1.35 (2011: CHF 1.15) for registered shares and of CHF 6.75 (2011: CHF 5.75) for bearer shares will be proposed. This dividend, totalling CHF 376 million with an expected cash-out impact in 2013 of CHF 364 million, is not recognized as a liability in the consolidated financial statements at 31 December 2012.

Earnings per share

Basic earnings per share increased in the current year by 26% to CHF 5.93 (CHF 4.70 in 2011) for registered shares and CHF 29.64 (CHF 23.50 in 2011) for bearer shares respectively. The strong increase in net income compares to a practically unchanged average number of shares outstanding. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 8.

Financial review

2. Financial condition

Liquidity and financial resources

In 2012, the Group realized an operating cash flow of CHF 999 million (2011: CHF 705 million). The increase was mainly due to a higher net income. Net investing activities were higher than in 2011, mainly due to the acquisition of subsidiaries and investments in associated companies. The dividend was again the main item in the cash flow from financing activities. Overall, the Group's cash position slightly decreased in 2012 by CHF 96 million and achieved CHF 1 520 million at year-end.

Asset and capital structure

The consolidated balance sheet continues to remain very solid. Group equity exceeded the mark of CHF 9 billion for the first time, with the Group's equity ratio increasing to 83.3% (compared to 82.3% in 2011). Current liabilities are covered by current assets by a factor of 6.5 (6.2 in 2011).

3. Analysis of value added

The breakdown of total operating revenues, more commonly referred to as total Group performance in calculations of value added (using standard methods), is as follows:

| (CHF million) | 2012 | | 2011 | |
|---------------------------|----------------|----------------|---------|---------|
| Overall Group performance | 8 797 | 100.0% | 7 686 | 100.0% |
| Material and services | - 4 533 | - 51.5% | - 4 025 | - 52.3% |
| Depreciation | - 261 | - 3.0% | - 229 | - 3.0% |
| Net added value | 4 003 | 45.5% | 3 432 | 44.7% |
| % change | 16.6 | | 13.0 | |

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

| (CHF million) | 2012 | | 2011 | |
|--------------------|--------------|---------------|-------|--------|
| Employees | 1 982 | 49.5% | 1 818 | 53.0% |
| Public authorities | 409 | 10.2% | 335 | 9.7% |
| Lenders | 3 | 0.1% | 3 | 0.1% |
| Shareholders | 316 | 7.9% | 274 | 8.0% |
| Company | 1 293 | 32.3% | 1 002 | 29.2% |
| Total | 4 003 | 100.0% | 3 432 | 100.0% |

4. Outlook

The signals from the markets around the world clearly indicate continued healthy growth potential for the Swiss watch industry and the Swatch Group. As always, the focus is on producing innovative and high-quality Swiss products in every segment. Against this backdrop, there is a realistic prospect of long-term growth in the Swiss watch industry of five to ten percent per year.

The Swatch Group continues to have substantial potential for 2013, thanks also to the integration of Harry Winston to the brand portfolio. With this acquisition, the Swatch Group is present in all segments, including jewelry, with world-renowned, first-class brands with their fully integrated vertical production.

Consolidated income statement

| | Notes | 2012 | | 2011 | |
|---|------------------|--------------|--------------|-------------|--------|
| | | CHF million | % | CHF million | % |
| Gross sales | | 8 143 | 104.5 | 7 143 | 105.6 |
| Sales reductions | | - 347 | - 4.5 | - 379 | - 5.6 |
| Net sales | (5, 6a) | 7 796 | 100.0 | 6 764 | 100.0 |
| Other operating income | (6b) | 238 | 3.0 | 88 | 1.3 |
| Changes in inventories | | 722 | 9.2 | 799 | 11.8 |
| Material purchases | | - 2 356 | - 30.2 | - 2 221 | - 32.8 |
| Personnel expense | (6c) | - 1 982 | - 25.4 | - 1 818 | - 26.9 |
| Other operating expenses | (6d) | - 2 173 | - 27.9 | - 1 769 | - 26.1 |
| Depreciation, amortization and impairment charges | (10, 11, 12, 18) | - 261 | - 3.3 | - 229 | - 3.4 |
| Operating profit | | 1 984 | 25.4 | 1 614 | 23.9 |
| Other financial income and expense | (6f) | 18 | 0.2 | - 6 | - 0.1 |
| Interest expense | (6f) | - 3 | - 0.0 | - 3 | - 0.1 |
| Share of result from associates and joint ventures | (6f, 13) | 18 | 0.2 | 6 | 0.1 |
| Profit before taxes | | 2 017 | 25.8 | 1 611 | 23.8 |
| Income taxes | (7a) | - 409 | - 5.2 | - 335 | - 4.9 |
| Net income | | 1 608 | 20.6 | 1 276 | 18.9 |
| Attributable to equity holders of The Swatch Group Ltd | | 1 600 | | 1 269 | |
| Attributable to non-controlling interests | | 8 | | 7 | |
| Earnings per share (EPS) – expressed in CHF per share: | (8) | | | | |
| Registered shares | | | | | |
| Basic EPS | | 5.93 | | 4.70 | |
| Diluted EPS | | 5.92 | | 4.70 | |
| Bearer shares | | | | | |
| Basic EPS | | 29.64 | | 23.50 | |
| Diluted EPS | | 29.62 | | 23.48 | |

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

Consolidated statement of comprehensive income

| | 2012 | 2011 |
|--|--------------|-------------|
| | CHF million | CHF million |
| Net income | 1 608 | 1 276 |
| Other comprehensive income | | |
| Currency translation of foreign operations | – 42 | 6 |
| Share of other comprehensive income of associates | 1 | 0 |
| Taxes on OCI of associates | 0 | 0 |
| Other comprehensive income, net of tax | – 41 | 6 |
| Total comprehensive income, net of tax | 1 567 | 1 282 |
| Attributable to equity holders of The Swatch Group Ltd | 1 559 | 1 275 |
| Attributable to non-controlling interests | 8 | 7 |

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

Consolidated balance sheet

| Assets | Notes | 31.12.2012 | | 31.12.2011 | |
|--|-------|---------------|--------------|--------------|--------------|
| | | CHF million | % | CHF million | % |
| Non-current assets | | | | | |
| Property, plant and equipment | (10) | 1 889 | 16.8 | 1 665 | 17.0 |
| Investment property | (11) | 33 | 0.3 | 31 | 0.3 |
| Intangible assets | (12) | 615 | 5.5 | 328 | 3.3 |
| Investments in associates and joint ventures | (13) | 330 | 3.0 | 191 | 1.9 |
| Other non-current assets | (15) | 256 | 2.3 | 253 | 2.6 |
| Deferred tax assets | (7d) | 272 | 2.4 | 241 | 2.5 |
| Total non-current assets | | 3 395 | 30.3 | 2 709 | 27.6 |
| Current assets | | | | | |
| Inventories | (16) | 4 407 | 39.3 | 3 671 | 37.4 |
| Trade receivables | (17) | 1 060 | 9.4 | 894 | 9.1 |
| Other current assets | (18) | 376 | 3.3 | 338 | 3.5 |
| Current income tax assets | (7c) | 17 | 0.2 | 24 | 0.3 |
| Marketable securities and derivative financial instruments | (19) | 447 | 4.0 | 553 | 5.6 |
| Cash and cash equivalents | (20) | 1 520 | 13.5 | 1 616 | 16.5 |
| Total current assets | | 7 827 | 69.7 | 7 096 | 72.4 |
| Total assets | | 11 222 | 100.0 | 9 805 | 100.0 |

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

Consolidated balance sheet

| Equity and liabilities | Notes | 31.12.2012 CHF million | % | 31.12.2011 CHF million | % |
|--|-------|---|--------------|---------------------------|----------|
| Equity | | | | | |
| Share capital | (21a) | 125 | | 125 | |
| Treasury shares | (21b) | - 343 | | - 347 | |
| Other reserves | (21c) | - 320 | | - 280 | |
| Retained earnings | | 9 863 | | 8 556 | |
| Equity of The Swatch Group Ltd shareholders | | 9 325 | 83.1 | 8 054 | 82.1 |
| Non-controlling interests | | 19 | 0.2 | 17 | 0.2 |
| Total equity | | 9 344 | 83.3 | 8 071 | 82.3 |
| Non-current liabilities | | | | | |
| Financial debts | (22) | 60 | 0.5 | 73 | 0.8 |
| Other liabilities | (25) | 29 | 0.3 | 21 | 0.2 |
| Deferred tax liabilities | (7d) | 521 | 4.6 | 429 | 4.4 |
| Retirement benefit obligations | (23) | 24 | 0.2 | 23 | 0.2 |
| Provisions | (24) | 40 | 0.4 | 37 | 0.4 |
| Total non-current liabilities | | 674 | 6.0 | 583 | 6.0 |
| Current liabilities | | | | | |
| Trade payables | | 320 | 2.8 | 400 | 4.1 |
| Financial debts and derivative financial instruments | (22) | 75 | 0.7 | 18 | 0.2 |
| Other liabilities | (25) | 577 | 5.1 | 545 | 5.5 |
| Current income tax liabilities | (7c) | 167 | 1.5 | 122 | 1.2 |
| Provisions | (24) | 65 | 0.6 | 66 | 0.7 |
| Total current liabilities | | 1 204 | 10.7 | 1 151 | 11.7 |
| Total liabilities | | 1 878 | 16.7 | 1 734 | 17.7 |
| Total equity and liabilities | | 11 222 | 100.0 | 9 805 | 100.0 |

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

Consolidated statement of cash flows

| | | 2012 | 2011 |
|--|----------|--------------|--------------|
| | Notes | CHF million | CHF million |
| Operating activities | | | |
| Net income | | 1 608 | 1 276 |
| Reversal of non-cash items | (27a) | 638 | 598 |
| Changes in working capital and other items included in operating cash flow | (27b) | – 956 | – 855 |
| Dividends received from associated companies | (13) | 17 | 8 |
| Interest paid | | – 3 | – 4 |
| Interest received | | 11 | 7 |
| Income tax paid | (7c) | – 316 | – 325 |
| Cash flow from operating activities | | 999 | 705 |
| Investing activities | | | |
| Investments in tangible assets | (10, 11) | – 438 | – 365 |
| Proceeds from sale of tangible assets | | 6 | 17 |
| Investments in intangible assets | (12) | – 39 | – 28 |
| Proceeds from sale of intangible assets | | 1 | – |
| Investments in other non-current assets | (15) | – 18 | – 122 |
| Proceeds from sale of other non-current assets | | 9 | 2 |
| Acquisition of subsidiaries – net of cash | (14) | – 336 | – 7 |
| Investments in associated companies and joint ventures | (13) | – 140 | – 24 |
| Divestments of associated companies and joint ventures | | – | 2 |
| Purchase of marketable securities | | – 181 | – 229 |
| Sale of marketable securities | | 300 | 193 |
| Cash flow from investing activities | | – 836 | – 561 |
| Financing activities | | | |
| Dividend paid to shareholders | (9) | – 310 | – 270 |
| Dividend paid to non-controlling interests | | – 6 | – 4 |
| Purchase of treasury shares | (21b) | – 2 | – 54 |
| Sale of treasury shares | | 8 | 1 |
| Change in non-current financial debts | | – 6 | – 8 |
| Change in current financial debts | | 61 | – 15 |
| Cash flow from financing activities | | – 255 | – 350 |
| Net impact of foreign exchange rate differences on cash | | – 4 | – 3 |
| Change in cash and cash equivalents | | – 96 | – 209 |
| Change in cash and cash equivalents | | | |
| – At beginning of year | | 1 616 | 1 825 |
| – At end of year | (20) | 1 520 | 1 616 |

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-controlling interests | Total equity |
|---|---|------------------------------|-----------------------------|-------------------|--------------|---------------------------|--------------|
| | Share capital (Note 21) | Treasury shares (Note 21) | Other reserves (Note 21) | Retained earnings | | | |
| Balance at 31.12.2010 | 125 | -293 | -286 | 7 541 | 7 087 | 14 | 7 101 |
| Net income | | | | 1 269 | 1 269 | 7 | 1 276 |
| Other comprehensive income | | | 6 | | 6 | | 6 |
| Total comprehensive income 2011 | | | 6 | 1 269 | 1 275 | 7 | 1 282 |
| Dividends paid | | | | -270 | -270 | -4 | -274 |
| Share-based compensation (Note 28): | | | | | | | |
| – Value of employee services (net of tax) | | | | 15 | 15 | | 15 |
| – Proceeds from sale of shares | | | | 1 | 1 | | 1 |
| Repurchase of treasury shares | | -54 | | | -54 | | -54 |
| Balance at 31.12.2011 | 125 | -347 | -280 | 8 556 | 8 054 | 17 | 8 071 |
| Net income | | | | 1 600 | 1 600 | 8 | 1 608 |
| Other comprehensive income | | | -41 | | -41 | | -41 |
| Total comprehensive income 2012 | | | -41 | 1 600 | 1 559 | 8 | 1 567 |
| Dividends paid | | | | -310 | -310 | -6 | -316 |
| Share-based compensation (Note 28): | | | | | | | |
| – Value of employee services (net of tax) | | | | 16 | 16 | | 16 |
| – Proceeds from sale of shares | | | | 1 | 1 | | 1 |
| Repurchase of treasury shares | | -2 | | | -2 | | -2 |
| Sale of treasury shares | | 6 | | 1 | 7 | | 7 |
| Balance at 31.12.2012 | 125 | -343 | -321 | 9 864 | 9 325 | 19 | 9 344 |

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

Notes to the consolidated financial statements

1. General information

The Swatch Group Ltd (the Company) and its subsidiaries (collectively the Group) is active worldwide and represented in the finished watches and jewelry sector with 19 brands in all market and price brackets. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components production as well as in the electronic systems sector. During the year, no major changes occurred in the Group structure.

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

The shares of The Swatch Group Ltd are listed in Switzerland on the Main Market of the SIX Swiss Exchange, under the security numbers 1 225 514 (registered shares) and 1 225 515 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices 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 14 February 2013 and will be submitted to the Annual General Meeting of Shareholders for approval on 29 May 2013.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

The Group's consolidated financial statements have been prepared on a historical cost basis, except for certain items such as financial instruments at fair value through profit or loss and derivatives, as disclosed in the accounting policies below. The consolidated financial statements are presented in Swiss Francs (CHF) and all values are rounded to the nearest million, unless otherwise stated.

The consolidated financial statements of the Swatch Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The preparation of consolidated financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The annual closing date for all the individual company accounts is 31 December. For all the companies consolidated, the financial year corresponds to the calendar year.

b. Consolidation policy

The subsidiaries are those entities controlled directly or indirectly by The Swatch Group Ltd, where control is defined by the accounting standards as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is generally evidenced by the holding of more than one half of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Companies are fully consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control ceases.

The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Notes to the consolidated financial statements

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Non-controlling interests in equity and net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are accounted for as equity transactions provided that control continues.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in full. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Associates are all entities over which the Group has significant influence but not control. This is generally evidenced when the Group owns 20% to 50% of the voting rights or potential voting rights of the company. Investments in associates are accounted for using the equity method and are initially recognized at cost. Unrealized gains and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group's interests in jointly controlled entities (joint ventures) are also reported using the equity method.

At the end of 2012, the Group's consolidated financial statements included 159 legal entities (compared with 155 in the previous year), of which one was a joint venture (one in 2011) and seven were associates (seven in 2011). A full list of consolidated companies is provided in Note 32.

c. Changes in accounting policies

The Group has adopted those new or amended International Financial Reporting Standards (IFRS) and interpretations (IFRIC) mandatory for accounting periods beginning on or after 1 January 2012. The following amended standards and new interpretations are mandatory for the first time for accounting periods beginning on or after 1 January 2012, but have no material impact or are currently not relevant for the Group:

- IFRS 7 (amendment) Financial instruments: Disclosures – Transfer of financial assets (effective from 1 July 2011)
- IAS 12 (amendment) Income taxes – Deferred tax: Recovery of underlying assets (effective from 1 January 2012)

Announced adoption of Swiss GAAP FER accounting standards

The Board of Directors has decided in October 2012 to switch its accounting standards as of 1 January 2013 from IFRS to Swiss GAAP FER. Swiss GAAP FER is a recognized, comprehensive and straightforward set of accounting standards which will allow the Group to continue publishing high quality and transparent financial reports in compliance with the requirement to present a true and fair view.

The conversion from IFRS to Swiss GAAP FER will impact the consolidated financial statements mainly in the following areas:

- Goodwill identified in business combinations will either be offset directly with equity, or capitalized and amortized over a period of 5 - 20 years. The impairment test remains. Under IFRS, goodwill was capitalized and not amortized but tested annually for impairment.
- Goodwill included in the cost value of associates and joint ventures will be separated and either offset directly with equity or capitalized and amortized over a period of 5 - 20 years.
- According to Swiss GAAP FER 16 "Pension benefit obligations", the existing economic obligations or benefits relating to the Swiss pension fund are measured based on the pension fund's financial statements in accordance with Swiss GAAP FER 26 "Accounting of pension plans". It will be a matter of judgment to determine if an economic benefit or obligation exists. Under IFRS, defined benefit plans were measured using the projected unit credit method and recognized in accordance with IAS 19.

The Swiss GAAP FER restatement as of 1 January 2012 will be published in the Group's half-year report as at 30 June 2013.

Notes to the consolidated financial statements

d. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Although the Group's operations are worldwide, the product perspective remains the main managerial focus. 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 three reportable operating segments:

| | |
|----------------------|---|
| – Watches & Jewelry | Sale of finished watches and jewelry |
| – Production | Manufacture of watches, watch movements and jewelry |
| – Electronic Systems | Design, production and commercialization of electronic components, Sports timing activities |

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

Corporate services do not qualify as segment according to IFRS 8 but are shown separately. They include the activities of the Group's holding, finance, research and development, real estate and several other companies. None of these activities are of a sufficient size to require separate presentation. Elimination of inter-segment sales, income and expense as well as assets and liabilities is shown in the column «Elimination».

Group Management assesses the performance of the operating segments based on net sales and operating profit. Sales to third-party customers are presented separately from sales to other operating divisions, and internal Group sales are recognized at arm's length. Segment expenses are those that can be directly attributed to the segment. 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 in «Corporate».

