

FINANCIAL STATEMENTS 2014

CONSOLIDATED
FINANCIAL
STATEMENTS
FINANCIAL
STATEMENTS
OF THE HOLDING



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FINANCIAL REVIEW

Key financial developments in 2014

- **Gross sales:** Gross sales for the Group exceed CHF 9 billion for the first time, a plus of 4.6% over the previous year, despite negative exchange rate impact. In the Watch & Jewelry segment, without Production, gross sales increase by 5.6%, and net sales by 3.9%.

- **Net sales:** Growth of 3.0% to CHF 8 709 million in net sales.

- **Operating profit:** Operating profit of CHF 1 752 million and operating margin of 20.1% (previous year 27.4% including the one-time special effect of the compensation of over CHF 400 million related to the Tiffany case). In the second half of 2014, deliberate increase in marketing investments in growth markets USA, Japan and Mainland China, with an impact of over 3 percentage points on the operating margin.

- **Net income:** Net income of CHF 1 416 million, with a return on net sales of 16.3% (previous year 22.8% also including the special effect of Tiffany).

- **Headcount:** Creation of over 2 100 new jobs, of which 770 in Switzerland.

- **Equity:** Equity increases to CHF 10.7 billion, equivalent to an increase in the previous year's equity ratio of 82.3% to 83.7% in 2014.

- **Dividend:** Despite the currency turbulence, an unchanged dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share will be proposed.

Financial review

1. Key figures Group	(CHF million)	2014	2013	Change in %		Total
				at constant rates	currency effect	
Gross sales		9 219	8 817	+ 6.1%	– 1.5%	+ 4.6%
Net sales		8 709	8 456	+ 4.5%	– 1.5%	+ 3.0%
Operating profit		1 752	2 314			– 24.3%
– in % of net sales		20.1%	27.4%			
Net income		1 416	1 928			– 26.6%
– in % of net sales		16.3%	22.8%			
Equity		10 674	9 574			+ 11.5%
– as % of total assets		83.7%	82.3%			

FINANCIAL REVIEW

2. Environment /
Financial year

Development operating results

(CHF million)	2014			2013		
	Third	Group	Total	Third	Group	Total
Gross sales						
Watches & Jewelry	8 935	1	8 936	8 531	1	8 532
Electronic Systems	277	22	299	279	20	299
Corporate and elimination	7	-23	-16	7	-21	-14
Total	9 219	-	9 219	8 817	-	8 817
Net sales						
Watches & Jewelry	8 428	1	8 429	8 172	1	8 173
Electronic Systems	274	22	296	277	20	297
Corporate and elimination	7	-23	-16	7	-21	-14
Total	8 709	-	8 709	8 456	-	8 456
Operating result						
	2014	% of		2013	% of	
		sales			sales	
Watches & Jewelry	1 860	22.1%		2 424	29.7%	
Electronic Systems	-9	-3.0%		-12	-4.0%	
Corporate and elimination	-99			-98		
Total	1 752	20.1%		2 314	27.4%	

The Swatch Group, with its 20 brands, generated gross sales of CHF 9 219 million in 2014, growing a further 4.6%, and net sales increased 3.0% to CHF 8 709 million, despite the ongoing and extremely difficult currency situation which impacted gross sales with a negative exchange rate effect of CHF 138 million over the entire year. In addition, the fire at ETA already negatively affected sales in the first half year of 2014 by approximately CHF 200 million.

In Watches & Jewelry, without Production, growth in gross sales of 5.6% and in net sales of 3.9% was generated, despite an ongoing long-term defensive price adjustment policy. In comparison, exports of wristwatches for the entire Swiss watch industry to the end of December 2014 increased by 1.7%, which in turn indicates a clear gain again in market share by the Swatch Group. This underscores the long-term strategy followed by the Group, which is characterized by a defensive price adjustment policy and a high level of investment, in contrast to short-term profit thinking. Therefore, all brands deliberately undertook more marketing investment, not only in the first half 2014 during the Olympic Winter Games in Sochi, but also in the second half of the year, by investing in the growth markets of the USA, Japan and Mainland China. In particular, Omega signed a renewal contract until 2022 for the US PGA Golf tour, and Longines massively increased its presence in equestrianism, mainly in Japan and the USA.

In the year under review, production ramped up in the new plants in Boncourt, Grenchen and Villeret. Also, the new Universo plant in La Chaux-de-Fonds started production. In connection with the fire at ETA, the production flow was newly defined and reorganized in order to rule out, as far as possible, any such interruption in future, particularly in the electroplating department. As expected, there were far fewer adverse effects resulting from the fire in the production at ETA in the second half of the year than there were in the first half. As a result, production could again be stabilized as of November, however, lost production and additional costs due to the fire could not be recovered.

The Electronic Systems segment generated gross sales growth of 9.0% in the second half of 2014, adjusted for the disposal of Oscilloquartz SA, which is an extremely positive result in view of strong price pressure and unfavorable exchange rates. This was achieved through significant innovations in batteries and integrated circuits. The latter also recorded higher sales volumes, driven by electronic consumer goods such as fitness bands, for example, which brought sales in this segment to CHF 299 million. The companies of the Swatch Group belong to the most innovative players worldwide in the Smart Objects sector, and the list of well-known smart and mobile device producers which these Swatch Group companies supply with components is long.

In 2014, the Group's operating profit reached CHF 1 752 million, reflecting an operating margin of 20.1%.

FINANCIAL REVIEW

Development net income

(CHF million)	2014	2013
Interest income	7	28
Result from marketable securities at fair value	12	29
Net currency result	-2	-27
Other financial expense	-4	-5
Interest expense	-2	-2
Share of result from associates and joint ventures	3	13
Net financial result	14	36

(CHF million)	2014	2013
Net income	1 416	1 928
- in % of net sales	16.3%	22.8%
- Change from previous year in %	-26.6%	20.2%
Basic earnings per share – expressed in CHF per share:		
- Registered shares	5.10	7.08
- Bearer shares	25.49	35.41

In the year under review, the net financial result was CHF 14 million (compared to CHF 36 million in 2013). The decrease is mainly due to lower interest income and reduced earnings from marketable securities at fair value. However, an almost balanced net foreign exchange result was achieved (2013 resulted in a foreign exchange loss of CHF 27 million). With the decision of the Swiss National Bank on 15 January 2015 to abandon the Euro minimum exchange rate after three years, the negative exchange rate impact for 2015 was already anticipated.

In relation to the profit before taxes, the income tax charge amounted to 19.8% in the reporting year, compared to 18.2% in the previous year. An analysis of the income tax charge is set out in Note 6 of the consolidated financial statements.

Overall, net income was CHF 1 416 million, which corresponds to a 16.3% net return on sales.

Basic earnings per share amounted in the current year to CHF 5.10 (2013: CHF 7.08) for registered shares and CHF 25.49 (2013: CHF 35.41) for bearer shares, respectively. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 7.

Group wide, over 2 100 new jobs were created. Switzerland alone accounted for 770 new jobs, mainly in the production area and to a lesser extent in the retail business. This underscores the Group's commitment to its manufacturing base Switzerland as well as the further strengthening of "Swiss Made". In total, Swatch Group employed more than 35 500 employees at the end of December 2014.

The 2014 result and the current outlook for 2015 have prompted the Board of Directors of the Swatch Group to propose an unchanged high dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share at the Annual General Meeting on 28 May 2015.

FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2014	2013
Total current assets	8 946	8 673
Total current liabilities	1 308	1 338
Equity	10 674	9 574
– as % of total assets	83.7%	82.3%
Average return on equity (ROE)	14.0%	21.2%

Current liabilities are covered by current assets by a factor of 6.8 (2013: 6.5). This factor shows that the consolidated balance sheet is very solid.

As per end of December 2014 equity increased to CHF 10.7 billion to an extremely solid capitalization, with an equity ratio of 83.7%.

Development liquidity

(CHF million)	2014	2013
Cash and cash equivalents at 1.1.	908	1 520
Cash flow from operating activities	1 848	1 309
Cash flow from investing activities	– 1 122	– 1 309
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 432	– 612
Cash and cash equivalents at 31.12.	1 202	908

Operating cash flow of CHF 1 848 million was very high due to the very good incoming payments over the course of the entire year, although there was still consistent investment in inventories. The latter went mainly to expansion of the Harry Winston brand, the launch of the new Omega Master Co-Axial with anti-magnetic movement, the preparation for the worldwide launch of the new AluSwatch XLite and the opening of new monobrand stores.

In addition, approximately 10% more was invested in facilities, production and retail stores than in the previous year. Including the acquisition of the Peterhof commercial building on the Bahnhofstrasse in Zurich made at the end of the year, total investments reached CHF 1 203 million. This represents approximately 70% more than the previous year, of which CHF 867 million in Switzerland.

The dividend payment of CHF 407 million (2013: CHF 366 million) was the main cash flow from financing activities.

Overall, the Group's cash position increased in 2014 by CHF 294 million to CHF 1 202 million at year-end.

