Financial Statements 2012
Consolidated Financial Statements
Financial Statements of the Holding

1997

FEATHERS

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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

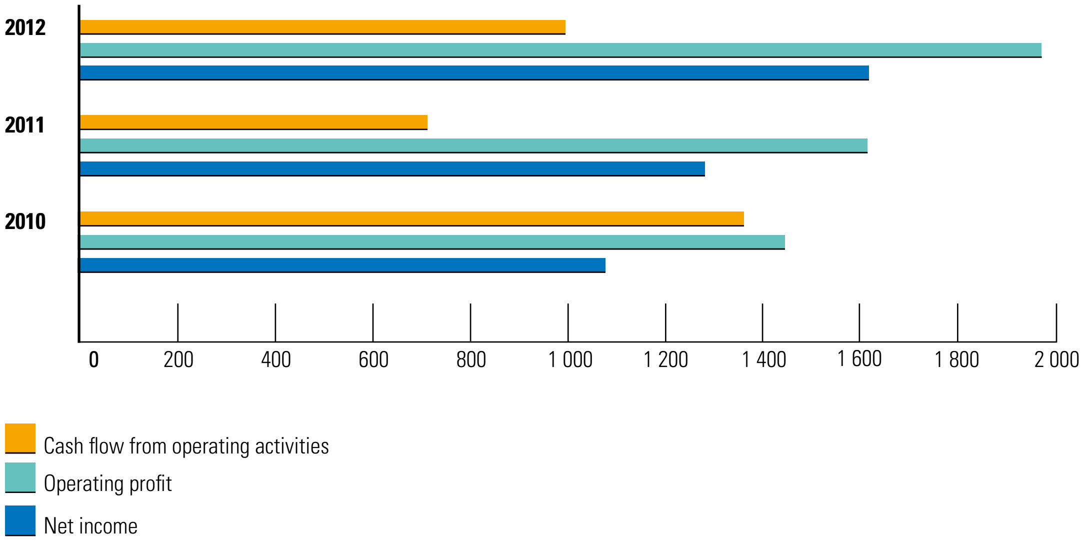
1. Operating results

Key figures Group

(CHF million)	**2012**	2011	**Change in %**		
			at constant rates	**currency effect**	**Total**
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, therof 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 %** at constant rates	currency effect	**Total**
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 %** at constant rates	currency effect	Total
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

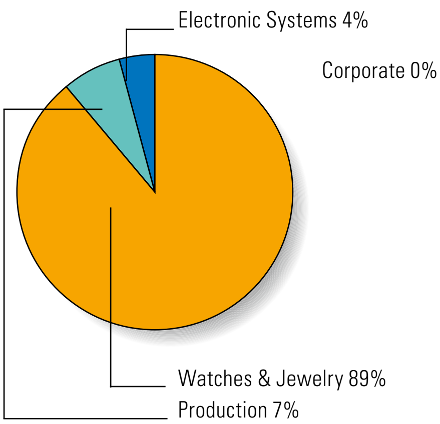
(CHF million)	**2012**	2011	**Change in %** at constant rates	**Change in %** currency effect	**Change in %** Total
Gross sales					
– Third parties	**281**	308			
– Group	**30**	28			
– Total	**311**	336	– 9.0%	+ 1.6%	– 7.4%
Net sales	**308**	334			– 7.8%
Operating profit	**1**	13			
– in % of net sales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

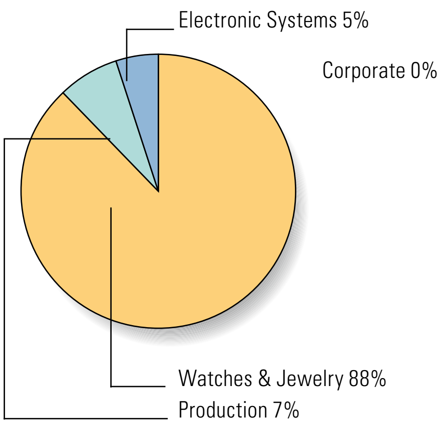
The segment margins also continued to suffer in 2012 as a result of massive price pressures and an unchanged unfavorable currency constellation. Operating profit was only just in positive territory. Our goal is to significantly increase both sales and profits in this segment in 2013 with our unique,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

