

# ANNUAL 2017 REPORT



## THE EARTH, THE SUN, A YEAR

The Earth needs about 365.25 days to complete its gravity-assisted elliptical orbit of the sun. Of course, we generally round this number down and take care of that extra quarter day every four years. Typically, a day consists of 24 hours but we often record its two 12-hour halves. The 8760 hours in Swatch Group's 2017 were significant.

This is their story.

# CONTENTS

<b>MESSAGE FROM THE CHAIR</b>	2
<b>OPERATIONAL ORGANIZATION</b>	4
<b>ORGANIZATION AND DISTRIBUTION IN THE WORLD</b>	5
<b>ORGANS OF SWATCH GROUP</b>	6
BOARD OF DIRECTORS	6
EXECUTIVE GROUP MANAGEMENT BOARD	8
EXTENDED GROUP MANAGEMENT BOARD	9
<b>DEVELOPMENT OF SWATCH GROUP</b>	10
<b>ART &amp; PHILANTHROPY</b>	11
<b>BIG BRANDS</b>	19
WATCHES AND JEWELRY	20–84
RETAILING AND PRESENCE	85–90
<b>PRODUCTION</b>	91
<b>ELECTRONIC SYSTEMS</b>	101
<b>CORPORATE, BELENOS</b>	107
<b>SWATCH GROUP IN THE WORLD</b>	115
<b>GOVERNANCE</b>	141
ENVIRONMENTAL POLICY	142
SOCIAL POLICY	149
CORPORATE GOVERNANCE	152
<b>FINANCIAL STATEMENTS 2017</b>	165
CONSOLIDATED FINANCIAL STATEMENTS	166
FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD	216
<b>COMPENSATION REPORT 2017</b>	231



## PLEIADES

The Pleiades are an open star cluster in the constellation Taurus. They are part of the Milky Way and can be seen from Earth with the naked eye. Its name connects it not only to the nymphs in Greek mythology, but also to a group of sixteenth-century French poets.

Whether in the sky or in a book:  
the Pleiades have real radiance.



Swatch Group's Annual Report and Compensation Report are published in French, German and English. Pages 1 to 151 are originally published in French and pages 152 to 230, as well as the Compensation Report, in German. These original versions are binding.

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# MESSAGE FROM THE CHAIR

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

The black hole – the beginning or the end!!

Stars, galaxies, universes. Astronomy, the world's first time measurement system and connected with so many other sciences.

Who has never stared up at the starry sky on a clear summer's night and let their dreams run wild? Who has never made a wish upon a shooting star? Let's be honest: now and then, a little irrationality doesn't hurt. But only if we keep in mind that we forge our own destinies and remember that happiness does not fall from the sky. A small glimpse of this universe can be found in our Annual Report 2017! Along with a special Swatch, which again was made just for you, this time with the unique Swiss cow constellation in the Milky Way.

On a more serious note, Western philosophy has always revolved around this issue of destiny. Is the future determined in advance or not? Are human beings free or are they not? Philosophers have filled huge and challenging books on this topic, some of which tell us that we are free and that our fate is in our own hands, while others take the opposite view, proclaiming that we are not at all free and that everything is preordained. Some even combine the two approaches.

But now to the fate of Swatch Group in 2017. There were various elements that contributed to the success such as, of course, the work we do and the joy that it brings.

Work is what all those involved in our Group do on a daily basis, from the members of the Board of Directors to the senior management to the engineers, the sales force, the IT specialists, the marketing and PR teams, the financial and controlling professionals, all the way to the employees working in production at the various companies, and many more. I could go on but it would be impossible to list them all. A total of 35 400 people give their all every day to keep Swatch Group on the road to success.

Joy is what our teams experience when, for example, they create a new product. Consider the beauty of Harry Winston jewelry creations and the satisfaction of those who conceive, design and craft them. Think of the Breguet watchmakers who develop a masterpiece like the Marine Equation Marchante 5887; the creative talents at Swatch launching a new SKIN model; the employees at Omega who celebrated the 60th anniversary of the Speedmaster; or Blancpain's commitment to protecting millions of square meters of ocean and underwater life; the teams that give everything for our brands in different regions around the world. That is what work and joy is all about!