FINANCIAL REVIEW

3. Outlook

After a strong December 2014 in Swiss francs, 2015 started very auspiciously with a strong January, of course computed in local currency. With the decision of the Swiss National Bank on 15 January 2015 to abandon the Euro minimum exchange rate after three years and to introduce higher negative interest on current accounts, the negative exchange rate impact for 2015 was already anticipated; within a day the Swiss franc rose to parity with or even slightly higher than the Euro.

With its 20 brands, its own production and its worldwide distribution network, the Group is in a very strong position. Marketing investments and selling expenses in foreign currencies, or companies such as Harry Winston in the USA or Rivoli in the Middle East, whose costs are also recorded in local currency, absorb part of the negative effect of the overvalued Swiss franc. In addition, several Group brands are reacting with price adjustments of between 5% and 7% in select markets, which will also compensate for the very unfavorable currency situation.

The number of Swatch Group patent applications reached a new record again in 2014; this will be reflected in the numerous innovative product launches in all segments in 2015.



CONSOLIDATED INCOME STATEMENT

	Notes	2014		2013	
		CHF million	%	CHF million	%
Gross sales		9 219	105.9	8 817	104.3
Sales reductions		- 510	- 5.9	- 361	- 4.3
Net sales	(4, 5a)	8 709	100.0	8 456	100.0
Other operating income	(5b)	231	2.6	518	6.1
Changes in inventories		397	4.6	586	6.9
Material purchases		- 2 240	- 25.7	- 2 456	- 29.0
Personnel expense	(5c)	- 2 343	- 26.9	- 2 144	- 25.3
Depreciation on tangible assets	(15)	- 324	- 3.7	- 276	- 3.3
Amortization on intangible assets	(16)	- 34	- 0.4	- 28	- 0.3
Other operating expenses	(5d)	- 2 644	- 30.4	- 2 342	- 27.7
Operating profit		1 752	20.1	2 314	27.4
Other financial income and expense	(5f)	13	0.2	25	0.3
Interest expense	(5f)	- 2	- 0.0	- 2	- 0.0
Share of result from associates and joint ventures	(5f, 17)	3	0.0	13	0.1
Ordinary result		1 766	20.3	2 350	27.8
Non-operating result	(5g)	- 1	- 0.0	6	0.1
Extraordinary result		-	0.0	-	0.0
Profit before taxes		1 765	20.3	2 356	27.9
Income taxes	(6a)	- 349	- 4.0	- 428	- 5.1
Net income		1 416	16.3	1 928	22.8
Attributable to equity holders of The Swatch Group Ltd		1 384		1 921	
Attributable to non-controlling interests		32		7	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		5.10		7.08	
Diluted earnings per share		5.09		7.08	
Bearer shares					
Basic earnings per share		25.49		35.41	
Diluted earnings per share		25.47		35.38	

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

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2014		31.12.2013	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	1 202	9.4	908	7.8
Marketable securities and derivative financial instruments	(10)	263	2.1	325	2.8
Trade receivables	(11)	1 108	8.7	1 073	9.2
Other current assets	(12)	135	1.1	256	2.2
Inventories	(13)	5 943	46.6	5 426	46.6
Prepayments and accrued income	(14)	295	2.3	685	5.9
Total current assets		8 946	70.2	8 673	74.5
Non-current assets					
Property, plant and equipment	(15)	3 010	23.6	2 272	19.5
Intangible assets	(16)	150	1.2	136	1.2
Investments in associates and joint ventures	(17)	70	0.5	65	0.6
Other non-current assets	(19)	201	1.6	156	1.3
Deferred tax assets	(6d)	370	2.9	337	2.9
Total non-current assets		3 801	29.8	2 966	25.5
Total assets		12 747	100.0	11 639	100.0

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

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2014		31.12.2013	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	35	0.3	15	0.1
Trade payables		371	2.9	383	3.3
Other liabilities	(21)	158	1.2	164	1.4
Provisions	(23)	83	0.7	74	0.6
Accrued expenses	(22)	661	5.2	702	6.1
Total current liabilities		1 308	10.3	1 338	11.5
Non-current liabilities					
Financial debts	(20)	38	0.3	44	0.4
Deferred tax liabilities	(6d)	604	4.7	576	4.9
Retirement benefit obligations	(24)	38	0.3	33	0.3
Provisions	(23)	47	0.4	45	0.4
Accrued expenses	(22)	38	0.3	29	0.2
Total non-current liabilities		765	6.0	727	6.2
Total liabilities		2 073	16.3	2 065	17.7
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 1 037		- 1 062	
Treasury shares	(26c)	- 301		- 268	
Goodwill recognized		- 1 372		- 1 369	
Translation differences		- 6		- 115	
Retained earnings		13 174		12 197	
Equity of The Swatch Group Ltd shareholders		10 583	83.0	9 508	81.7
Non-controlling interests		91	0.7	66	0.6
Total equity		10 674	83.7	9 574	82.3
Total equity and liabilities		12 747	100.0	11 639	100.0

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2014 CHF million	2013 CHF million
Operating activities			
Net income		1 416	1 928
Reversal of non-cash items	(28a)	739	712
Changes in working capital and other items included in operating cash flow	(28b)	92	- 965
Dividends received from associated companies	(17)	3	21
Interest received		28	9
Interest paid		- 2	- 4
Income tax paid	(6c)	- 428	- 392
Cash flow from operating activities		1 848	1 309
Investing activities			
Investments in property, plant and equipment	(15)	- 1 040	- 574
Proceeds from sale of property, plant and equipment		4	19
Investments in intangible assets	(16)	- 48	- 48
Proceeds from sale of intangible assets		1	-
Investments in other non-current assets	(19)	- 115	- 84
Proceeds from sale of other non-current assets		2	10
Acquisition of subsidiaries – net of cash	(18)	- 4	- 759
Divestments of businesses	(18)	3	-
Investments in associated companies and joint ventures	(17)	-	- 14
Divestments of associated companies and joint ventures		-	0
Purchase of marketable securities		- 187	- 207
Sale of marketable securities		262	348
Cash flow from investing activities		- 1 122	- 1 309
Financing activities			
Dividends paid to shareholders	(8)	- 407	- 366
Dividends paid to non-controlling interests		- 14	- 5
Purchase of treasury shares	(26b)	- 107	- 2
Sale of treasury shares		78	123
Change in non-current financial debts		- 5	- 260
Change in current financial debts		- 1	- 88
Cash flow from financing activities		- 456	- 598
Net impact of foreign exchange rate differences on cash		24	- 14
Change in cash and cash equivalents		294	- 612
Change in cash and cash equivalents			
– At beginning of year		908	1 520
– At end of year	(9)	1 202	908
		294	- 612

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Total	Non-con- trolling interests	Total equity
	Share capital (Note 26)	Capital reserves (Note 26)	Treasury shares (Note 26)	Goodwill recognized ¹⁾	Translation differences	Retained earnings ¹⁾			
Balance at 31 December 2012	125	- 1 128	- 343	- 701	- 41	10 642	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 December 2013	125	- 1 062	- 268	- 1 369	- 115	12 197	9 508	66	9 574
Net income						1 384	1 384	32	1 416
Currency translation of foreign entities					109		109	7	116
Compensation of goodwill Group companies (Note 18)				- 3			- 3		- 3
Dividends paid						- 407	- 407	- 14	- 421
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		21					21		21
– Proceeds from sale of shares		1					1		1
Sale of treasury shares		3	74				77		77
Repurchase of treasury shares			- 107				- 107		- 107
Balance at 31 December 2014	125	- 1 037	- 301	- 1 372	- 6	13 174	10 583	91	10 674

¹⁾ As of 31 December 2012 goodwill from acquisitions is no longer offset against retained earnings but is recognized in a separate position in the statement of changes in equity.

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, 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 2015 and will be submitted to the Annual General Meeting of Shareholders for approval on 28 May 2015.

2. Summary of significant accounting policies

a. Basis of preparation

These financial statements provide a true and fair view of the Swatch Group's assets, financial position and earnings, and have been drawn up in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. The Group already adopted FER 31 for listed companies (published in January 2013 and applicable as of 1 January 2015) as of 1 January 2013. 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 of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement. Non-controlling interests in equity and in net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are recognized as equity transactions, provided that control continues. Intercompany transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated in full.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- c. Scope of consolidation** At 31 December 2014, the Group's consolidation structure comprised 172 legal entities (previous year: 185) including two joint ventures (previous year: two) and six associated companies (previous year: six). The decrease resulted primarily from Group internal mergers and liquidations. Information on acquisitions and disposals of companies is available in Note 18. Note 32 includes a complete list of Group companies.
- d. Accounting estimates and judgments** The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.
- e. Changes in accounting policies**
- Changes not yet in force to existing Standards**
The Group did not adopt early the following changes to existing Standards which were published by the end of 2014 and which are binding as of 1 January 2015 or later:
- New guideline on revenue recognition: changes in Swiss GAAP FER Framework, FER 3 and FER 6**
New rules in the area of revenue recognition specify how revenue is to be recognized, valued and disclosed. To this end, the Framework, FER 3 and FER 6 were adapted. The amendments stipulate that revenue is to be recognized when a service was provided or an asset was delivered, and the risks and rewards as well as the control have been transferred to the purchaser. In addition, net revenues from sales and services are defined as revenues from ordinary business activities which include the value of the services provided, less sales reductions. In the case of agents, only the value of own services performed is to be recognized. Separately identifiable elements of business transactions are to be recognized and valued separately. In addition, the most significant sources of revenue and their recognition are to be disclosed in the notes. The new rules come into force on 1 January 2016 (early adoption is permitted). The Group is currently evaluating the effect of these changes, but anticipates no major impact on the manner in which the Group recognizes revenue.

