

FINANCIAL STATEMENTS 2013

CONSOLIDATED
FINANCIAL
STATEMENTS

FINANCIAL
STATEMENTS
OF THE HOLDING



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Financial review

Key financial developments in 2013

- **Gross sales:** Gross sales increase to CHF 8 817 million, a plus of 8.3% despite negative exchange rates.

- **Net sales:** Net sales rise 8.5% to CHF 8 456 million.

- **Operating profit:** Operating profit increases 17.0% to CHF 2 314 million. Operating margin of 27.4% (previous year 25.4%), of which the effect of the legal case success against Tiffany & Co. USA, after depreciation and impairment, accounts for about 3 margin points.

- **Net income:** Net income rises 20.2% to CHF 1 928 million, a net return on sales of 22.8%.

- **Headcount:** Headcount rises by 3 800, of which 900 in Switzerland, to 33 600 worldwide.

- **Equity:** Equity of more than CHF 9.5 billion, equivalent to an equity ratio of 82.3%.

- **Dividend:** Proposed dividend increase of +11.1%, per bearer share CHF 7.50 (previous year CHF 6.75) and per registered share CHF 1.50 (previous year CHF 1.35).

- **Outlook:** Auspicious start to 2014 in all segments.

Financial review

1. Key figures Group

(CHF million)	2013	2012	Change in %		Total
			at constant rates	currency effect	
Gross sales	8 817	8 143	+ 9.1%	– 0.8%	+ 8.3%
Net sales	8 456	7 796			+ 8.5%
Operating profit	2 314	1 978			+ 17.0%
– in % of net sales	27.4%	25.4%			
Net income	1 928	1 604			+ 20.2%
– in % of net sales	22.8%	20.6%			
Equity	9 574	8 573			+ 11.7%
– as % of total assets	82.3%	82.2%			

Financial review

2. Environment / Financial year

Development operating results

(CHF million)	2013			2012 ¹⁾		
	Third	Group	Total	Third	Group	Total
Gross sales						
Watches & Jewelry ²⁾	8 531	1	8 532	7 854	3	7 857
Electronic Systems	279	20	299	281	30	311
Corporate and elimination ²⁾	7	-21	-14	8	-33	-25
Total	8 817	-	8 817	8 143	-	8 143
Net sales						
Watches & Jewelry ²⁾	8 172	1	8 173	7 510	3	7 513
Electronic Systems	277	20	297	278	30	308
Corporate and elimination ²⁾	7	-21	-14	8	-33	-25
Total	8 456	-	8 456	7 796	-	7 796
Operating profit						
		2013	% of sales		2012	% of sales
Watches & Jewelry ²⁾		2 424	29.7%		2 069	27.5%
Electronic Systems		-12	-4.0%		1	0.3%
Corporate and elimination ²⁾		-98			-92	
Total		2 314	27.4%		1 978	25.4%

¹⁾ All prior year figures in the financial review have been restated due to change from IFRS to Swiss GAAP FER.

²⁾ Restated prior year figures due to modified segment information.

With its 20 brands, the worldwide leader in the watch sector grew by a further 8.3%, generating record sales of CHF 8 817 million in 2013, despite the extremely adverse currency situation. Group net sales even rose 8.5% to CHF 8 456 million. The major growth factors were the strong brands and the extensive distribution and retail network. The ongoing over-valuation of the Swiss franc, particularly against the USD and JPY, negatively impacted Group results versus 2012. In the second half of the year, the negative effect on sales due to exchange rates was over CHF 100 million.

Operating profit increased 17.0% to CHF 2 314 million in 2013, corresponding to an operating margin of 27.4%. The effect on operating margin related to the over CHF 400 million compensation from the legal case success against Tiffany & Co. USA, after depreciation of inventory and impairment of other assets, accounts for approximately three margin points. Overall, net income was CHF 1 928 million, which corresponds to a 22.8% net return on sales.

Watches & Jewelry generated a sales growth of over 10%. Including production, gross sales in the aforementioned segment increased 8.6% to CHF 8 532 million and net sales 8.8% to CHF 8 173 million. In comparison, exports of wrist watches by the entire Swiss Watch Industry increased 2.0% to the end of December 2013. This indicates a significant increase in market share by the Swatch Group.

The Harry Winston brand was taken over early in the year and, together with its global workforce of 535 at the time and its Geneva production company, was integrated into the Group. At the end of November, the Swatch Group also took control of Rivoli Investment LLC, a corporation with a distribution network of more than 360 retail stores in the Middle East.

Specific investment enabled production capacities to be expanded further and put into operation. Furthermore, the new watch-dial plant in Grenchen, the component plant in Villeret and component production facilities in Boncourt started operations early in the year, once again confirming the Group's commitment to the Swiss manufacturing location and a further strengthening of "Swiss Made". More than 900 jobs for the Group were created in Switzerland alone.

The electronic systems segment was exposed to the weak USD and JPY for the entire reporting year, closing with overall gross sales of CHF 299 million, a 3.9% decrease versus the previous year. The segment's operating result shows a loss of CHF 12 million, although this was lower in the second half of the year than in the first.

Financial review

Development net income

(CHF million)	2013	2012
Interest income	28	10
Result from marketable securities at fair value and derivatives	29	27
Net currency result	-27	-17
Other financial expense	-5	-4
Interest expense	-2	-3
Share of result from associates and joint ventures	13	18
Net financial result	36	31

(CHF million)	2013	2012
Net income	1 928	1 604
- in % of net sales	22.8%	20.6%
- Change from previous year in %	20.2%	25.7%

Basic earnings per share (in CHF) -

expressed in CHF per share:

- Registered shares	7.08	5.91
- Bearer shares	35.41	29.57

Thanks to a stabilization in the financial markets in 2013, the result from marketable securities was a gain of CHF 29 million (compared to a gain of CHF 27 million in 2012). On the other hand, the very volatile foreign currency situation led to net currency losses of CHF 27 million (2012: CHF 17 million). The share of results from associates amounted to CHF 13 million (2012: CHF 18 million). Overall, the net financial result for the year 2013 was a gain of CHF 36 million (2012: gain of CHF 31). Depending on developments in the financial markets and foreign currencies, the financial result will continue to be volatile in the future and influence the Group's net income.

An analysis of the income tax charge is set out in Note 6 to the consolidated financial statements. In relation to the profit before taxes, the income tax charge amounted to 18.2% in the reporting year, compared to 20.3% in the previous year.

Overall, net income was CHF 1 928 million, which corresponds to a 22.8% net return on sales.

Basic earnings per share increased in the current year by approximately 20% to CHF 7.08 (2012: CHF 5.91) for registered shares and CHF 35.41 (2012: CHF 29.57) for bearer shares, respectively. The strong increase in net income is accompanied by a slightly increased average number of shares outstanding. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 7.

At the General Meeting on 14 May 2014, a dividend for the financial year 2013 of CHF 1.50 (2012: CHF 1.35) for registered shares and of CHF 7.50 (2012: CHF 6.75) for bearer shares will be proposed. This dividend, totalling CHF 417 million, with an expected cash-out impact in 2014 of CHF 414 million, is not recognized as a liability in the consolidated financial statements at 31 December 2013.

Financial review

Development balance sheet structure

(CHF million)	2013	2012
Total current assets	8 673	7 827
Total current liabilities	1 338	1 204
Equity	9 574	8 573
– as % of total assets	82.3%	82.2%
Average return on equity (ROE)	21.2%	19.7%

Current liabilities are covered by current assets by a factor of 6.5. This factor shows that the consolidated balance sheet is very solid.

By the end of December 2013, equity reached a new high of CHF 9 574 million, equivalent to an equity ratio of 82.3%. In particular, it should be noted that Swatch Group, in accordance with Swiss GAAP FER, removed all goodwill from its assets and deducted it from its equity. Any potential future impairment risk on goodwill has therefore been removed from the balance sheet. The Group has an extremely solid financial and equity base.

Development liquidity

(CHF million)	2013	2012
Cash and cash equivalents at 1.1.	1 520	1 616
Cash flow from operating activities	1 309	999
Cash flow from investing activities	– 1 309	– 836
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 612	– 259
Cash and cash equivalents at 31.12.	908	1 520

In 2013, the Group realized an operating cash flow of CHF 1 309 million, which corresponds to an increase of 31% compared to the prior year (2012: CHF 999 million).

Net investing activities were higher than in 2012, mainly due to the takeovers of Harry Winston and Rivoli and annual investment of CHF 706 million in machinery, installations, production infrastructure and retail stores.

The dividend and the repayment of financial debts in relation to the takeover of Harry Winston in spring 2013 were the main cash flows from financing activities.

Overall, the Group's cash position decreased in 2013 by CHF 612 million to CHF 908 million at year-end.

Financial review

3. Outlook

All brands had an auspicious start. In the first month of the year, sales of both watches and jewelry were very good. After four years of strong and dynamic growth by Swatch Group, as well as the entire Swiss watch industry, continued healthy growth is expected in 2014.

Thanks to its 20 strong brands and their attractive products, further expansion of the distribution and retail network, the investment made in almost all production areas as well as an extremely healthy equity and financial situation, the Swatch Group is in an excellent position for both the future and for long-term growth.



Consolidated income statement

	Notes	2013 CHF million	%	2012 CHF million	%
Gross sales		8 817	104.3	8 143	104.5
Sales reductions		- 361	- 4.3	- 347	- 4.5
Net sales	(4, 5a)	8 456	100.0	7 796	100.0
Other operating income	(5b)	518	6.1	238	3.1
Changes in inventories		586	6.9	722	9.3
Material purchases		- 2 456	- 29.0	- 2 356	- 30.2
Personnel expense	(5c)	- 2 144	- 25.3	- 1 988	- 25.5
Depreciation on tangible assets	(15)	- 276	- 3.3	- 239	- 3.1
Amortization on intangible assets	(16)	- 28	- 0.3	- 22	- 0.3
Other operating expenses	(5d)	- 2 342	- 27.7	- 2 173	- 27.9
Operating profit		2 314	27.4	1 978	25.4
Other financial income and expense	(5f)	25	0.3	16	0.2
Interest expense	(5f)	- 2	- 0.0	- 3	- 0.0
Share of result from associates and joint ventures	(5f, 17)	13	0.1	18	0.2
Ordinary result		2 350	27.8	2 009	25.8
Non-operating result	(5g)	6	0.1	2	0.0
Extraordinary result		0	0.0	0	0.0
Profit before taxes		2 356	27.9	2 011	25.8
Income taxes	(6a)	- 428	- 5.1	- 407	- 5.2
Net income		1 928	22.8	1 604	20.6
Attributable to equity holders of The Swatch Group Ltd		1 921		1 596	
Attributable to non-controlling interests		7		8	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		7.08		5.91	
Diluted earnings per share		7.08		5.91	
Bearer shares					
Basic earnings per share		35.41		29.57	
Diluted earnings per share		35.38		29.54	

As of the beginning of 2013 the presentation of the consolidated financial statements is in accordance with Swiss GAAP FER. The prior period has been restated due to the comparability of the presentation of the current period.