The assets of the segments mainly consist of land and buildings, equipment and machinery, intangible assets, inventories, trade accounts receivable and cash and cash equivalents. Segment liabilities include operating commitments.

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. They include all non-current assets except deferred tax assets and pension plan assets.

Notes to the consolidated financial statements

e. Foreign currency translation Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss Francs, which is the Company's presentation currency.

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any gains and losses resulting from these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Income statements of Group entities with a functional currency different from the Swiss Franc are translated at average exchange rates as an approximation of exchange rates prevailing at the date of the transaction; balance sheets are translated at the year-end exchange rate. All resulting translation differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognized in the income statement as part of the gain or loss on the sale.

In the reporting periods, none of the Group entities has the currency of a hyperinflationary economy.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end rate.

The main exchange rates used are:

| Currency | Unit | Average rates | Prevailing rates | Average rates | Prevailing rates |
|----------|------|---------------|------------------|---------------|------------------|
| | | 2012 | 31.12.2012 | 2011 | 31.12.2011 |
| | | CHF | CHF | CHF | CHF |
| CNY | 1 | 0.1486 | 0.1471 | 0.1376 | 0.1497 |
| EUR | 1 | 1.2052 | 1.2075 | 1.2383 | 1.2190 |
| HKD | 1 | 0.1208 | 0.1183 | 0.1140 | 0.1213 |
| JPY | 100 | 1.1735 | 1.0650 | 1.1163 | 1.2160 |
| USD | 1 | 0.9369 | 0.9165 | 0.8874 | 0.9425 |

f. Revenue recognition

Revenue is recognized as follows:

Goods and services

The Group records invoiced gross amounts for the sale of goods and services, net of value-added tax, as gross sales. Any differences between the gross sales price invoiced and the net sales price actually agreed to be paid, such as rebates and other discounts, are recorded as sales reductions. Net sales comprise the fair value for the sale of goods and services and represent revenue.

Intercompany sales are eliminated on consolidation.

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

Interest income

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

Dividend income

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

Notes to the consolidated financial statements

g. Property, plant and equipment

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

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

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

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

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

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

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

h. Investment property

Investment properties comprise mainly residential properties. They are held for long-term rental yields and are not occupied by the Group. Some land reserves are held with undetermined use. Investment property is carried at historical cost less accumulated depreciation and any impairment in value. The useful life of residential properties is estimated at 50 years.

Fair values are disclosed in Note 11. They are determined by capitalization of rental income for rented buildings plus an estimated market value of land reserves.

i. Intangible assets

Goodwill

Goodwill represents the excess of the acquisition price over the fair value of the Group's share of net identifiable assets of the acquired company at the date of acquisition. Goodwill is tested annually for impairment and in addition, when indications of impairment exist. Goodwill is carried at initial value less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing. The CGU's represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. They correspond to the Group's profit centers (see Note 12).

Capitalized development costs

Research costs are not capitalized but expensed when incurred. Development costs are capitalized if they can be identified as an intangible asset that is expected to generate future economic benefits, and the cost can be measured reliably. Other development costs are expensed as incurred. Once a product enters into commercial production, the capitalized development costs are amortized on a straight-line basis over the estimated useful life (maximum five years).

Notes to the consolidated financial statements

Other intangible assets

In addition, the heading intangible assets includes:

- Licenses purchased granting rights to use new technologies or software. They are amortized over their useful life (maximum five years).
- Internally developed software and software implementation costs. These costs are recognized as an intangible asset if it is probable that they generate future economic benefits. The costs include software development employee costs and the direct portion of related overheads. The capitalized costs are amortized on a straight-line basis over the estimated useful life (maximum five years).
- Key money paid for strategically located retail shops. If their value can be demonstrated by the presence of a market, they are capitalized as intangible assets with definite useful life and amortized to the expected residual value over the useful life of the premises. On the other hand, key money that is not refundable or refundable only upon certain conditions being met is treated as prepaid rent and included in "Other non-current assets" (see Note 15).
- Customer relationships and unpatented technologies acquired in business combinations. They are amortized over a period of up to 15 years.

j. Impairment of assets

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

k. Financial assets

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

The Group classifies its financial assets, principally investments, in the following categories: financial assets at fair value as well as financial assets at amortized cost. The classification depends on the Group's business model for managing the investments and the contractual cash flow characteristics of the financial assets.

Financial assets at amortized cost

A financial asset is classified as measured at amortized cost if both of the two following criteria are met: the financial asset is held within a business model whose objective is to hold these assets to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category consists of trade receivables, other current receivables, security deposits as well as other financial assets.

Financial assets at fair value

If either of the two criteria for financial assets at amortized cost are not met, the financial asset is classified as measured at FVTPL. All realized and unrealized gains and losses arising from changes in the fair value are recognized in the income statement.

This category consists of marketable securities and derivative financial instruments.

The Group has not designated any investment as measured at FVTPL to eliminate or significantly reduce an accounting mismatch.

Notes to the consolidated financial statements

l. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average price method. Some companies, particularly those in the Production segment, value their inventories using the standard cost method. As these costs are regularly reviewed and adjusted, this method approximates the results of the weighted average price method. The valuation of spare parts for customer service is confined to those units that are considered likely to be used, based on historical demand.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

m. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

n. Trade receivables

Trade receivables are recognized and carried at the original net invoice amount less an allowance for any impaired receivables, which approximates amortized cost. Provision is made for balances overdue more than 12 months or for receivables where specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables.

o. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at banks and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of short-term bank overdrafts.

p. Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares each with a nominal value of CHF 0.45 and of bearer shares each with a nominal value of CHF 2.25. Other than the higher voting power of registered shares, no differences in terms of shareholder rights exist between the two categories.

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

q. Financial debts

Financial debts are initially recognized at fair value, including transaction costs incurred. Financial debts are subsequently stated at amortized cost.

They are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the consolidated financial statements

r. Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value and related transaction costs expensed in the income statement. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Certain derivatives can be designated as hedges of a risk associated with a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

The Group can hedge cash flows of forecasted intragroup transactions. In this case, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement respectively within the financial result.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of derivatives hedging purchases is recognized in the income statement within material purchases.

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

Derivatives at fair value through profit or loss

Derivatives not designated as hedging instruments are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognized immediately in the income statement.

s. Income taxes

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

Current income tax

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

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. If the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

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

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

Notes to the consolidated financial statements

t. Pensions and other post-employment benefits

Pension obligations

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

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

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

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

Other post-employment benefits

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

Termination benefits

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

u. Provisions

Provisions are recognized:

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate 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 pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Notes to the consolidated financial statements

v. Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (calculated using the «Black-Scholes» model), excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Equity increases by the corresponding amounts of employee service cost over the vesting period. The proceeds received net of any transaction cost are credited to equity when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 8).

w. Leases

Finance leases

A finance lease is where the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the leased item. At the inception of the lease, finance leases are capitalized at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Each lease payment is apportioned between the finance charges and the reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income statement. Capitalized leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

Operating leases

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

x. Dividends

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

Notes to the consolidated financial statements

3. Financial risk management

a. Financial risk factors

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

The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, with the aim of minimizing its impact on Group earnings before taxes and net income. In order to hedge exchange rate risk, the Group uses derivative financial instruments such as forward currency contracts or currency options.

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

1. Market risk

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

1.1 Foreign exchange risk

The Group's consolidated financial statements are published in Swiss Francs. As foreign exchange risks are managed centrally by the treasury department (Group Treasury), the local entities are not significantly exposed to specific foreign exchange risks. The foreign exchange risks arise primarily from fluctuation of currencies against the Swiss Franc, mainly the Euro, the US Dollar, the Chinese Yuan as well as the Japanese Yen. Consequently, the Group may enter into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The Group may also use forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies. Group companies enter into special exchange rate agreements with the Group's treasury department guaranteeing a standard exchange rate for a term of one month. The treasury department, for its part, is responsible for hedging net positions in foreign currencies with external counterparties.

Sensitivity analysis on foreign exchange risk

Financial instruments affected by foreign exchange risk include trade and other receivables, trade and other payables, financial debts, derivatives, marketable securities, cash and cash equivalents including third party as well as intercompany transactions. The size of the exposure sensitive to changes in the exchange rates can fluctuate significantly, so the position at the balance sheet date may not be representative for the financial period on average.

The illustrative effect on earnings after tax that would result from reasonably possible changes in exchange rates can be summarized as follows:

| Currency | 31.12.2012 | | | 31.12.2011 | | |
|----------|-------------------------------------|---------------------------------|------|-------------------------------------|---------------------------------|-----|
| | Change on exchange rate + / - | Income statement CHF million | | Change on exchange rate + / - | Income statement CHF million | |
| | | + | - | | + | - |
| CNY/CHF | 5% | 10 | - 10 | 5% | 2 | - 4 |
| EUR/CHF | 5% | 2 | - 2 | 5% | 7 | - 7 |
| HKD/CHF | 5% | 1 | - 1 | 5% | 0 | 0 |
| JPY/CHF | 5% | 2 | - 3 | 5% | - 1 | 0 |
| USD/CHF | 5% | 2 | - 4 | 5% | - 1 | - 1 |

As no items are recognized directly in equity, the illustrative impact on equity of the changes in exchange rates shown above is zero.

Notes to the consolidated financial statements

1.2 Price risk

1.2.1 Commodities

The Group has a certain exposure to commodity price risk relating to the purchase of precious metals and gems, which are used in its manufacturing processes. The Group does not enter into significant commodity futures, forward and option contracts to manage fluctuations in prices of anticipated purchases.

1.2.2 Equity investment risk

The Group purchases equity instruments as investments of its liquid funds. Such instruments are recognized as marketable securities. Potential investments need to comply with the asset allocation and portfolio limit structure defined by the Group's management bodies. According to its policy, the Group limits its holdings in equity investments to 15% of its liquid funds. They are thoroughly analyzed in respect to their past financial track record (mainly cash flow return on investment), their market potential, their management and their competitors. In 2012, over 90% (2011: over 90%) of the Group's equity investments were related to shares listed on a main index (SMI/SPI, Dow Jones EURO STOXX 50, S&P 500, Nikkei).

Sensitivity analysis on equity investment risk

The table below summarizes the impact of increases/decreases of the main equity indexes on the Group's earnings after tax for the year. There is no impact exclusively on equity as none of the equity investments are classified in a financial assets category where the result is recognized directly in other comprehensive income. The analysis is based on the assumption that the equity indexes had increased/decreased by a certain percentage with all other variables held constant and that all the Group's equity instruments moved according to the historical correlation with the index.

| Index | 31.12.2012 | | | 31.12.2011 | | |
|-------------------------|------------|------------------|-----|------------|------------------|-----|
| | Change on | Income statement | | Change on | Income statement | |
| | index | CHF million | | index | CHF million | |
| | + / - | + | - | + / - | + | - |
| Dow Jones EURO STOXX 50 | 5% | 1 | - 1 | 5% | 1 | - 1 |
| SMI + SPI | 5% | 4 | - 4 | 5% | 3 | - 3 |

Earnings after tax for the year would increase/decrease as a result of gains/losses on equity securities measured at fair value through profit or loss.

1.3 Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its net exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio.

Due to a comfortable liquidity situation and, as most of the financial debts are issued at fixed rates, interest rate fluctuations do not have a major impact on the Group's financial results.

In the context of balance sheet liabilities management, the Group has not used interest rate swaps during the two years under review, and there are no outstanding positions relating to interest rate swaps in the Group's financial statements.

Sensitivity analysis on bond investment risk

Changes in the market interest rates affect the fair value of bond securities measured at fair value through profit or loss. The sensitivity analysis presented below is based on the assumption that the interest rates had increased/decreased by 100 basis points for all currencies with all other variables held constant.

At 31 December 2012, an increase of interest rates by 100 basis points would have reduced Group profit after tax by CHF 5 million (2011: CHF 9 million). On the other hand, a decrease of interest rates by 100 basis points would have increased Group profit after tax by CHF 5 million (2011: CHF 9 million).

Notes to the consolidated financial statements

2. Credit risk

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

In the context of securities trading, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. In general, issuer risk is minimized by only buying securities which are investment grade rated. As at 31 December 2012, over 99% of investments in bonds were investment grade rated (2011: over 99%).

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit standings are usually at least A-. Exposure to this type of risk is closely monitored by Group management and is contained within strict and pre-determined limits.

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

3. Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. The close monitoring of liquidity at Group level and of the allocation of resources allows the Group's treasury department to maintain adequate levels of liquidity at all times. In order to meet any exceptional liquidity requirements, the Group maintains lines of credit with a number of financial institutions.

As at the balance sheet date, the available liquidity can be summarized as follows:

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|--------------|--------------|
| Cash and cash equivalents | 1 520 | 1 616 |
| Marketable securities | 447 | 553 |
| Liquidity reserves | 1 967 | 2 169 |
| Committed credit facilities | 581 | 392 |
| ./ Utilized credit facilities | - 129 | - 83 |
| Total liquidity reserves and undrawn credit facilities | 2 419 | 2 478 |

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| (CHF million) | less than 1 year | 1–5 years | over 5 years |
|----------------------------------|------------------|-----------|--------------|
| Non-current financial debts | – | 27 | 40 |
| Trade payables | 320 | – | – |
| Other payables | 116 | – | – |
| Current financial debts | 73 | – | – |
| Derivative financial instruments | 2 | – | – |
| Total at 31.12.2012 | 511 | 27 | 40 |
| Non-current financial debts | 2 | 30 | 51 |
| Trade payables | 400 | – | – |
| Other payables | 103 | – | – |
| Current financial debts | 14 | – | – |
| Derivative financial instruments | 4 | – | – |
| Total at 31.12.2011 | 523 | 30 | 51 |

Notes to the consolidated financial statements

b. Fair value disclosures

The following table shows the carrying amount and the fair value of Group assets and liabilities that are considered as financial instruments:

| (CHF million) | 31.12.2012 | | 31.12.2011 | |
|---|-----------------|--------------|-----------------|--------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Security deposits (Note 15) | 45 | 45 | 37 | 37 |
| Other financial assets (Note 15) | 106 | 106 | 116 | 116 |
| Trade receivables (Note 17) | 1 060 | 1 060 | 894 | 894 |
| Other current receivables (Note 18) | 161 | 161 | 148 | 148 |
| Financial assets at amortized cost | 1 372 | 1 372 | 1 195 | 1 195 |
| Marketable securities at fair value | 447 | 447 | 553 | 553 |
| Derivative financial assets | 0 | 0 | 0 | 0 |
| Financial assets at fair value (Note 19) | 447 | 447 | 553 | 553 |
| Cash and cash equivalents (Note 20) | 1 520 | 1 520 | 1 616 | 1 616 |
| Cash and cash equivalents | 1 520 | 1 520 | 1 616 | 1 616 |
| Total financial assets | 3 339 | 3 339 | 3 364 | 3 364 |
| Non-current financial debts (Note 22) | 60 | 63 | 73 | 77 |
| Trade payables | 320 | 320 | 400 | 400 |
| Other payables (Note 25) | 116 | 116 | 103 | 103 |
| Current financial debts (Note 22) | 73 | 73 | 14 | 14 |
| Financial liabilities at amortized cost | 569 | 572 | 590 | 594 |
| Derivative financial instruments (Note 22) | 2 | 2 | 4 | 4 |
| Financial liabilities at fair value | 2 | 2 | 4 | 4 |
| Total financial liabilities | 571 | 574 | 594 | 598 |

The Group has established the following fair value hierarchy that reflects the significance of inputs used in making the fair value measurements:

- Level 1: quoted prices in active markets for identical assets and liabilities
- Level 2: observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3: unobservable inputs

The following table summarizes the Group's financial assets and liabilities at fair value, by valuation method:

| (CHF million) | 31.12.2012 | | | | 31.12.2011 | | | |
|--|------------|----------|-----------|------------|------------|----------|-----------|------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Marketable securities at fair value | 431 | – | 16 | 447 | 537 | – | 16 | 553 |
| Derivative financial assets | – | 0 | – | 0 | – | 0 | – | 0 |
| Financial assets at fair value | 431 | 0 | 16 | 447 | 537 | 0 | 16 | 553 |
| Derivative financial instruments | – | 2 | – | 2 | – | 4 | – | 4 |
| Financial liabilities at fair value | – | 2 | – | 2 | – | 4 | – | 4 |

Financial assets at fair value categorized in level 3 consist of the Group's private equity investments. In 2012 and 2011, there were no material purchases, sales or transfers in this category.

Notes to the consolidated financial statements

c. 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 2012, equity represented 83.3% (31 December 2011: 82.3%) of total assets.

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

To 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. Neither The Swatch Group Ltd nor any of its subsidiaries are subject to externally imposed capital requirements.

4. Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgments. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual 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.

a. Critical accounting estimates and judgments

The key estimates and assumptions about the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described below.

Inventory abatements

At 31 December 2012, inventories total CHF 4 407 million, as set out in Note 16. In determining net realizable values of inventory, management needs to assess whether or not inventory abatements are required. Estimates are made for spare parts used in customer service as well as for watch components and finished goods in order to determine a realistic value for these inventory items. In 2012, the Group recorded write-downs of CHF 17 million. Unexpected changes in fashion, technology and customer needs could lead to situations where the actual inventory abatements would need to be modified.

Allowance for impaired receivables

To cover any shortfalls from current trade receivables, the Group records an allowance for impaired receivables based on historical information and on estimates in regard to the solvency of customers. At 31 December 2012, gross trade receivables amounted to CHF 1 068 million and the allowance for impaired receivables to CHF 8 million (see Note 17). Unexpected financial problems of major customers could lead to a situation where the recorded allowance is insufficient.

Impairment of assets

The Group has property, plant and equipment with a carrying value of CHF 1 889 million as disclosed in Note 10, and intangible assets (including goodwill) amounting to CHF 615 million (see Note 12). All of these assets are reviewed for impairment as described in Note 2j. To assess whether any impairment may exist, impairment tests are made based on future cash flows and the economic benefits of the assets. Actual outcomes could vary significantly from such estimates. Changes in factors such as the planned use of fixed assets, technology or market development could lead to different economic values. In the period under review, no significant impairments had to be recorded.