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
		2014	31.12.2014	2013	31.12.2013
		CHF	CHF	CHF	CHF
CNY	1	0.1496	0.1598	0.1510	0.1475
EUR	1	1.2139	1.2030	1.2317	1.2280
HKD	1	0.1190	0.1277	0.1196	0.1152
JPY	100	0.8683	0.8300	0.9499	0.8500
USD	1	0.9226	0.9905	0.9277	0.8930

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 collectability 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 current account 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 liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

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)	31.12.2014	31.12.2013
Cash and cash equivalents	1 202	908
Marketable securities and derivative financial instruments	263	325
Short-term accessible liquidity reserves	1 465	1 233
Committed credit facilities	539	519
./ Utilized credit facilities	- 40	- 47
Total short-term accessible liquidity reserves and undrawn credit facilities	1 964	1 705

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 2014, equity represented 83.7% (31 December 2013: 82.3%) of total assets.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. Segment information

a. Operating segment information

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

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

– Watches & Jewelry	Production 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

2014 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 935	277	7		9 219
– Group	1	22	6	– 29	–
Gross sales	8 936	299	13	– 29	9 219
– Third parties	8 428	274	7		8 709
– Group	1	22	6	– 29	–
Net sales	8 429	296	13	– 29	8 709
Operating result	1 860	– 9	– 99	–	1 752
– As a % of net sales	22.1	– 3.0			20.1
– As a % of total	106.2	– 0.5	– 5.7		100.0

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 result	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet and other information

2014 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	11 440	397	4 225	– 3 385	12 677
– Investments in associated companies and joint ventures	6	–	64		70
Total assets	11 446	397	4 289	– 3 385	12 747
Total liabilities	– 4 472	– 91	– 895	3 385	– 2 073
Net assets	6 974	306	3 394	–	10 674

Other information

Investments in property, plant and equipment	607	13	431		1 051
Investments in intangible assets	44	5	2		51
Investments in other non-current assets	115	0	0		115
Depreciation on property, plant and equipment	– 288	– 25	– 11		– 324
Amortization on intangible assets	– 29	– 2	– 3		– 34
Impairment charges	–	–	–		–

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Information on geographical regions

(CHF million)	2014		2013	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	971	2 473	1 064	1 837
Other Europe	1 820	342	1 809	254
Total Europe	2 791	2 815	2 873	2 091
Greater China	3 224	248	3 208	215
Other Asia	1 814	237	1 527	222
Total Asia	5 038	485	4 735	437
Total America	737	122	709	92
Total Oceania	85	3	81	3
Total Africa	58	1	58	1
Total	8 709	3 426	8 456	2 624

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)	2014	2013
	Sale of goods	8 680	8 424
	Rendering of services	29	32
	Total net sales	8 709	8 456

b. Other operating income In 2014, other operating income amounted to CHF 231 million and was mainly related to timekeeping services for the Olympic Games. In 2013, other operating income amounted to CHF 518 million and was mainly related to compensation from the successful outcome of the legal case against Tiffany & Co. USA.

c. Personnel expense	(CHF million)	2014	2013
	Wages and salaries	1 902	1 747
	Social security costs	316	292
	Share-based compensation (Note 29)	21	19
	Pension costs (Note 24)	104	86
	Total personnel expense	2 343	2 144

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

(Unaudited)	2014	2013
Average annual headcount	34 492	31 114
Total headcount at 31 December	35 623	33 590
Men	17 035	15 986
Women	18 588	17 604
Swiss contracts	17 408	16 704
Non-Swiss contracts	18 215	16 886

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)	2014	2013
	Marketing, sales and administration	1 347	1 261
	Subcontracting and other direct costs of sales	304	313
	Maintenance, rents and energy	843	703
	Other operating expenses	150	65
	Total other operating expenses	2 644	2 342

e. Research and development costs Research and development (R&D) costs amounted to CHF 187 million in 2014, representing 2.1% of net sales (previous year: CHF 184 million or 2.2%).

f. Net financial result	(CHF million)	2014	2013
	Interest income	7	28
	Result from marketable securities at fair value	12	29
	Net currency result	-2	-27
	Other financial expense	-4	-5
	Other financial income and expense	13	25
	Interest expense	-2	-2
	Share of result from associates and joint ventures	3	13
	Net financial result	14	36

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)	2014	2013
Current income taxes	344	403
Adjustments recognized for current income taxes of prior periods	-1	10
Deferred taxes	6	15
Total income taxes	349	428

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.

	2014	2013
	%	%
Group's average expected tax rate	19.1	17.3
Tax effect of:		
- Change in the applicable tax rate on temporary differences	-0.7	-0.2
- Recognition of unused tax losses from prior years	-0.1	-0.6
- Utilization of previously unrecognized tax losses	0.0	-0.3
- Unrecognized current year tax losses	0.4	1.0
- Non-taxable income	-0.2	-0.1
- Non-tax-deductible expenses	0.7	0.6
- Items taxable at reduced rates	-0.3	-0.3
- Adjustments recognized for current taxes of prior periods	0.0	0.4
- Other items	0.9	0.4
Group's effective tax rate	19.8	18.2

The effective tax rate based on the ordinary result in the year under review was 19.8% (previous year: 18.2%).

c. Current income tax

(CHF million)	2014	2013
Net current income tax liability		
Balance at 1 January	-171	-150
Recognized in income statement	-343	-413
Recognized in equity	-	-
Income taxes paid	428	392
Translation differences	-3	0
Balance at 31 December	-89	-171
thereof current income tax assets	45	19
thereof current income tax liabilities	-134	-190

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)	31.12.2014			31.12.2013		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	303	-414	-111	281	-427	-146
Trade and other receivables	2	-24	-22	4	-17	-13
Property, plant and equipment	16	-128	-112	17	-113	-96
Intangible assets	15	-9	6	8	-8	0
Provisions	14	-45	-31	10	-43	-33
Retirement benefit obligations	4	-2	2	5	0	5
Tax losses	36	-	36	57	-	57
Other	61	-63	-2	47	-60	-13
Total deferred tax assets (liabilities)	451	-685	-234	429	-668	-239
Deferred tax assets			370			337
Deferred tax liabilities			-604			-576

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 2014
One year	2	1	3
Two years	3	12	15
Three years	3	12	15
Four years	4	7	11
Five years	3	2	5
Six years	0	11	11
More than six years	129	82	211
Total at 31.12.2014	144	127	271

(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

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 44 million in the year under review (previous year: CHF 65 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Earnings per share

a. Basic

	2014	2013
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 384	1 921
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.2%	44.1%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.8%	55.9%
Registered shares		
Net income attributable to registered shareholders (CHF million)	611	847
Average number of shares outstanding	119 894 096	119 514 584
Basic earnings per share (in CHF)	5.10	7.08
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	773	1 074
Average number of shares outstanding	30 320 769	30 335 000
Basic earnings per share (in CHF)	25.49	35.41

b. Diluted

	2014	2013
Registered shares		
Net income attributable to registered shareholders (CHF million)	612	848
Average number of shares outstanding – basic (as above)	119 894 096	119 514 584
Potential number of shares from options outstanding	230 587	232 711
Average potential number of shares outstanding – diluted	120 124 683	119 747 295
Diluted earnings per share (in CHF)	5.09	7.08
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	772	1 073
Average potential number of shares outstanding	30 320 769	30 335 000
Diluted earnings per share (in CHF)	25.47	35.38

8. Dividends paid and proposed

On 14 May 2014, the Annual General Meeting approved the distribution of a dividend of CHF 1.50 per registered share and CHF 7.50 per bearer share. The distribution to holders of outstanding shares totaled CHF 407 million (2013: CHF 366 million) and has been recorded against retained earnings in 2014.