Segment share of net sales

2012

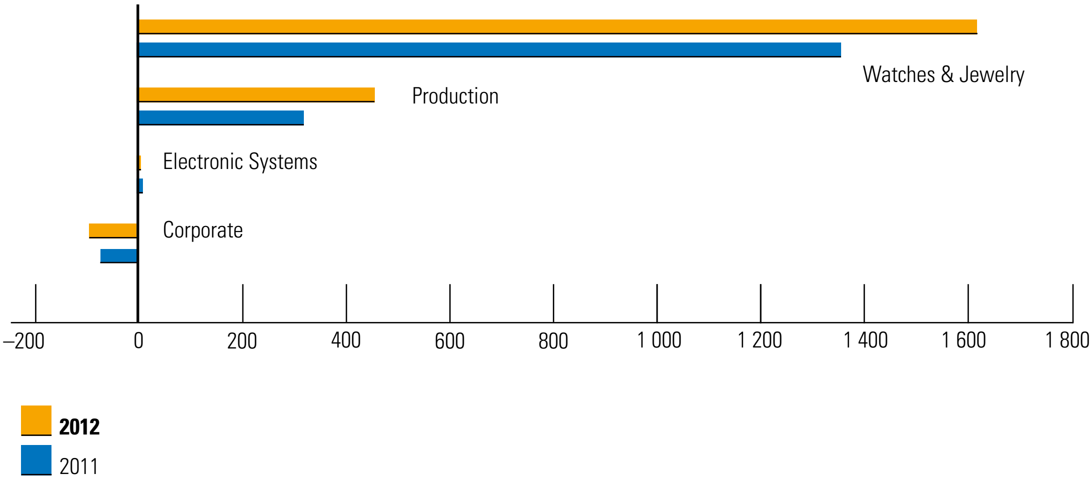


2011



Financial review

Segment share of operating profit
(CHF million)



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 CHF million	%	2011 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 CHF million	%	31.12.2011 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

	Notes		2012 CHF million		2011 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**	**– 96**	1 616	– 209

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 Share capital (Note 21)	Treasury shares (Note 21)	Other reserves (Note 21)	Retained earnings	Total	Non-controlling interests	Total equity
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 headquartears are in Biel, Seevorstadt 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:

	31.12.2012			31.12.2011		
	Change on exchange rate	**Income statement CHF million**		Change on exchange rate	Income statement CHF million	
Currency	**+ / –**	**+**	**–**	+ / –	+	–
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.

	31.12.2012			31.12.2011		
	Change on index	**Income statement CHF million**		Change on index	Income statement CHF million	
Index	**+ / –**	**+**	**–**	+ / –	+	–
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:

	31.12.2012		31.12.2011	
(CHF million)	**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:

	31.12.2012				31.12.2011			
(CHF million)	**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

	2012		2011	
(CHF million)	**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:

		31.12.2012			31.12.2011	
(CHF million)	**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:

(CHF million)	**Balance at 31.12.2011**	Recognized in income statement	Business combinations	Foreign currency translation adjustments	**Balance at 31.12.2012**
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**

(CHF million)	Balance at 31.12.2010	Recognized in income statement	Business combinations	Foreign currency translation adjustments	Balance at 31.12.2011
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

(CHF million)	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
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**

(CHF million)	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
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

(CHF million)	**Goodwill**	**Capitalized development costs**	**Other intangible assets**	**Total**
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**

(CHF million)	Goodwill	Capitalized development costs	Other intangible assets	Total
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:

		2012	2011
(CHF million)	Notes	**Fair value**	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.

	31.12.2012			31.12.2011		
Type (CHF million)	**Contract value**	**Positive fair value**	**Negative fair value**	Contract value	Positive fair value	Negative fair value
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:

	2012							
Type	**EUR**	**JPY**	**USD**	**CNY**	**RUB**	**THB**	**Other**	**Total**
(CHF million)								
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**

	2011							
Type	EUR	JPY	USD	CNY	RUB	THB	Other	Total
(CHF million)								
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		
	Quantity	Value	Quantity	Value	Total
		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
Curtailments	**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 vigourously 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:

	Share options	
Expiry date	**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).

	2012		2011	
(CHF million)	**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]	**Compensation for executive functions** **Base compensation**[2]	**Bonus**[3]	**Other compensation**[4]	**Total**[5]
		(CHF)	**(CHF)**	**(CHF)**	**(CHF)**	**(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]	Compensation for executive functions Base compensation[2]	Bonus[3]	Other compensation[4]	Total[5]
		(CHF)	(CHF)	(CHF)	(CHF)	(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

Europe

Switzerland

Company name, Registered offices	Field of Activity	Capital in millions		Swatch Group Shareholdings %	Consoli-dation	Segment
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	●	▼
Termiboîtes SA, Courtemaîche	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 OOO Russia, Moscow	Distribution	RUB	0.20	100	●	◀
The Swatch Group (RUS) OOO, 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 %	Consoli-dation	Segment
America						
Brazil						
SGA Administração de Imóvies 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

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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		**31.12.2012**		31.12.2011	
	Notes	**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			**31.12.2012**			31.12.2011	
	Notes		**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'Ébauches 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**		
(CHF million)	**Third party**	**Group**	**Total**	**Third party**	**Group**	**Total**	**Third party**	**Group**	**Total**
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)