Warranty claims

The Group generally offers a two-year warranty for watches. The related provision for anticipated warranty claims amounts to CHF 78 million, as disclosed in Note 24. Management estimates this provision mainly based on historical warranty claim statistics. Factors that could impact these estimates include the success of the Group's quality initiatives, parts and labour costs as well as customer behaviour. Any material change of these factors could result in higher or lower warranty costs for the Group.

Notes to the consolidated financial statements

Pension benefits

The present value of the Group's pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions. The assumptions used in determining the net cost for pensions include the discount rate, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions would impact the carrying amount of pension obligations. Due to the long-term nature of the pension plans, such estimates are subject to significant uncertainties.

Legal claims

Some Group companies are involved in litigation and disputes arising from the ordinary course of their business. Legal provisions at 31 December 2012 total CHF 6 million (see Note 24). Management estimated the outcome of these lawsuits on the basis of currently available information. However, there are inherent risks within legal claims depending on court and adversary party behaviour and opinion. Moreover, the Group being listed on the Swiss Stock Exchange also finds itself under permanent review regarding the observation of all rules and regulations. Despite the considerable effort to fully comply with the increasing number of laws, rules and regulations at all times and on all levels in all countries in which the Group develops activities, there remains a certain risk of oversight which could impact future earnings.

Taxes and duties

The Group is subject to various taxes, levies and duties in numerous jurisdictions. In this respect the Group and its subsidiary companies are regularly exposed to audits and interpretations by the various governmental bodies and authorities, where the outcome of findings particularly in the area of transfer pricing depends very often on individual judgments. Considerable judgment is required in determining tax provisions. Liabilities for anticipated tax audit issues are recognized based on estimates of whether additional taxes will be due. These estimates rely on exogenous factors and therefore include some uncertainties, which in a negative scenario could lead to additional tax liabilities in the future.

Furthermore, the capitalization of deferred tax assets is based on assumptions about the future profitability of certain Group companies. There is an inherent risk that these estimates made by management may turn out to be too optimistic or too pessimistic.

b. Critical judgments in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management may be required to make judgments, apart from those involving estimates, which can have a significant effect on the amounts recognized in the consolidated financial statements. These include, but are not limited to, the following:

Consolidation of subsidiaries and associates

The Group sometimes undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other entities. Such transactions include the acquisition of a part or 100% of the equity of other entities (share deal) or the purchase of net assets of other entities (asset deal). In such cases, management makes an assessment as to whether the Group has the right to control or significantly influence the other entities' operations. Based on this judgment, the stake in the new entity can be fully consolidated, considered an associate or treated as a financial investment. In making this judgment, management considers the underlying economic substance of the transaction and not only the contractual terms.

Notes to the consolidated financial statements

5. Segment information

a. Operating segment information

Income statement

| 2012 (CHF million) | Watches & Jewelry | Production | Electronic Systems | Corporate | Elimination | Total |
|-------------------------|----------------------|--------------|-----------------------|-------------|----------------|--------------|
| – Third parties | 7 295 | 559 | 281 | 8 | | 8 143 |
| – Group | 3 | 1 658 | 30 | 5 | – 1 696 | – |
| Gross sales | 7 298 | 2 217 | 311 | 13 | – 1 696 | 8 143 |
| – Third parties | 6 952 | 558 | 278 | 8 | | 7 796 |
| – Group | 3 | 1 657 | 30 | 4 | – 1 694 | – |
| Net sales | 6 955 | 2 215 | 308 | 12 | – 1 694 | 7 796 |
| Operating profit | 1 633 | 442 | 1 | – 92 | – | 1 984 |
| – As a % of net sales | 23.5 | 20.0 | 0.3 | | | 25.4 |
| – As a % of total | 82.3 | 22.3 | 0.1 | – 4.7 | | 100.0 |

| 2011 (CHF million) | Watches & Jewelry | Production | Electronic Systems | Corporate | Elimination | Total |
|-----------------------|----------------------|------------|-----------------------|-----------|-------------|-------|
| – Third parties | 6 309 | 518 | 308 | 8 | | 7 143 |
| – Group | 3 | 1 497 | 28 | 4 | – 1 532 | – |
| Gross sales | 6 312 | 2 015 | 336 | 12 | – 1 532 | 7 143 |
| – Third parties | 5 950 | 500 | 306 | 8 | | 6 764 |
| – Group | 3 | 1 472 | 28 | 4 | – 1 507 | – |
| Net sales | 5 953 | 1 972 | 334 | 12 | – 1 507 | 6 764 |
| Operating profit | 1 352 | 322 | 13 | – 73 | – | 1 614 |
| – As a % of net sales | 22.7 | 16.3 | 3.9 | | | 23.9 |
| – As a % of total | 83.8 | 19.9 | 0.8 | – 4.5 | | 100.0 |

Balance sheet and other information

| 2012 (CHF million) | Watches & Jewelry | Production | Electronic Systems | Corporate | Elimination | Total |
|--|----------------------|--------------|-----------------------|--------------|----------------|----------------|
| Balance sheet | | | | | | |
| – Segment assets | 6 929 | 2 285 | 518 | 3 317 | – 2 157 | 10 892 |
| – Equity in associated companies and joint ventures | 6 | 0 | – | 324 | | 330 |
| Total assets | 6 935 | 2 285 | 518 | 3 641 | – 2 157 | 11 222 |
| Total liabilities | – 2 340 | – 724 | – 102 | – 869 | 2 157 | – 1 878 |
| Net assets | 4 595 | 1 561 | 416 | 2 772 | – | 9 344 |

Other information

| | | | | | | |
|---|-------|-------|------|-----|------|-------|
| Investments in tangible assets | 134 | 291 | 12 | 7 | | 444 |
| Investments in intangible assets | 28 | 5 | 3 | 2 | | 38 |
| Investments in other non-current assets | 18 | 0 | 0 | 0 | | 18 |
| Depreciation on tangible assets | – 82 | – 118 | – 30 | – 9 | | – 239 |
| Amortization on intangible assets | – 12 | – 5 | – 3 | – 2 | | – 22 |
| Impairment charges | 0 | – | – | – | | 0 |
| Interest income | 4 | 0 | 0 | 22 | – 16 | 10 |
| Interest expenses | – 14 | – 3 | 0 | – 2 | 16 | – 3 |
| Share of result from associates and joint ventures | 1 | 0 | – | 17 | | 18 |
| Income taxes | – 320 | – 86 | 1 | – 4 | | – 409 |

Notes to the consolidated financial statements

| 2011 (CHF million) | Watches & Jewelry | Production | Electronic Systems | Corporate | Elimination | Total |
|--|----------------------|--------------|-----------------------|--------------|----------------|----------------|
| Balance sheet | | | | | | |
| – Segment assets | 5 774 | 1 920 | 582 | 3 213 | – 1 875 | 9 614 |
| – Equity in associated companies and joint ventures | 6 | 0 | – | 185 | | 191 |
| Total assets | 5 780 | 1 920 | 582 | 3 398 | – 1 875 | 9 805 |
| Total liabilities | – 2 013 | – 669 | – 108 | – 819 | 1 875 | – 1 734 |
| Net assets | 3 767 | 1 251 | 474 | 2 579 | – | 8 071 |
| Other information | | | | | | |
| Investments in tangible assets | 125 | 229 | 9 | 13 | | 376 |
| Investments in intangible assets | 17 | 3 | 3 | 5 | | 28 |
| Investments in other non-current assets | 14 | 0 | 0 | 112 | | 126 |
| Depreciation on tangible assets | – 67 | – 107 | – 29 | – 7 | | – 210 |
| Amortization on intangible assets | – 10 | – 5 | – 2 | – 2 | | – 19 |
| Impairment charges | – | – | – | – | | 0 |
| Interest income | 4 | 0 | 1 | 17 | – 15 | 7 |
| Interest expenses | – 11 | – 4 | 0 | – 3 | 15 | – 3 |
| Share of result from associates and joint ventures | 1 | 0 | – | 5 | | 6 |
| Income taxes | – 272 | – 59 | – 1 | – 3 | | – 335 |

b. Information on geographical regions

| (CHF million) | 2012 | | 2011 | |
|---------------------|--------------|-----------------------|--------------|-----------------------|
| | Net sales | Non-current assets | Net sales | Non-current assets |
| Switzerland | 1 084 | 2 193 | 902 | 1 566 |
| Other Europe | 1 772 | 267 | 1 561 | 249 |
| Total Europe | 2 856 | 2 460 | 2 463 | 1 815 |
| Greater China | 2 869 | 309 | 2 569 | 282 |
| Other Asia | 1 297 | 208 | 1 083 | 236 |
| Total Asia | 4 166 | 517 | 3 652 | 518 |
| Total America | 643 | 57 | 535 | 51 |
| Total Oceania | 80 | 3 | 73 | 4 |
| Total Africa | 51 | 3 | 41 | 3 |
| Total | 7 796 | 3 040 | 6 764 | 2 391 |

Non current assets under the caption "Other Asia" include CHF 176 million (previous year: CHF 204 million) relating to Japan, consisting mainly of the investment in the N. G. Hayek Building in Tokyo.

c. Significant customers

The Group has a large number of customers worldwide. In 2012, one specific external customer of the Watches & Jewelry segment accounted for 11.1% of the Group's net sales (previous year: 10.8%).

Notes to the consolidated financial statements

6. Revenues and expenses

| | | | |
|-------------------------------------|------------------------|--------------|-------|
| a. Analysis of sales revenue | (CHF million) | 2012 | 2011 |
| | Sale of goods | 7 774 | 6 733 |
| | Rendering of services | 22 | 31 |
| | Total net sales | 7 796 | 6 764 |

b. Other operating income In 2012, other operating income amounted to CHF 238 million (2011: CHF 88 million). The increase is mainly due to the timekeeping services rendered in 2012 for the Olympics.

| | | | |
|-----------------------------|--|--------------|-------|
| c. Personnel expense | (CHF million) | 2012 | 2011 |
| | Wages and salaries | 1 618 | 1 481 |
| | Social security costs | 265 | 232 |
| | Share-based compensation (Note 28) | 16 | 16 |
| | Pension costs – defined benefit plans (Note 23) | 75 | 82 |
| | Pension costs – defined contribution plans (Note 23) | 7 | 7 |
| | Other post-employment benefits (Note 23) | 1 | 0 |
| | Total personnel expense | 1 982 | 1 818 |

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

| | | |
|---------------------------------------|---------------|--------|
| (Unaudited) | 2012 | 2011 |
| Average annual headcount | 28 942 | 26 777 |
| Total headcount at 31 December | 29 788 | 28 028 |
| Men | 13 437 | 12 505 |
| Women | 16 351 | 15 523 |
| Swiss contracts | 15 800 | 14 696 |
| Non-Swiss contracts | 13 988 | 13 332 |

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) | 2012 | 2011 |
| | Marketing, sales and administration | 1 097 | 948 |
| | Subcontracting and other direct costs of sales | 295 | 287 |
| | Maintenance, rents and energy | 604 | 487 |
| | Other operating expenses | 177 | 47 |
| | Total other operating expenses | 2 173 | 1 769 |

e. Research and development costs Research and development (R&D) costs amounted to CHF 178 million in 2012, representing 2.3% of net sales (compared with CHF 160 million or 2.4% in 2011).

| | | | |
|--------------------------------|---|-------------|------|
| f. Net financial result | (CHF million) | 2012 | 2011 |
| | Interest income | 10 | 7 |
| | Result from marketable securities at fair value and derivatives | 27 | –4 |
| | Net result from investment property | 2 | 5 |
| | Net currency result | –17 | –10 |
| | Other financial expense | –4 | –4 |
| | Other financial income and expense | 18 | –6 |
| | Interest expense | –3 | –3 |
| | Share of result from associates and joint ventures | 18 | 6 |
| | Net financial result | 33 | –3 |

Notes to the consolidated financial statements

7. Income taxes

a. Income tax expenses

| (CHF million) | 2012 | 2011 |
|--|------------|------------|
| Current income taxes | 372 | 278 |
| Adjustments recognized for current income taxes of prior periods | - 4 | 2 |
| Deferred taxes | 41 | 55 |
| Total income taxes | 409 | 335 |

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.

| | 2012 | 2011 |
|--|-------------|-------------|
| | % | % |
| Group's average expected tax rate | 20.6 | 20.1 |
| Tax effect of: | | |
| – Change in the applicable tax rate on temporary differences | - 0.2 | - 0.4 |
| – Recognition of tax losses not recognized in prior years | - 0.3 | - 0.2 |
| – Utilization of previously unrecognized tax losses | - 0.1 | - 0.2 |
| – Unrecognized current year tax losses | 0.4 | 0.5 |
| – Non-taxable income | - 0.1 | - 0.2 |
| – Non-tax-deductible expenses | 0.2 | 0.9 |
| – Items taxable at reduced rates | - 0.5 | - 0.4 |
| – Adjustments recognized for current taxes of prior periods | - 0.2 | 0.1 |
| – Other items | 0.5 | 0.6 |
| Group's effective tax rate | 20.3 | 20.8 |

c. Current income tax

| (CHF million) | 2012 | 2011 |
|---|--------------|--------------|
| Net current income tax liability | | |
| Balance at 1 January | - 98 | - 144 |
| Recognized in income statement | - 368 | - 280 |
| Recognized in equity | 0 | 0 |
| Income taxes paid | 316 | 325 |
| Translation differences | 0 | 1 |
| Balance at 31 December | - 150 | - 98 |
| thereof current income tax assets | 17 | 24 |
| thereof current income tax liabilities | - 167 | - 122 |

d. Deferred tax

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

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

| (CHF million) | 31.12.2012 | | | 31.12.2011 | | |
|--|------------|--------------|--------------|------------|--------------|--------------|
| | Assets | Liabilities | Net amount | Assets | Liabilities | Net amount |
| Inventories | 230 | - 342 | - 112 | 190 | - 282 | - 92 |
| Trade and other receivables | 5 | - 22 | - 17 | 5 | - 19 | - 14 |
| Property, plant and equipment | 11 | - 106 | - 95 | 9 | - 93 | - 84 |
| Intangible assets | 2 | - 11 | - 9 | 2 | - 5 | - 3 |
| Provisions | 10 | - 44 | - 34 | 12 | - 34 | - 22 |
| Retirement benefit obligations | 4 | - 17 | - 13 | 5 | - 16 | - 11 |
| Tax losses | 19 | - | 19 | 27 | - | 27 |
| Other | 42 | - 30 | 12 | 34 | - 23 | 11 |
| Total deferred tax assets (liabilities) | 323 | - 572 | - 249 | 284 | - 472 | - 188 |
| Deferred tax assets on the balance sheet | | | 272 | | | 241 |
| Deferred tax liabilities on the balance sheet | | | - 521 | | | - 429 |

Notes to the consolidated financial statements

Deferred tax assets and liabilities have changed as follows:

| | Balance at 31.12.2011 | Recognized in income statement | Business combinations | Foreign currency translation adjustments | Balance at 31.12.2012 |
|--|----------------------------------|--------------------------------------|--------------------------|---|----------------------------------|
| (CHF million) | | | | | |
| Inventories | -92 | -13 | -5 | -2 | -112 |
| Trade and other receivables | -14 | -3 | 0 | 0 | -17 |
| Property, plant and equipment | -84 | -3 | -8 | 0 | -95 |
| Intangible assets | -3 | -2 | -4 | 0 | -9 |
| Provisions | -22 | -12 | 0 | 0 | -34 |
| Retirement benefit obligations | -11 | -2 | 0 | 0 | -13 |
| Tax losses | 27 | -7 | - | -1 | 19 |
| Other | 11 | 1 | - | 0 | 12 |
| Total deferred tax assets (liabilities) | -188 | -41 | -17 | -3 | -249 |

| | Balance at 31.12.2010 | Recognized in income statement | Business combinations | Foreign currency translation adjustments | Balance at 31.12.2011 |
|--|--------------------------|--------------------------------------|--------------------------|---|--------------------------|
| (CHF million) | | | | | |
| Inventories | -67 | -26 | - | 1 | -92 |
| Trade and other receivables | -9 | -5 | 0 | 0 | -14 |
| Property, plant and equipment | -69 | -14 | -1 | 0 | -84 |
| Intangible assets | -4 | 1 | 0 | 0 | -3 |
| Provisions | -14 | -9 | 0 | 1 | -22 |
| Retirement benefit obligations | -16 | 5 | - | 0 | -11 |
| Tax losses | 33 | -6 | - | 0 | 27 |
| Other | 12 | -1 | 0 | 0 | 11 |
| Total deferred tax assets (liabilities) | -134 | -55 | -1 | 2 | -188 |

Deferred tax assets resulting from deductible temporary differences, tax credits or tax loss carryforwards are recognized only to the extent that realization of the related tax benefit is probable. Temporary differences associated with investments in subsidiaries, for which no deferred tax liabilities have been recognized, as the differences are not expected to reverse in the foreseeable future, amounted to CHF 827 million (previous year: CHF 801 million).