At the Annual General Meeting on 28 May 2015, payment of the following dividends for 2014 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 2014 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Cash and cash equivalents

(CHF million)	31.12.2014	31.12.2013
Current accounts and liquid assets	984	810
Short-term deposits with financial institutions	218	98
Total cash and cash equivalents	1 202	908

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)	31.12.2014	31.12.2013
Cash and cash equivalents	1 202	908
Current account overdrafts (Note 20)	0	0
Total funds net cash	1 202	908

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2014	31.12.2013
Equity securities	49	55
Bond securities	195	238
Investment funds and other investments	19	32
Total marketable securities at fair value	263	325
Derivative financial instruments	0	0
Total marketable securities and derivative financial instruments	263	325

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

Type (CHF million)	31.12.2014			31.12.2013		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
CNY	50	–	–1	–	–	–
EUR	361	0	–1	405	–	–2
GBP	40	–	–1	26	–	–1
JPY	21	–	0	7	–	0
RUB	6	–	0	16	–	0
SGD	16	–	0	1	–	0
USD	949	–	–25	565	–	–4
Other currencies	31	0	–1	29	–	–1
Gold	–	–	–	69	–	0
Total	1 474	0	–29	1 118	–	–8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade receivables

(CHF million)	31.12.2014	31.12.2013
Trade receivables – gross	1 121	1 083
Allowance for impaired receivables	– 13	– 10
Total trade receivables – net	1 108	1 073

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

(CHF million)	2014	2013
Balance at 1 January	– 10	– 8
Translation differences	0	0
Business combinations	–	– 1
Utilization	1	0
Reversal	1	1
Creation	– 5	– 2
Balance at 31 December	– 13	– 10

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)	31.12.2014	31.12.2013
CHF	208	209
CNY	294	301
EUR	182	185
HKD	57	54
JPY	30	27
USD	122	104
Other currencies	215	193
Total trade receivables – net	1 108	1 073

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

12. Other current assets

(CHF million)	31.12.2014	31.12.2013
VAT to be refunded	104	126
Other receivables	31	130
Total other current assets	135	256

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

(CHF million)	31.12.2014	31.12.2013
Raw materials	345	383
Work in progress	565	582
Semi-finished goods	2 069	1 933
Finished goods	2 659	2 246
Spare parts for customer service	305	282
Total inventories	5 943	5 426

Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2014, the Group recognized write-downs of CHF 33 million (previous year: write-downs of CHF 105 million, mainly related to Tiffany products). In addition, an amount of CHF 10 million (previous year: CHF 7 million) was reversed. The net impact of these adjustments was a charge to the income statement of CHF 23 million (previous year: CHF 98 million).

14. Prepayments and accrued income

(CHF million)	31.12.2014	31.12.2013
Prepaid sales, marketing and administration costs	107	104
Income tax assets	45	19
Other prepayments and accrued income	143	562
Total prepayments and accrued income	295	685

At 31 December 2013 the position Other prepayments and accrued income was mainly comprised of a receivable related to the closed Tiffany & Co. USA case which was settled in January 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Property, plant and equipment

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2013	1 453	3 218	435	134	5 240
Translation differences	-1	29	4	-	32
Acquisition of subsidiaries (Note 18)	1	-	0	-	1
Divestments of businesses (Note 18)	-	-10	-3	-	-13
Additions	558	390	64	39	1 051
Disposals	-3	-95	-29	0	-127
Transfers	65	-5	5	-65	-
Historical cost, 31 December 2014	2 073	3 527	476	108	6 184
Accumulated depreciation, 31 December 2013	- 600	- 2 129	- 239	-	- 2 968
Translation differences	-1	-17	-1	-	-19
Depreciation on divestments of businesses (Note 18)	-	9	3	-	12
Annual depreciation	-47	-227	-50	-	-324
Impairment	-	-	-	-	-
Depreciation on disposals	2	95	28	-	125
Transfers	-	2	-2	-	-
Accumulated depreciation, 31 December 2014	- 646	- 2 267	- 261	-	- 3 174
Net book values:					
Balance at 31 December 2013	853	1 089	196	134	2 272
Balance at 31 December 2014	1 427	1 260	215	108	3 010
Insured value					6 667
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					40

¹⁾ The category Land, buildings and properties includes investment properties with a carrying amount of CHF 452 million (previous year: CHF 32 million). The increase compared to the previous year is mainly due to the acquisition of the Peterhof commercial building on the Bahnhofstrasse in Zurich.

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2012	1 292	2 958	435	111	4 796
Translation differences	-32	-9	-10	0	-51
Acquisition of subsidiaries (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, 31 December 2012	- 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 31 December 2012	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2013	80	111	109	300
Translation differences	0	0	-1	-1
Acquisition of subsidiaries (Note 18)	-	-	-	-
Divestments of businesses (Note 18)	-4	0	-	-4
Additions	15	16	20	51
Disposals	-1	-5	-3	-9
Transfers	9	1	-10	0
Historical cost, 31 December 2014	99	123	115	337
Accumulated amortization, 31 December 2013	-46	-84	-34	-164
Translation differences	0	0	0	0
Depreciation on divestments of businesses (Note 18)	3	0	-	3
Annual depreciation	-15	-13	-6	-34
Impairment	-	-	-	-
Depreciation on disposals	0	5	3	8
Transfers	-	0	0	0
Accumulated amortization, 31 December 2014	-58	-92	-37	-187
Net book values:				
Balance at 31 December 2013	34	27	75	136
Balance at 31 December 2014	41	31	78	150

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2012	88	96	80	264
Translation differences	-	-1	1	0
Acquisition of subsidiaries (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, 31 December 2012	-35	-73	-40	-148
Translation differences	-	0	-1	-1
Annual depreciation	-11	-12	-5	-28
Impairment	-	0	0	0
Depreciation on disposals	0	1	12	13
Transfers	0	-	0	0
Accumulated amortization, 31 December 2013	-46	-84	-34	-164
Net book values:				
Balance at 31 December 2012	53	23	40	116
Balance at 31 December 2013	34	27	75	136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Investments in associates and joint ventures

(CHF million)	2014	2013
Balance at 1 January	65	110
Share of result from associates and joint ventures	3	13
Dividends received	-3	-21
Investments	-	14
Reclassification of previously held interests	-	-52
Investments acquired through business combinations	-	3
Translation differences	5	-2
Balance at 31 December	70	65

All associates and joint ventures are recognized using the equity method. They have been listed in Note 32. Despite having less than 20% of the voting power of Hengdeli Holdings, the Swatch Group can exercise significant influence due to representation on the Board of Directors, access to current financial information and the strategic character of the investment. Therefore, this investment is defined as associate.

In 2014 there were no changes in investments in associates and joint ventures.

In 2013, the Group increased its stake in Belenos Clean Power Holding AG from 42% to 49%.

Additionally, on 24 November 2013, the Swatch Group increased its stake in Rivoli Investments LLC from 40% to 58%, effectively taking control of the company. 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 was removed from investments in associates and included in the calculation of goodwill from this acquisition (see Note 18).

At 31 December 2014, the fair value of the investment in Hengdeli Holdings was CHF 81 million (2013: CHF 92 million). Sales to and purchases from associates and joint ventures amounted to CHF 1 044 million (2013: CHF 1 119 million) and CHF 12 million (2013: CHF 8 million) respectively.

At balance sheet date, associated companies and joint ventures had no contingent liabilities (2013: CHF 1 million).

18. Business combinations

a. Acquisition of subsidiaries

In the first half of 2014, the Swatch Group acquired all the shares of René Clémence S.A. in La Chaux-de-Fonds (Switzerland). The company is a watch glass manufacturer.

The Group also acquired 100% of the shares of the Canadian company H.W. Protection Inc, Toronto in the first half of 2014. This company provides services solely to other Group companies.

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 watch manufacturer in Geneva (Switzerland). This does not affect the operations of Dominion Diamond Corporation in Toronto (Canada). As a result of this acquisition, a total of ten companies were 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 an extensive network of 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 the purchase of the additional share package, Rivoli Group was treated as an associate of the Swatch Group. With the increase of its investment, 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 previously held share in Rivoli Group was removed from investments in associates (see Note 17) and included in the calculation of goodwill from this acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(CHF million)	Notes	2014	2013	2013	2013
		Actual Values Total	Actual Values Harry Winston	Actual Values Rivoli	Actual Values Total
Cash and cash equivalents		1	27	27	54
Current assets		0	425	148	573
Property, plant and equipment	(15)	1	73	24	97
Intangible assets	(16)	–	1	0	1
Other non-current assets	(19)	–	9	6	15
Investments in associates and joint ventures	(17)	–	–	3	3
Deferred tax assets		0	14	2	16
Current liabilities		0	– 122	– 103	– 225
Deferred tax liabilities		–	– 10	–	– 10
Non-current liabilities		–	– 274	– 6	– 280
Provisions	(23)	0	– 1	–	– 1
Previously held interests	(17)	–	–	– 52	– 52
Non-controlling interests		–	–	– 46	– 46
Net assets acquired		2	142	3	145
Goodwill (recognized in equity)	(27)	3	569	99	668
Total purchase consideration (incl. acquisition-related costs)		5	711	102	813
Cash and cash equivalents acquired		– 1	– 27	– 27	– 54
Consideration payable		0	–	–	–
Cash outflow on acquisitions		4	684	75	759

Goodwill from the 2014 acquisitions relates primarily to the expected operating synergies from these combinations and the acquired know-how from the takeovers.

Goodwill from the acquisition of HW Holdings Inc. in 2013 was mainly attributed to the Harry Winston brand name, the acquired retail business and all activities related to the manufacture of high jewelry and watches. Goodwill from the takeover of Rivoli Investments LLC resulted from the superbly developed retail network and the related level of brand awareness of the Rivoli Group in the Middle East.