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

Consolidated balance sheet

Assets	Notes	31.12.2013		31.12.2012	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	908	7.8	1 520	14.6
Marketable securities and derivative financial instruments	(10)	325	2.8	447	4.3
Trade receivables	(11)	1 073	9.2	1 060	10.2
Other current assets	(12)	256	2.2	161	1.5
Inventories	(13)	5 426	46.6	4 407	42.2
Prepayments and accrued income	(14)	685	5.9	232	2.2
Total current assets		8 673	74.5	7 827	75.0
Non-current assets					
Property, plant and equipment	(15)	2 272	19.5	1 922	18.4
Intangible assets	(16)	136	1.2	116	1.1
Investments in associates and joint ventures	(17)	65	0.6	110	1.1
Other non-current assets	(19)	156	1.3	177	1.7
Deferred tax assets	(6d)	337	2.9	278	2.7
Total non-current assets		2 966	25.5	2 603	25.0
Total assets		11 639	100.0	10 430	100.0

As of the beginning of 2013 the presentation of the consolidated financial statements is in accordance with Swiss GAAP FER. The prior period has been restated due to the comparability of the presentation of the current period.

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Consolidated balance sheet

Equity and liabilities	Notes	31.12.2013		31.12.2012	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	15	0.1	75	0.7
Trade payables		383	3.3	320	3.1
Other liabilities	(21)	164	1.4	179	1.7
Provisions	(23)	74	0.6	65	0.6
Accrued expenses	(22)	702	6.1	565	5.4
Total current liabilities		1 338	11.5	1 204	11.5
Non-current liabilities					
Financial debts	(20)	44	0.4	60	0.6
Deferred tax liabilities	(6d)	576	4.9	501	4.8
Retirement benefit obligations	(24)	33	0.3	23	0.2
Provisions	(23)	45	0.4	40	0.4
Accrued expenses	(22)	29	0.2	29	0.3
Total non-current liabilities		727	6.2	653	6.3
Total liabilities		2 065	17.7	1 857	17.8
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 1 062		- 1 128	
Treasury shares	(26c)	- 268		- 343	
Translation differences		- 115		- 41	
Retained earnings		10 828		9 941	
Equity of The Swatch Group Ltd shareholders		9 508	81.7	8 554	82.0
Non-controlling interests		66	0.6	19	0.2
Total equity		9 574	82.3	8 573	82.2
Total equity and liabilities		11 639	100.0	10 430	100.0

As of the beginning 2013 the presentation of the consolidated financial statements is in accordance with Swiss GAAP FER. The prior period has been restated due to the comparability of the presentation of the current period.

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

Consolidated statement of cash flows

	Notes	2013 CHF million	2012 CHF million
Operating activities			
Net income		1 928	1 604
Reversal of non-cash items	(28a)	712	642
Changes in working capital and other items included in operating cash flow	(28b)	- 965	- 956
Dividends received from associated companies	(17)	21	17
Interest received		9	11
Interest paid		- 4	- 3
Income tax paid	(6c)	- 392	- 316
Cash flow from operating activities		1 309	999
Investing activities			
Investments in property, plant and equipment	(15)	- 574	- 438
Proceeds from sale of property, plant and equipment		19	6
Investments in intangible assets	(16)	- 48	- 39
Proceeds from sale of intangible assets		-	1
Investments in other non-current assets	(19)	- 84	- 18
Proceeds from sale of other non-current assets		10	9
Acquisition of subsidiaries – net of cash	(18)	- 759	- 336
Investments in associated companies and joint ventures	(17)	- 14	- 140
Divestments of associated companies and joint ventures		0	-
Purchase of marketable securities		- 207	- 181
Sale of marketable securities		348	300
Cash flow from investing activities		- 1 309	- 836
Financing activities			
Dividends paid to shareholders	(8)	- 366	- 310
Dividends paid to non-controlling interests		- 5	- 6
Purchase of treasury shares	(26b)	- 2	- 2
Sale of treasury shares		123	8
Change in non-current financial debts		- 260	- 6
Change in current financial debts		- 88	61
Cash flow from financing activities		- 598	- 255
Net impact of foreign exchange rate differences on cash		- 14	- 4
Change in cash and cash equivalents		- 612	- 96
Change in cash and cash equivalents			
– At beginning of year		1 520	1 616
– At end of year	(9)	908	1 520

As of the beginning 2013 the presentation of the consolidated financial statements is in accordance with Swiss GAAP FER. The prior period has been restated due to the comparability of the presentation of the current period.

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

Consolidated statement of changes in equity

(CHF million)	Attributable to The Swatch Group Ltd shareholders					Total	Non-con- trolling interests	Total equity
	Share capital (Note 26)	Capital reserves (Note 26)	Treasury shares (Note 26)	Translation differences	Retained earnings			
Balance at 31.12.2011 (as reported, according to IFRS)	125	0	-347	-280	8 556	8 054	17	8 071
Reconciliation from IFRS to Swiss GAAP FER (Note 2e)		- 1 146		280	478	- 388	0	- 388
Balance at 31.12.2011 (restated, according to Swiss GAAP FER)	125	- 1 146	- 347	0	9 034	7 666	17	7 683
Net income (Note 2e)					1 596	1 596	8	1 604
Currency translation of foreign entities				- 41		- 41		- 41
Compensation of goodwill Group companies (Note 18)					- 268	- 268		- 268
Compensation of goodwill associated companies and joint ventures (Note 17)					- 111	- 111		- 111
Dividends paid					- 310	- 310	- 6	- 316
Share-based compensation (Note 29):								
– Value of employee services (net of tax)		16				16		16
– Proceeds from sale of shares		1				1		1
Sale of treasury shares		1	6			7		7
Repurchase of treasury shares			- 2			- 2		- 2
Balance at 31.12.2012 (according to Swiss GAAP FER)	125	- 1 128	- 343	- 41	9 941	8 554	19	8 573
Net income					1 921	1 921	7	1 928
Currency translation of foreign entities				- 74		- 74	- 1	- 75
Compensation of goodwill Group companies (Note 18)					- 668	- 668		- 668
Minority interests from business combinations (Note 18)							46	46
Dividends paid					- 366	- 366	- 5	- 371
Share-based compensation (Note 29):								
– Value of employee services (net of tax)		20				20		20
– Proceeds from sale of shares		1				1		1
Sale of treasury shares		45	77			122		122
Repurchase of treasury shares			- 2			- 2		- 2
Balance at 31.12.2013 (according to Swiss GAAP FER)	125	- 1 062	- 268	- 115	10 828	9 508	66	9 574

As of the beginning 2013 the presentation of the consolidated financial statements is in accordance with Swiss GAAP FER. The prior period has been restated due to the comparability of the presentation of the current period.

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

Notes to the consolidated financial statements

1. General information

The Swatch Group Ltd (the Company) and its subsidiaries (collectively the Group) is active worldwide and represented in the finished watches and jewelry sector with 20 brands in all market and price segments. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components as well as in the electronic systems sector.

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

The shares of The Swatch Group Ltd are listed in Switzerland on the Main Market of the SIX Swiss Exchange, under the ISIN numbers CH0012255144 (registered shares) and CH0012255151 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI 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 20 February 2014 and will be submitted to the Annual General Meeting of Shareholders for approval on 14 May 2014.

2. Summary of significant accounting policies

a. Basis of preparation

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

b. Consolidation policies

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

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

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

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

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

Notes to the consolidated financial statements

- c. Scope of consolidation** Over the course of the year, 28 companies have been bought, three companies merged and one new company founded. As a result, the Group's consolidation structure at the end of 2013 comprised 185 legal entities (prior year: 159), including two joint ventures (one in 2012) and six associated companies (prior year: seven). Note 33 contains a full list of the Group companies. The companies added from business combinations are referred to in Note 18 Business combinations.
- d. Accounting estimates and judgments** The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.
- e. Changes in accounting policies** As already announced in the consolidated financial statements for 2012, the Board of Directors of the Swatch Group decided to change from IFRS to Swiss GAAP FER with effect from 1 January 2013. Swiss GAAP FER are recognized, comprehensible and comprehensive accounting standards ensuring the continued publication of high-quality and transparent financial reports. The differences in valuation and a reconciliation at the level of equity and net income are set out below. The related adjustments were made retrospectively to 1 January 2012.

Swiss GAAP FER restatement

The accounting principles under Swiss GAAP FER, which have been applied for the preparation and presentation of the financial statements for 2013, differ in the following respects from those applied for the consolidated financial statements for 2012 under IFRS:

- Goodwill from acquisitions is, in accordance with the option available under FER 30 on "Consolidated Financial Statements", recognized directly in equity at the time of purchase. Under IFRS, goodwill was capitalized and not amortized but tested annually for impairment. Separable intangible assets were capitalized under IFRS and amortized over their estimated economic useful lives. Under Swiss GAAP FER, any intangible assets not capitalized at acquisition are not separated and capitalized, but instead remain part of goodwill.
- Goodwill included in the acquisition costs of associated companies and joint ventures is determined separately and now also recognized directly in equity. Under IFRS, such goodwill formed part of the equity value of the associated companies and joint ventures.
- Swiss GAAP FER 16 "Pension benefit obligations" specifies that the actual economic effects (liability or benefit) for the Group are based on the figures of the Swiss Pension Fund, prepared in accordance with FER 26 "Financial reporting of pension funds". On this basis it is assessed whether an economic liability or an economic benefit exists. In the same way, it is assessed on an annual basis whether an economic liability or an economic benefit exists in respect of foreign pension plans, using recognized country-specific methods. IFRS specifies that pension plans with defined benefits are to be valued using the projected unit credit method and recognized in accordance with IAS 19.
- Key money paid for strategically located retail stores is now subject to straight-line amortization over a maximum of 20 years if its value is demonstrated by the presence of a market and if it is recognized as an intangible asset. This approach reflects the prudence principle stipulated by the Swiss GAAP FER framework. Previously, key money was written down to its expected residual value.
- The changes to valuation and accounting listed above have effects on the deferred taxes in the balance sheet and in the income statement.
- The historical cumulative translation differences of CHF 280 million resulting from foreign entities was offset against the retained earnings as part of the restatement on 1 January 2012. The capital reserves, which are negative due to the various reductions in capital in recent years, were reclassified from retained earnings on 1 January 2012.

Notes to the consolidated financial statements

The changes to accounting principles according to Swiss GAAP FER were applied retrospectively from 1 January 2012. In the interests of comparability with the presentation of the current period, the previous period was restated. The tables below show the effect in figures of the changeover from IFRS to Swiss GAAP FER on equity and the net income:

(CHF million)	01.01.2013	01.01.2012
Equity according to IFRS	9 344	8 071
Reconciliation to Swiss GAAP FER:		
Compensation of goodwill from acquisitions	– 480	– 212
Compensation of goodwill from associates	– 221	– 110
Pension liabilities Switzerland	– 69	– 69
Pension liabilities foreign countries	– 2	– 2
Key money	– 14	– 14
Deferred taxes	19	19
Net income	– 4	-
Total adjustments to equity	– 771	– 388
Equity according to Swiss GAAP FER	8 573	7 683

(CHF million)	2012
Net income according to IFRS	1 608
Reconciliation to Swiss GAAP FER:	
Amortization of intangibles from acquisitions	2
Adjustment personnel expense (pension plans)	– 6
Amortization of key money	– 2
Deferred tax expense	2
Total adjustments to net income	– 4
Net income according to Swiss GAAP FER	1 604

Modification of segment reporting

In 2013, the Swatch Group redefined and modified its segment reporting, combining the “Watches & Jewelry” and “Production” segments into a new “Watches & Jewelry” segment, since due to the increasing integration of a variety of production processes in the brand headquarters, a clear demarcation of production is no longer given. This trend was accelerated in early 2013 by the acquisition of Harry Winston. In addition, sales to own brands by the Production segment have significantly increased over recent years. Furthermore, this modification will facilitate comparison with benchmark companies, who treat watches and jewelry as a single segment. Segment reports have been adjusted retrospectively in these consolidated financial statements. Segment reporting can be found in Note 4.