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

| (CHF million) | Not recognized | Recognized | Total 2012 |
|----------------------------|-----------------------|-------------------|-------------------|
| One year | 12 | 3 | 15 |
| Two years | 13 | 9 | 22 |
| Three years | 16 | 4 | 20 |
| Four years | 17 | 8 | 25 |
| Five years | 19 | 8 | 27 |
| Six years | 13 | 9 | 22 |
| More than six years | 110 | 36 | 146 |
| Total at 31.12.2012 | 200 | 77 | 277 |

| (CHF million) | Not recognized | Recognized | Total 2011 |
|----------------------------|----------------|------------|------------|
| One year | 7 | 5 | 12 |
| Two years | 11 | 5 | 16 |
| Three years | 19 | 4 | 23 |
| Four years | 15 | 10 | 25 |
| Five years | 21 | 20 | 41 |
| Six years | 29 | 15 | 44 |
| More than six years | 110 | 45 | 155 |
| Total at 31.12.2011 | 212 | 104 | 316 |

Notes to the consolidated financial statements

8. Earnings per share

a. Basic

| | 2012 | 2011 |
|--|--------------|--------------|
| Net income attributable to equity holders of The Swatch Group Ltd (CHF million) | 1 600 | 1 269 |
| Percentage of registered shares outstanding in comparison with the share capital outstanding | 43.8% | 43.8% |
| Percentage of bearer shares outstanding in comparison with the share capital outstanding | 56.2% | 56.2% |
| Registered shares | | |
| Net income attributable to registered shareholders (CHF million) | 701 | 556 |
| Average number of shares outstanding | 118 195 194 | 118 399 729 |
| Basic earnings per share (in CHF) | 5.93 | 4.70 |
| Bearer shares | | |
| Net income attributable to bearer shareholders (CHF million) | 899 | 713 |
| Average number of shares outstanding | 30 335 000 | 30 335 000 |
| Basic earnings per share (in CHF) | 29.64 | 23.50 |

b. Diluted

| | 2012 | 2011 |
|--|--------------|--------------|
| Net income attributable to equity holders of The Swatch Group Ltd (CHF million) | 1 600 | 1 269 |
| Net income used to determine diluted EPS (CHF million) | 1 600 | 1 269 |
| Percentage of diluted registered shares in comparison with the diluted share capital outstanding | 43.8% | 43.9% |
| Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding | 56.2% | 56.1% |
| Registered shares | | |
| Net income attributable to registered shareholders (CHF million) | 701 | 557 |
| Average number of shares outstanding – basic (as above) | 118 195 194 | 118 399 729 |
| Potentially dilutive number of shares from options outstanding | 231 159 | 233 786 |
| Average number of shares outstanding – diluted | 118 426 353 | 118 633 515 |
| Diluted earnings per share (in CHF) | 5.92 | 4.70 |
| Bearer shares | | |
| Net income attributable to bearer shareholders (CHF million) | 899 | 712 |
| Average number of shares outstanding | 30 335 000 | 30 335 000 |
| Diluted earnings per share (in CHF) | 29.62 | 23.48 |

9. Dividends paid and proposed

On 16 May 2012, the Annual General Meeting approved the distribution of a dividend of CHF 1.15 per registered share and CHF 5.75 per bearer share. The distribution to holders of outstanding shares totaled CHF 310 million (2011: CHF 270 million) and has been recorded against retained earnings in 2012.

At the Annual General Meeting on 29 May 2013, payment of the following dividends for 2012 will be proposed:

| | Registered | Bearer |
|--------------------|-----------------|-----------------|
| Dividend per share | CHF 1.35 | CHF 6.75 |
| Total dividend | CHF 167 460 750 | CHF 208 170 000 |

The financial statements ending 31 December 2012 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2013.

Notes to the consolidated financial statements

10. Property, plant and equipment

| | Land and buildings | Plant and machinery | Other fixtures and fittings | Advances and construction in progress | Total |
|--|-----------------------|------------------------|-----------------------------------|---|----------------|
| (CHF million) | | | | | |
| Historical cost, 1 January 2012 | 1 211 | 2 731 | 393 | 28 | 4 363 |
| Translation differences | - 26 | - 4 | - 3 | 0 | - 33 |
| Business combinations (Note 14) | 34 | 14 | 1 | 0 | 49 |
| Additions | 22 | 276 | 54 | 92 | 444 |
| Disposals | - 6 | - 60 | - 12 | - | - 78 |
| Transfers | 6 | 1 | 2 | - 9 | 0 |
| Historical cost, 31 December 2012 | 1 241 | 2 958 | 435 | 111 | 4 745 |
| Accumulated depreciation, 1 January 2012 | - 540 | - 1 925 | - 233 | 0 | - 2 698 |
| Translation differences | 2 | 2 | 3 | - | 7 |
| Annual depreciation | - 28 | - 172 | - 38 | - | - 238 |
| Impairment | 0 | - | - | - | 0 |
| Depreciation on disposals | 3 | 58 | 12 | - | 73 |
| Transfers | - | - | - | - | 0 |
| Accumulated depreciation, 31 December 2012 | - 563 | - 2 037 | - 256 | 0 | - 2 856 |
| Net book value, 31 December 2012 | 678 | 921 | 179 | 111 | 1 889 |
| Insured value | | | | | 5 376 |
| Net book value of property, plant and equipment under finance lease contracts | | | | | 0 |
| Total non-current assets pledged to guarantee the commitments of Group companies | | | | | 62 |

| | Land and buildings | Plant and machinery | Other fixtures and fittings | Advances and construction in progress | Total |
|--|-----------------------|------------------------|-----------------------------------|---|----------------|
| (CHF million) | | | | | |
| Historical cost, 1 January 2011 | 1 145 | 2 553 | 362 | 14 | 4 074 |
| Translation differences | 9 | - 4 | - 2 | 0 | 3 |
| Business combinations (Note 14) | 3 | 1 | - | - | 4 |
| Additions | 45 | 250 | 60 | 21 | 376 |
| Disposals | - 1 | - 83 | - 13 | 0 | - 97 |
| Transfers | 10 | 14 | - 14 | - 7 | 3 |
| Historical cost, 31 December 2011 | 1 211 | 2 731 | 393 | 28 | 4 363 |
| Accumulated depreciation, 1 January 2011 | - 515 | - 1 851 | - 220 | 0 | - 2 586 |
| Translation differences | 0 | 6 | 1 | 0 | 7 |
| Annual depreciation | - 24 | - 153 | - 32 | - | - 209 |
| Impairment | - | 0 | - | - | - |
| Depreciation on disposals | 0 | 80 | 13 | - | 93 |
| Transfers | - 1 | - 7 | 5 | - | - 3 |
| Accumulated depreciation, 31 December 2011 | - 540 | - 1 925 | - 233 | 0 | - 2 698 |
| Net book value, 31 December 2011 | 671 | 806 | 160 | 28 | 1 665 |
| Insured value | | | | | 5 171 |
| Net book value of property, plant and equipment under finance lease contracts | | | | | 0 |
| Total non-current assets pledged to guarantee the commitments of Group companies | | | | | 77 |

Notes to the consolidated financial statements

11. Investment property

| (CHF million) | 2012 | 2011 |
|--|------------|------|
| Historical cost, 1 January | 48 | 63 |
| Translation differences | 0 | 0 |
| Business combinations (Note 14) | 4 | 0 |
| Additions | 0 | 0 |
| Disposals | -1 | -15 |
| Transfers | 0 | 0 |
| Historical cost, 31 December | 51 | 48 |
| Accumulated depreciation, 1 January | -17 | -22 |
| Translation differences | 0 | 0 |
| Annual depreciation | -1 | -1 |
| Impairment | - | - |
| Depreciation on disposals | 0 | 6 |
| Transfers | 0 | 0 |
| Accumulated depreciation, 31 December | -18 | -17 |
| Net book value, 31 December | 33 | 31 |
| Rental income | 3 | 4 |
| Direct operating expenses arising from investment properties that generated rental income | -2 | -3 |
| Direct operating expenses arising from investment properties that did not generate rental income | 0 | 0 |

Based on capitalized rental income for rented buildings plus an estimated market value for land reserves, the fair value of the investment properties is estimated at CHF 59 million at 31 December 2012 compared to CHF 58 million at 31 December 2011. No external independent valuation has been performed.

Notes to the consolidated financial statements

12. Intangible assets

| | Goodwill | Capitalized development costs | Other intangible assets | Total |
|---|------------|-------------------------------------|-------------------------------|-------------|
| (CHF million) | | | | |
| Historical cost, 1 January 2012 | 208 | 74 | 169 | 451 |
| Translation differences | -1 | - | -1 | -2 |
| Business combinations (Note 14) | 255 | 0 | 18 | 273 |
| Additions | - | 17 | 21 | 38 |
| Disposals | - | 0 | -6 | -6 |
| Transfers | - | 0 | 0 | 0 |
| Historical cost, 31 December 2012 | 462 | 91 | 201 | 754 |
| Accumulated amortization, 1 January 2012 | - | -28 | -95 | -123 |
| Translation differences | - | - | 1 | 1 |
| Annual amortization | - | -9 | -13 | -22 |
| Impairment | - | - | - | - |
| Amortization on disposals | - | 0 | 5 | 5 |
| Transfers | - | 0 | 0 | 0 |
| Accumulated amortization, 31 December 2012 | - | -37 | -102 | -139 |
| Net book value, 31 December 2012 | 462 | 54 | 99 | 615 |

| | Goodwill | Capitalized development costs | Other intangible assets | Total |
|--|----------|-------------------------------------|-------------------------------|-------|
| (CHF million) | | | | |
| Historical cost, 1 January 2011 | 207 | 59 | 157 | 423 |
| Translation differences | -1 | 0 | -1 | -2 |
| Business combinations (Note 14) | 2 | 0 | 2 | 4 |
| Additions | - | 15 | 13 | 28 |
| Disposals | - | - | -2 | -2 |
| Transfers | - | 0 | 0 | 0 |
| Historical cost, 31 December 2011 | 208 | 74 | 169 | 451 |
| Accumulated amortization, 1 January 2011 | - | -20 | -86 | -106 |
| Translation differences | - | 0 | 0 | 0 |
| Annual amortization | - | -8 | -11 | -19 |
| Impairment | - | - | - | 0 |
| Amortization on disposals | - | 0 | 2 | 2 |
| Amortization on divestments of businesses | - | 0 | 0 | 0 |
| Accumulated amortization, 31 December 2011 | - | -28 | -95 | -123 |
| Net book value, 31 December 2011 | 208 | 46 | 74 | 328 |

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

Notes to the consolidated financial statements

Goodwill impairment testing

Goodwill is allocated to the Group's cash-generating units (CGUs), which correspond to the profit centers. A segment-level summary of the goodwill allocation is presented below:

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--------------------|------------|------------|
| Watches & Jewelry | 395 | 159 |
| Production | 58 | 39 |
| Electronic Systems | 9 | 10 |
| Total | 462 | 208 |

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rate. The discount rates used are derived from a capital asset pricing model using data from Swiss capital markets and reflect specific risks relating to the relevant segments. This is then adjusted to a pre-tax rate.

Ranges of key assumptions used

| | 2012 | | | 2011 | | |
|---|-------------------|------------|--------------------|-------------------|------------|--------------------|
| | Watches & Jewelry | Production | Electronic Systems | Watches & Jewelry | Production | Electronic Systems |
| Estimated growth rate beyond five-year period | 1% | 0.5% | 0% | 1% | 0.5% | 0% |
| Expected gross margin | 52%-58% | 28%-33% | 24%-33% | 50%-61% | 28%-30% | 25%-32% |
| Pre-tax discount rate | 8.2% | 9.8% | 10.0% | 8.3% | 9.7% | 10.0% |

No impairment charge for goodwill had to be recorded in 2012 and 2011. Management estimates that any reasonably possible change in any of the key assumptions would not cause that the recoverable amount falls below the carrying value of goodwill.

13. Investments in associates and joint ventures

| (CHF million) | 2012 | 2011 |
|--|------------|------|
| Balance at 1 January | 191 | 169 |
| Share of result from associates and joint ventures | 18 | 6 |
| Share of other comprehensive income of associates | 1 | – |
| Dividends received | – 17 | – 8 |
| Investments | 140 | 24 |
| Divestments | – | – 1 |
| Translation differences | – 3 | 1 |
| Balance at 31 December | 330 | 191 |

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 2012, the Group increased its stake in Rivoli Group (Dubai) from 15% to 40%.

In 2011, the Group acquired a 33.3% stake in Alzouman General Trading Co. Ltd. in Jeddah, Saudi Arabia. The company sells Swatch and Flik Flak brands exclusively through its own stores in prime retail locations in Saudi Arabia. The acquisition is considered as an associate. Furthermore, the Group divested its stake in the associate Terbival SA and in the joint venture Time Sales Inc.

At 31 December 2012, the fair value of the investment in Hengdeli Holdings was CHF 130 million (2011: CHF 122 million). Sales to and purchases from associates and joint ventures amounted to CHF 1 037 million (2011: CHF 849 million) and CHF 22 million (2011: CHF 14 million) respectively.

Notes to the consolidated financial statements

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

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---------------|------------|------------|
| Assets | 275 | 211 |
| Liabilities | 152 | 106 |
| Revenues | 334 | 202 |
| Net income | 18 | 6 |

At the balance sheet date, there were no contingent liabilities of associates and joint ventures (previous year: none).

14. Business combinations

On 11 April 2012, the Swatch Group acquired 100% of the shares of the companies Simon Et Membrez SA in Delémont and PhM Holding SA in Courtételle. In addition, the Swatch Group acquired the related 60% stake in the company Termiboîtes SA in Courtemaîche. The acquired companies produce high-quality watch cases for the top price segment from precious metals such as gold, titanium, platinum, palladium, and premium-grade steel.

In January 2011, the Group acquired 100% of Novi SA, an assembler of watch movements located in the canton of Jura (Switzerland).

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

| (CHF million) | Notes | 2012 Fair value | 2011 Fair value |
|--|----------|--------------------|--------------------|
| Property, plant and equipment | (10, 11) | 53 | 4 |
| Intangible assets | (12) | 18 | 2 |
| Current assets | | 35 | 1 |
| Cash and cash equivalents | | 18 | 6 |
| Deferred tax liabilities | (7d) | - 17 | - 1 |
| Non-current liabilities | | - 1 | - |
| Provisions | (24) | - | 0 |
| Current liabilities | | - 7 | - 1 |
| Net assets acquired | | 99 | 11 |
| Goodwill (capitalized) | (12) | 255 | 2 |
| Total purchase consideration | | 354 | 13 |
| Cash and cash equivalents acquired | | - 18 | - 6 |
| Consideration payable | | - | - |
| Consideration paid for prior year acquisitions | | - | - |
| Cash outflow on acquisitions | | 336 | 7 |

The total purchase consideration basically represented the cash payments made to the vendors. The acquisition-related costs of less than CHF 1 million were charged to the income statement (included in other operating expenses).

The goodwill arising from the acquisitions is primarily attributable to the extraordinary know-how of the acquired companies' workforce, the greatly extended production capacity in the Group's core business as well as to the expected operating synergies in the area of watch case production. None of the goodwill recognized is expected to be deductible for income tax purposes.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date were CHF 10 million (2011: CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2012 (1 January 2011), the Group's revenue would have increased by CHF 19 million (2011: no impact) and profit by CHF 4 million (2011: no impact). Non-controlling interests are immaterial.

Divestment of businesses

There were no divestments of businesses in 2012 and 2011.

Repurchase of non-controlling interests

In 2012 and 2011, the Group did not repurchase any non-controlling interests.

Notes to the consolidated financial statements

15. Other non-current assets

| (CHF million) | Key money | Security deposits | Other financial assets | Pension assets | Total |
|-------------------------------------|--------------|----------------------|---------------------------|-------------------|------------|
| Balance at 1 January 2012 | 23 | 37 | 116 | 77 | 253 |
| Translation differences | 0 | -1 | -2 | 0 | -3 |
| Additions | 8 | 9 | 1 | 6 | 24 |
| Disposals / decreases | 0 | 0 | -9 | - | -9 |
| Transfers to "Other current assets" | -9 | 0 | - | - | -9 |
| Balance at 31 December 2012 | 22 | 45 | 106 | 83 | 256 |
| Term 1-5 years | 17 | 38 | 106 | 0 | 161 |
| Term >5 years | 5 | 7 | 0 | 83 | 95 |
| Balance at 31 December 2012 | 22 | 45 | 106 | 83 | 256 |

| (CHF million) | Key money | Security deposits | Other financial assets | Pension assets | Total |
|-------------------------------------|--------------|----------------------|---------------------------|-------------------|-------|
| Balance at 1 January 2011 | 24 | 29 | 5 | 87 | 145 |
| Translation differences | 0 | 0 | 0 | 0 | 0 |
| Additions | 6 | 8 | 112 | - | 126 |
| Disposals / decreases | - | 0 | -1 | -10 | -11 |
| Transfers to "Other current assets" | -7 | 0 | - | - | -7 |
| Balance at 31 December 2011 | 23 | 37 | 116 | 77 | 253 |
| Term 1-5 years | 19 | 28 | 116 | 0 | 163 |
| Term >5 years | 4 | 9 | 0 | 77 | 90 |
| Balance at 31 December 2011 | 23 | 37 | 116 | 77 | 253 |

Key money that the Group pays when renting shops in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain. The non-current portion is recognized under «Other non-current assets», while the current component is transferred to «Other current assets». Other financial assets also include loans granted to commercial partners and associates. Security deposits as well as other financial assets are considered as financial instruments (category financial assets at amortized cost). Detail to the pension assets can be found in Note 23.

Notes to the consolidated financial statements

16. Inventories

| (CHF million) | 31.12.2012 | 31.12.2011 |
|----------------------------------|--------------|--------------|
| Raw materials | 376 | 349 |
| Work in progress | 458 | 525 |
| Semi-finished goods | 1 663 | 1 407 |
| Finished goods | 1 658 | 1 201 |
| Spare parts for customer service | 252 | 189 |
| Total inventories | 4 407 | 3 671 |

The cost of inventories recognized as an expense in 2012 amounted to CHF 3 225 million (2011: CHF 2 872 million). Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2012, the Group recognized write-downs of CHF 42 million (previous year: CHF 42 million) and reversals of write-downs of CHF 25 million (previous year: CHF 2 million). The net impact of these adjustments was a charge to the income statement of CHF 17 million (2011: CHF 40 million).

17. Trade receivables

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--------------------------------------|--------------|------------|
| Trade receivables – gross | 1 068 | 912 |
| Allowance for impaired receivables | – 8 | – 18 |
| Total trade receivables – net | 1 060 | 894 |

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

| (CHF million) | 2012 | 2011 |
|-------------------------------|-------------|-------------|
| Balance at 1 January | – 18 | – 19 |
| Translation differences | 0 | 0 |
| Utilization | 8 | 1 |
| Reversal | 3 | 4 |
| Creation | – 1 | – 4 |
| Balance at 31 December | – 8 | – 18 |

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

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

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--|--------------|------------|
| Neither past due nor impaired | 936 | 801 |
| <3 months | 115 | 86 |
| 3–6 months | 6 | 5 |
| 6–12 months | 2 | 0 |
| >12 months | 1 | 2 |
| Total past due but not impaired | 124 | 93 |
| Total trade receivables | 1 060 | 894 |

Based on past experience with the quality of trade receivables, no material increase in credit losses is expected.