Nevertheless, we should not forget our motto: to embrace and preserve the fantasy that we had as six year olds, even though work and joy are the essential factors for our success.

What determines the time we measure using our products, if not our planet's movement around the sun, our nearest star? Products are sometimes acquired for their beauty, sometimes for their precision, and not unusually for the obsession to "correctly" measure the time the earth takes to complete a full revolution on its axis as well as to turn around the sun. Perpetual calendars, equation of time measurements, tourbillons, Co-Axial escapements: all are attempts to house within a tiny yet reliable mechanical movement something that faithfully matches the movements of the Earth. Several of our brands have a special affection for moon phase complications, but Blancpain is the unsurpassed master. Is the moon phase not a poetic means of carrying with us the romantic face of our somewhat mysterious natural satellite, which is believed to play a considerable yet largely unknown role in our lives? This Moon radiates a very special glow at Omega, whose watches were worn by the only 12 human beings who had the privilege of setting foot on its surface. It is also Omega that has paid tribute, through one of its most prestigious collections, to the constellations that are believed to influence our future from the time of our birth.

For me, there is not only the work, the joy, the success, and the figures, but also the pride I feel, as Chair of the Board of Directors of Swatch Group, to be able to report on a successful year in 2017 and to look forward to 2018. You see, I still have much of the fantasy of a six year old and am still looking to the sky for shooting stars upon which I can make my wishes!

Head in the clouds, definitely... but feet firmly on the ground!



Allow me to run through the 2017 results for a moment. In the breakdown of the year, I would like to highlight certain elements:

- Not only did the Watch & Jewelry segment (excluding Production) post 6.9% annual sales growth at the current exchange rates, the operating margin of this same segment grew by 27.4%.
- What is even more interesting in my opinion is the fact that growth reached 12.2% in the second half of the year and even 14.9% in the fourth quarter – an acceleration fully confirmed in December with the second-best monthly sales in the history of Swatch Group!

This gratifying news has likely long been written in the stars...

In 2017, our group achieved net sales of 7960 million Swiss francs, up 5.4% compared with the previous year and despite the negative effects of current exchange rates. The overall operating result improved by 24.5% to 1002 million Swiss francs, while the operating margin grew from 10.7% in the previous year to 12.6%. Consolidated net profit increased by 27.3% to 755 million Swiss francs, with a net margin of 9.5%, a significant improvement over the previous year (7.9%). Given these encouraging results, the Swatch Group Board of Directors' dividend proposal is CHF 7.50 per bearer share and CHF 1.50 per registered share, which marks a return to the level achieved in 2015, which was a highly successful year.

Dear Madam, Dear Sir, Dear Fellow Shareholders, for helping shape the destiny of our company and thus avoiding leaving it to the stars alone; for accepting the eclipses that make everything seem threateningly dark; and for remaining optimistic with regard to the famous black holes that could swallow up everything but are fortunately a long, long way off, you remain the living soul of our company. I wish to thank each and every one of you from the bottom of my heart. My sincere gratitude also goes to the Board of Directors, to the Executive Group Management Board and to the Extended Group Management Board, as well as to the 35400 colleagues for their unfailing commitment over the past year. Sincere thanks to all of you.

Yours,

**Nayla Hayek**

Chair of the Swatch Group Board of Directors



## TIME AND SPACE

Time flies: in 1996, the Swiss astronaut Claude Nicollier took this watch into space – proving that there are no limits for Swatch.

The same could be said for the Roman god Mercury. Not only did this “messenger of the gods” with the winged helmet bring the news, he was also the god of merchants. You might even think of him as the patron saint of annual reports.