For all acquisitions in 2014 and 2013 the purchase consideration basically represented the cash payments made to the vendors. Transaction costs related to the takeovers were recognized as part of goodwill directly in equity.

b. Divestments of businesses

At the beginning of April 2014, Swatch Group sold its entire participation in Oscilloquartz AG, Neuenburg (Switzerland), to ADVA Optical Networking SE, Munich (Germany).

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

(CHF million)	Notes	2014	2013
		Actual Values	Actual Values
Cash and cash equivalents		0	–
Current assets		14	–
Property, plant and equipment	(15)	1	–
Intangible assets	(16)	1	–
Current liabilities		– 4	–
Provisions	(23)	0	–
Net assets disposed of		12	–
Loss on divestment of businesses		– 9	–
Total disposal consideration		3	–
Cash and cash equivalents disposed of		0	–
Net Cash inflow on disposal		3	–

No companies were disposed of in 2013.

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 31 December 2013	74	71	11	156
Translation differences	2	5	0	7
Acquisition of subsidiaries (Note 18)	–	–	–	–
Additions	94	21	0	115
Disposals	– 1	– 2	–	– 3
Transfers to current assets	– 74	–	–	– 74
Balance at 31 December 2014	95	95	11	201

(CHF million)	Prepaid marketing and rental cost	Security deposits	Other financial assets	Total
Balance at 31 December 2012	22	45	110	177
Transfers from Prepayments at 1 January	51	–	–	51
Translation differences	– 1	– 4	– 2	– 7
Acquisition of subsidiaries (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

Key money that the Group pays when renting stores in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain. The non-current portion of key money, together with the non-current prepaid marketing costs, is recognized under Other non-current assets. The current portion of both components is transferred to Prepayments and accrued income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Financial debts and derivative financial instruments

(CHF million)	31.12.2014	31.12.2013
Current account overdrafts	0	0
Short-term leasing commitments	1	1
Short-term bank debt	5	6
Derivative financial instruments	29	8
Total current financial debts and derivative financial instruments	35	15
Total non-current financial debts	38	44
Total financial debts	73	59

The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates. The contractual repricing dates at the balance sheet date are as follows:

(CHF million)	less than 1 year	1–5 years	over 5 years	Total
At 31 December 2014	35	17	21	73
At 31 December 2013	15	22	22	59

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

(CHF million)	31.12.2014	31.12.2013
CHF	29	10
JPY	39	45
EUR	1	1
Other currencies	4	3
Total	73	59

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 2014 included a mortgage of JPY 4 250 million or CHF 35 million (previous year: JPY 4 750 million or CHF 40 million) at a fixed interest rate of 2.41% with a term until March 2021 (without a termination clause).

21. Other liabilities

(CHF million)	31.12.2014	31.12.2013
Advance payments	36	31
Income tax liabilities	16	21
VAT due	11	4
Other payables	95	108
Total other payables	158	164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Accrued expenses

(CHF million)	31.12.2014	31.12.2013
Accrued salaries and social security	177	168
Accrued sales, marketing and administration costs	162	162
Accrued income taxes	118	169
Accrued sales reductions	84	74
Other accrued expenses	158	158
Total accrued expenses	699	731
thereof current	661	702
thereof non-current	38	29

23. Provisions

(CHF million)	Warranties	Litigation	Other	Total
Balance at 31 December 2012	78	6	21	105
Translation differences	-2	0	0	-2
Acquisition of subsidiaries (Note 18)	0	-	1	1
Additional provisions	80	2	14	96
Reversal of provisions	-12	0	-2	-14
Provisions used during the year	-57	-2	-8	-67
Balance at 31 December 2013	87	6	26	119
thereof current provisions	60	3	11	74
thereof non-current provisions	27	3	15	45
Translation differences	3	0	0	3
Acquisition of subsidiaries (Note 18)	0	0	0	0
Divestments of businesses (Note 18)	0	0	0	0
Additional provisions	97	3	3	103
Reversal of provisions	-7	-2	-1	-10
Provisions used during the year	-76	-1	-8	-85
Balance at 31 December 2014	104	6	20	130
thereof current provisions	72	2	9	83
thereof non-current provisions	32	4	11	47

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 ECR remained unchanged in the year under review; there has been no formation or dissolution, nor has there been a waiver of usage.

Pension fund assets included 5 384 595 registered shares (2013: 5 539 307 shares) and 1 100 bearer shares (2013: 120 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses

2014

(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 costs within personnel expense
Patronage funds / patronage pension plans	320	–	–	–	–
Pension plans without surplus / deficit	–	–	–	98	98
Pension plans with surplus	–	–	–	–	–
Pension plans with deficit	–11	–6	1	1	2
Pension plans without own assets	–	–32	4	–	4
Total	309	–38	5	99	104

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 cost 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 was attributed to business combinations and reclassifications within the balance sheet and had no impact on the income statement.

Summary of pension benefit expenses

(CHF million)	Switzerland 2014	Abroad 2014	Total 2014	Switzerland 2013	Abroad 2013	Total 2013
Contributions to pension plans charged to Group companies	86	13	99	76	10	86
Contributions to pension plans paid from ECR	–	–	–	–	–	–
Total contributions	86	13	99	76	10	86
Change of ECR from evolution of fortune, impairments, discounting, etc.	0	–	0	0	–	0
Contributions and change in ECR	86	13	99	76	10	86
Increase / decrease of Groups's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	5	5	–	0	0
Total changes of economic effects from surpluses / deficits	–	5	5	–	0	0
Pension benefit expenses within personnel expenses of the period	86	18	104	76	10	86

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Commitments and contingencies

a. Guarantees and sureties

At 31 December 2014, guarantees to third parties as security for commitments of Group companies amounted to CHF 8 million (2013: CHF 5 million).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 95 million at 31 December 2014 (2013: CHF 71 million).

b. Leasing and other commitments

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

(CHF million)	31.12.2014	31.12.2013
Less than 1 year	385	334
Between 1 and 5 years	959	753
Over 5 years	510	427
Total	1 854	1 514

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 2014. Leasing costs amounting to CHF 511 million were recognized in the 2014 income statement, compared to CHF 384 million in the previous year.

Other commitments relating mainly to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2014, amounted to CHF 76 million (CHF 156 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.

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
31.12.2012	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
31.12.2014	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At year-end 2014 as well as 2013, 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 82 million (2013: CHF 57 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 December 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 December 2013	4 126 296	136	505 000	132	268
Acquisitions ¹⁾	385 000	33	164 000	74	107
Disposals ²⁾	– 252 308	– 1	– 164 000	– 73	– 74
Balance at 31 December 2014	4 258 988	168	505 000	133	301

¹⁾ In 2014, the Group acquired 385 000 (2013: 17 800) registered shares at an average price of CHF 86.28 (2013: CHF 91.43) each. The Group also acquired 164 000 bearer shares at an average price of CHF 448.63 each (2013: no bearer shares purchased).

²⁾ In 2014, the Group sold 10 000 (2013: 1 323 718) registered shares at an average price of CHF 87.95 (2013: CHF 92.22) each. The remaining disposals of registered shares relate to the employee stock option plan. Details of the share options granted in connection with the employee stock option plan are provided in Note 29. The Group also sold 164 000 bearer shares at an average price of CHF 466.11 each (2013: no bearer shares sold).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Acquired goodwill

a. Theoretical statement of changes in goodwill

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

	2014			2013		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
(CHF million)						
Historical cost 1 January	1 386	48	1 434	545	221	766
Additions	3	–	3	668	–	668
Disposals	–	–	–	–	–	–
Transfers	–	–	–	173	–173	–
Historical cost 31 December	1 389	48	1 437	1 386	48	1 434
Theoretical accumulated amortization						
1 January	– 415	– 23	– 438	– 289	– 52	– 341
Theoretical annual amortization	– 117	– 5	– 122	– 77	– 20	– 97
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	– 49	49	–
Theoretical accumulated amortization 31 December	– 532	– 28	– 560	– 415	– 23	– 438
Theoretical net book value 31 December	857	20	877	971	25	996

Acquisitions were translated into CHF with the exchange rate applicable on their respective transaction dates. As a result of this procedure, no currency adjustments were necessary in the statement of changes in goodwill.