Notes to the consolidated financial statements

f. Foreign currency translation

Translation in the financial statements of the Group companies

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

Translation of individual financial statements to be consolidated

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

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

The main exchange rates used are:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2013	31.12.2013	2012	31.12.2012
		CHF	CHF	CHF	CHF
CNY	1	0.1510	0.1475	0.1486	0.1471
EUR	1	1.2317	1.2280	1.2052	1.2075
HKD	1	0.1196	0.1152	0.1208	0.1183
JPY	100	0.9499	0.8500	1.1735	1.0650
USD	1	0.9277	0.8930	0.9369	0.9165

g. Sales and revenue recognition

The Group records the gross amounts of invoices for sales of goods and services, excluding VAT, as gross sales. All differences between the gross amounts invoiced and the agreed net price, such as rebates and price reductions, are recorded as sales reductions. Net sales comprise the fair value of the sale of goods and services, and therefore represent revenue.

All intercompany sales are eliminated upon consolidation.

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectibility of the related receivables is reasonably secured. 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.

h. Cash and cash equivalents

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

Notes to the consolidated financial statements

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

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

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

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

Notes to the consolidated financial statements

m. Intangible assets

Goodwill

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

Goodwill may also arise from investments in associated companies, calculated as the difference between the acquisition costs of the investment and its proportional revalued net assets.

Capitalized development costs

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

Other intangible assets

In addition, the heading intangible assets includes:

- Licences purchased granting rights to use new technologies and software. They are amortized over their useful life (max. five years).
- Internally developed software and software implementation costs. These costs are recognized as intangible assets if it is likely that they will generate future economic benefits. The costs include software development employee costs and the direct portion of related overhead costs. The capitalized costs are amortized on a straight-line basis over the estimated useful life (max. five years).
- Key money for strategically located retail stores. If its value can be demonstrated by the existence of a market, it is capitalized as an intangible asset and amortized on a straight-line basis over the location's useful life of max. 20 years. In contrast, key money that is not refundable or only refundable under specific circumstances is treated as prepaid rent and recorded under Other non-current assets (see Note 19).

n. Impairment of assets

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

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

Notes to the consolidated financial statements

o. Provisions

Provisions are recognized:

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate receivable, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision in function of time is recognized as interest expense.

p. Financial debts

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

q. Derivative financial instruments

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

Cash flow hedges

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

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

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

Other derivative financial instruments

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

r. 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 directly in equity. In this case, the tax is also recognized directly in equity.

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 at the balance sheet date.

Notes to the consolidated financial statements

Deferred tax

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

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

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

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

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

s. Pensions and other post-employment benefits

Pension obligations

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

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

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

Other post-employment benefits

A small number of Group companies provide post-retirement medical care benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Termination benefits

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

Notes to the consolidated financial statements

t. Share capital and treasury shares

Shares issued by The Swatch Group AG are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 0.45, and bearer shares, each with a nominal value of CHF 2.25. 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 the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

u. Dividends

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

v. Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (market value at grant date). At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

A block of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. The proceeds received net of any transaction cost are credited to equity when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 7).

w. Leases

Finance leases

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

Operating leases

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

Notes to the consolidated financial statements

3. Financial risk management

a. Financial risk factors

In view of the global and varied nature of its activities, the Group is exposed to different financial risks, including foreign currency, market, credit and liquidity risks. The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, mainly against the US Dollar, the Chinese Renminbi, the Euro and the Japanese Yen, with the aim of minimizing its impact on Group net income. In order to hedge exchange rate risk, the Group may use derivative financial instruments such as forward currency contracts or currency options. Currently no cash flow hedging is used. Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group's management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under the regular supervision of the Group's Top Management.

Credit risk

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

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

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit ratings are usually at least 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.

Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. The close monitoring of liquidity at Group level and of the asset allocation allows the Group's treasury department to maintain adequate levels of liquidity at all times. In order to meet any exceptional liquidity requirements, the Group maintains lines of credit with a number of financial institutions.

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

(CHF million)	31.12.2013	31.12.2012
Cash and cash equivalents	908	1 520
Marketable securities	325	447
Short-term accessible liquidity reserves	1 233	1 967
Committed credit facilities	519	581
./ Utilized credit facilities	- 47	- 129
Total short-term accessible liquidity reserves and undrawn credit facilities	1 705	2 419

b. Capital management

The primary objective of the Group with regard to capital management is to preserve a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2013, equity represented 82.3% (31 December 2012: 82.2%) of total assets.

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

Notes to the consolidated financial statements

4. Segment information

a. Operating segment information

Operating segments are reported consistent with the internal reporting provided to the Management Board. Although the Group's operations are worldwide, the main entrepreneurial focus remains on the product portfolio. This is reflected by the Group's divisional management and organizational structure and the Group's internal financial reporting systems.

In 2013, the Group integrated the previous "Production" segment into the "Watches & Jewelry" segment (see explanations under Note 2e). The previous year's figures have been adjusted accordingly.

The Group's activities are organized into numerous individual business units (Profit Centers) which are aggregated in the following reportable operating segments:

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

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

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

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

Income statement

2013 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 531	279	7		8 817
– Group	1	20	6	– 27	–
Gross sales	8 532	299	13	– 27	8 817
– Third parties	8 172	277	7		8 456
– Group	1	20	6	– 27	–
Net sales	8 173	297	13	– 27	8 456
Operating profit	2 424	– 12	– 98	–	2 314
– As a % of net sales	29.7	– 4.0			27.4
– As a % of total	104.8	– 0.5	– 4.3		100.0

2012 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 854	281	8		8 143
– Group	3	30	5	– 38	–
Gross sales	7 857	311	13	– 38	8 143
– Third parties	7 510	278	8		7 796
– Group	3	30	4	– 37	–
Net sales	7 513	308	12	– 37	7 796
Operating profit	2 069	1	– 92	–	1 978
– As a % of net sales	27.5	0.3			25.4
– As a % of total	104.6	0.1	– 4.7		100.0

Notes to the consolidated financial statements

Balance sheet and other information

2013 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	10 239	453	3 768	– 2 886	11 574
– Investments in associated companies and joint ventures	5	–	60	–	65
Total assets	10 244	453	3 828	– 2 886	11 639
Total liabilities	– 3 925	– 118	– 908	2 886	– 2 065
Net assets	6 319	335	2 920	–	9 574

Other information

Investments in property, plant and equipment	559	8	15	–	582
Investments in intangible assets	44	1	3	–	48
Investments in other non-current assets	84	0	0	–	84
Depreciation on property, plant and equipment	– 238	– 27	– 11	–	– 276
Amortization on intangible assets	– 23	– 2	– 3	–	– 28
Impairment charges	0	0	–	–	0

2012 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	8 541	501	3 312	– 2 034	10 320
– Investments in associated companies and joint ventures	4	–	106	–	110
Total assets	8 545	501	3 418	– 2 034	10 430
Total liabilities	– 2 923	– 100	– 868	2 034	– 1 857
Net assets	5 622	401	2 550	–	8 573

Other information

Investments in property, plant and equipment	425	12	7	–	444
Investments in intangible assets	33	3	2	–	38
Investments in other non-current assets	18	0	0	–	18
Depreciation on property, plant and equipment	– 200	– 30	– 9	–	– 239
Amortization on intangible assets	– 18	– 2	– 2	–	– 22
Impairment charges	0	–	–	–	0

Notes to the consolidated financial statements

b. Information on geographical regions

(CHF million)	2013		2012	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	1 064	1 837	1 084	1 579
Other Europe	1 809	254	1 772	191
Total Europe	2 873	2 091	2 856	1 770
Greater China	3 208	215	2 869	281
Other Asia	1 527	222	1 297	208
Total Asia	4 735	437	4 166	489
Total America	709	92	643	57
Total Oceania	81	3	80	3
Total Africa	58	1	51	1
Total	8 456	2 624	7 796	2 320

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

Notes to the consolidated financial statements

5. Revenues and expenses

a. Analysis of sales revenue	(CHF million)	2013	2012
	Sale of goods	8 424	7 774
	Rendering of services	32	22
	Total net sales	8 456	7 796

b. Other operating income In 2013, other operating income amounted to CHF 518 million (2012: CHF 238 million). In 2013, this position included the compensation from the successful outcome of the legal case against Tiffany & Co. USA. In 2012, income stemmed mainly from timekeeping services rendered for the Olympic Games.

c. Personnel expense	(CHF million)	2013	2012
	Wages and salaries	1 747	1 618
	Social security costs	292	265
	Share-based compensation (Note 29)	19	16
	Pension costs (Note 24)	86	89
	Total personnel expense	2 144	1 988

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

(Unaudited)	2013	2012
Average annual headcount	31 114	28 942
Total headcount at 31 December	33 590	29 788
Men	15 986	13 437
Women	17 604	16 351
Swiss contracts	16 704	15 800
Non-Swiss contracts	16 886	13 988

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)	2013	2012
	Marketing, sales and administration	1 261	1 097
	Subcontracting and other direct costs of sales	313	295
	Maintenance, rents and energy	703	604
	Other operating expenses	65	177
	Total other operating expenses	2 342	2 173

e. Research and development costs Research and development (R&D) costs amounted to CHF 184 million in 2013, representing 2.2% of net sales (compared with CHF 178 million or 2.3% in 2012).

f. Net financial result	(CHF million)	2013	2012
	Interest income	28	10
	Result from marketable securities at fair value and derivatives	29	27
	Net currency result	-27	-17
	Other financial expense	-5	-4
	Other financial income and expense	25	16
	Interest expense	-2	-3
	Share of result from associates and joint ventures	13	18
	Net financial result	36	31

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

Notes to the consolidated financial statements

6. Income taxes

a. Income tax expenses

(CHF million)	2013	2012
Current income taxes	403	372
Adjustments recognized for current income taxes of prior periods	10	-4
Deferred taxes	15	39
Total income taxes	428	407

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.