SWATCH GROUP

# OPERATIONAL ORGANIZATION

as at December 31, 2017

## SWATCH GROUP BRANDS AND COMPANIES

### WATCHES

**Prestige and Luxury Range**  
Breguet  
Harry Winston  
Blancpain  
Glashütte Original  
Jaquet Droz  
Léon Hatot  
Omega

**High Range**  
Longines  
Rado  
Union Glashütte

**Middle Range**  
Tissot  
Balmain  
Certina  
Mido  
Hamilton  
Calvin Klein

**Basic Range**  
Swatch  
Flik Flak

### RETAILING

**Tourbillon**  
**Hour Passion**

### PRODUCTION

**Watches**  
ETA  
Meco  
CHH Microtechnique  
Nivarox-FAR  
Comadur  
Rubattel et Weyermann  
MOM Le Prélet  
Universo  
Manufacture Ruedin  
Lascor  
Simon Et Membrez  
Novi  
Swatch Group Assembly

**Jewelry**  
Dress Your Body (DYB)

### ELECTRONIC SYSTEMS

**EM Microelectronic**  
**Renata**  
**Micro Crystal**  
**Swiss Timing and ST Sportservice**

### CORPORATE

**Swatch Group Research and Development**  
(Asulab, Moebius, CDNP)

**Belenos Clean Power**

**ICB Ingénieurs Conseils en Brevets**

**Swatch Group Quality Management**

**Swatch Group Services**  
(European Distribution Center, Swatch Group Logistics, Swatch Group Information Technologies, Swatch Group Corporate Customer Service, Real Estate Development)

**Swatch Group Immeubles**

SWATCH GROUP

# ORGANIZATION AND DISTRIBUTION IN THE WORLD

as at December 31, 2017

## SWATCH GROUP SUBSIDIARIES

### EUROPE

Austria  
Belgium  
Denmark  
Finland  
France  
Germany  
Greece  
Italy  
Luxemburg  
The Netherlands  
Norway  
Poland  
Russia  
Spain  
Sweden  
Switzerland  
Turkey  
United Kingdom  
and Ireland

### AMERICAS

Brazil  
Canada  
Mexico  
USA,  
Caribbean and  
Latin America

### OCEANIA

Australia

### FAR EAST

China  
Hong Kong  
India  
Indonesia  
Japan  
Macau  
Malaysia  
Singapore  
South Korea  
Taiwan  
Thailand

### MIDDLE EAST

United  
Arab Emirates

### AFRICA

South Africa

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



### IS OUR FATE REALLY WRITTEN IN THE STARS?

Is everything preordained by these celestial bodies? Or is our destiny determined by the animals – mythical and otherwise – in the Chinese zodiac? If so, everything must have been perfectly aligned for Swatch Group in 2017. To tell the truth, we believe that our brands and employees are the true stars, and that we hold our fate in our own hands.



SWATCH GROUP

# BOARD OF DIRECTORS

as at March 1, 2018

Sagittarius



**NAYLA HAYEK**

Chair of the Board of Directors

Pisces



**Company Secretary**  
Jennifer Meyer-Kluge

**Auditors**  
PricewaterhouseCoopers  
St. Jakob-Strasse 25  
CH-4052 Basel

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**ERNST TANNER**  
Vice-Chairman



**DANIELA AESCHLIMANN**



**NICK HAYEK**



**PROF. DR. H.C. CLAUDE NICOLLIER**



**DR. JEAN-PIERRE ROTH**

The function descriptions and responsibilities of the Board of Directors members at December 31, 2017 are outlined in the Corporate Governance chapter on pages 155 and 156 of the present Annual Report.

SWATCH GROUP

# EXECUTIVE GROUP MANAGEMENT BOARD

as at March 1, 2018



Libra

**NICK HAYEK**

President of the Group Management Board



Capricorn

**FLORENCE  
OLLIVIER-LAMARQUE**

Cancer

**PIERRE-ANDRÉ BÜHLER**

Gemini

**DR. MOUGAHED DARWISH**

Pisces

**MARC A. HAYEK**

Taurus

**DR. THIERRY KENEL**

Taurus

**FRANÇOIS THIÉBAUD**

SWATCH GROUP

# EXTENDED GROUP MANAGEMENT BOARD

as at March 1, 2018

Gemini

**RAYNALD AESCHLIMANN**

Virgo

**MATTHIAS BRESCHAN**

Scorpio

**JEAN-CLAUDE EGGEN**

Cancer

**YANN GAMARD**

Pisces

**HANS RUDOLF GOTTIER**

Virgo

**WALTER VON KÄNEL**

Gemini

**THOMAS MEIER**

Sagittarius

**CALOGERO POLIZZI**

Aquarius

**KEVIN ROLLENHAGEN**

Libra

**DR. PETER STEIGER**

The function descriptions and responsibilities of the members of the Executive Group Management Board and of the Extended Group Management Board at December 31, 2017 are outlined in the Corporate Governance chapter on pages 158 to 160 of the present Annual Report.