Notes to the consolidated financial statements

Net trade receivables are recognized in the following major currencies:

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--------------------------------------|--------------|------------|
| CHF | 238 | 193 |
| CNY | 251 | 206 |
| EUR | 187 | 185 |
| HKD | 69 | 66 |
| JPY | 26 | 23 |
| USD | 97 | 72 |
| Other currencies | 192 | 149 |
| Total trade receivables – net | 1 060 | 894 |

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

The maximum exposure to credit risk at the balance sheet date is the fair value of trade receivables. The Group holds collateral as security, and other credit enhancements to secure material trade receivables accounts.

18. Other current assets

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--|------------|------------|
| Other current receivables | | |
| VAT to be refunded | 125 | 118 |
| Other receivables | 36 | 30 |
| Total other current receivables | 161 | 148 |
| Prepayments | | |
| Key money | 7 | 6 |
| Other prepayments and accrued income | 208 | 184 |
| Total prepayments | 215 | 190 |
| Total other current assets | 376 | 338 |

Current income tax assets are reported on a separate balance sheet line and are also included in Note 7 Income taxes. No impairments were recognized on other receivables (none in 2011). Except for prepayments, other current assets are considered as financial instruments.

Notes to the consolidated financial statements

19. Marketable securities and derivative financial instruments

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|------------|------------|
| Equity securities | 103 | 102 |
| Bond securities | 309 | 417 |
| Investment funds and other investments | 35 | 34 |
| Total marketable securities at fair value | 447 | 553 |
| Derivative financial instruments | 0 | 0 |
| Total marketable securities and derivative financial instruments | 447 | 553 |

All marketable securities and derivative financial assets are classified in the category «financial assets at fair value». Changes in fair values are recorded in the income statement (see Note 6f).

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

| Type | 31.12.2012 | | | 31.12.2011 | | |
|---|----------------|---------------------|---------------------|----------------|---------------------|---------------------|
| | Contract value | Positive fair value | Negative fair value | Contract value | Positive fair value | Negative fair value |
| (CHF million) | | | | | | |
| Forward foreign exchange rate contracts | 575 | – | –2 | 555 | – | –4 |
| Currency options | – | – | – | – | – | – |
| Options on equity securities | – | – | – | – | – | – |
| Total trading | 575 | – | –2 | 555 | – | –4 |
| Forward foreign exchange rate contracts | – | – | – | – | – | – |
| Currency options | – | – | – | – | – | – |
| Total hedge accounting | – | – | – | – | – | – |
| Total | 575 | – | –2 | 555 | – | –4 |

At the end of 2011 and 2012, no hedges were outstanding. No amounts were recycled from equity as a result of the application of hedge accounting. The derivative financial liabilities are included in current financial debts.

Notes to the consolidated financial statements

The detail by currency of the contract values of derivative financial instruments can be summarized as follows:

| Type (CHF million) | 2012 | | | | | | | Total |
|------------------------------------|------------|-----------|------------|----------|-----------|-----------|-----------|------------|
| | EUR | JPY | USD | CNY | RUB | THB | Other | |
| Forward foreign exchange contracts | 344 | 14 | 123 | 0 | 12 | 22 | 60 | 575 |
| Currency options | – | – | – | – | – | – | – | – |
| Options on equity securities | – | – | – | – | – | – | – | – |
| Total trading | 344 | 14 | 123 | 0 | 12 | 22 | 60 | 575 |
| Forward foreign exchange contracts | – | – | – | – | – | – | – | – |
| Currency options | – | – | – | – | – | – | – | – |
| Total hedge accounting | – | – | – | – | – | – | – | – |
| Total | 344 | 14 | 123 | 0 | 12 | 22 | 60 | 575 |

| Type (CHF million) | 2011 | | | | | | | Total |
|------------------------------------|------------|-----------|------------|-----------|-----------|----------|-----------|------------|
| | EUR | JPY | USD | CNY | RUB | THB | Other | |
| Forward foreign exchange contracts | 206 | 74 | 148 | 51 | 12 | 0 | 64 | 555 |
| Currency options | – | – | – | – | – | – | – | – |
| Options on equity securities | – | – | – | – | – | – | – | – |
| Total trading | 206 | 74 | 148 | 51 | 12 | 0 | 64 | 555 |
| Forward foreign exchange contracts | – | – | – | – | – | – | – | – |
| Currency options | – | – | – | – | – | – | – | – |
| Total hedge accounting | – | – | – | – | – | – | – | – |
| Total | 206 | 74 | 148 | 51 | 12 | 0 | 64 | 555 |

At 31 December 2012, the contracts have a term of up to one year.

20. Cash and cash equivalents

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|--------------|--------------|
| Current accounts and liquid assets | 971 | 920 |
| Short-term deposits with financial institutions | 549 | 696 |
| Total | 1 520 | 1 616 |

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) | 31.12.2012 | 31.12.2011 |
|--------------------------------------|--------------|--------------|
| Cash and cash equivalents | 1 520 | 1 616 |
| Current account overdrafts (Note 22) | 0 | 0 |
| Total | 1 520 | 1 616 |

Notes to the consolidated financial statements

21. 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 |
|--------------------|--------------------------------|-------------------------------|-----------------------|
| 31.12.2009 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2010 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2011 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2012 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |

At year-end 2012 as well as 2011, there was no authorized or conditional capital. All issued shares are fully paid. No benefit certificates exist. In accordance with the articles of incorporation of the Swatch Group, the Board of Directors shall refuse a registered share ownership of more than 5% per shareholder. In exceptional cases, the Board of Directors may consent to an exception to this rule.

b. Treasury shares

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

| | Registered shares | | Bearer shares | | Total |
|------------------------------|-------------------|------------|----------------|------------|-------------|
| | Quantity | Value | Quantity | Value | |
| | CHF million | | CHF million | | CHF million |
| Balance at 31.12.2010 | 5 358 056 | 161 | 505 000 | 132 | 293 |
| Acquisitions ¹⁾ | 870 000 | 54 | – | – | 54 |
| Disposals ²⁾ | – 237 494 | 0 | – | – | 0 |
| Balance at 31.12.2011 | 5 990 562 | 215 | 505 000 | 132 | 347 |
| Acquisitions ¹⁾ | 35 000 | 2 | – | – | 2 |
| Disposals ²⁾ | – 348 385 | – 6 | – | – | – 6 |
| Balance at 31.12.2012 | 5 677 177 | 211 | 505 000 | 132 | 343 |

¹⁾ In 2012, the Group acquired 35 000 (2011: 870 000) registered shares at an average price of CHF 61.81 (2011: CHF 62.28) each, which increased the amount of treasury shares by CHF 2 million (2011: CHF 54 million).

²⁾ In 2012, the Group sold 101 899 registered shares at an average price of CHF 70.90. The remaining disposals relate mainly to the employee stock option plan. Details to the share options issued in connection with the employee stock option plan are given in Note 28.

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

c. Other reserves

The only item in other reserves consists of foreign currency translation from foreign operations. At year-end 2012, the accumulated negative amount is CHF 321 million (previous year: negative amount of CHF 280 million).

Notes to the consolidated financial statements

22. Financial debts and derivative financial instruments

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|------------|------------|
| Other non-current debt | 60 | 73 |
| Total non-current financial debts | 60 | 73 |
| Current account overdrafts | 0 | 0 |
| Short-term leasing commitments | 1 | 1 |
| Short-term bank debt | 72 | 13 |
| Total current financial debts | 73 | 14 |
| Derivative financial instruments | 2 | 4 |
| Total current financial debts and derivative financial instruments | 75 | 18 |
| Total financial debts | 135 | 91 |

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

| (CHF million) | less than 1 year | 1–5 years | over 5 years | Total |
|----------------------|------------------|-----------|--------------|------------|
| At 31.12.2012 | 75 | 22 | 38 | 135 |
| At 31.12.2011 | 18 | 25 | 48 | 91 |

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

| (CHF million) | 31.12.2012 | 31.12.2011 |
|--------------------|------------|------------|
| Swiss Franc (CHF) | 4 | 6 |
| Japanese Yen (JPY) | 61 | 77 |
| Euro (EUR) | 1 | 2 |
| Other currencies | 69 | 6 |
| Total | 135 | 91 |

23. Retirement benefit obligations

a. Defined benefit plans

The Group has numerous independent pension plans. Defined benefit pension plans cover a significant number of the Group's employees. The Group's Swiss pension fund is also treated as a defined benefit pension plan. Other defined benefit plans are located in Japan, Korea, Italy, Taiwan, Germany, UK and the USA. The defined benefit obligations and related assets are reassessed annually by independent actuaries. The following is a summary of the status of the Group's defined benefit pension plans:

| (CHF million) | 2012 | 2011 |
|--|--------------|--------------|
| Present value of funded obligations | – 4 137 | – 3 704 |
| Fair value of plan assets | 3 456 | 3 195 |
| Excess of liabilities at 31 December | – 681 | – 509 |
| Present value of unfunded obligations | – 11 | – 11 |
| Unrecognized actuarial loss | 755 | 577 |
| Unrecognized past-service cost | – | – |
| Net asset in the balance sheet at 31 December | 63 | 57 |

Notes to the consolidated financial statements

Periodic pension cost for defined benefit plans

| (CHF million) | 2012 | 2011 |
|------------------------------------|-------------|-------------|
| Current service cost | – 162 | – 149 |
| Interest cost | – 92 | – 97 |
| Expected return on plan assets | 135 | 140 |
| Actuarial gains/(losses) | – 22 | 0 |
| Past-service cost | – | – 36 |
| Employee contributions | 66 | 60 |
| Gains/(losses) on curtailment | – | – |
| Total periodic pension cost | – 75 | – 82 |

Movement in the fair value of plan assets

| (CHF million) | 2012 | 2011 |
|--------------------------------|--------------|-------|
| 1 January | 3 195 | 3 299 |
| Expected return on plan assets | 135 | 140 |
| Actuarial gains/(losses) | 140 | – 204 |
| Exchange differences | – 1 | 1 |
| Employer contributions | 80 | 72 |
| Employee contributions | 66 | 60 |
| Benefits paid | – 159 | – 173 |
| 31 December | 3 456 | 3 195 |

Pension plan assets include the company's registered shares with a fair value of CHF 493 million (2011: CHF 428 million) and the company's bearer shares with a fair value of CHF 1 million (2011: CHF 1 million). Furthermore, buildings occupied by the Group amounting to CHF 12 million (previous year: CHF 12 million) were included in the pension plan assets.

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

The actual return on plan assets was a gain of CHF 275 million (2011: loss of CHF 64 million). The Group expects to contribute CHF 83 million to its post-employment benefit plans in 2013.

Asset allocation of plan assets

| | 31.12.2012 | | 31.12.2011 | |
|--------------|--------------|--------------|--------------|--------------|
| | CHF million | % | CHF million | % |
| Equity | 1 324 | 38.3 | 1 088 | 34.0 |
| Bonds | 962 | 27.8 | 999 | 31.3 |
| Real estate | 731 | 21.2 | 643 | 20.1 |
| Other assets | 439 | 12.7 | 465 | 14.6 |
| Total | 3 456 | 100.0 | 3 195 | 100.0 |

Movement in the present value of defined benefit obligation

| (CHF million) | 2012 | 2011 |
|--------------------------|----------------|---------|
| 1 January | – 3 715 | – 3 555 |
| Current service cost | – 162 | – 149 |
| Interest cost | – 92 | – 97 |
| Actuarial gains/(losses) | – 340 | – 50 |
| Exchange differences | 2 | – 1 |
| Benefits paid | 159 | 173 |
| Plan amendments | – | – 36 |
| Curtailements | 0 | 0 |
| Settlements | – | – |
| 31 December | – 4 148 | – 3 715 |

Notes to the consolidated financial statements

Principal actuarial assumptions used

| | 2012 | 2011 |
|--|------------------|------------------|
| | % | % |
| | Weighted average | Weighted average |
| Discount rate | 2.00 | 2.50 |
| Expected return on plan assets | 4.25 | 4.25 |
| Expected rates of salary increases (incl. inflation) | 1.75 | 1.75 |
| Future pension increases due to inflation | 0.00 | 0.00 |

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

Defined benefit plans: summary

| (CHF million) | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|-------------|--------------|
| Present value of defined benefit obligation | – 4 148 | – 3 715 | – 3 555 | – 3 242 | – 3 139 |
| Fair value of plan assets | 3 456 | 3 195 | 3 299 | 3 171 | 2 814 |
| Over/(under) funding | – 692 | – 520 | – 256 | – 71 | – 325 |
| Experience adjustments on plan liabilities - loss / (gain) | 42 | 45 | 8 | 6 | 29 |
| Experience adjustments on plan assets - gain / (loss) | 140 | – 204 | 42 | 289 | – 872 |

b. Post-employment medical benefits plan

The Group operates a post-employment medical scheme in the USA. It represents a defined benefit obligation at 31 December 2012 of CHF 2 million (2011: CHF 2 million). This plan is included in the defined benefit obligations presented above. The method of accounting and the frequency of valuation are similar to those used for benefit pension schemes. A one percentage point increase or decrease in assumed medical cost trend rates would lead to an absolutely insignificant change in the defined benefit obligation.

c. Other post-employment benefit obligations

In addition to the defined benefit pension plans, the Group has liabilities for other post-employment benefits for employees working abroad. At 31 December 2012, these liabilities amounted to CHF 4 million (31 December 2011: CHF 3 million).

d. Reconciliation

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

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|-------------|-------------|
| Defined benefit plan asset | 83 | 77 |
| Total pension asset (Note 15) | 83 | 77 |
| Defined benefit plan liability | – 20 | – 20 |
| Other post-employment benefit obligations | – 4 | – 3 |
| Total retirement benefit obligations | – 24 | – 23 |

e. Defined contribution plans

Amounts recognized in the consolidated income statement relating to contributions to defined contribution plans represent the employer's contributions and are calculated according to the regulations of various pension institutions. In 2012, these contributions amounted to CHF 7 million (CHF 7 million in 2011).

Notes to the consolidated financial statements

24. Provisions

| (CHF million) | Warranties | Litigation | Other | Total |
|---------------------------------|------------|------------|-----------|------------|
| Balance at 31.12.2010 | 74 | 7 | 19 | 100 |
| Translation differences | -1 | 0 | 0 | -1 |
| Additional provisions | 80 | 3 | 5 | 88 |
| Reversal of provisions | -11 | -2 | -4 | -17 |
| Acquisitions / divestments | 0 | - | - | 0 |
| Provisions used during the year | -62 | -2 | -3 | -67 |
| Balance at 31.12.2011 | 80 | 6 | 17 | 103 |
| thereof current provisions | 57 | 4 | 5 | 66 |
| thereof non-current provisions | 23 | 2 | 12 | 37 |
| Translation differences | -1 | 0 | 0 | -1 |
| Additional provisions | 64 | 3 | 11 | 78 |
| Reversal of provisions | -3 | -1 | -2 | -6 |
| Acquisitions / divestments | - | - | - | - |
| Provisions used during the year | -62 | -2 | -5 | -69 |
| Balance at 31.12.2012 | 78 | 6 | 21 | 105 |
| thereof current provisions | 54 | 3 | 8 | 65 |
| thereof non-current provisions | 24 | 3 | 13 | 40 |

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 behaviour and opinion that may cause a significant outflow of economic benefits.

c. Other

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

25. Other liabilities

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|------------|------------|
| Advance payments | 28 | 15 |
| VAT due | 13 | 12 |
| Other payables | 75 | 76 |
| Total other payables | 116 | 103 |
| Accrued expenses and deferred income | 490 | 463 |
| Total other liabilities | 606 | 566 |
| thereof other current liabilities | 577 | 545 |
| thereof other non-current liabilities | 29 | 21 |

Current income tax liabilities are reported on a separate balance sheet line and are also included in Note 7 Income taxes. Except for accrued expenses and deferred income, other liabilities are considered as financial instruments.

Notes to the consolidated financial statements

26. Commitments and contingencies

a. Guarantees and sureties

At 31 December 2012, guarantees to third parties as security for commitments of Group companies amounted to less than CHF 1 million (less than CHF 1 million at end-2011).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 45 million at 31 December 2012 (CHF 37 million at end-2011).

b. Leasing, rental and other commitments

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

| (CHF million) | 31.12.2012 | 31.12.2011 |
|---|--------------|--------------|
| Less than 1 year | 297 | 223 |
| Between 1 and 5 years | 621 | 491 |
| Over 5 years | 289 | 298 |
| Total | 1 207 | 1 012 |
| Proportion of contracts with renewal option (% of total amount) | 52.9 | 48.2 |
| Maximum risk (% of total amount) | 95.5 | 95.7 |

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 2012. Leasing costs amounting to CHF 309 million were recognized in the 2012 income statement (CHF 225 million in 2011). A sublease clause is included in a large number of rental contracts for retail shops. Moreover, if the need arises, the Group may negotiate early termination of a lease contract with exit terms considerably more favorable than the payment of the entire commitment specified in the initial contract. The maximum risk as disclosed above considers any exit clauses and potential related penalties.

Other commitments relating to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2012, amounted to CHF 169 million (CHF 82 million in the previous year).

c. Contingent assets and liabilities

Some Group companies have contingent liabilities in respect of legal claims arising from the ordinary course of business and they may be liable to pay compensation. It is not expected that any material liabilities will arise from these contingent liabilities other than those provided for (see Note 24b).

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

In December 2007, Swatch Group entered into long-term cooperation agreements with Tiffany & Co. to design, manufacture and distribute "Tiffany & Co." watches worldwide. Based on the long-term commitments of Tiffany & Co., Swatch Group invested millions to develop, distribute and sell "Tiffany & Co." watches through its own stores, its worldwide network of independent retailers and through Tiffany & Co. stores.

In September 2011, following Tiffany & Co.'s systematic efforts to block and delay development of the business and fruitless attempts of The Swatch Group Ltd and its affiliate Tiffany Watch Co. Ltd to solve the dispute amicably, the latter were forced to terminate these agreements.