	2013	2012
	%	%
Group's average expected tax rate	17.3	20.6
Tax effect of:		
- Change in the applicable tax rate on temporary differences	-0.2	-0.2
- Recognition of unused tax losses from prior years	-0.6	-0.3
- Utilization of previously unrecognized tax losses	-0.3	-0.1
- Unrecognized current year tax losses	1.0	0.4
- Non-taxable income	-0.1	-0.1
- Non-tax-deductible expenses	0.6	0.2
- Items taxable at reduced rates	-0.3	-0.5
- Adjustments recognized for current taxes of prior periods	0.4	-0.2
- Other items	0.4	0.5
Group's effective tax rate	18.2	20.3

The tax rate based on the ordinary result in the year under review was 18.2% (prior year: 20.3%).

c. Current income tax

(CHF million)	2013	2012
Net current income tax liability		
Balance at 1 January	-150	-98
Recognized in income statement	-413	-368
Recognized in equity	-	-
Income taxes paid	392	316
Translation differences	0	0
Balance at 31 December	-171	-150
thereof current income tax assets	19	17
thereof current income tax liabilities	-190	-167

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 taxation authority.

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

(CHF million)	31.12.2013			31.12.2012		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	281	-427	-146	230	-342	-112
Trade and other receivables	4	-17	-13	5	-22	-17
Property, plant and equipment	17	-113	-96	11	-106	-95
Intangible assets	8	-8	0	7	-6	1
Provisions	10	-43	-33	10	-44	-34
Retirement benefit obligations	5	0	5	4	-1	3
Tax losses	57	-	57	19	-	19
Other	47	-60	-13	42	-30	12
Total deferred tax assets (liabilities)	429	-668	-239	328	-551	-223
Deferred tax assets on the balance sheet			337			278
Deferred tax liabilities on the balance sheet			-576			-501

Notes to the consolidated financial statements

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

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

(CHF million)	Not recognized	Recognized	Total 2013
One year	2	3	5
Two years	6	3	9
Three years	5	12	17
Four years	4	12	16
Five years	12	7	19
Six years	16	1	17
More than six years	195	154	349
Total at 31.12.2013	240	192	432

(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

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 65 million in the year under review (previous year: CHF 54 million).

Notes to the consolidated financial statements

7. Earnings per share

a. Basic

	2013	2012
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 921	1 596
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.1%	43.8%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.9%	56.2%
Registered shares		
Net income attributable to registered shareholders (CHF million)	847	699
Average number of shares outstanding	119 514 584	118 195 194
Basic earnings per share (in CHF)	7.08	5.91
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	1 074	897
Average number of shares outstanding	30 335 000	30 335 000
Basic earnings per share (in CHF)	35.41	29.57

b. Diluted

	2013	2012
Registered shares		
Net income attributable to registered shareholders (CHF million)	848	700
Average number of shares outstanding – basic (as above)	119 514 584	118 195 194
Potential number of shares from options outstanding	232 711	231 159
Average potential number of shares outstanding – diluted	119 747 295	118 426 353
Diluted earnings per share (in CHF)	7.08	5.91
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	1 073	896
Average potential number of shares outstanding	30 335 000	30 335 000
Diluted earnings per share (in CHF)	35.38	29.54

8. Dividends paid and proposed

On 29 May 2013, the Annual General Meeting approved the distribution of a dividend of CHF 1.35 per registered share and CHF 6.75 per bearer share. The distribution to holders of outstanding shares totaled CHF 366 million (2012: CHF 310 million) and has been recorded against retained earnings in 2013.

At the Annual General Meeting on 14 May 2014, payment of the following dividends for 2013 will be proposed:

	Registered	Bearer
Dividend per share	CHF 1.50	CHF 7.50
Total dividend	CHF 186 067 500	CHF 231 300 000

The financial statements ending 31 December 2013 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2014.

Notes to the consolidated financial statements

9. Cash and cash equivalents

(CHF million)	31.12.2013	31.12.2012
Current accounts and liquid assets	810	971
Short-term deposits with financial institutions	98	549
Total	908	1 520

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)	31.12.2013	31.12.2012
Cash and cash equivalents	908	1 520
Current account overdrafts (Note 20)	0	0
Total funds net cash	908	1 520

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2013	31.12.2012
Equity securities	55	103
Bond securities	238	309
Investment funds and other investments	32	35
Total marketable securities at fair value	325	447

Derivative financial instruments	0	0
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Total marketable securities and derivative financial instruments	325	447
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The table below gives an overview of the contract values and fair values of derivative financial instruments by type of contract.

Type (CHF million)	31.12.2013			31.12.2012		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
EUR	405	–	–2	344	–	–
JPY	7	–	0	14	–	–1
USD	565	–	–4	123	–	–1
GBP	26	–	–1	10	–	–
RUB	16	–	0	12	–	0
THB	–	–	–	22	–	0
Other currencies	30	–	–1	50	–	0
Gold	69	–	0	–	–	–
Total	1 118	–	–8	575	–	–2

Notes to the consolidated financial statements

11. Trade receivables

(CHF million)	31.12.2013	31.12.2012
Trade receivables – gross	1 083	1 068
Allowance for impaired receivables	– 10	– 8
Total trade receivables – net	1 073	1 060

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

(CHF million)	2013	2012
Balance at 1 January	– 8	– 18
Translation differences	0	0
Business combinations	– 1	–
Utilization	0	8
Reversal	1	3
Creation	– 2	– 1
Balance at 31 December	– 10	– 8

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

Net trade receivables are recognized in the following major currencies:

(CHF million)	31.12.2013	31.12.2012
CHF	209	238
CNY	301	251
EUR	185	187
HKD	54	69
JPY	27	26
USD	104	97
Other currencies	193	192
Total trade receivables – net	1 073	1 060

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

12. Other current assets

(CHF million)	31.12.2013	31.12.2012
VAT to be refunded	126	125
Other receivables	130	36
Total other current assets	256	161

Notes to the consolidated financial statements

13. Inventories

(CHF million)	31.12.2013	31.12.2012
Raw materials	383	376
Work in progress	582	458
Semi-finished goods	1 933	1 663
Finished goods	2 246	1 658
Spare parts for customer service	282	252
Total inventories	5 426	4 407

Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2013, the Group recognized write-downs of CHF 105 million, mainly related to Tiffany products (previous year: CHF 42 million). In addition, an amount of CHF 7 million (previous year: CHF 25 million) was reversed. The net impact of these adjustments was a charge to the income statement of CHF 98 million (2012: CHF 17 million).

14. Prepayments and accrued income

(CHF million)	31.12.2013	31.12.2012
Prepaid sales, marketing and administration costs	104	129
Income tax assets	19	17
Other prepayments and accrued income	562	86
Total prepayments and accrued income	685	232

As of 2013, prepaid marketing costs are broken down into current and non-current components in an effort to increase the transparency of reports. The comparative figure for the non-current marketing costs paid in advance at the end of 2012 amounted to CHF 51 million. For reasons of materiality, this accounting change was only made on a prospective basis. The previous year's figure will remain in prepaid sales, marketing and administration costs. The non-current portion for 2013 is recorded in Other non-current assets (see Note 19).

The increase in the position Other prepayments and accrued income is mainly due to the compensation from the settled Tiffany & Co. USA case.

Notes to the consolidated financial statements

15. Property, plant and equipment

(CHF million)	Land and buildings ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 1 January 2013	1 292	2 958	435	111	4 796
Translation differences	- 32	- 9	- 10	0	- 51
Business combinations (Note 18)	48	31	18	-	97
Additions	91	324	66	101	582
Disposals	- 24	- 97	- 63	-	- 184
Transfers	78	11	- 11	- 78	-
Historical cost, 31 December 2013	1 453	3 218	435	134	5 240
Accumulated depreciation, 1 January 2013	- 581	- 2 037	- 256	0	- 2 874
Translation differences	- 1	11	8	0	18
Annual depreciation	- 42	- 195	- 39	-	- 276
Impairment	0	0	0	-	0
Depreciation on disposals	24	97	43	-	164
Transfers	0	- 5	5	-	-
Accumulated depreciation, 31 December 2013	- 600	- 2 129	- 239	0	- 2 968
Net book values:					
Balance at 1 January 2013	711	921	179	111	1 922
Balance at 31 December 2013	853	1 089	196	134	2 272
Insured value					5 902
Net book value of property, plant and equipment under finance lease contracts					1
Total non-current assets pledged to guarantee the commitments of Group companies					46

¹⁾ The category Land and buildings includes investment property with a carrying amount of CHF 32 million (previous year: CHF 33 million).

(CHF million)	Land and buildings ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 1 January 2012	1 259	2 731	393	28	4 411
Translation differences	- 26	- 4	- 3	0	- 33
Business combinations (Note 18)	38	14	1	0	53
Additions	22	276	54	92	444
Disposals	- 7	- 60	- 12	-	- 79
Transfers	6	1	2	- 9	-
Historical cost, 31 December 2012	1 292	2 958	435	111	4 796
Accumulated depreciation, 1 January 2012	- 557	- 1 925	- 233	0	- 2 715
Translation differences	2	2	3	-	7
Annual depreciation	- 29	- 172	- 38	-	- 239
Impairment	0	-	-	-	0
Depreciation on disposals	3	58	12	-	73
Transfers	-	-	-	-	-
Accumulated depreciation, 31 December 2012	- 581	- 2 037	- 256	0	- 2 874
Net book values:					
Balance at 1 January 2012	702	806	160	28	1 696
Balance at 31 December 2012	711	921	179	111	1 922
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

Notes to the consolidated financial statements

16. Intangible assets

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 1 January 2013	88	96	80	264
Translation differences	–	–1	1	0
Business combinations (Note 18)	–	0	1	1
Additions	10	17	21	48
Disposals	0	–1	–12	–13
Transfers	–18	–	18	0
Historical cost, 31 December 2013	80	111	109	300
Accumulated amortization, 1 January 2013	–35	–73	–40	–148
Translation differences	–	0	–1	–1
Annual amortization	–11	–12	–5	–28
Impairment	–	0	0	0
Amortization on disposals	0	1	12	13
Transfers	0	–	0	0
Accumulated amortization, 31 December 2013	–46	–84	–34	–164
Net book values:				
Balance at 1 January 2013	53	23	40	116
Balance at 31 December 2013	34	27	75	136

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 1 January 2012	71	85	76	232
Translation differences	–	0	–1	–1
Business combinations (Note 18)	–	1	–	1
Additions	17	13	8	38
Disposals	0	–4	–2	–6
Transfers	–	1	–1	0
Historical cost, 31 December 2012	88	96	80	264
Accumulated amortization, 1 January 2012	–26	–68	–37	–131
Translation differences	–	0	0	0
Annual amortization	–9	–9	–4	–22
Impairment	–	–	–	–
Amortization on disposals	0	4	1	5
Transfers	–	0	0	0
Accumulated amortization, 31 December 2012	–35	–73	–40	–148
Net book values:				
Balance at 1 January 2012	45	17	39	101
Balance at 31 December 2012	53	23	40	116

Notes to the consolidated financial statements

17. Investments in associates and joint ventures

(CHF million)	2013	2012
Balance at 1 January	110	81
Share of result from associates and joint ventures	13	18
Dividends received	-21	-17
Investments	14	140
Goodwill (recognized in equity)	-	-111
Reclassification of previously held interests	-52	-
Investments acquired through business combinations	3	-
Translation differences	-2	-1
Balance at 31 December	65	110

All associates and joint ventures are recognized using the equity method. They have been listed in Note 33. 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 2013, the Group increased its stake in Belenos Clean Power Holding AG from 42% to 49%.