## DEVELOPMENT OF SWATCH GROUP

<b>Swatch Group consolidated</b>		<b>2017</b>	2016	2015	2014	2013
<b>Net sales</b>	<b>CHF million</b>	<b>7 960</b>	7 553	8 451	8 709	8 456
– Change from previous year	%	<b>5.4</b>	– 10.6	– 3.0	3.0	8.5
<b>Operating result</b>	<b>CHF million</b>	<b>1 002</b>	805	1 451	1 752	2 314
– As a % of net sales	%	<b>12.6</b>	10.7	17.2	20.1	27.4
<b>Net income</b>	<b>CHF million</b>	<b>755</b>	593	1 119	1 416	1 928
– As a % of net sales	%	<b>9.5</b>	7.9	13.2	16.3	22.8
– Change from previous year	%	<b>27.3</b>	– 47.0	– 21.0	– 26.6	20.2
<b>Cash flow from operating activities</b>	<b>CHF million</b>	<b>1 264</b>	1 010	1 404	1 848	1 309
– As a % of net sales	%	<b>15.9</b>	13.4	16.6	21.2	15.5
<b>Equity</b>	<b>CHF million</b>	<b>11 289</b>	11 073	11 242	10 674	9 574
– As a % of balance sheet total	%	<b>83.8</b>	84.5	84.7	83.7	82.3
<b>Balance sheet total</b>	<b>CHF million</b>	<b>13 479</b>	13 106	13 270	12 747	11 639
Personnel as at 31.12.	Employees	<b>35 360</b>	35 705	36 313	35 623	33 590
Annual average	Employees	<b>35 057</b>	35 827	35 783	34 492	31 114
Personnel expense	CHF million	<b>2 339</b>	2 342	2 384	2 343	2 144

<b>The Swatch Group Ltd</b>		<b>2017</b>	2016	2015	2014	2013
Dividend income	CHF million	<b>848</b>	1 005	1 055	1 071	1 565
<b>Net income</b>	<b>CHF million</b>	<b>840</b>	992	1 028	1 074	1 880
Investments	CHF million	<b>3 475</b>	3 422	3 116	3 113	3 056
Share capital	CHF million	<b>125</b>	125	125	125	125
Equity	CHF million	<b>7 100</b>	6 808	6 541	5 928	5 215
– As a % of total assets	%	<b>96.7</b>	95.1	97.5	96.8	96.3
<b>Total assets</b>	<b>CHF million</b>	<b>7 343</b>	7 162	6 707	6 127	5 415
<b>Dividend</b> <sup>1)</sup>	<b>CHF million</b>	<b>417</b> <sup>2)</sup>	357	403	407	407
– As a % of share capital	%	<b>333.6</b>	285.6	322.4	325.6	325.6

<sup>1)</sup> No dividend paid on own shares held by the Group.

<sup>2)</sup> Proposal by the Board of Directors to the Annual General Meeting.

# ART & PHILANTHROPY



## THE MOON

We love this place. It's romantic and mysterious. It affects our sleep and, supposedly, our moods. And we understand its attraction: Omega was a regular visitor between 1969 and 1972 and some of our brands make watches that track its phases.

# ART & PHILANTHROPY

## SWATCH GROUP

Swatch Group takes a passionate and intense approach to social responsibility. The company, along with all its brands, is involved in numerous causes around the world, focusing more on concrete actions than on mere words.

### Breguet

Last year, Breguet – like Blancpain and Jaquet Droz – again took part in *Only Watch*, the major charity event on the watchmaking calendar. Loyal to the Monaco Association against Duchenne Muscular Dystrophy, which it has been supporting since 2005, the Manufacture donated a 39-millimeter yellow gold Classique model with an in-line perpetual calendar to the latest edition. This special one-of-a-kind model was exhibited at the Monaco Yacht Show from September 27th to 30th, before embarking on a world tour. The auction representing the culmination of each *Only Watch* project was held for the second straight year in Geneva, on Saturday November 11th, 2017.