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

b. Theoretical impact on equity

	2014	2013
(CHF million)		
Equity, per balance sheet	10 674	9 574
Theoretical capitalization of net book value of goodwill	877	996
Theoretical equity including net book value of goodwill	11 551	10 570

c. Theoretical impact on net income

	2014	2013
(CHF million)		
Net income, per income statement	1 416	1 928
Theoretical amortization of goodwill	– 122	– 97
Theoretical net income after goodwill amortization	1 294	1 831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items

(CHF million)	Notes	2014	2013
Reversal of non-cash items			
Share of result from associates and joint ventures	(17)	- 3	- 13
Income taxes	(6a)	349	428
Depreciation of property, plant and equipment	(15)	324	276
Amortization of intangible assets	(16)	34	28
Profit on sale of fixed assets		- 3	- 9
Loss on sale of fixed assets		3	2
Fair value gains on marketable securities		- 17	- 29
Fair value losses on marketable securities		25	18
Interest income	(5f)	- 7	- 28
Interest expense	(5f)	2	2
Expenses for equity-settled compensation plan	(29)	21	19
Changes in provisions		8	14
Changes in retirement benefit obligations		3	4
Total		739	712

b. Changes in working capital

(CHF million)	2014	2013
Changes in working capital and other items included in cash flow from operating activities		
Inventories	- 410	- 597
Trade receivables	- 2	18
Other receivables and accrued income	602	- 396
Trade payables	- 31	- 18
Other liabilities and accrued expenses	- 3	- 5
Other items included in cash flow from operating activities	- 64	33
Total	92	- 965

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. Group equity increases from the time the options are granted over the corresponding period by the value of the employee services (net of tax). When the options are exercised, Group equity increases further by the corresponding exercise price.

At the end of 2014, this portfolio comprised 1 154 463 registered shares (1 396 771 at the end of 2013). In 2014, 242 308 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:

	2014	2013
	Options	Options
Options outstanding at 1 January	242 915	245 246
Granted	240 805	244 095
Forfeited or lapsed	- 604	- 1 463
Exercised	- 242 308	- 244 963
Options outstanding at 31 December	240 808	242 915

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	
	31.12.2014	31.12.2013
2014		161 496
2015	160 477	81 419
2016	80 331	
Total	240 808	242 915

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 2014 and 2013 was based:

	2014		2013	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	8 July 2014	8 July 2014	12 July 2013	12 July 2013
Expiration date	8 July 2015	8 July 2016	12 July 2014	12 July 2015
Closing share price on grant date	CHF 95.40	CHF 95.40	CHF 94.80	CHF 94.80
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 91.40	CHF 91.40	CHF 90.80	CHF 90.80

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

The personnel expense recorded in the 2014 income statement amounted to CHF 21 million (2013: CHF 19 million).

30. Related party transactions

a. Principal shareholders

On 31 December 2014, the Hayek Pool and its related companies, institutions and individuals held 63 169 930 registered shares and 1 650 bearer shares, equivalent to 40.8% of the shares issued (previous year: 40.8%) 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 40.3% of the shares issued (previous year: 40.4%).

Mrs. Esther Grether's group controlled 5.9% of the shares issued (previous year: 7.1%).

In 2014, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 9.6 million to the Swatch Group (previous year: CHF 10.2 million). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2014	2013
Audit, feasibility studies and process optimization	2.0	1.0
Executive functions	0.7	1.0
Project management in the construction sector	4.9	6.0
Support for projects in the materials and surface treatment technology sector	0.3	0.2
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.4	0.4
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.3	1.6
Total	9.6	10.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

b. Key management personnel

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

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

(CHF million)	2014	2013
Short-term employee benefits	27.7	28.8
– of which in salaries	9.0	9.1
– of which in bonus	18.1	19.0
– of which in expense allowances ¹⁾	0.5	0.6
– of which in other benefits	0.1	0.1
Share-based compensation	15.5	15.6
Contributions to pension plans	0.7	0.7
Other social benefits ²⁾	3.9	3.9
Total	47.8	49.0

¹⁾ In connection with the preparation of the compensation report, expense allowances specifically were integrated into the presentation of Key Management compensation retrospectively as of 2013.

²⁾ In connection with the preparation of the compensation report, other social benefits (employer's share) specifically were integrated into the presentation of Key Management compensation retrospectively as of 2013.

In the year under review, no termination benefits were paid to members of the Board of Directors, the Management Board or the Extended Management Board (previous year: none). The employment contracts of members of management bodies do not provide for this type of benefit. Also, no remuneration was paid to former members of management bodies for their previous functions.

c. Share ownership

At 31 December 2014, 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 56 571 025 registered shares and 790 bearer shares, representing 36.5% of the voting rights (previous year: 36.5%).

In addition, at 31 December 2014, all the non-executive members of the Board of Directors as well as the persons close to them held 2 010 bearer shares, representing 0.0% 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 2014 and 2013, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, at the end of both 2014 and 2013, no such loans were outstanding.

e. Associated companies and other related parties

The Group has transactions with associates, joint ventures and other related parties. A listing of the associated companies and joint ventures is included in the list of the Swatch Group companies (Note 32).

(CHF million)	2014		2013	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	12	1 044	8	1 119
Other related parties	0	0	0	0

At the end of 2014, receivables from associates amounted to CHF 254 million (2013: CHF 244 million), and payables to associates were less than CHF 1 million (2013: CHF 1 million). In addition, at the end of 2014 the Group held guarantees from associated companies in the amount of CHF 280 million (2013: CHF 243 million). At the end of 2014, the Group had granted no loans to associated companies (2013: none).

At the end of 2014 and 2013 there were no balances outstanding with other related parties.

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2014

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Europe					
Switzerland					
The Swatch Group SA, Neuchâtel	Holding	CHF 125.21			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
Asulab SA, La Tène	Research and development	CHF 0.10	100	●	▼
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	●	▼
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	●	▲
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	▶
Mido AG, Le Locle	Watches	CHF 1.20	100	●	▲
MOM le Prélet SA, Val-de-Ruz	Watch dials	CHF 0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	▲
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	▲
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Novi SA, Les Genevez	Assembly	CHF 0.14	100	●	▲
Omega Electronics AG, Bienne	Administration	CHF 1.50	100	●	▼
Omega SA, Bienne	Watches	CHF 50.00	100	●	▲
PHM Holding SA, Courtételle	Holding	CHF 0.10	100	●	▲
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	▲
Record Watch Co. SA, St-Imier	Administration	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	▶
René Clémence SA, La Chaux-de-Fonds	Watch-glasses	CHF 0.06	100	●	▲
Rubattel et Weyerermann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
Simon et Membrez SA, Delémont	Watch cases	CHF 0.10	100	●	▲
S.I. 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, Val-de-Ruz	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	●	▼
Terminoites SA, Basse-Allaine	Watch case polishing	CHF 0.10	60	●	▲
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100	●	▲
The Swatch Group Europa AG, Bienne	Distribution	CHF 29.65	100	●	▲
The Swatch Group Far East Distribution Ltd, Bienne	Distribution	CHF 0.10	100	●	▲
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80	●	▼
The Swatch Group Lab AG, Zürich	Services	CHF 0.60	100	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	▲
The Swatch Group Management Services SA, Bienne	Services	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	100	●	▼
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	▲
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	▲
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2014

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Germany					
Fördergesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR 0.03	100	●	◀
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	◀
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	▶
Swiss Prestige Uhren Handel GmbH, Eschborn	Retail	EUR 0.08	100	●	◀
The Swatch Group Customer Service (Europe) GmbH, 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 4.56	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 Holding, Paris	Retail	EUR 31.20	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 1.30	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 1.80	100	●	◀
Netherlands					
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR 3.45	100	●	◀
Poland					
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN 10.00	100	●	◀
Russia					
Swiss Watch Le Prestige OOO Russia, Moscow	Distribution	RUB 0.20	100	●	◀
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB 5 777.57	100	●	◀
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK 0.50	100	●	◀
Czech Republic					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK 0.30	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 46.00	100	●	◀

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

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32. The Swatch Group Companies – as at 31.12.2014

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Asia					
Bahrain					
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58	●	◀
Greater China					
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50	○	▶
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY 78.96	100	●	▶
Harry Winston (Hong Kong) Limited, Hong Kong	Retail	HKD 0.01	100	●	▶
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9	○	▶
Lanco Watches Ltd, Hong Kong	Administration	USD 0.07	100	●	▶
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	▶
Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai	Retail	CNY 30.00	50	●	▶
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	▶
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	▶
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 48.37	100	●	▶
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Art center	CNY 148.41	90	●	▶
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 99.69	100	●	▶
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution	CNY 7.12	90	●	▶
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Services	CNY 10.45	100	●	▶
The Swatch Group (China) Ltd, Shanghai	Distribution	CNY 14.88	100	●	▶
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution	HKD 5.00	100	●	▶
The Swatch Group (Taiwan) Ltd, 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	●	▶
Hour Choice L.L.C., Dubai	Retail	AED 3.00	58	●	▶
New Horizons General Trading L.L.C., Dubai	Retail	AED 0.30	29	○	▶
Rivoli Arcade L.L.C., Dubai	Retail	AED 0.30	58	●	▶
Rivoli Enterprises L.L.C., Dubai	Retail	AED 3.00	58	●	▶
Rivoli Group L.L.C., Dubai	Retail	AED 24.02	58	●	▶
Rivoli Investments L.L.C., Dubai	Holding	AED 0.30	58	●	▶
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 4 080.00	100	●	▶
Indonesia					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 4 682.17	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

32. The Swatch Group Companies – as at 31.12.2014

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 44.30	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	100	●	◀
SMH do Brasil Administração de Bens Ltda, São Paulo	Administration	BRL 27.60	100	●	▼
Canada					
H.W. Protection Inc., Toronto	Services	CAD 1.94	100	●	◀
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD 4.50	100	●	◀
United States					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	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	●	◀
Mexico					
Operadora y Comercializadora de Relojes y Joyería 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 income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 163 to 204), for the year ended 31 December 2014.