On 24 November 2013, the Swatch Group increased its stake in Rivoli Investments LLC from 40% to 58%. In doing so, it took over control of Rivoli Investments LLC. As a result, Rivoli Investments LLC and its subsidiaries became fully consolidated entities of the Swatch Group. The share in Rivoli Investments LLC previously held by the Group was removed from investments in associates and included in the provisional calculation of goodwill from this acquisition (see Note 18).

In 2012, the Group increased its stake in Rivoli Investments LLC from 15% to 40%.

At 31 December 2013, the fair value of the investment in Hengdeli Holdings was CHF 92 million (2012: CHF 130 million). Sales to and purchases from associates and joint ventures amounted to CHF 1 119 million (2012: CHF 1 037 million) and CHF 8 million (2012: CHF 22 million) respectively.

At balance sheet date, associated companies and joint ventures had contingent liabilities of CHF 1 million (2012: none).

Notes to the consolidated financial statements

18. Business combinations

On 26 March 2013, the Swatch Group acquired 100% of the shares in the US company HW Holdings Inc., which owns Harry Winston Inc., New York. The Group took over all the company's activities in connection with high jewelry and watches, including its production company in Geneva (Switzerland). This does not affect the operations of the Harry Winston Diamond Corporation - now Dominion Diamond Corporation - in Toronto (Canada). The transaction was approved by the various regulatory control bodies. As a result of this acquisition, a total of 10 companies have now been incorporated into the Swatch Group's consolidation structure.

Also, on 24 November 2013, Technocorp Holding AG, a subsidiary of the Swatch Group, increased its 40% share in Rivoli Investments LLC (Rivoli Group) to 58%, with the purchase of an additional equity stake. Rivoli Group operates a network of over 360 retail stores in the Middle East which are primarily active in the watch sector and employed over 1 500 persons at the acquisition date. Until this time, Rivoli Group was treated as an associate of the Swatch Group. With the purchase of the additional equity stake, the Swatch Group took control of Rivoli Group (comprised of 18 companies and one joint venture). As a result, these companies became fully consolidated subsidiaries of the Swatch Group. The share in Rivoli Investments LLC previously held by the Group was removed from investments in associates (see Note 17) and included in the provisional calculation of goodwill from this acquisition.

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.

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

(CHF million)	Notes	2013	2013	2013	2012
		Actual Values Harry Winston	Actual Values Rivoli ¹⁾	Actual Values Total	Actual Values Total
Cash and cash equivalents		27	27	54	18
Current assets		425	148	573	35
Property, plant and equipment	(15)	73	24	97	53
Intangible assets	(16)	1	0	1	1
Other non-current assets	(19)	9	6	15	–
Investments in associates and joint ventures	(17)	–	3	3	–
Deferred tax assets		14	2	16	–
Current liabilities		– 122	– 103	– 225	– 7
Deferred tax liabilities		– 10	–	– 10	– 13
Non-current liabilities		– 274	– 6	– 280	– 1
Provisions	(23)	– 1	–	– 1	–
Previously held interests	(17)	–	– 52	– 52	–
Non-controlling interests		–	– 46	– 46	–
Net assets acquired		142	3	145	86
Goodwill (recognized in equity)	(27)	569	99	668	268
Total purchase consideration (incl. acquisition-related costs)		711	102	813	354
Cash and cash equivalents acquired		– 27	– 27	– 54	– 18
Consideration payable		–	–	–	–
Cash outflow on acquisitions		684	75	759	336

¹⁾ Provisional values.

The goodwill arising from the acquisition of HW Holdings Inc. is mainly attributable to the Harry Winston brand name, the acquired retail stores and all activities related to the production of high jewelry and watches.

The goodwill from the acquisition of Rivoli Investments LLC is attributable to its superbly developed retail network and the related level of brand awareness of the Rivoli Group in the Middle East.

The total purchase consideration for both acquisitions basically represented the cash payments made to the vendors. Transaction costs related to the takeovers were recognized as part of goodwill directly in equity.

There were no divestments of businesses or repurchases of non-controlling interests in 2013 and 2012.

Notes to the consolidated financial statements

19. Other non-current assets

(CHF million)	Prepaid marketing and rental cost	Security deposits	Other financial assets	Total
Balance at 1 January 2013	22	45	110	177
Transfers from "Prepayments" at 1 January	51	–	–	51
Translation differences	–1	–4	–2	–7
Business combinations (Note 18)	–	15	–	15
Additions	67	16	1	84
Disposals	0	–1	–8	–9
Transfers to current assets	–65	–	–90	–155
Balance at 31 December 2013	74	71	11	156

(CHF million)	Prepaid marketing and rental cost	Security deposits	Other financial assets	Total
Balance at 1 January 2012	23	37	120	180
Translation differences	0	–1	–2	–3
Additions	8	9	1	18
Disposals	0	0	–9	–9
Transfers to current assets	–9	–	–	–9
Balance at 31 December 2012	22	45	110	177

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 prepayments and accrued income.

As of 2013, prepaid marketing costs are being broken down into current and non-current components, as is detailed in Note 14. The comparative figure for the long-term marketing costs paid in advance at the end of 2012 amounted to CHF 51 million. For reasons of materiality, this accounting change was only made on a prospective basis. The previous year's figure will remain in prepayments and accrued income.

In the year under review, a loan to a business partner, repayable in 2014, was transferred to other current assets.

Notes to the consolidated financial statements

20. Financial debts and derivative financial instruments

(CHF million)	31.12.2013	31.12.2012
Current account overdrafts	0	0
Short-term leasing commitments	1	1
Short-term bank debt	6	72
Derivative financial instruments	8	2
Total current financial debts and derivative financial instruments	15	75
Total non-current financial debts	44	60
Total financial debts	59	135

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 31.12.2013	16	22	21	59
At 31.12.2012	75	22	38	135

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

(CHF million)	31.12.2013	31.12.2012
CHF	10	4
JPY	45	61
EUR	1	1
Other currencies	3	69
Total	59	135

The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review. The long-term financial debts at the end of 2013 included a mortgage of JPY 4 750 million or CHF 40 million (prior year: JPY 5 250 million or CHF 56 million) at a fixed interest rate of 2.41% with a term until March 2021 (without a termination clause).

21. Other liabilities

(CHF million)	31.12.2013	31.12.2012
Advance payments	31	28
Income tax liabilities	21	63
VAT due	4	13
Other payables	108	75
Total other payables	164	179

Notes to the consolidated financial statements

22. Accrued expenses

(CHF million)	31.12.2013	31.12.2012
Accrued salaries and social security	168	148
Accrued sales, marketing and administration costs	162	138
Accrued income taxes	169	104
Accrued sales reductions	74	79
Other accrued expenses	158	125
Total accrued expenses	731	594
thereof current	702	565
thereof non-current	29	29

23. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 31.12.2011	80	6	17	103
Translation differences	-1	0	0	-1
Additional provisions	64	3	11	78
Reversal of provisions	-3	-1	-2	-6
Business combinations	-	-	-	-
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
Translation differences	-2	0	0	-2
Additional provisions	80	2	14	96
Reversal of provisions	-12	0	-2	-14
Business combinations	0	-	1	1
Provisions used during the year	-57	-2	-8	-67
Balance at 31.12.2013	87	6	26	119
thereof current provisions	60	3	11	74
thereof non-current provisions	27	3	15	45

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.

Notes to the consolidated financial statements

24. Retirement benefit obligations

Employer contributions reserve (ECR) / shares held by pension institutions

The Group has an employer contribution reserve in the Swiss pension fund of the Swatch Group, which amounts to CHF 5 million. This reserve is capitalized in other non-current assets. The employer contribution reserve has not changed in the years under review; there have been no formations or dissolutions, nor has there been a waiver of usage.

Pension fund assets included 5 539 307 registered shares (2012: 6 264 454 shares) and 120 bearer shares (2012: 1 350 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses

2013

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year and/or income statement impact in current year ¹⁾	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	301	–	–	–	–
Pension plans without surplus / deficit	–	–	0	84	84
Pension plans with surplus	–	–	–	–	–
Pension plans with deficit	–18	–9	0	1	1
Pension plans without own assets	–	–24	10	1	1
Total	283	–33	10	86	86

¹⁾ The change in the Group's economic share in the year under review can be attributed to business combinations and reclassifications within the balance sheet and have no impact on the income statement.

2012

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year and/or income statement impact in current year	Contributions concerning the business period	Pension cost within personnel expense
Patronage funds / patronage pension plans	280	–	–	–	–
Pension plans without surplus / deficit	–	0	0	83	83
Pension plans with surplus	–	–	–	–	–
Pension plans with deficit	–21	–10	0	3	3
Pension plans without own assets	–	–13	1	2	3
Total	259	–23	1	88	89

Summary of pension benefit expenses

(CHF million)	Switzerland	Abroad	Total	Switzerland	Abroad	Total
	2013	2013	2013	2012	2012	2012
Contributions to pension plans charged to Group companies	76	10	86	75	13	88
Contributions to pension plans paid from ECR	–	–	–	–	–	–
Total contributions	76	10	86	75	13	88
Change of ECR from evolution of fortune, impairments, discounting, etc.	0	–	0	0	–	0
Contributions and change in ECR	76	10	86	75	13	88
Increase / decrease of Groups's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	0	0	–	1	1
Total changes of economic effects from surpluses / deficits	–	0	0	–	1	1
Pension benefit expenses within personnel expenses of the period	76	10	86	75	14	89

Notes to the consolidated financial statements

25. Commitments and contingencies

a. Guarantees and sureties

At 31 December 2013, guarantees to third parties as security for commitments of Group companies amounted to CHF 5 million (2012: less than CHF 1 million).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 71 million at 31 December 2013 (CHF 45 million at end-2012).

b. Leasing and other commitments

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

(CHF million)	31.12.2013	31.12.2012
Less than 1 year	334	250
Between 1 and 5 years	753	618
Over 5 years	427	288
Total	1 514	1 156

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 2013. Leasing costs amounting to CHF 384 million were recognized in the 2013 income statement (CHF 309 million in 2012).

Other commitments relating mainly to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2013, amounted to CHF 156 million (CHF 169 million in the previous year).

c. Contingent assets and liabilities

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

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

In December 2007, the Swatch Group entered a long-term collaboration agreement with Tiffany & Co. USA for the design, production and worldwide distribution of "Tiffany & Co." watches. In September 2011, the Swatch Group terminated its collaboration with Tiffany & Co. USA due to breach of contract and in December 2011, filed a claim for damages against Tiffany & Co. USA at the Netherlands Arbitration Institute. In March 2012, Tiffany & Co. USA filed a counterclaim at the same arbitration board.

The Swatch Group won the court case at the end of December 2013. The court ordered Tiffany & Co. USA to pay the Swatch Group compensation of more than CHF 400 million. Tiffany & Co. USA paid the compensation in January 2014.

The counterclaim by Tiffany & Co. USA was completely dismissed.