Swatch Group and its affiliate Tiffany Watch Co. Ltd requested full compensation for all losses in connection with Tiffany & Co.'s past and continuing breaches of its obligations and duties under the agreement. The relevant damages sought include a claim for lost profits conservatively quantified at CHF 3.8 billion for the term of the agreements to which the parties committed. Tiffany & Co. have responded by filing a so-called counterclaim in the amount of CHF 542 million. This counterclaim has no factual or legal basis and will be vigorously contested by Swatch Group and Tiffany Watch Co. Ltd.

An arbitration hearing was held in October 2012. At the hearing, witnesses were examined and the Panel ordered additional briefs and submissions to complete the record. The record is expected to be complete in mid-February 2013 with the Panel issuing its decision at an undetermined subsequent date.

Notes to the consolidated financial statements

27. Details to the consolidated statement of cash flows

a. Non-cash items

| (CHF million) | Notes | 2012 | 2011 |
|--|----------|------------|------------|
| Reversal of non-cash items | | | |
| Share of result from associates and joint ventures | (13) | – 18 | – 6 |
| Income taxes | (7a) | 409 | 335 |
| Depreciation of tangible assets | (10, 11) | 239 | 210 |
| Amortization of intangible assets | (12) | 22 | 19 |
| Profit on sale of fixed assets | | – 4 | – 8 |
| Loss on sale of fixed assets | | 1 | 2 |
| Fair value gains on marketable securities | | – 29 | – 51 |
| Fair value losses on marketable securities | | 10 | 73 |
| Interest income | (6f) | – 10 | – 7 |
| Interest expense | (6f) | 3 | 3 |
| Expenses for equity-settled equity compensation plan | (28) | 16 | 16 |
| Changes in provisions | | 3 | 4 |
| Changes in pensions and other retirement benefits | | – 4 | 8 |
| Total | | 638 | 598 |

b. Changes in working capital

| (CHF million) | 2012 | 2011 |
|---|--------------|--------------|
| Changes in working capital and other items included in cash flow from operating activities | | |
| Inventories | – 725 | – 800 |
| Trade and other receivables | – 200 | – 233 |
| Trade payables and other liabilities | – 39 | 188 |
| Other items included in cash flow from operating activities | 8 | – 10 |
| Total | – 956 | – 855 |

28. Employee stock option plan

When the Hayek Pool acquired control of the Swatch Group, a block of shares was reserved in 1986 for an equity-settled management stock option plan.

Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. When the options are exercised, Group equity increases by the corresponding amounts.

At the end of 2012, this portfolio comprised 1 641 734 registered shares (1 888 220 at the end of 2011). In 2012, 246 486 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:

| | 2012 | 2011 |
|---|----------------|----------------|
| | Options | Options |
| Options outstanding at 1 January | 248 291 | 233 072 |
| Granted | 244 329 | 254 642 |
| Forfeited or lapsed | – 888 | – 1 966 |
| Exercised | – 246 486 | – 237 457 |
| Options outstanding at 31 December | 245 246 | 248 291 |

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

Notes to the consolidated financial statements

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

| Expiry date | Share options | |
|--------------|----------------|------------|
| | 31.12.2012 | 31.12.2011 |
| 2012 | | 164 505 |
| 2013 | 163 715 | 83 786 |
| 2014 | 81 531 | |
| Total | 245 246 | 248 291 |

The fair value of the options granted during the period was determined by using the Black-Scholes option pricing model. The expected volatility has been set by reference to the implied volatility of options available on Swatch Group shares in the open market, as well as historical patterns of volatility. The following table shows the assumptions on which the valuation of share options granted in 2012 and 2011 was based:

| | 2012 | | 2011 | |
|--------------------------------------|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| | Tranche exercisable in 1 year | Tranche exercisable in 2 years | Tranche exercisable in 1 year | Tranche exercisable in 2 years |
| Grant date | 6 July 2012 | 6 July 2012 | 5 July 2011 | 5 July 2011 |
| Expiration date | 6 July 2013 | 6 July 2014 | 5 July 2012 | 5 July 2013 |
| Closing share price on grant date | CHF 64.10 | CHF 64.10 | CHF 78.50 | CHF 78.50 |
| Exercise price | CHF 4.00 | CHF 4.00 | CHF 4.00 | CHF 4.00 |
| Volatility | 30.5% | 30.5% | 50.0% | 50.0% |
| Expected dividend yield | CHF 1.35 | CHF 1.35 | CHF 1.15 | CHF 1.15 |
| Risk-free interest rate | 0.00% | 0.00% | 0.44% | 0.56% |
| Market value of option at grant date | CHF 58.75 | CHF 57.40 | CHF 73.37 | CHF 72.25 |

The first tranche that was immediately exercisable had the same assumptions as shown above (2012: grant date 6 July 2012, share price at grant date CHF 64.10, exercise price CHF 4.00; 2011: grant date 5 July 2011, share price at grant date CHF 78.50, exercise price CHF 4.00). The weighted average share price at exercise date was CHF 69.86 in 2012 (2011: CHF 60.15).

The personnel expense recorded in the 2012 income statement as a result of applying IFRS 2 calculation amounted to CHF 16 million (2011: CHF 16 million).

29. Related party transactions

a. Principal shareholders

On 31 December 2012, the Hayek Pool and its related companies, institutions and individuals held 63 993 400 registered shares and 1 900 bearer shares, equivalent to 41.3% of the shares issued (previous year: 41.7%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.8% of the shares issued (previous year: 40.8%).

Mrs. Esther Grether's group controlled 7.1% of the shares issued (compared with 7.2% a year earlier).

In 2012, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 10.1 million to the Swatch Group (compared with CHF 9.0 million in 2011). This amount primarily covered support for Group Management in the following areas of activity:

| (CHF million) | 2012 | 2011 |
|---|-------------|------|
| Audit, feasibility studies and process optimization | 1.3 | 1.3 |
| Provision of managers and filling important, vacant functions | 1.2 | 0.9 |
| Project management in the construction sector | 5.3 | 4.1 |
| Support for projects in the materials and surface treatment technology sector | 0.3 | 1.2 |
| Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group | 0.4 | 0.4 |
| Various services relating to the assessment of investment projects, cost control, IT consulting, etc. | 1.6 | 1.1 |
| Total | 10.1 | 9.0 |

Notes to the consolidated financial statements

b. Key management personnel

In addition to the members of the Board of Directors, the members of the Group Management Board and of the Extended Management Board are considered as key management personnel (according to IAS 24.9).

The total compensation of key management personnel using IAS 19 and IFRS 2 rules for accounting for share-based compensation was as follows:

| (CHF million) | 2012 | 2011 |
|------------------------------|-------------|-------------|
| Short-term employee benefits | 25.7 | 26.2 |
| – of which in salaries | 8.6 | 8.6 |
| – of which in bonus | 17.0 | 17.5 |
| – of which in other benefits | 0.1 | 0.1 |
| Post-employment benefits | 0.7 | 0.8 |
| Termination benefits | – | – |
| Share-based compensation | 10.1 | 10.5 |
| Total | 36.5 | 37.5 |

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

c. Share ownership

At 31 December 2012, 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 56 399 876 registered shares and 790 bearer shares, representing 36.4% of the voting rights (previous year: 36.4%).

In addition, at 31 December 2012, all the non-executive members of the Board of Directors as well as the persons close to them held 10 935 000 registered shares and 116 000 bearer shares, representing 7.1% of the voting rights (previous year: 7.2%).

d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swatch Group Pension Fund for the construction or acquisition of property in Switzerland (primary residence). The conditions for these mortgage loans are set by the Swatch Group Pension Fund Foundation Board. These conditions are applied in the same manner to all employees.

In 2012 and 2011, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2012, one loan to a member of the Group Management Board for a total of CHF 0.3 million with an interest rate of 1.7% existed (2011: CHF 0.9 million at 1.7%).

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) | 2012 | | 2011 | |
|-------------------------------|-----------|-------|-----------|-------|
| | Purchases | Sales | Purchases | Sales |
| Associates and joint ventures | 22 | 1 037 | 14 | 849 |
| Other related parties | 0 | 0 | 0 | 0 |

At the end of 2012, receivables from associates amounted to CHF 241 million (2011: CHF 165 million), and payables to associates were CHF 1 million (2011: CHF 2 million). In addition, at the end of 2012 the Group held guarantees from associated companies in the amount of CHF 222 million (2011: CHF 136 million). Furthermore, at 31 December 2012 the Group had granted loans to associated companies in the amount of USD 18 million (2011: USD 27 million) with an interest rate of 4.4% (2011: 4.4%).

At the end of 2012 and 2011 there were no balances outstanding with other related parties.

Notes to the consolidated financial statements

30. Management compensation disclosures (required by Swiss Law)

This note has been prepared in accordance with the requirements of articles 663b^{bis} and 663c of the Swiss Code of Obligations (SCO). It differs in several aspects from the compensation disclosures given in Note 29, mainly due to different valuation and expense recognition rules applied.

Compensation to Board of Directors and Group Management (Art. 663b^{bis} SCO)

a. Board of Directors (BoD)

| 2012 Name | Function | Compensation for functions in the BoD ¹⁾ (CHF) | Compensation for executive functions | | | Total ⁵⁾ (CHF) |
|-------------------------------------|---------------|--|---|------------------------------|--|------------------------------|
| | | | Base compensation ²⁾ (CHF) | Bonus ³⁾ (CHF) | Other compensation ⁴⁾ (CHF) | |
| Nayla Hayek | Chairwoman | 199 230 | 1 001 928 | 1 320 000 | 1 276 021 | 3 797 179 |
| Ernst Tanner | Vice-Chairman | 137 333 | | | | 137 333 |
| Esther Grether | Member | 124 517 | | | | 124 517 |
| Georges Nicolas Hayek ⁶⁾ | Member | 125 430 | | | | 125 430 |
| Prof. Dr. h.c. Claude Nicollier | Member | 124 517 | | | | 124 517 |
| Dr. Jean-Pierre Roth | Member | 124 517 | | | | 124 517 |
| Total | | 835 544 | 1 001 928 | 1 320 000 | 1 276 021 | 4 433 493 |

| 2011 Name | Function | Compensation for functions in the BoD ¹⁾ (CHF) | Compensation for executive functions | | | Total ⁵⁾ (CHF) |
|-------------------------------------|---------------|--|---|------------------------------|--|------------------------------|
| | | | Base compensation ²⁾ (CHF) | Bonus ³⁾ (CHF) | Other compensation ⁴⁾ (CHF) | |
| Nayla Hayek | Chairwoman | 179 230 | 1 001 568 | 1 300 000 | 1 405 258 | 3 886 056 |
| Dr. Peter Gross ⁷⁾ | Vice-Chairman | 47 867 | | | | 47 867 |
| Ernst Tanner ⁸⁾ | Vice-Chairman | 112 886 | | | | 112 886 |
| Esther Grether | Member | 104 517 | | | | 104 517 |
| Georges Nicolas Hayek ⁶⁾ | Member | 105 430 | | | | 105 430 |
| Prof. Dr. h.c. Claude Nicollier | Member | 104 517 | | | | 104 517 |
| Dr. Jean-Pierre Roth | Member | 104 517 | | | | 104 517 |
| Total | | 758 964 | 1 001 568 | 1 300 000 | 1 405 258 | 4 465 790 |

¹⁾ Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred. In 2012, this fee includes an additional amount of CHF 20 000 for each member of the audit and compensation committees.

²⁾ Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred.

³⁾ Cash bonuses according to the accrual principle.

⁴⁾ Other compensation includes pension benefits and share options. In 2012, 20 000 share options with a value of CHF 1 213 393 were granted to Mrs. N. Hayek (2011: 20 000 share options with a value of CHF 1 342 630), according to the conditions described in Note 28 Employee stock option plan. Each option gives the right to conversion in one registered share.

⁵⁾ All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

⁶⁾ The compensation for his executive functions is included in Note 30 b.

⁷⁾ BoD Vice-Chairman and member until May 2011.

⁸⁾ BoD Vice-Chairman as of June 2011.

Notes to the consolidated financial statements

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

2012

| Name | Salaries ¹⁾ | Bonus ²⁾ | Share options ³⁾ | Share options ³⁾ | Other compensation ⁴⁾ | Total ⁵⁾ |
|---|------------------------|---------------------|-----------------------------|-----------------------------|----------------------------------|---------------------|
| | (CHF) | (CHF) | (number) | (CHF) | (CHF) | (CHF) |
| Georges Nicolas Hayek (MB President / CEO) | 1 530 771 | 3 220 000 | 24 000 | 1 456 080 | 62 628 | 6 269 479 |
| Total other members | 5 268 940 | 12 438 033 | 113 700 | 6 898 130 | 716 763 | 25 321 866 |
| Total | 6 799 711 | 15 658 033 | 137 700 | 8 354 210 | 779 391 | 31 591 345 |

2011

| Name | Salaries ¹⁾ | Bonus ²⁾ | Share options ³⁾ | Share options ³⁾ | Other compensation ⁴⁾ | Total ⁵⁾ |
|---|------------------------|---------------------|-----------------------------|-----------------------------|----------------------------------|---------------------|
| | (CHF) | (CHF) | (number) | (CHF) | (CHF) | (CHF) |
| Georges Nicolas Hayek (MB President / CEO) | 1 489 378 | 3 200 000 | 24 000 | 1 611 144 | 62 628 | 6 363 150 |
| Total other members | 5 406 598 | 12 990 000 | 126 200 | 8 472 004 | 741 472 | 27 610 074 |
| Total | 6 895 976 | 16 190 000 | 150 200 | 10 083 148 | 804 100 | 33 973 224 |

¹⁾ Total annual base compensation paid in cash, not including any reimbursement for travel and other business expenses incurred.

²⁾ Variable cash bonuses according to the accrual principle.

³⁾ Share options granted in the years under review, according to the conditions described in Note 28 Employee stock option plan. For the valuation of the share options, tax values were used for the part exercised in the current year. The options exercisable in the following years were valued using the Black Scholes method. Each option gives the right to conversion in one registered share.

⁴⁾ Other salary elements such as pension benefits, company cars and other benefits.

⁵⁾ All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

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

In 2012 and 2011, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2012, one loan granted by the Group's Pension Fund to a member of the Group Management Board for a total of CHF 0.3 million with an interest rate of 1.7% existed (2011: CHF 0.9 million at 1.7%).

In 2012 and 2011, no compensation other than mentioned in the compensation tables above was accorded to current or former members of the Board of Directors, Management Board and Extended Board or to persons closely linked to them.

Notes to the consolidated financial statements

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

As of 31 December 2012 and 2011, the members of the Board of Directors, the Management Board and the Extended Management Board, including persons closely linked to them, held the following number of Swatch Group shares and options:

| Name | Function | Registered Shares (number) | | Bearer Shares (number) | | Options (number) | |
|--|-------------------|----------------------------|-------------------|------------------------|----------------|------------------|----------------|
| | | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Community of heirs N. G. Hayek represented by Marianne Hayek | | 55 704 144 | 55 704 144 | 550 | 550 | | |
| Nayla Hayek | BoD Chairwoman | 48 208 | 29 876 | | | 20 002 | 18 334 |
| Ernst Tanner | BoD Vice-Chairman | | | 2 000 | 2 000 | | |
| Esther Grether | BoD Member | 10 935 000 | 10 963 000 | 114 000 | 114 000 | | |
| Prof. Dr. h.c. Claude Nicollier | BoD Member | | | | | | |
| Dr. Jean-Pierre Roth | BoD Member | | | | | | |
| Georges Nicolas Hayek | BoD Member / CEO | 80 824 | 56 990 | | | 24 000 | 23 834 |
| Arlette E. Emch | MB Member | 10 000 | 61 334 | | | 4 000 | 13 000 |
| Florence Ollivier-Lamarque | MB Member | 45 668 | 53 534 | | | 12 000 | 11 668 |
| Dr. Mougahed Darwish | MB Member | 62 470 | 56 470 | | | 6 000 | 6 000 |
| Marc A. Hayek | MB Member | 68 398 | 56 732 | | | 12 502 | 11 668 |
| Dr. Hanspeter Rentsch | MB Member / CLO | 99 489 | 108 489 | 200 | 200 | 19 001 | 18 735 |
| Roland Streule ¹⁾ | MB Member | | 27 133 | | | | 4 334 |
| François Thiébaud | MB Member | 80 291 | 72 791 | | | 12 334 | 11 334 |
| Dr. Thierry Kenel | MB Member / CFO | 22 252 | 14 420 | | | 8 002 | 7 834 |
| Matthias Breschan | EMB Member | 34 | 2 166 | | | 3 000 | 2 668 |
| Pierre-André Bühler | EMB Member | 9 034 | 9 068 | | | 6 334 | 5 500 |
| Yann Gamard | EMB Member | 6 101 | 3 167 | | | 5 501 | 5 335 |
| Walter von Känel | EMB Member | 30 725 | 25 641 | 40 | 40 | 5 668 | 4 752 |
| Thomas Meier | EMB Member | | 1 300 | | | 1 200 | 1 300 |
| Kevin Rollenhagen | EMB Member | 44 148 | 36 482 | | | 8 002 | 7 668 |
| Dr. Peter Steiger | EMB Member | 56 090 | 49 591 | | | 6 835 | 6 334 |
| Stephen Urquhart | EMB Member | 32 000 | 27 000 | | | 6 502 | 6 502 |
| Total | | 67 334 876 | 67 359 328 | 116 790 | 116 790 | 160 883 | 166 800 |

¹⁾MB Member until March 2012.

The terms of the share options are disclosed in Note 28. Each option gives the right to conversion in one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 29 Related party transactions. Except for the community of heirs of N. G. Hayek and Mrs. E. Grether, 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 2012 and 2011, either directly or through share options, more than 1% of the outstanding Swatch Group shares.

31. Events after the balance sheet date

On 14 January 2013, Swatch Group announced the acquisition of 100% of the shares of the US company HW Holdings Inc., owner of Harry Winston Inc., New York. The Group acquires the brand and all the activities related to jewelry and watches, including the production company in Geneva (Switzerland). The acquisition sum amounts to USD 750 million plus the assumption of up to USD 250 million of pro forma net debt. The transaction does not include the mining activities of Harry Winston Diamond Corporation - new: Dominion Diamond Corporation - in Toronto (Canada). The transaction is subject to the approval of the different regulatory authorities. The purchase price allocation and determination of goodwill have not yet been finalized.

Apart from this business combination, there were no significant events after the balance sheet date.