### Harry Winston

Throughout the year, Harry Winston perpetuated its commitment to philanthropic causes through the Harry Winston Brilliant Futures™ charitable program. In the United States, Harry Winston supported, among other actions, various grassroots organizations based near its Salons, including notably the Harlem Academy, Americares, Voices For Children, Mattel Children's Hospital UCLA and CHOC Children's Hospital. In Japan, the Harry Winston brand entered its fourth year of partnership with Chance for Children. Globally, 2017 marked the third year of Harry Winston's association with amfAR, the Foundation for AIDS Research. Last year, Harry Winston's support to Americares contributed to providing essential assistance following the two destructive hurricanes that devastated Texas and Florida. The Americares aid and development organization brings assistance to people who are victims of poverty or natural disasters, through vital change-inducing health programs, as well as treatment and medical supplies. In Texas and Florida, Americares did its utmost to respond to the most urgent medical needs by providing treatment and medical supplies to survivors, as well as re-establishing health services for the most vulnerable.

### Blancpain

As part of its Blancpain Ocean Commitment program, the Manufacture continued its multiple initiatives dedicated to exploring and safeguarding the oceans. To date, the brand's efforts have led to tangible results, including the doubling of the surface area of marine protected areas. Blancpain has contributed to the creation of nearly five million square kilometers of marine nature reserves, covering a total global surface area that is now approaching ten million square kilometers. Within the framework of the *Gombessa* expeditions, Blancpain was proud to continue supporting a fourth major scientific project conducted by Laurent Ballesta and his team in French Polynesia.

### Glashütte Original

For its seventh year of partnership with the Berlin International Film Festival, Glashütte Original reinforced its commitment by serving as principal sponsor for the first time. In addition, it also presented its first ever *Glashütte Original Documentary Award*, which was won by the film called *Istiyad Ashbah (Ghost Hunting)*.





### Jaquet Droz

Jaquet Droz makes a point of honor of safeguarding and highlighting the watchmaking heritage of the Neuchâtel region. Ongoing restoration work on the Pierre Jaquet-Droz songbird clock has brought to light new elements regarding its origin and its history. In due course, the aim is to restore it as faithfully as possible to its original condition. Like the brand's contemporary creations, this miracle of mechanical precision and ornamental virtuosity illustrates the spirit that has always inspired the men and women working for Jaquet Droz: a love of fine craftsmanship that enchants time. The restoration project will be completed in 2018 on the occasion of the 280th anniversary of the brand.

### Omega

In October, for World Sight Day, Omega had the pleasure of introducing a new watch in its collection, intended to support its partner Orbis International: an Omega Speedmaster 38 mm "Orbis" model specially created for the occasion. Since 2011, Orbis International and Omega have been working together to provide high-quality ophthalmological treatment in the world's most remote areas. Aboard its Flying Eye Hospital, Orbis International has launched a health program that now spans more than 90 countries. The organization, which has performed millions of ocular treatments and medical procedures, is also committed to training new ophthalmology professionals. As part of its partnership with Orbis International, Omega has committed itself to giving an adorable teddy bear to each of the association's young patients. This comforting gift inspired the corresponding motif stamped on the back of the Speedmaster 38 mm "Orbis", as well as the unique shape of the counterweight extending the blue central seconds hand. To continue supporting this noble cause, Omega donates part of the revenue from the sale of the watch to Orbis International. In buying this watch, customers can help the association transform lives around the world.

### Longines

Longines has a longstanding tradition of support for charitable causes. The brand's fundamental values of excellence and elegance have always led it to pursue and promote the highest social ideals. This is why Longines supports a number of charitable causes through the

partnerships it has established over the years. The brand with the winged hourglass is proud and honored to cooperate with the charitable associations of the Longines Ambassadors of Elegance, including the Golden Hat Foundation founded by Kate Winslet, the Andre Agassi Foundation for Education, and Stefanie Graf's Children for Tomorrow Foundation. Moreover, as part of its longstanding involvement in the world of sport, Longines also works alongside its partners in solidarity operations on behalf of numerous organizations, including Sur les Bancs de l'Ecole, Just World International and the Injured Jockeys Fund. In 2017, Longines organized a media visit to the new school inaugurated by Andre Agassi. It also launched a special watch in cooperation with Kate Winslet, the profits of which are donated to her foundation.