Notes to the consolidated financial statements

26. Share capital and reserves

a. Share capital

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

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2011	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
31.12.2013	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At year-end 2013 as well as 2012, 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. Capital reserves

Capital reserves include proceeds from the sale of treasury shares and the effects of capital reductions in prior years. In addition, capital reserves include non-distributable, statutory or legal reserves amounting to CHF 67 million (2012: CHF 67 million). These reserves come from the holding company The Swatch Group Ltd.

c. Treasury shares

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

	Registered shares		Bearer shares		Total
	Quantity	Value	Quantity	Value	
	CHF million		CHF million		CHF million
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
Acquisitions ¹⁾	17 800	2	–	–	2
Disposals ²⁾	– 1 568 681	– 77	–	–	– 77
Balance at 31.12.2013	4 126 296	136	505 000	132	268

¹⁾ In 2013, the Group acquired 17 800 (2012: 35 000) registered shares at an average price of CHF 91.43 (2012: CHF 61.81) each, which increased the amount of treasury shares by CHF 2 million (2012: CHF 2 million).

²⁾ In 2013, the Group sold 1 323 718 (2012: 101 899) registered shares at an average price of CHF 92.22 (2012: CHF 70.90). The remaining disposals relate mainly to the employee stock option plan. Details of the share options granted in connection with the employee stock option plan are given in Note 29. In the year under review, disposals resulted in a decrease of CHF 77 million (2012: decrease of CHF 6 million) in the treasury shares position.

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

Notes to the consolidated financial statements

27. Acquired goodwill

a. Theoretical statement of changes in goodwill

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

(CHF million)	2013			2012		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
Historical cost 1 January	545	221	766	277	110	387
Additions	668	–	668	268	111	379
Disposals	–	–	–	–	–	–
Transfers	173	–173	–	–	–	–
Historical cost 31 December	1 386	48	1 434	545	221	766
Theoretical accumulated amortization						
1 January	– 289	– 52	– 341	– 264	– 35	– 299
Theoretical annual amortization	– 77	– 20	– 97	– 25	– 17	– 42
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	– 49	49	–	–	–	–
Theoretical accumulated amortization 31 December	– 415	– 23	– 438	– 289	– 52	– 341
Theoretical net book value 31 December	971	25	996	256	169	425

The existing goodwill positions when the switch was made from IFRS to Swiss GAAP FER on 1 January 2012 were translated using the exchange rates applicable on that date. Acquisitions made from 1 January 2012 were translated into CHF with the exchange rate applicable on their respective transaction dates. As a result of this procedure, no currency adjustments were necessary in the statement of changes in goodwill.

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

b. Theoretical impact on equity

(CHF million)	2013	2012
Equity, per balance sheet	9 574	8 573
Theoretical capitalization of net book value of goodwill	996	425
Theoretical equity including net book value of goodwill	10 570	8 998

c. Theoretical impact on net income

(CHF million)	2013	2012
Net income, per income statement	1 928	1 604
Theoretical amortization of goodwill	– 97	– 42
Theoretical net income after goodwill amortization	1 831	1 562

Notes to the consolidated financial statements

28. Details to the consolidated statement of cash flows

a. Non-cash items	(CHF million)	Notes	2013	2012
Reversal of non-cash items				
	Share of result from associates and joint ventures	(17)	- 13	- 18
	Income taxes	(6a)	428	407
	Depreciation of property, plant and equipment	(15)	276	239
	Amortization of intangible assets	(16)	28	22
	Profit on sale of fixed assets		- 9	- 4
	Loss on sale of fixed assets		2	1
	Fair value gains on marketable securities		- 29	- 29
	Fair value losses on marketable securities		18	10
	Interest income	(5f)	- 28	- 10
	Interest expense	(5f)	2	3
	Expenses for equity-settled compensation plan	(29)	19	16
	Changes in provisions		14	3
	Changes in retirement benefit obligations		4	2
	Total		712	642

b. Changes in working capital	(CHF million)	2013	2012
Changes in working capital and other items included in cash flow from operating activities			
	Inventories	- 597	- 725
	Trade receivables	18	- 169
	Other receivables and accrued income	- 396	- 31
	Trade payables	- 18	- 80
	Other liabilities and accrued expenses	- 5	41
	Other items included in cash flow from operating activities	33	8
	Total	- 965	- 956

29. Employee stock option plan

When the Hayek Pool acquired control of the Swatch Group, a block of shares was reserved in 1986 for an equity-settled management stock option plan.

Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. When the options are exercised, Group equity increases by the corresponding exercise price.

At the end of 2013, this portfolio comprised 1 396 771 registered shares (1 641 734 at the end of 2012). In 2013, 244 963 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:

	2013	2012
	Options	Options
Options outstanding at 1 January	245 246	248 291
Granted	244 095	244 329
Forfeited or lapsed	- 1 463	- 888
Exercised	- 244 963	- 246 486
Options outstanding at 31 December	242 915	245 246

All options included in the table above have an exercise price of CHF 4.00.

Notes to the consolidated financial statements

Share options outstanding at the end of the year have the following expiry date:

Expiry date	Share options	
	31.12.2013	31.12.2012
2013		163 715
2014	161 496	81 531
2015	81 419	
Total	242 915	245 246

The fair value of the options granted during the period was determined by using the actual value at the grant date. The following table shows the assumptions on which the valuation of share options granted in 2013 and 2012 was based:

	2013		2012	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	12 July 2013	12 July 2013	6 July 2012	6 July 2012
Expiration date	12 July 2014	12 July 2015	6 July 2013	6 July 2014
Closing share price on grant date	CHF 94.80	CHF 94.80	CHF 64.10	CHF 64.10
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 90.80	CHF 90.80	CHF 60.10	CHF 60.10

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

The personnel expense recorded in the 2013 income statement amounted to CHF 19 million (2012: CHF 16 million).

30. Related party transactions

a. Principal shareholders

On 31 December 2013, the Hayek Pool and its related companies, institutions and individuals held 63 266 042 registered shares and 670 bearer shares, equivalent to 40.8% of the shares issued (previous year: 41.3%) 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 40.4% of the shares issued (previous year: 40.8%).

Mrs. Esther Grether's group controlled 7.1% of the shares issued (compared with 7.1% a year earlier).

In 2013, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 10.2 million to the Swatch Group (compared with CHF 10.1 million in 2012). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2013	2012
Audit, feasibility studies and process optimization	1.0	1.3
Executive functions	1.0	1.2
Project management in the construction sector	6.0	5.3
Support for projects in the materials and surface treatment technology sector	0.2	0.3
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	1.6
Total	10.2	10.1

Notes to the consolidated financial statements

b. Key management personnel

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

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

(CHF million)	2013	2012
Short-term employee benefits	28.2	25.7
– of which in salaries	9.1	8.6
– of which in bonus	19.0	17.0
– of which in other benefits	0.1	0.1
Contributions to pension plans	0.7	0.7
Termination benefits	–	–
Share-based compensation	15.6	10.1
Total	44.5	36.5

No remuneration was paid to former members of management bodies for their former functions.

c. Share ownership

At 31 December 2013, 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 56 476 642 registered shares and 790 bearer shares, representing 36.5% of the voting rights (previous year: 36.4%).

In addition, at 31 December 2013, all the non-executive members of the Board of Directors as well as the persons close to them held 10 868 000 registered shares and 116 000 bearer shares, representing 7.1% of the voting rights (previous year: 7.1%).

d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swatch Group Swiss Pension Fund for the construction or acquisition of property in Switzerland (primary residence). The conditions for these mortgage loans are set by the Swatch Group Swiss Pension Fund Foundation Board. These conditions are applied in the same manner to all employees.

In 2013 and 2012, 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 2013, no such loans were outstanding (2012: CHF 0.3 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 33).

(CHF million)	2013		2012	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	8	1 119	22	1 037
Other related parties	0	0	0	0

At the end of 2013, receivables from associates amounted to CHF 244 million (2012: CHF 241 million), and payables to associates were CHF 1 million (2012: CHF 1 million). In addition, at the end of 2013 the Group held guarantees from associated companies in the amount of CHF 243 million (2012: CHF 222 million). At 31 December 2013, the Group had granted no loans to associated companies (2012: USD 18 million, with an interest rate of 4.4%).

At the end of 2013 and 2012 there were no balances outstanding with other related parties.

Notes to the consolidated financial statements

31. Management compensation disclosures (required by Swiss Law)

This note has been prepared in accordance with the requirements of the Swiss law for companies, articles 663b^{bis} and 663c of the Swiss Code of Obligations (SCO). It differs in several aspects from the compensation disclosures given in Note 30, 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)

2013 Name	Function	Compensation for functions in the BoD ¹⁾	Compensation for executive functions			Total ⁵⁾ (CHF)
			Base compen- sation ²⁾ (CHF)	Bonus ³⁾ (CHF)	Other compen- sation ⁴⁾ (CHF)	
Nayla Hayek	Chairwoman	200 316	1 001 928	1 500 000	1 893 155	4 595 399
Ernst Tanner	Vice-Chairman	136 146				136 146
Esther Grether	Member	125 603				125 603
Georges Nicolas Hayek ⁶⁾	Member	126 516				126 516
Prof. Dr. h.c. Claude Nicollier	Member	125 603				125 603
Dr. Jean-Pierre Roth	Member	125 603				125 603
Total		839 787	1 001 928	1 500 000	1 893 155	5 234 870

2012 Name	Function	Compensation for functions in the BoD ¹⁾	Compensation for executive functions			Total ⁵⁾ (CHF)
			Base compen- sation ²⁾ (CHF)	Bonus ³⁾ (CHF)	Other compen- sation ⁴⁾ (CHF)	
Nayla Hayek	Chairwoman	199 230	1 001 928	1 320 000	1 276 021	3 797 179
Ernst Tanner	Vice-Chairman	137 333				137 333
Esther Grether	Member	124 517				124 517
Georges Nicolas Hayek ⁶⁾	Member	125 430				125 430
Prof. Dr. h.c. Claude Nicollier	Member	124 517				124 517
Dr. Jean-Pierre Roth	Member	124 517				124 517
Total		835 544	1 001 928	1 320 000	1 276 021	4 433 493

¹⁾ Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred. In 2013 and 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 contributions and share options. In 2013, 20 000 share options with a value of CHF 1 829 999 were granted to Mrs. N. Hayek (2012: 20 000 share options with a value of CHF 1 213 393), according to the conditions described in Note 29 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 the executive functions is included in Note 31b.

Notes to the consolidated financial statements

b. Management Board (MB) and Extended Management Board (EMB)

2013

Name	Salaries ¹⁾ (CHF)	Bonus ²⁾ (CHF)	Share options ³⁾ (number)	Share options ³⁾ (CHF)	Other compensation ⁴⁾ (CHF)	Total ⁵⁾ (CHF)
Georges Nicolas Hayek (MB President / CEO)	1 501 925	3 220 000	24 000	2 196 000	63 156	6 981 081
Total other members	5 716 699	14 238 057	126 300	11 556 433	744 485	32 255 674
Total	7 218 624	17 458 057	150 300	13 752 433	807 641	39 236 755

2012

Name	Salaries ¹⁾ (CHF)	Bonus ²⁾ (CHF)	Share options ³⁾ (number)	Share options ³⁾ (CHF)	Other compensation ⁴⁾ (CHF)	Total ⁵⁾ (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

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 year under review, according to the conditions described in Note 29 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 by using market value (actual value at the grant date). Each option confers the right to conversion into one registered share.