32. The Swatch Group Companies – as at 31.12.2012

| Company name, Registered offices | Field of Activity | Capital in millions | Swatch Group Shareholdings % | Consoli- dation | Segment |
|--|---|------------------------|------------------------------------|--------------------|---------|
| Europe | | | | | |
| Switzerland | | | | | |
| The Swatch Group SA, Neuchâtel | Holding | CHF 125.21 | | | ▼ |
| Assemti SA, Locarno | Assembly | CHF 0.10 | 100 | ● | ▲ |
| Asulab SA, La Tène | Research and development | CHF 0.10 | 100 | ● | ▼ |
| Atlantic Immobilien AG Bettlach, Bettlach | Real estate | CHF 0.70 | 100 | ● | ▼ |
| Belenos Clean Power Holding SA, Bienne | Holding | CHF 42.00 | 42 | ○ | ▼ |
| Blancpain SA, Le Chenit | Watches | CHF 0.10 | 100 | ● | ▲ |
| Blancpain Les Boutiques SA, Le Chenit | Retail | CHF 0.10 | 100 | ● | ▲ |
| Breguet Les Boutiques SA, L'Abbaye | Retail | CHF 0.50 | 100 | ● | ▲ |
| Certina AG, Le Locle | Watches | CHF 3.50 | 100 | ● | ▲ |
| Cité du Temps SA, Genève | Communication | CHF 6.00 | 100 | ● | ▼ |
| cK Watch & Jewelry Co., Ltd., Bienne | Watches | CHF 5.00 | 90 | ● | ▲ |
| Comadur SA, Le Locle | Products in hard materials | CHF 7.86 | 100 | ● | ▲ |
| Compagnie des Montres Longines, Francillon SA, Saint-Imier | Watches | CHF 10.00 | 100 | ● | ▲ |
| Danyack SA, La Chaux-de-Fonds | Real estate | CHF 0.06 | 29 | ○ | ▼ |
| Dernier Batz SA, Neuchâtel | Real estate | CHF 10.00 | 100 | ● | ▼ |
| Diantus Watch SA, Mendrisio | Watches, movements | CHF 10.00 | 100 | ● | ▲ |
| Distico SA, Torricella-Taverne | Distribution | CHF 3.00 | 100 | ● | ▲ |
| Dress your body SA, Corcelles-Cormondrèche | Jewelry | CHF 0.10 | 100 | ● | ▲ |
| EM Microelectronic-Marin SA, La Tène | Microelectronics | CHF 25.00 | 100 | ● | ▶ |
| Endura AG, Bienne | Watches | CHF 2.00 | 100 | ● | ▲ |
| ETA SA Manufacture Horlogère Suisse, Grenchen | Watches, movements and components | CHF 6.20 | 100 | ● | ▲ |
| François Golay SA, Le Chenit | Watch components | CHF 0.10 | 100 | ● | ▲ |
| Hamilton International AG, Bienne | Watches | CHF 3.00 | 100 | ● | ▲ |
| ICB Ingénieurs Conseils en Brevets SA, Neuchâtel | Patents | CHF 0.20 | 100 | ● | ▼ |
| Le Foyer SA, Saint-Imier | Real estate | CHF 0.13 | 100 | ● | ▼ |
| Léon Hatot Les Boutiques SA, Milvignes | Retail | CHF 0.10 | 100 | ● | ▲ |
| Léon Hatot SA, Milvignes | Watches | CHF 0.10 | 100 | ● | ▲ |
| Louis Jeanneret-Wespy SA en liquidation, La Chaux-de-Fonds | In liquidation | CHF 0.05 | 100 | ● | ▼ |
| Maeder-Leschot SA, Bienne | Real estate | CHF 0.70 | 100 | ● | ▼ |
| Manufacture Ruedin SA, Bassecourt | Watch cases | CHF 2.40 | 100 | ● | ▲ |
| Meco SA, Grenchen | Watch crowns | CHF 4.50 | 100 | ● | ▲ |
| Microcomponents AG, Grenchen | Components for the automotive industry | CHF 11.00 | 100 | ● | ▶ |
| Micro Crystal AG, Grenchen | Miniature low-frequency quartz crystals | CHF 4.00 | 100 | ● | ▶ |
| Mido AG, Le Locle | Watches | CHF 1.20 | 100 | ● | ▲ |
| MOM le Prélet SA, Les Geneveys-sur-Coffrane | Watch dials | CHF 0.30 | 100 | ● | ▲ |
| Montres Breguet SA, L'Abbaye | Watches | CHF 10.00 | 100 | ● | ▲ |
| Montres Jaquet Droz SA, La Chaux-de-Fonds | Watches | CHF 12.00 | 100 | ● | ▲ |
| Nivarox-FAR SA, Le Locle | Watch components and thin wires | CHF 4.00 | 100 | ● | ▲ |
| Novi SA, Les Genevez | Assembly | CHF 0.14 | 100 | ● | ▲ |
| Omega Electronics AG, Bienne | Administration | CHF 1.50 | 100 | ● | ▼ |
| Omega SA, Bienne | Watches | CHF 50.00 | 100 | ● | ▲ |
| Oscilloquartz SA, Neuchâtel | High-stability frequency sources | CHF 2.00 | 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 | ● | ▶ |
| 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. Grand-Cernil 2, Les Brenets, SA, Les Brenets | Real estate | CHF 0.12 | 100 | ● | ▼ |
| S.I. Grand-Cernil 3, Les Brenets, SA, Les Brenets | Real estate | CHF 0.12 | 100 | ● | ▼ |
| S.I. Les Corbes SA, Savagnier | Real estate | CHF 0.10 | 34 | ○ | ▼ |
| S.I. L'Etang SA, Les Brenets, Les Brenets | Real estate | CHF 0.05 | 100 | ● | ▼ |
| S.I. Rue de la Gare 2, Les Brenets, SA, Les Brenets | Real estate | CHF 0.24 | 100 | ● | ▼ |
| SSIH Management Services AG, Bienne | Services | 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 | ● | ▼ |
| Terriboltes SA, Courtemaiche | Watch case polishing | CHF 0.10 | 60 | ● | ▲ |
| The Swatch Group Assembly SA, Genestrerio | Assembly | CHF 6.00 | 100 | ● | ▲ |
| The Swatch Group Europa AG, Bienne | Distribution | CHF 29.65 | 100 | ● | ▲ |
| The Swatch Group Far East Distribution Ltd, Bienne | Distribution | CHF 0.10 | 100 | ● | ▲ |
| The Swatch Group Immeubles SA, Neuchâtel | Real estate project & property management | CHF 0.50 | 80 | ● | ▲ |
| The Swatch Group 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 | ● | ▼ |
| Tiffany Watch Co. Ltd, Bienne | Watches | CHF 20.00 | 100 | ● | ▲ |
| Time Flagship AG, Zürich | Retail | CHF 6.00 | 100 | ● | ▲ |
| Tissot SA, Le Locle | Watches | CHF 5.00 | 100 | ● | ▲ |
| Universo SA, La Chaux-de-Fonds | Watch hands | CHF 0.67 | 100 | ● | ▲ |
| Vica Sàrl, Lausanne | Watches | CHF 0.20 | 100 | ● | ▲ |

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

32. The Swatch Group Companies – as at 31.12.2012

| Company name, Registered offices | Field of Activity | Capital in millions | Swatch Group Shareholdings % | Consoli- dation | Segment |
|---|--------------------------------------|------------------------|------------------------------------|--------------------|---------|
| Germany | | | | | |
| Altweiler Grundstücks-GmbH in Liquidation, Lörrach | In liquidation | EUR 0.03 | 95 | ● | ▼ |
| Fördergesellschaft der Glashütter Uhrenindustrie mbH, Glashütte | Watches | EUR 0.03 | 100 | ● | ▲ |
| Glashütter Uhrenbetrieb GmbH, Glashütte | Watches | EUR 0.51 | 100 | ● | ▲ |
| ST Sportservice GmbH, Leipzig | Sports timing technology & equipment | EUR 3.47 | 100 | ● | ▶ |
| Swiss Prestige Uhren Handel GmbH, Eschborn | Retail | EUR 0.08 | 100 | ● | ▲ |
| The Swatch Group Customer Service (Europe) GmbH, Glashütte | Customer service | EUR 0.50 | 100 | ● | ▲ |
| The Swatch Group (Deutschland) GmbH, Eschborn | Distribution | EUR 1.28 | 100 | ● | ▲ |
| The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn | Retail | EUR 0.20 | 100 | ● | ▲ |
| Union Uhrenfabrik GmbH, Glashütte | Watches | EUR 0.10 | 100 | ● | ▲ |
| Austria | | | | | |
| The Swatch Group (Oesterreich) GmbH, Wien | Distribution | EUR 0.04 | 100 | ● | ▲ |
| Belgium | | | | | |
| The Swatch Group (Belgium) SA, Anderlecht | Distribution | EUR 1.75 | 100 | ● | ▲ |
| The Swatch Group Participation SA, Anderlecht | Holding | EUR 2.09 | 100 | ● | ▼ |
| Spain | | | | | |
| The Swatch Group (España) SA, Alcobendas | Distribution | EUR 0.45 | 100 | ● | ▲ |
| France | | | | | |
| Breguet, Paris | Administration | EUR 0.04 | 100 | ● | ▲ |
| Fabrique de Fournitures de Bonnétage FFB, Villers-le-Lac | Precision parts | EUR 0.29 | 100 | ● | ▲ |
| Frésard Composants, Charquemont | Precision parts | EUR 1.80 | 100 | ● | ▲ |
| Centre Européen de Service Horloger, Besançon | Customer service | EUR 0.70 | 100 | ● | ▲ |
| Tech Airport Développement, Paris | Retail | EUR 0.50 | 100 | ● | ▲ |
| Tech Airport Holding, Paris | Holding | EUR 31.20 | 100 | ● | ▲ |
| Tech Airport Nice, Paris | Retail | EUR 5.04 | 100 | ● | ▲ |
| Tech Airport Orly, Paris | Retail | EUR 2.83 | 100 | ● | ▲ |
| Tech Airport Roissy, Paris | Retail | EUR 2.25 | 100 | ● | ▲ |
| The Swatch Group (France) SAS, Paris | Distribution | EUR 15.00 | 100 | ● | ▲ |
| The Swatch Group (France) Les Boutiques, Paris | Retail | EUR 45.13 | 100 | ● | ▲ |
| Great Britain | | | | | |
| The Swatch Group (UK) Ltd, London | Distribution | GBP 2.00 | 100 | ● | ▲ |
| The Swatch Group (UK) Les Boutiques Ltd, London | Retail | GBP 0.08 | 100 | ● | ▲ |
| Greece | | | | | |
| Alkioni SA, Athens | Retail | EUR 0.10 | 100 | ● | ▲ |
| The Swatch Group (Greece) SA, Athens | Distribution | EUR 0.06 | 100 | ● | ▲ |
| Italy | | | | | |
| Lascor S.p.A., Sesto Calende | Watch cases and bracelets | EUR 1.00 | 100 | ● | ▲ |
| The Swatch Group Europe Services S.r.l., Milano | Administration | EUR 0.01 | 100 | ● | ▲ |
| The Swatch Group (Italia) S.p.A., Milano | Distribution | EUR 23.00 | 100 | ● | ▲ |
| Luxembourg | | | | | |
| The Swatch Group SICAF-SIF, Alzingen | Finance company | CHF 1 000.00 | 100 | ● | ▼ |
| The Swatch Group Financial Services (Luxembourg) SA, Alzingen | Finance company | EUR 5.00 | 100 | ● | ▼ |
| The Swatch Group Re (Luxembourg) SA, Alzingen | Reinsurance | EUR 1.60 | 100 | ● | ▼ |
| Netherlands | | | | | |
| The Swatch Group (Netherlands) BV, Eindhoven | Distribution | EUR 3.45 | 100 | ● | ▲ |
| Poland | | | | | |
| The Swatch Group (Polska) Sp.zo.o., Warszawa | Distribution | PLN 5.00 | 100 | ● | ▲ |
| Russia | | | | | |
| Swiss Watch Le Prestige 000 Russia, Moscow | Distribution | RUB 0.20 | 100 | ● | ▲ |
| The Swatch Group (RUS) 000, Moscow | Distribution | RUB 3 383.90 | 100 | ● | ▲ |
| Sweden | | | | | |
| The Swatch Group (Nordic) AB, Stockholm | Distribution | SEK 0.50 | 100 | ● | ▲ |
| Czech Republic | | | | | |
| ASICentrum spol. s.r.o., Praha | Microelectronics | CZK 2.01 | 51 | ● | ▶ |
| ST Software s.r.o., Liberec | Sports timing technology & equipment | CZK 0.10 | 100 | ● | ▶ |
| 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 1.00 | 100 | ● | ▲ |
| Africa | | | | | |
| South Africa | | | | | |
| The Swatch Group (South Africa) (Proprietary) Ltd, Sandton | Distribution | ZAR 0.00 | 100 | ● | ▲ |

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

32. The Swatch Group Companies – as at 31.12.2012

| Company name, Registered offices | Field of Activity | Capital in millions | Swatch Group Shareholdings % | Consolidation | 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 | Distribution | BRL 23.80 | 100 | ● | ◀ |
| SGB Serviços e Comércio de Peças Ltda, São Paulo | Customer service | BRL 14.04 | 100 | ● | ◀ |
| SMH do Brasil Administração de Bens Ltda, São Paulo | Administration | BRL 2.74 | 100 | ● | ◀ |
| Canada | | | | | |
| The Swatch Group (Canada) Ltd, Toronto | Distribution | CAD 4.50 | 100 | ● | ◀ |
| United States | | | | | |
| EM Microelectronic – US Inc., Colorado Springs | Microelectronics | USD 0.04 | 100 | ● | ▶ |
| e-swatch-us Inc., Wilmington, Delaware | e-Commerce | USD 0.00 | 100 | ● | ◀ |
| HiPoint Technology Inc., Colorado Springs | Microelectronics | USD 0.17 | 25 | ○ | ▶ |
| The Swatch Group (U.S.) Inc., Wilmington, Delaware | Distribution | USD 168.90 | 100 | ● | ◀ |
| The Swatch Group Les Boutiques (U.S.) Inc., Wilmington, Delaware | Retail | USD 0.00 | 100 | ● | ◀ |
| Mexico | | | | | |
| Prestadora de Servicios Relojeros SA de CV, Mexico DF | Services | MXN 1.50 | 100 | ● | ◀ |
| The Swatch Group Mexico SA de CV, Mexico DF | Distribution | MXN 43.65 | 100 | ● | ◀ |
| Panama | | | | | |
| The Swatch Group Panama SA, Panama City | Services | USD 0.01 | 100 | ● | ◀ |
| Asia | | | | | |
| Greater China | | | | | |
| Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing | Real estate | CNY 40.00 | 50 | ○ | ◀ |
| Hengdeli Holdings Limited, Hong Kong | Retail | CNY 21.31 | 9 | ○ | ◀ |
| Lanco Watches Ltd, Hong Kong | Administration | USD 0.07 | 100 | ● | ◀ |
| O Grupo Swatch (Macau) Limitada, Macau | Retail | MOP 1.50 | 100 | ● | ◀ |
| Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai | Retail | CNY 30.00 | 50 | ● | ◀ |
| Shanghai Rui Jing Retail Co., Ltd., Shanghai | Retail | CNY 20.25 | 100 | ● | ◀ |
| Shanghai Rui Wan Retail Co. Ltd., Shanghai | Retail | CNY 4.00 | 100 | ● | ◀ |
| Shanghai SMH Watch Service Center Co. Ltd, Shanghai | Customer service | CNY 48.37 | 100 | ● | ◀ |
| Shanghai Swatch Art Centre Co. Ltd., Shanghai | Art center | CNY 148.41 | 90 | ● | ◀ |
| SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai | Retail | CNY 99.69 | 100 | ● | ◀ |
| SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai | Distribution | CNY 7.12 | 90 | ● | ◀ |
| SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen | Services | CNY 10.45 | 100 | ● | ◀ |
| The Swatch Group (China) Ltd, Shanghai | Distribution | CNY 14.88 | 100 | ● | ◀ |
| The Swatch Group (Hong Kong) Ltd, Hong Kong | Distribution | HKD 5.00 | 100 | ● | ◀ |
| The Swatch Group (Taiwan) Ltd, Taipei | Distribution | TWD 28.00 | 100 | ● | ◀ |
| Zhuhai SMH Electric Co. Ltd, Zhuhai | Electronic components | CNY 74.57 | 100 | ● | ▲ |
| South Korea | | | | | |
| The Swatch Group (Korea) Ltd, Seoul | Distribution | KRW 6 300.00 | 100 | ● | ◀ |
| Saudi Arabia | | | | | |
| Alzouman General Trading Co. Ltd., Jeddah | Retail | SAR 60.00 | 33 | ○ | ◀ |
| United Arab Emirates | | | | | |
| Rivoli Investments L.L.C., Dubai | Retail | AED 0.30 | 40 | ○ | ◀ |
| Swatch Group Retail Middle East L.L.C., Dubai | Retail | AED 0.30 | 49 | ● | ◀ |
| India | | | | | |
| Swatch Group (India) Private Ltd, New Delhi | Distribution | INR 2 250.00 | 100 | ● | ◀ |
| Japan | | | | | |
| The Swatch Group (Japan) KK, Tokyo | Distribution | JPY 3 700.00 | 100 | ● | ◀ |
| Malaysia | | | | | |
| Micromechanics (M) Sdn Bhd, Ipoh | Assembly electronic components | MYR 35.00 | 100 | ● | ▲ |
| Swiss Luxury Watch & Jewelry Sdn Bhd, Kuala Lumpur | Retail | MYR 7.00 | 51 | ● | ◀ |
| The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur | Distribution | MYR 1.00 | 100 | ● | ◀ |
| Singapore | | | | | |
| The Swatch Group S.E.A. (S) Pte Ltd, Singapore | Distribution | SGD 4.00 | 100 | ● | ◀ |
| The Swatch Group S.E.A. Retail Pte Ltd, Singapore | Retail | SGD 0.50 | 100 | ● | ◀ |
| Thailand | | | | | |
| ETA (Thailand) Co. Ltd, Samut Prakan | Electronic components | THB 504.50 | 100 | ● | ▲ |
| The Swatch Group Trading (Thailand) Ltd, Bangkok | Distribution | THB 400.00 | 100 | ● | ◀ |
| Oceania | | | | | |
| Australia | | | | | |
| The Swatch Group (Australia) Pty Ltd, Glen Iris | Distribution | AUD 0.40 | 100 | ● | ◀ |