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 2014 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.

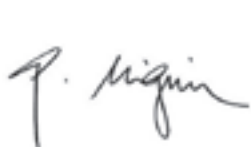
Report on other legal requirements

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, 20 February 2015

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INCOME STATEMENT OF THE HOLDING

	Notes	2014 CHF million	2013 CHF million
Income from investments in subsidiaries	(1)	1 135	1 636
Other income	(2)	5	416
Personnel expense		- 55	- 55
Other expenses		- 15	- 16
Depreciation and impairment	(3)	- 7	- 174
Financial expenses	(4)	- 21	- 12
Other financial income	(5)	33	114
Ordinary result		1 075	1 909
Non-operating result	(6)	0	0
Extraordinary result	(6)	0	0
Income before taxes		1 075	1 909
Income taxes		- 1	- 29
Net income		1 074	1 880

BALANCE SHEET OF THE HOLDING

Assets	Notes	31.12.2014		31.12.2013	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		193	3.2	95	1.8
Assets with an observable market price	(7, 10)	96	1.6	127	2.3
Other current receivables					
– from Group companies	(8)	2 220	36.2	1 641	30.3
– from third parties		53	0.9	49	0.9
Prepayments and accrued income		2	0.0	432	8.0
Total current assets		2 564	41.9	2 344	43.3
Non-current assets					
Loans to Group companies	(8)	440	7.2	5	0.1
Investments in subsidiaries and associates	(9)	3 113	50.8	3 056	56.4
Tangible assets		9	0.1	9	0.2
Intangible assets		1	0.0	1	0.0
Total non-current assets		3 563	58.1	3 071	56.7
Total assets		6 127	100.0	5 415	100.0

BALANCE SHEET OF THE HOLDING

Equity and liabilities	Notes	31.12.2014		31.12.2013	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(10)	32	0.5	11	0.2
Other current liabilities					
– to Group companies		51	0.8	49	0.9
– to third parties		6	0.1	4	0.1
Accrued expenses		20	0.3	46	0.8
Non-current liabilities					
Non-current provisions		90	1.5	90	1.7
Total liabilities		199	3.2	200	3.7
Equity					
Share capital		125	2.0	125	2.3
Statutory capital reserve		82	1.4	57	1.1
Statutory reserve		10	0.2	10	0.2
Voluntary reserve		4 860	79.3	3 336	61.6
– Profit brought forward		35		32	
– Net income for the year		1 074		1 880	
Available earnings		1 109	18.1	1 912	35.3
Treasury shares		– 258	– 4.2	– 225	– 4.2
Total equity	(11)	5 928	96.8	5 215	96.3
Total equity and liabilities		6 127	100.0	5 415	100.0

NOTES TO THE FINANCIAL STATEMENTS

General

The financial statements of The Swatch Group Ltd, with registered office in Neuchâtel comply with the requirements of the Swiss law for companies, the Swiss Code of Obligations (SCO). The 2014 financial statements were prepared for the first time in accordance with the Swiss Accounting Legislation (Title 32 of the Swiss Code of Obligations). To ensure comparability, prior-year balance sheet and income statement information was adjusted to the new classification requirements.

Valuation principles

Assets are valued at no more than their acquisition cost. Exceptions are current assets with market value, which are valued at the exchange rate or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built. Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity they are not usually combined as a group for valuation.

Until 2013 treasury shares reserved for the stock option plan, as well as repurchased treasury shares, were shown at lower of cost or market. As of 2014 treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves. Liabilities are valued at nominal value.

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)	2014	2013
Dividends	1 071	1 565
Other income from investments in subsidiaries	64	71
Total	1 135	1 636

This item includes dividends from Group companies and other income from investments in subsidiaries as well as management fees from Group companies.

2. Other income

In 2014, other income was CHF 5 million. In 2013, this position included in particular income from the successful outcome of the legal case against Tiffany & Co. USA.

3. Depreciation and impairment

Depreciation and impairment was CHF 7 million (previous year: CHF 174 million resulting from impairment charges on loans and investments in subsidiaries).

4. Financial expenses

In both 2014 and 2013, interest expense was less than CHF 1 million. The valuation of foreign currency hedging contracts taken out in favor of various Group companies resulted in a loss of CHF 17 million (2013: loss of CHF 5 million). The loss recorded on the marketable securities portfolio, including other financial expenses, amounted to CHF 4 million (2013: loss of CHF 7 million).

5. Other financial income

(CHF million)	2014	2013
Interest income	21	34
Income and gains on securities	12	80
Total	33	114

The company recorded capital gains of CHF 12 million on its investment portfolio (previous year: CHF 80 million, of which CHF 48 million from the sale of treasury shares). As of 2014 gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves.

6. Non-operating / extraordinary result

Both the non-operating and extraordinary results were less than CHF 1 million in the year under review (previous year: both less than CHF 1 million).

NOTES TO THE FINANCIAL STATEMENTS

7. Assets with an observable market price	(CHF million)	31.12.2014	31.12.2013
Marketable securities		86	102
Precious metals		8	20
Derivative financial instruments (see Note 10)		2	5
Total		96	127

The item "Precious metals" consists mainly of a strategic long position in gold. The position "treasury shares" has been reclassified into equity.

8. Receivables and loans This position mainly includes deposits of surplus cash with the Group-internal finance company in Luxembourg as well as financing of subsidiaries.

9. Investments in subsidiaries and associates The list of 171 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 50.8% of total assets at 31 December 2014 versus 56.4% at end-2013. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 113 million at end-2014. This amount corresponds to consolidated investments and investments in associates, and is CHF 57 million higher than in 2013.

10. Derivative financial instruments The following table shows the contract and replacement values of derivative financial instruments at 31 December 2014.

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	1 424	415	1 839	0	2	2	-28	-4	-32
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2014	1 424	415	1 839	0	2	2	-28	-4	-32
Total at 31.12.2013	1 118	392	1 510	0	5	5	-8	-3	-11

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2014 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2014 relate to 32 positions held in precious metals and in foreign currencies (previous year: 32). Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions. At 31 December 2014, there was no option outstanding (none in the previous year).

11. Equity Compared with end-2013, equity increased by CHF 713 million to CHF 5 928 million in 2014. In percentage of total assets the equity ratio increased to 96.8% at 31 December 2014 (versus 96.3% in the previous year).

The table below shows the changes in equity:

	Share capital	Statutory capital reserve	Statutory reserve	Voluntary reserve	Available earnings	Treasury shares	Total equity
(CHF million)							
Balance at 31.12.2013	125	57	10	3 336	1 912	- 225	5 215
Allocated in 2014				1 470	- 1 470		-
Dividend paid out					- 407		- 407
Sale/Repurchase treasury shares		25				- 33	- 8
Mergers				54			54
Net income for the year					1 074		1 074
Balance at 31.12.2014	125	82	10	4 860	1 109	- 258	5 928

NOTES TO THE FINANCIAL STATEMENTS

Share capital

At 31 December 2014, 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
31.12.2013	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2014	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

Principal shareholders at 31 December 2014

At 31 December 2014, the Hayek Pool, its related companies, institutions and individuals held 63 169 930 registered shares and 1 650 bearer shares, equivalent to 40.8% of the shares issued at this date (previous year: 40.8%). The Hayek Pool comprises the following members:

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

The companies, 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-2014 (previous year: 40.4%).

Mrs. Esther Grether's group controlled 5.9% of the shares issued (previous year: 7.1%).

At 31 December 2014, 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.

Statutory capital reserve / Statutory reserve

The general reserve was separated into the statutory capital reserve and statutory reserve. As of 2014, gains and losses from the sale of treasury shares, including transaction costs, are recorded directly in the statutory capital reserve. In addition, the statutory capital reserve includes the historical proceeds from the issuance of participation certificates in excess of nominal value and issuance costs (premium).

Voluntary reserve

In 2014, the company Look and Feel Ltd was merged into The Swatch Group Ltd. The merger profit of CHF 54 million was added to the voluntary reserve. The position "Reserve for treasury shares" in the amount of CHF 268 million was dissolved and transferred to the voluntary reserve. The position "Treasury shares" in the amount of CHF 225 million at the end of 2013 was transferred from assets with an observable market price to equity. Finally, CHF 1 470 million was appropriated from available earnings at 31 December 2013 and allocated to the voluntary reserve.

NOTES TO THE FINANCIAL STATEMENTS

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 14 May 2014, a dividend of CHF 1.50 per registered share and of CHF 7.50 per bearer share was appropriated from available earnings as at 31 December 2013. The total dividend amount paid to shareholders in 2014 came to CHF 186 million on the registered shares and CHF 231 million on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned AGM, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 10 million, thus constituted an integral part of equity at 31 December 2014. Finally, CHF 1 470 million was appropriated from available earnings at 31 December 2013 and allocated to the voluntary reserve.