⁴⁾Other salary elements such as pension contributions, 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 2013 and 2012, 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 2013, no loans were outstanding (2012: CHF 0.3 million at 1.7%).

In 2013 and 2012, 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 2013 and 2012, 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)	
		2013	2012	2013	2012	2013	2012
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	68 208	48 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Esther Grether	BoD Member	10 868 000	10 935 000	114 000	114 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member						
Dr. Jean-Pierre Roth	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	56 491	80 824			24 000	24 000
Pierre-André Bühler ¹⁾	MB Member	12 866	9 034			7 502	6 334
Dr. Mougahed Darwish	MB Member	67 336	62 470			3 734	6 000
Arlette E. Emch ²⁾	MB Member		10 000				4 000
Marc A. Hayek	MB Member	80 898	68 398			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	30 252	22 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	40 668	45 668			12 000	12 000
Dr. Hanspeter Rentsch	MB Member / CLO	95 022	99 489	200	200	19 001	19 001
François Thiébaud	MB Member	84 623	80 291			12 502	12 334
Raynald Aeschlimann ³⁾	EMB Member	6 033				3 835	
Matthias Breschan	EMB Member	3 034	34			3 000	3 000
Jean-Claude Eggen ³⁾	EMB Member	2 616				2 001	
Yann Gamard	EMB Member	7 801	6 101			5 501	5 501
Hans-Rudolf Gottier ³⁾	EMB Member	30 648				4 902	
Walter von Känel	EMB Member	36 393	30 725	40	40	6 000	5 668
Thomas Meier	EMB Member	1 200				1 200	1 200
Calogero Polizzi ³⁾	EMB Member	4 004				1 534	
Kevin Rollenhagen	EMB Member	52 148	44 148			8 002	8 002
Dr. Peter Steiger	EMB Member	60 257	56 090			7 668	6 835
Stephen Urquhart	EMB Member	32 000	32 000			6 502	6 502
Total		67 344 642	67 334 876	116 790	116 790	169 390	160 883

¹⁾ MB Member since January 2013, before EMB Member.

²⁾ MB Member until February 2013.

³⁾ EMB Member since January 2013.

The terms of the share options are disclosed in Note 29. Each option gives the right to conversion into one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 30 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 2013 and 2012, either directly or through share options, more than 1% of the outstanding Swatch Group shares.

32. Events after the balance sheet date

There were no significant events after the balance sheet date.

Notes to the consolidated financial statements

33. The Swatch Group Companies – as at 31.12.2013

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Europe					
Switzerland					
The Swatch Group SA, Neuchâtel	Holding	CHF 125.21			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
Asulab SA, La Tène	Research and development	CHF 0.10	100	●	▼
Belenos Clean Power Holding SA, Bienne	Holding	CHF 63.00	49	○	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	▲
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	▲
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	▲
Certina AG, Le Locle	Watches	CHF 3.50	100	●	▲
Cité du Temps SA, Genève	Communication	CHF 6.00	100	●	▼
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	▲
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	▲
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Torricella-Taverne	Distribution	CHF 3.00	100	●	▲
Dress your body SA, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100	●	▲
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100	●	▶
Evaco SA, Möhlin	Watches	CHF 0.50	58	●	▲
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
François Golay SA, Le Chenit	Watch components	CHF 0.10	100	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	▲
Harry Winston SA, Plan-les Ouates	Watches	CHF 0.40	100	●	▲
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Le Foyer SA en liquidation, Saint-Imier	In liquidation	CHF 0.13	100	●	▼
Léon Hatot Les Boutiques SA, Milvignes	Retail	CHF 0.10	100	●	▲
Look and Feel AG, Bienne	No activity	CHF 20.00	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, Haute-Sorne	Watch cases	CHF 2.40	100	●	▲
Mecco SA, Grenchen	Watch crowns	CHF 4.50	100	●	▲
Microcomponents AG, Grenchen	Administration	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, Val-de-Ruz	Watch dials	CHF 0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	▲
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	▲
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Novi SA, Les Genevez	Assembly	CHF 0.14	100	●	▲
Omega Electronics AG, Bienne	Administration	CHF 1.50	100	●	▼
Omega SA, Bienne	Watches	CHF 50.00	100	●	▲
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 Weyerermann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
Simon et Membrez SA, Delémont	Watch cases	CHF 0.10	100	●	▲
S.I. 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	●	▼
Terribolites SA, Courtemaître	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 Lab AG, Zürich	Services	CHF 0.10	100	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	▲
The Swatch Group Management Services SA, Bienne	Services	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	100	●	▼
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	▲
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	▲
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲
Vica Sàrl, Lausanne	Watches	CHF 0.20	100	●	▲

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

Notes to the consolidated financial statements

33. The Swatch Group Companies – as at 31.12.2013

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	●	▲
Harry Winston S.A.R.L., Paris	Retail	EUR 2.99	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 55.13	100	●	▲
Great Britain					
Harry Winston (UK) Ltd, London	Retail	GBP 0.00	100	●	▲
The Swatch Group (UK) Ltd, London	Distribution	GBP 2.00	100	●	▲
The Swatch Group (UK) Les Boutiques Ltd, London	Retail	GBP 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 463.41	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.60	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 3 919.65	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	80	●	▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK 9.00	100	●	▲
Turkey					
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY 26.00	100	●	▲

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

Notes to the consolidated financial statements

33. The Swatch Group Companies – as at 31.12.2013

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Asia					
Bahrain					
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58	●	◀
Greater China					
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50	○	◀
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY 45.83	100	●	◀
Harry Winston (Hong Kong) Limited, Hong Kong	Retail	HKD 0.01	100	●	◀
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9	○	◀
Lanco Watches Ltd, Hong Kong	Administration	USD 0.07	100	●	◀
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	◀
Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai	Retail	CNY 30.00	50	●	◀
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	◀
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	◀
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 48.37	100	●	◀
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Art center	CNY 148.41	90	●	◀
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 99.69	100	●	◀
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution	CNY 7.12	90	●	◀
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Services	CNY 10.45	100	●	◀
The Swatch Group (China) Ltd, Shanghai	Distribution	CNY 14.88	100	●	◀
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution	HKD 5.00	100	●	◀
The Swatch Group (Taiwan) Ltd, Taipei	Distribution	TWD 28.00	100	●	◀
Zhuhai SMH Electric Co. Ltd, Zhuhai	Assembly electronic components	CNY 74.57	100	●	◀
Oman					
Rivoli & Co. L.L.C., Muscat	Retail	OMR 0.30	58	●	◀
Qatar					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	58	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	58	●	◀
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 6 300.00	100	●	◀
Saudi Arabia					
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33	○	◀
United Arab Emirates					
Al Khaleej Watches L.L.C., Abu Dhabi	Retail	AED 0.15	58	●	◀
Blue Sky Trading Company L.L.C., Abu Dhabi	Retail	AED 0.30	58	●	◀
Excel Enterprises L.L.C., Dubai	Retail	AED 1.70	58	●	◀
Golden Watch Company L.L.C., Abu Dhabi	Retail	AED 0.50	58	●	◀
Harry Winston L.L.C., Dubai	Services	AED 0.30	49	●	◀
Hour Choice L.L.C., Dubai	Retail	AED 3.00	58	●	◀
New Horizons General Trading L.L.C., Dubai	Retail	AED 0.30	29	○	◀
R & A L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Rivoli Arcade L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Rivoli Enterprises L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Rivoli Group L.L.C., Dubai	Retail	AED 24.02	58	●	◀
Rivoli Investments L.L.C., Dubai	Holding	AED 0.30	58	●	◀
Rivoli International L.L.C., Dubai	Administration	AED 0.30	58	●	◀
Rivoli Textiles L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	49	●	◀
Vision 2000 L.L.C., Dubai	Retail	AED 1.00	58	●	◀
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 3 280.00	100	●	◀
Japan					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 3 700.00	100	●	◀
Malaysia					
Micromechanics (M) Sdn Bhd, Ipoh	Assembly electronic components	MYR 35.00	100	●	◀
Swiss Luxury Watch & Jewelry Sdn Bhd, Kuala Lumpur	Retail	MYR 7.00	51	●	◀
The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur	Distribution	MYR 1.00	100	●	◀
Singapore					
Harry Winston N.A. Pte Ltd, Singapore	Retail	SGD 0.00	100	●	◀
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution	SGD 4.00	100	●	◀
The Swatch Group S.E.A. Retail Pte Ltd, Singapore	Retail	SGD 0.50	100	●	◀
Thailand					
ETA (Thailand) Co. Ltd, Samut Prakan	Assembly electronic components	THB 504.50	100	●	◀
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 400.00	100	●	◀

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

Notes to the consolidated financial statements

33. The Swatch Group Companies – as at 31.12.2013

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
America					
Brazil					
SGA Administração de Imóveis SA, Manaus	Administration	BRL 4.92	100	●	◀
SGB Importação e Varejo de Artigos de Luxo Ltda., São Paulo	Retail	BRL 34.80	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	100	●	◀
SMH do Brasil Administração de Bens Ltda, São Paulo	Administration	BRL 27.60	100	●	▼
Canada					
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	●	◀
Harry Winston Inc., New York	High jewelry	USD 0.60	100	●	◀
HiPoint Technology Inc., Colorado Springs	Microelectronics	USD 0.17	25	○	▶
HW Holdings Inc., Wilmington, Delaware	Holding	USD 0.00	100	●	◀
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 168.90	100	●	◀
The Swatch Group Les Boutiques (U.S.) Inc., Wilmington, Delaware	Retail	USD 0.00	100	●	◀
Mexico					
Operadora y Comercializadora de Relojes y Joyeria SA de CV, Mexico	Services	MXN 1.50	100	●	◀
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 43.65	100	●	◀
Panama					
The Swatch Group Panama SA, Panama City	Services, marketing, distribution	USD 0.01	100	●	◀
Oceania					
Australia					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	◀
Africa					
South Africa					
The Swatch Group (South Africa) (Proprietary) Ltd, Sandton	Distribution	ZAR 0.00	100	●	◀

Report of the statutory auditor to the general meeting of The Swatch Group Ltd, Neuchâtel

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 159 to 204), for the year ended 31 December 2013.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

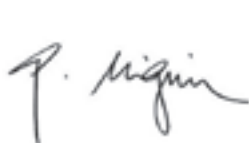
Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Roy Bächinger
Audit expert

Basel, 25 February 2014

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Income Statement of the Holding

	Notes	2013 CHF million	2012 CHF million
Income from investments in subsidiaries	(1)	1 636	1 127
Financial income	(2)	114	50
Other income	(3)	416	6
Total income		2 166	1 183
Personnel expense		- 55	- 52
General expense		- 16	- 16
Depreciation and impairment	(4)	- 174	- 21
Interest expense	(5)	0	0
Exchange differences and other financial expenses	(6)	- 12	- 7
Taxes		- 29	- 2
Total expenses		- 286	- 98
Net income		1 880	1 085