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

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

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 152 to 204), for the year ended 31 December 2012.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

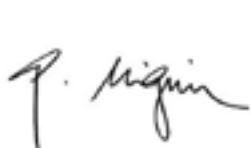
Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Roy Bächinger
Audit expert

Basel, 15 February 2013

Table of contents

| | |
|---|----------------|
| Financial statements of the Holding 2012 | 206–215 |
| Income statement of the Holding | 207 |
| Balance sheet of the Holding | 208 |
| Notes to the financial statements of the Holding | 210 |
| Proposed appropriation of available earnings | 214 |
| Report of the statutory auditor on the financial statements | 215 |

Income Statement of the Holding

| | Notes | 2012 CHF million | 2011 CHF million |
|---|-------|---------------------|---------------------|
| Income from investments in subsidiaries | (1) | 1 127 | 813 |
| Financial income | (2) | 50 | 30 |
| Other income | | 6 | 8 |
| Total income | | 1 183 | 851 |
| Personnel expense | | - 52 | - 46 |
| General expense | | - 16 | - 18 |
| Depreciation and impairment | | - 21 | - 3 |
| Interest expense | (3) | 0 | 0 |
| Exchange differences and other financial expenses | (4) | - 7 | - 27 |
| Taxes | | - 2 | - 1 |
| Total expenses | | - 98 | - 95 |
| Net income | | 1 085 | 756 |

Balance sheet of the Holding

| Assets | Notes | 31.12.2012 | | 31.12.2011 | |
|---|-------|--------------|--------------|--------------|--------------|
| | | CHF million | % | CHF million | % |
| Non-current assets | | | | | |
| Property, plant and equipment | | 9 | 0.2 | 8 | 0.2 |
| Financial assets | | | | | |
| – Long-term loans to Group companies | | 45 | 1.1 | 68 | 2.0 |
| – Investments in subsidiaries | (5) | 2 493 | 60.4 | 2 137 | 63.3 |
| Total non-current assets | | 2 547 | 61.7 | 2 213 | 65.5 |
| Current assets | | | | | |
| Receivables from Group companies | | 484 | 11.7 | 105 | 3.1 |
| Other receivables and accrued income | | 58 | 1.4 | 66 | 2.0 |
| Marketable securities and precious metals | (6) | 557 | 13.5 | 586 | 17.4 |
| Cash and cash equivalents | | 485 | 11.7 | 407 | 12.0 |
| Total current assets | | 1 584 | 38.3 | 1 164 | 34.5 |
| Total assets | | 4 131 | 100.0 | 3 377 | 100.0 |

Balance sheet of the Holding

| Equity and liabilities | Notes | 31.12.2012 | | 31.12.2011 | |
|-------------------------------------|-------|--------------|--------------|-------------|-------|
| | | CHF million | % | CHF million | % |
| Equity | | | | | |
| Share capital | | 125 | 3.0 | 125 | 3.7 |
| General reserve | | 67 | 1.6 | 67 | 2.0 |
| Reserve for treasury shares | | 343 | 8.3 | 347 | 10.3 |
| Special reserve | | 2 273 | 55.0 | 1 819 | 53.8 |
| – Profit brought forward | | 33 | | 37 | |
| – Net profit for the year | | 1 085 | | 756 | |
| Available earnings | | 1 118 | 27.1 | 793 | 23.5 |
| Total equity | (7) | 3 926 | 95.0 | 3 151 | 93.3 |
| Liabilities | | | | | |
| Provisions | | 127 | 3.1 | 143 | 4.2 |
| Payables to Group companies | | 53 | 1.3 | 56 | 1.7 |
| Other liabilities | | 3 | 0.1 | 3 | 0.1 |
| Accrued expenses | | 22 | 0.5 | 24 | 0.7 |
| Total liabilities | | 205 | 5.0 | 226 | 6.7 |
| Total equity and liabilities | | 4 131 | 100.0 | 3 377 | 100.0 |

Notes to the financial statements

General

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

Risk management

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

Valuation principles

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

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

Details to specific items

| | | | |
|---|---------------|--------------|------|
| 1. Income from investments in subsidiaries | (CHF million) | 2012 | 2011 |
| | Dividends | 1 065 | 739 |
| | Other income | 62 | 74 |
| | Total | 1 127 | 813 |

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

| | | | |
|----------------------------|--------------------------------|-------------|------|
| 2. Financial income | (CHF million) | 2012 | 2011 |
| | Interest income | 7 | 5 |
| | Income and gains on securities | 43 | 25 |
| | Total | 50 | 30 |

The company recorded capital gains on its investment portfolio of CHF 43 million. This figure was partly offset by losses of CHF 5 million (see Note 4).

3. Interest expense In 2012 and 2011 interest expense amounted to less than CHF 1 million.

4. Exchange differences and other financial expenses The currency translation position on foreign currency hedging contracts, taken out to protect the Group's companies, was negative by CHF 2 million (2011: negative by CHF 4 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 5 million (2011: CHF 23 million).

5. Investments in subsidiaries The list of 158 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 60.4% of total assets at 31 December 2012 versus 63.3% at end-2011. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 493 million at end-2012. This amount corresponds to consolidated investments and investments in associates, and is CHF 356 million higher than in 2011.

Notes to the financial statements

6. Marketable securities and precious metals

| (CHF million) | 31.12.2012 | 31.12.2011 |
|-----------------------|------------|------------|
| Marketable securities | 174 | 262 |
| Own shares | 277 | 279 |
| Precious metals | 106 | 45 |
| Total | 557 | 586 |

The position "Own shares" includes repurchased treasury shares as well as the registered treasury shares destined for the special management stock option plan. The item "Precious metals" consists mainly of a strategic long position in gold.

7. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2012 corresponded to 2.9% (versus 3.1% at end-2011) of the nominal value of total share capital.

See table on page 212 showing changes in The Swatch Group Ltd's treasury stock.

The table below shows the changes in equity:

| (CHF million) | Share capital | General reserve | Reserve for treasury shares | Special reserve | Available earnings | Total equity |
|------------------------------|---------------|-----------------|-----------------------------|-----------------|--------------------|--------------|
| Balance at 31.12.2011 | 125 | 67 | 347 | 1 819 | 793 | 3 151 |
| Allocated in 2012 | | | | 450 | - 450 | - |
| Dividend paid out | | | | | - 310 | - 310 |
| Transfer | | | - 4 | 4 | | 0 |
| Net income for the year | | | | | 1 085 | 1 085 |
| Balance at 31.12.2012 | 125 | 67 | 343 | 2 273 | 1 118 | 3 926 |

Compared with end-2011, equity increased by CHF 775 million to CHF 3 926 million in 2012. In percentage of total assets the equity ratio increased to 95.0% at 31 December 2012 (versus 93.3% in the previous year).

Share capital

At 31 December 2012, 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 |
|--------------------|--------------------------------|-------------------------------|-----------------------|
| 31.12.2011 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |
| 31.12.2012 | 124 045 000 at CHF 0.45 | 30 840 000 at CHF 2.25 | 125 210 250.00 |

Principal shareholders at 31 December 2012

At 31 December 2012, the Hayek Pool, its related companies, institutions and individuals held 63 993 400 registered shares and 1 900 bearer shares, equivalent to 41.3% of the shares issued at this date (previous year: 41.7%). The Hayek Pool comprises the following members:

| Name/Company | Location | Beneficial owners |
|--|----------------------------|---|
| Community of heirs of N.G. Hayek represented by Marianne Hayek | | Community of heirs of N. G. Hayek |
| WAT Holding AG | Meisterschwanden | Community of heirs of N. G. Hayek |
| Ammann Group Holding AG | c/o Ernst & Young AG, Bern | Descendants U. Ammann-Schellenberg sen. |
| Swatch Group Pension Fund | Neuchâtel | - |

Notes to the financial statements

The companies, institutions and individuals associated with the Hayek Pool, but which do not formally belong to the Hayek Pool are as follows:

| Name/Company | Location | Beneficial owners |
|---|----------------------------|-----------------------------------|
| Hayek Holding AG | Meisterschwanden | Community of heirs of N. G. Hayek |
| Community of heirs of N. G. Hayek and family members | | Community of heirs of N. G. Hayek |
| Personalfürsorgestiftung der Hayek Engineering AG | Meisterschwanden | – |
| Ammann families (pension funds, foundations and individuals, Madisa AG) | c/o Ernst & Young AG, Bern | Represented by Daniela Schneider |
| Fondation d'Ebauches SA et des maisons affiliées | Neuchâtel | – |
| Swatch Group Pension Fund (uncommitted shares) | Neuchâtel | – |
| Various welfare foundations | various | – |

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.8% of the shares issued at end-2012 (previous year: 40.8%).

Mrs. Esther Grether's group controlled 7.1% of the shares issued (compared with 7.2% a year earlier).

At 31 December 2012, the Swatch Group was not aware of any other group or individual shareholder having an interest of more than 5% of the total share capital.

Reserve for treasury shares

The reserve for treasury shares was valued using the weighted average purchase price method. On the Holding balance sheet, it amounted to CHF 343 million on 31 December 2012 (previous year: CHF 347 million), and thereby covers the treasury shares recognized as assets on the balance sheets of Group companies at year-end.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed in 2012 as shown in the table below:

| Shares held by: | Registered shares | Bearer shares |
|-------------------------------------|--------------------------|----------------------|
| | Quantity ¹⁾ | Quantity |
| The Swatch Group Ltd | | |
| Balance at 31.12.2011 | 5 487 745 | 505 000 |
| Acquisitions in 2012 | 35 000 | – |
| Disposals in 2012 ²⁾ | – 326 486 | – |
| Balance at 31.12.2012 | 5 196 259 | 505 000 |
| Other consolidated companies | | |
| Balance at 31.12.2011 | 502 817 | – |
| Acquisitions in 2012 | – | – |
| Disposals in 2012 | – 21 899 | – |
| Balance at 31.12.2012 | 480 918 | – |
| Total balance at 31.12.2012 | 5 677 177 | 505 000 |

¹⁾ of which at 31 December 2012 a total of 1 641 734 registered shares were reserved for the management stock option plan (1 888 220 registered shares in 2011).

²⁾ The disposals in 2012 related partly to the management stock option plan.

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 16 May 2012, a dividend of CHF 1.15 per registered share and of CHF 5.75 per bearer share was appropriated from available earnings as at 31 December 2011. The total dividend amount paid to shareholders in 2012 came to CHF 135 839 538 on the registered shares and CHF 174 426 250 on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned AGM, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 9 715 962, thus constituted an integral part of equity at 31 December 2012. Finally, CHF 450 million was appropriated from available earnings at 31 December 2011 and allocated to the special reserve.

Notes to the financial statements

Off-balance-sheet items

Contingent liabilities

At end-2012, guarantees provided by The Swatch Group Ltd amounted to CHF 592 600 (compared with CHF 582 400 a year earlier). This item relates to a guarantee of GBP 400 000 to cover a lease commitment taken out by one of the Group's companies (unchanged to 2011).

Fire insurance values

At 31 December 2012, the fire insurance value of property, plant and equipment amounted to CHF 34 555 000 (CHF 34 599 000 at end-2011).

Assets pledged

None of the company's assets are pledged.

Commitments

Other commitments entered into by the company and open at 31 December 2012 amounted to CHF 1 million (versus CHF 1 million in the previous year), corresponding to investment commitments in financial assets.

Financial derivative instruments

The following table shows the contract and replacement values of derivative financial instruments at 31 December 2012.

| Type | Contract value | | | Positive replacement value | | | Negative replacement value | | |
|----------------------------|----------------|------------|------------|----------------------------|----------|----------|----------------------------|-----------|-----------|
| | Third party | Group | Total | Third party | Group | Total | Third party | Group | Total |
| (CHF million) | | | | | | | | | |
| Forward contracts | 572 | 385 | 957 | 0 | 2 | 2 | -2 | -1 | -3 |
| Options | - | - | - | - | - | - | - | - | - |
| Total at 31.12.2012 | 572 | 385 | 957 | 0 | 2 | 2 | -2 | -1 | -3 |
| Total at 31.12.2011 | 499 | 322 | 821 | 0 | 2 | 2 | -3 | -3 | -6 |

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2012 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2012 relate to 33 positions held in precious metals and in foreign currencies (previous year: 32). Intra-Group contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intra-group financial transactions. At 31 December 2012, there was no option outstanding (none in the previous year).

Liabilities to pension plans

The balance sheet as at end-2012 contained no liability to pension plans (none in 2011).

Management compensation disclosures

The disclosures required by the Swiss Code of Obligations on management compensation are shown in Note 30 of the consolidated financial statements.

Proposed appropriation of available earnings

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

| | 2012 | 2011 |
|---|----------------------|---------------|
| | CHF | CHF |
| Net income for the year | 1 085 368 123 | 755 530 262 |
| Profit brought forward from previous year | 32 689 363 | 37 424 889 |
| Available earnings | 1 118 057 486 | 792 955 151 |
| Allocation to special reserve | – 720 000 000 | – 450 000 000 |
| Payment on share capital of CHF 125 210 250.00 of a 2011 dividend, i.e.: | | |
| – CHF 1.15 per registered share with a par value of CHF 0.45 | | – 142 651 750 |
| – CHF 5.75 per bearer share with a par value of CHF 2.25 | | – 177 330 000 |
| Payment on share capital of CHF 125 210 250.00 ¹⁾ of a 2012 dividend, i.e.: | | |
| – CHF 1.35 per registered share with a par value of CHF 0.45 | – 167 460 750 | |
| – CHF 6.75 per bearer share with a par value of CHF 2.25 | – 208 170 000 | |
| Dividends not paid out on own shares held by the Group ²⁾ | | 9 715 962 |
| Balance carried forward | 22 426 736 | 32 689 363 |

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 16 May 2012, the dividend due on own shares held by the Group was not paid out.

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of The Swatch Group Ltd, which comprise the income statement, balance sheet and notes (pages 207 to 213), for the year ended 31 December 2012.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

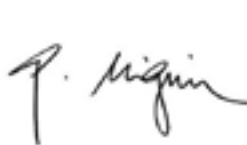
Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Roy Bächinger
Audit expert

Basel, 15 February 2013

The Swatch Group Ltd securities

| Average number of shares outstanding/ Average share capital | 2012 basic | 2011 basic | 2010 basic | 2009 basic | 2008 basic | |
|--|--------------------|---------------|---------------|---------------|---------------|--------|
| Number of registered shares of CHF 0.45 | 118 195 194 | 118 399 729 | 113 103 548 | 110 446 207 | 111 605 632 | |
| Number of bearer shares of CHF 2.25 | 30 335 000 | 30 335 000 | 30 335 000 | 30 335 000 | 30 596 542 | |
| Total average number of shares outstanding | 148 530 194 | 148 734 729 | 143 438 548 | 140 781 207 | 142 202 174 | |
| Share capital registered shares of CHF 0.45 | 53 187 838 | 53 279 878 | 50 896 597 | 49 700 793 | 50 222 534 | |
| Share capital bearer shares of CHF 2.25 | 68 253 750 | 68 253 750 | 68 253 750 | 68 253 750 | 68 842 220 | |
| Total average share capital | 121 441 588 | 121 533 628 | 119 150 347 | 117 954 543 | 119 064 754 | |
| Key data per registered share (nom CHF 0.45) in CHF | 2012 | 2011 | 2010 | 2009 | 2008 | |
| Consolidated net income | 5.93 | 4.70 | 4.05 | 2.89 | 3.15 | |
| Cash flow from operating activities | 3.70 | 2.61 | 5.11 | 3.39 | 1.93 | |
| Consolidated shareholders' equity | 34.55 | 29.82 | 26.77 | 22.74 | 20.55 | |
| Dividend | 1.35 ¹⁾ | 1.15 | 1.00 | 0.80 | 0.85 | |
| Key data per bearer share (nom CHF 2.25) in CHF | 2012 | 2011 | 2010 | 2009 | 2008 | |
| Consolidated net income | 29.64 | 23.50 | 20.27 | 14.47 | 15.75 | |
| Cash flow from operating activities | 18.51 | 13.05 | 25.55 | 16.99 | 9.67 | |
| Consolidated shareholders' equity | 172.77 | 149.11 | 133.83 | 113.85 | 102.73 | |
| Dividend | 6.75 ¹⁾ | 5.75 | 5.00 | 4.00 | 4.25 | |
| Stock price of registered shares (adjusted) | High | 80.40 | 79.50 | 78.50 | 51.70 | 66.75 |
| | Low | 59.90 | 51.60 | 50.40 | 23.05 | 23.20 |
| | 31.12 | 78.75 | 62.60 | 75.40 | 49.40 | 28.50 |
| Stock price of bearer shares (adjusted) | High | 471.70 | 443.70 | 434.80 | 268.75 | 340.00 |
| | Low | 341.70 | 288.50 | 262.20 | 118.50 | 115.50 |
| | 31.12 | 461.20 | 351.50 | 416.80 | 261.90 | 145.80 |
| Market capitalization (CHF million) | 31.12 | 23 992 | 18 605 | 22 207 | 14 205 | 8 032 |
| Key ratios (year-end) | 2012 | 2011 | 2010 | 2009 | 2008 | |
| Average return on equity | % | 18.5 | 16.8 | 16.5 | 13.3 | 15.5 |
| Dividend yield registered shares | % | 1.7 | 1.8 | 1.6 | 3.0 | 1.3 |
| Dividend yield bearer shares | % | 1.5 | 1.6 | 1.5 | 2.9 | 1.2 |
| Price/earnings ratio – registered shares | | 13.3 | 13.3 | 18.6 | 17.1 | 9.0 |
| Price/earnings ratio – bearer shares | | 15.6 | 15.0 | 20.6 | 18.1 | 9.3 |

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

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

¹⁾ Board of Directors' proposal.

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2012)