Treasury shares

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2014 corresponded to 2.4% (versus 2.4% at end-2013) of the nominal value of total share capital. In addition to repurchased treasury shares, this position also includes registered treasury shares intended for the employee stock option plan.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed in 2014 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity ¹⁾	Quantity
The Swatch Group Ltd		
Balance at 31.12.2013	4 126 296	505 000
Acquisitions in 2014 ²⁾	385 000	164 000
Disposals in 2014 ³⁾	– 252 308	– 164 000
Balance at 31.12.2014	4 258 988	505 000
Other consolidated companies		
Balance at 31.12.2013	–	–
Acquisitions in 2014	–	–
Disposals in 2014	–	–
Balance at 31.12.2014	–	–
Total balance at 31.12.2014	4 258 988	505 000

¹⁾ of which at 31 December 2014 a total of 1 154 463 registered shares were reserved for the management stock option plan (1 396 771 registered shares in 2013).

²⁾ In 2014, the Group acquired 385 000 registered shares at an average price of CHF 86.28 each. The Group also acquired 164 000 bearer shares at an average price of CHF 448.63 each.

³⁾ In 2014, the Group sold 10 000 registered shares at an average price of CHF 87.95 each. The remaining disposals of registered shares relate to the employee stock option plan. Details of the share options granted in connection with the employee stock option plan are provided in Note 29. The Group also sold 164 000 bearer shares at an average price of CHF 466.11 each.

Off-balance-sheet items

Number of full-time equivalents

In 2014, the annual average number of full-time equivalents was 153 (2013: 154).

Leasing liabilities

The balance of liabilities arising from sale-like contracts and other leasing commitments which do not expire or cannot be cancelled within 12 months amounted to less than CHF 1 million at 31 December 2014 (previous year: less than CHF 1 million).

Liabilities to pension plans

The balance sheet as at end-2014 contained no liabilities to pension plans (previous year: less than CHF 1 million).

Assets pledged

None of the company's assets are pledged.

Guarantees

At end-2014, guarantees provided by The Swatch Group Ltd amounted to less than CHF 1 million (previous year: less than CHF 1 million). This item relates to a guarantee to cover a lease commitment taken out by one of the Group's companies (unchanged to 2013).

Contingent liabilities

There were no contingent liabilities at the end of 2014 (previous year: none).

NOTES TO THE FINANCIAL STATEMENTS

Swatch Group shares and options of the Board of Directors, Group Management and employees

Article 959c paragraph 2 item 11 of the Swiss Code of Obligations require disclosure of the number and value of shares and options granted to members of the Board of Directors and Group Management as well as to employees. This information is disclosed in Note 29 of the consolidated financial statements.

In addition, Article 663c paragraph 3 of the Swiss Code of Obligations require disclosure of shares and options held by members of the Board of Directors and Group Management, including closely related persons. The table below shows the corresponding holdings at 31 December 2014 and 2013:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2014	2013	2014	2013	2014	2013
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	88 208	68 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Esther Grether ¹⁾	BoD Member		10 868 000		114 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member						
Dr. Jean-Pierre Roth	BoD Member			10			
Georges Nicolas Hayek	BoD Member / CEO	77 991	56 491			24 000	24 000
Pierre-André Bühler	MB Member	17 366	12 866			8 002	7 502
Dr. Mougahed Darwish	MB Member	71 068	67 336			2 602	3 734
Marc A. Hayek	MB Member	93 398	80 898			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	38 252	30 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	50 668	40 668			12 000	12 000
Dr. Hanspeter Rentsch	MB Member / CLO	97 522	95 022	200	200	19 001	19 001
François Thiébaud	MB Member	93 123	84 623			12 502	12 502
Raynald Aeschlimann	EMB Member	9 867	6 033			4 001	3 835
Matthias Breschan	EMB Member	3 034	3 034			3 000	3 000
Jean-Claude Eggen	EMB Member	3 616	2 616			2 501	2 001
Yann Gamard	EMB Member		7 801			5 501	5 501
Hans-Rudolf Gottier	EMB Member	26 048	30 648			5 002	4 902
Walter von Känel	EMB Member	42 879	36 393	40	40	6 000	6 000
Thomas Meier	EMB Member	2 400	1 200			1 200	1 200
Calogero Polizzi	EMB Member	5 536	4 004			2 002	1 534
Kevin Rollenhagen	EMB Member	40 148	52 148			8 002	8 002
Dr. Peter Steiger	EMB Member	67 257	60 257			8 668	7 668
Stephen Urquhart	EMB Member	38 500	32 000			6 502	6 502
Total		56 571 025	67 344 642	2 800	116 790	170 992	169 390

¹⁾ BoD Member until May 2014.

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 of the consolidated financial statements. Except for the community of heirs of N. G. Hayek, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2014, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2013: community of heirs of N. G. Hayek and Mrs. E. Grether).

Management compensation details can be found in the separate compensation report.

Additional information, cash flow statement and management report

According to Article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the statement of cash flows and the management report are dispensed with, as the Swatch Group AG prepares the consolidated financial statements in accordance with a recognized financial reporting standard.

Events after the balance sheet date

These financial statements were approved for issue by the Board of Directors on 20 February 2015 and will be submitted to the Annual General Meeting of Shareholders for approval on 28 May 2015.

There were no other significant events after the balance sheet date.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to the Annual General Meeting that available earnings be appropriated as follows:

	2014	2013
	CHF	CHF
Net income for the year	1 074 510 104	1 880 341 359
Profit brought forward from previous year	34 681 336	31 731 285
Available earnings	1 109 191 440	1 912 072 644
Allocation to special reserve	- 670 000 000	- 1 470 000 000
Payment on share capital of CHF 125 210 250.00 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
Payment on share capital of CHF 125 210 250.00 ¹⁾ of a 2014 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⁾		9 976 191
Balance carried forward	21 823 940	34 681 335

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 14 May 2014, 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 214), for the year ended 31 December 2014.

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 2014 comply with Swiss law and the company's articles of incorporation.

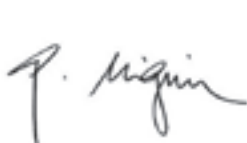
Report on other legal requirements

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, 20 February 2015

THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding/ Average share capital	Swiss GAAP FER			IFRS		
	2014	2013	2012	2011	2010	
	basic	basic	basic	basic	basic	
Number of registered shares of CHF 0.45	119 894 096	119 514 584	118 195 194	118 399 729	113 103 548	
Number of bearer shares of CHF 2.25	30 320 769	30 335 000	30 335 000	30 335 000	30 335 000	
Total average number of shares outstanding	150 214 865	149 849 584	148 530 194	148 734 729	143 438 548	
Share capital registered shares of CHF 0.45	53 952 343	53 781 563	53 187 838	53 279 878	50 896 597	
Share capital bearer shares of CHF 2.25	68 221 730	68 253 750	68 253 750	68 253 750	68 253 750	
Total average share capital	122 174 073	122 035 313	121 441 588	121 533 628	119 150 347	
Key data per registered share (nom CHF 0.45) in CHF						
Consolidated net income	5.10	7.08	5.91	4.70	4.05	
Cash flow from operating activities	6.81	4.83	3.70	2.61	5.11	
Consolidated shareholders' equity	39.32	35.30	31.77	29.82	26.77	
Dividend	1.50 ¹⁾	1.50	1.35	1.15	1.00	
Key data per bearer share (nom CHF 2.25) in CHF						
Consolidated net income	25.49	35.41	29.57	23.50	20.27	
Cash flow from operating activities	34.03	24.13	18.51	13.05	25.55	
Consolidated shareholders' equity	196.58	176.52	158.84	149.11	133.83	
Dividend	7.50 ¹⁾	7.50	6.75	5.75	5.00	
Stock price of registered shares (adjusted)	High	108.00	104.40	80.40	79.50	78.50
	Low	75.35	80.20	59.90	51.60	50.40
	31.12.	86.00	100.40	78.75	62.60	75.40
Stock price of bearer shares (adjusted)	High	597.00	606.50	471.70	443.70	434.80
	Low	417.10	473.00	341.70	288.50	262.20
	31.12.	444.20	589.50	461.20	351.50	416.80
Market capitalization (CHF million)	31.12.	24 367	30 634	23 992	18 605	22 207
Key ratios (year-end)						
Average return on equity	%	14.0	21.2	19.7	16.8	16.5
Dividend yield registered shares	%	1.7	1.5	1.7	1.8	1.6
Dividend yield bearer shares	%	1.7	1.3	1.5	1.6	1.5
Price/earnings ratio – registered shares		16.9	14.2	13.3	13.3	18.6
Price/earnings ratio – bearer shares		17.4	16.7	15.6	15.0	20.6

1) Board of Directors' proposal.

As of 2013, the consolidated financial statements have been prepared in accordance with Swiss GAAP FER. For comparison purposes, 2012 has been 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

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2014)