Balance sheet of the Holding

Assets	Notes	31.12.2013		31.12.2012	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		95	1.7	485	11.7
Marketable securities and precious metals	(7)	347	6.1	557	13.5
Receivables from Group companies		1 640	29.1	484	11.7
Other receivables and accrued income		487	8.6	58	1.4
Total current assets		2 569	45.5	1 584	38.3
Non-current assets					
Property, plant and equipment		10	0.2	9	0.2
Financial assets					
– Long-term loans to Group companies		5	0.1	45	1.1
– Investments in subsidiaries	(8)	3 056	54.2	2 493	60.4
Total non-current assets		3 071	54.5	2 547	61.7
Total assets		5 640	100.0	4 131	100.0

Balance sheet of the Holding

Equity and liabilities	Notes	31.12.2013		31.12.2012	
		CHF million	%	CHF million	%
Liabilities					
Payables to Group companies		49	0.8	53	1.3
Other liabilities		4	0.1	3	0.1
Accrued expenses		57	1.0	22	0.5
Provisions		90	1.6	127	3.1
Total liabilities		200	3.5	205	5.0
Equity					
Share capital		125	2.2	125	3.0
General reserve		67	1.2	67	1.6
Reserve for treasury shares		268	4.8	343	8.3
Special reserve		3 068	54.4	2 273	55.0
– Profit brought forward		32		33	
– Net profit for the year		1 880		1 085	
Available earnings		1 912	33.9	1 118	27.1
Total equity	(9)	5 440	96.5	3 926	95.0
Total equity and liabilities		5 640	100.0	4 131	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 Swiss 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 are recorded at net realizable values and liabilities at nominal 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)	2013	2012
	Dividends	1 565	1 065
	Other income	71	62
	Total	1 636	1 127

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)	2013	2012
	Interest income	34	7
	Income and gains on securities	80	43
	Total	114	50

The company recorded capital gains on its investment portfolio of CHF 80 million, of which CHF 48 million resulted from the sale of treasury shares (previous year: CHF 18 million). This figure was partly offset by losses of CHF 7 million (see Note 6).

3. Other income The increase in other income in 2013 is due in particular to the successful outcome of the legal case against Tiffany & Co. USA.

4. Depreciation and impairment The increase in depreciation and impairment in the year under review is due to extraordinary impairments on loans and investments in subsidiaries.

5. Interest expense In 2013 and 2012 interest expense amounted to less than CHF 1 million.

6. Exchange differences and other financial expenses The valuation of foreign currency hedging contracts, taken out in favour of the Group's companies, resulted in a loss of CHF 5 million (2012: loss of CHF 2 million). The loss recorded on the marketable securities portfolio, including other financial expenses, amounted to CHF 7 million (2012: CHF 5 million).

Notes to the financial statements

7. Marketable securities and precious metals

(CHF million)	31.12.2013	31.12.2012
Marketable securities	102	174
Treasury shares	225	277
Precious metals	20	106
Total	347	557

The position Treasury 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.

8. Investments in subsidiaries

The list of 184 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level, is published in Note 33 of the consolidated financial statements in this report.

Investments in subsidiaries accounted for 54.2% of total assets at 31 December 2013 versus 60.4% at end-2012. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 056 million at end-2013. This amount corresponds to consolidated investments and investments in associates, and is CHF 563 million higher than in 2012.

9. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2013 corresponded to 2.4% (versus 2.9% at end-2012) 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 31.12.2012	125	67	343	2 273	1 118	3 926
Allocated in 2013				720	- 720	-
Dividend paid out					- 366	- 366
Transfer			- 75	75		0
Net income for the year					1 880	1 880
Balance at 31.12.2013	125	67	268	3 068	1 912	5 440

Compared with end-2012, equity increased by CHF 1 514 million to CHF 5 440 million in 2013. In percentage of total assets the equity ratio increased to 96.5% at 31 December 2013 (versus 95.0% in the previous year).

Share capital

At 31 December 2013, 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
31.12.2012	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2013	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

Principal shareholders at 31 December 2013

At 31 December 2013, the Hayek Pool, its related companies, institutions and individuals held 63 266 042 registered shares and 670 bearer shares, equivalent to 40.8% of the shares issued at this date (previous year: 41.3%). The Hayek Pool comprises the following members:

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

Notes to the financial statements

The companies, institutions and individuals associated with the Hayek Pool, but which do not formally belong to the Hayek Pool are as follows:

Name/Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	–
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ernst & Young AG, Bern	Represented by Daniela Schneider
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	–
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 40.4% of the shares issued at end-2013 (previous year: 40.8%).

Mrs. Esther Grether's group controlled 7.1% of the shares issued (compared with 7.1% a year earlier).

At 31 December 2013, 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 268 million on 31 December 2013 (previous year: CHF 343 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 2013 as shown in the table below:

Shares held by:	Registered shares Quantity ¹⁾	Bearer shares Quantity
The Swatch Group Ltd		
Balance at 31.12.2012	5 196 259	505 000
Acquisitions in 2013	17 800	–
Disposals in 2013	– 1 087 763	–
Balance at 31.12.2013	4 126 296	505 000
Other consolidated companies		
Balance at 31.12.2012	480 918	–
Acquisitions in 2013	–	–
Disposals in 2013	– 480 918	–
Balance at 31.12.2013	0	–
Total balance at 31.12.2013	4 126 296	505 000

¹⁾ of which at 31 December 2013 a total of 1 396 771 registered shares were reserved for the management stock option plan (1 641 734 registered shares in 2012).

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 29 May 2013, a dividend of CHF 1.35 per registered share and of CHF 6.75 per bearer share was appropriated from available earnings as at 31 December 2012. The total dividend amount paid to shareholders in 2013 came to CHF 161 564 950 on the registered shares and CHF 204 761 250 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 9 304 549, thus constituted an integral part of equity at 31 December 2013. Finally, CHF 720 million was appropriated from available earnings at 31 December 2012 and allocated to the special reserve.

Notes to the financial statements

Off-balance-sheet items

Contingent liabilities

At end-2013, guarantees provided by The Swatch Group Ltd amounted to CHF 591 600 (compared with CHF 592 600 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 2012).

Fire insurance values

At 31 December 2013, the fire insurance value of property, plant and equipment amounted to CHF 35 202 000 (CHF 34 555 000 at end-2012).

Assets pledged

None of the company's assets are pledged.

Commitments

Other commitments entered into by the company and open at 31 December 2013 amounted to CHF 1 million (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 2013.

Type	Contract value			Positive replacement value			Negative replacement value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 118	392	1 510		5	5	-8	-3	-11
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2013	1 118	392	1 510	0	5	5	-8	-3	-11
Total at 31.12.2012	572	385	957	0	2	2	-2	-1	-3

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2013 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2013 relate to 32 positions held in precious metals and in foreign currencies (previous year: 33). Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions. At 31 December 2013, there was no option outstanding (none in the previous year).

Liabilities to pension plans

The balance sheet as at end-2013 contained liabilities to pension plans of CHF 279 898 (none in 2012).

Management compensation disclosures

The disclosures required by the Swiss Code of Obligations on management compensation are shown in Note 31 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:

	2013	2012
	CHF	CHF
Net income for the year	1 880 341 359	1 085 368 123
Profit brought forward from previous year	31 731 285	32 689 363
Available earnings	1 912 072 644	1 118 057 486
Allocation to special reserve	– 1 470 000 000	– 720 000 000
Payment on share capital of CHF 125 210 250.00 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
Payment on share capital of CHF 125 210 250.00 ¹⁾ of a 2013 dividend, i.e.:		
– CHF 1.50 per registered share with a par value of CHF 0.45	– 186 067 500	
– CHF 7.50 per bearer share with a par value of CHF 2.25	– 231 300 000	
Dividends not paid out on own shares held by the Group ²⁾		9 304 549
Balance carried forward	24 705 144	31 731 285

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 29 May 2013, 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 2013.

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 2013 comply with Swiss law and the company's articles of incorporation.

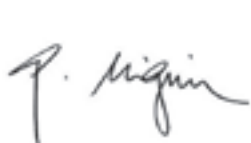
Report on other legal requirements

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, 25 February 2014

The Swatch Group Ltd securities

Average number of shares outstanding/ Average share capital	Swiss GAAP FER			IFRS		
	2013 basic	2012 basic	2012 basic	2011 basic	2010 basic	2009 basic
Number of registered shares of CHF 0.45	119 514 584	118 195 194	118 195 194	118 399 729	113 103 548	110 446 207
Number of bearer shares of CHF 2.25	30 335 000	30 335 000	30 335 000	30 335 000	30 335 000	30 335 000
Total average number of shares outstanding	149 849 584	148 530 194	148 530 194	148 734 729	143 438 548	140 781 207
Share capital registered shares of CHF 0.45	53 781 563	53 187 838	53 187 838	53 279 878	50 896 597	49 700 793
Share capital bearer shares of CHF 2.25	68 253 750	68 253 750	68 253 750	68 253 750	68 253 750	68 253 750
Total average share capital	122 035 313	121 441 588	121 441 588	121 533 628	119 150 347	117 954 543
Key data per registered share (nom CHF 0.45) in CHF						
Consolidated net income	7.08	5.91	5.93	4.70	4.05	2.89
Cash flow from operating activities	4.83	3.70	3.70	2.61	5.11	3.39
Consolidated shareholders' equity	35.30	31.77	34.55	29.82	26.77	22.74
Dividend	1.50 ¹⁾	1.35	1.35	1.15	1.00	0.80
Key data per bearer share (nom CHF 2.25) in CHF						
Consolidated net income	35.41	29.57	29.64	23.50	20.27	14.47
Cash flow from operating activities	24.13	18.51	18.51	13.05	25.55	16.99
Consolidated shareholders' equity	176.52	158.84	172.77	149.11	133.83	113.85
Dividend	7.50 ¹⁾	6.75	6.75	5.75	5.00	4.00
Stock price of registered shares (adjusted)	High	104.40	80.40	80.40	79.50	78.50
	Low	80.20	59.90	59.90	51.60	50.40
	31.12.	100.40	78.75	78.75	62.60	75.40
Stock price of bearer shares (adjusted)	High	606.50	471.70	471.70	443.70	434.80
	Low	473.00	341.70	341.70	288.50	262.20
	31.12.	589.50	461.20	461.20	351.50	416.80
Market capitalization (CHF million)	31.12.	30 634	23 992	23 992	18 605	22 207
Key ratios (year-end)						
Average return on equity	%	21.2	19.7	18.5	16.8	16.5
Dividend yield registered shares	%	1.5	1.7	1.7	1.8	1.6
Dividend yield bearer shares	%	1.3	1.5	1.5	1.6	1.5
Price/earnings ratio – registered shares		14.2	13.3	13.3	13.3	18.6
Price/earnings ratio – bearer shares		16.7	15.6	15.6	15.0	20.6

As of the beginning of 2013, the financial statements are prepared in accordance with Swiss GAAP FER. For the purpose of comparison with the current period, the previous period is restated.

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

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

1) Board of Directors' proposal.

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2013)