### Rado

In November, the Vaud-based start-up Sterilux won the *Rado Star Prize Switzerland for Young Talents*. The specialized medical technology company is commercializing a new sterilization method that is affordable and can be used even in difficult conditions, such as a power cuts or impure water. The system uses UV radiation and ozone for sterilization. This is an innovation with global potential, combining new technologies and design. Right from the start of its development, scientists and designers worked hand in hand. The jury was also impressed by the simplicity and practicality of the design.

### Certina

Certina started a new cooperative endeavor with the Florida-based Sea Turtle Conservancy and its *Tour de Turtles* migration project. The association's conservation, awareness-raising and educational programs in the United States and abroad, along with its ecological objectives, are entirely in tune with Certina's longstanding values and its signature turtle logo. This image has been featured on a number of Certina watchcases, dating from the 1960s and testifying to the precision and the durability of the brand's famous DS concept launched in 1959. As part of this commitment, Certina took part in the *Tour de Turtles* initiated by the organization. For three months, over a dozen sea turtles were followed on their migratory route.











### Mido

Since 2008, Mido has been pursuing its commitment to children in need. In 2017, the brand donated a new library to a primary school in the Chinese town of Zhangjiajie, to the delight of the young pupils. In addition, Mido intensified its partnership with the International Union of Architects (UIA) in jointly creating a new award, the *UNESCO-UIA & MIDO Student Design Prize for Responsible Architecture*. Open to architecture students, this contest aims to support humanistic and ecologically-driven projects. The two first-prize-winning students, Heby El Sawy of Egypt and Alba Alsina Maquedar from Spain, were presented with their awards in September during the 26th triennial UIA congress held in Seoul.



### Hamilton

The 2017 edition of the *Hamilton Behind the Camera Awards*, created in tribute to the incredible work of the men and women who work behind the scenes in the world of film-making, took place in Shanghai in November. It is indeed to the talent and hard work of the many people in the background that we owe the splendid costumes, fabulous sets, and the indispensable accessories as well as the brilliant camera work – all of which are essential to the success of a cinematographic production. In recognition of their enormous talent, Hamilton was proud to be able to honor these heroes working in the shadows of the film industry. Famous Chinese actors and actresses, including Qianyuan Wang, Xuan Huang, Haoran Liu, William Feng and Shanshan Yuan, attended the ceremony held at the Theater Above.

### Swatch

Swatch continued to support artistic creations in various forms, notably through its artists' residence in Shanghai, the famous Swatch Art Peace Hotel. This breeding ground for creativity pursued its partnership with the Power Station of Art, an official local contemporary art institute. Often described as "wrist paintings", Swatch models were on display at the end of the year in a prestigious museum. In its *Items: Is Fashion Modern?* exhibition, the New York Museum of Modern Art explored the past, present and future of 111 fashion items that have profoundly influenced the world over the past century. Running from October 1st, 2016 to January 28th, 2018, the exhibition notably featured ballet slippers, an engagement ring, a sweatshirt and several little black dresses, as well as five watches created by Swatch, including three designed in cooperation with artists.



# BIG BRANDS

WATCHES AND JEWELRY  
RETAILING AND PRESENCE



**IN A GALAXY  
NOT SO FAR AWAY...**

Our big brands are home to talented men and women who have mastered the dimensions of time and space – and always with maximum precision. They are at the very heart of the Swatch Group galaxy.



\* March 1st, 1983  
Pisces

swatch<sup>®</sup>+

# I LOVE MY SWATCH



## TRENDS

The world of fashion and accessories is going through a very dynamic moment, with new talents rising and changing the perspective of what fashion means. There are vintage waves, with a sense of playful nostalgia for the hyper-extroverted '80s looks; there is a sense of freedom and creativity to interpret one's own style, which generates positive energy and colorful seasons; there is the counter-balanced wish for a classic look, with proportions going back to reassuring and traditionally elegant looks. The beauty of the moment we are experiencing is that these and more directions coexist and contribute to create a sense of playful, energetic and enthralling diversity, as well as a challenge to explore and experiment.

Swatch, in its role as "established provocateur", is embracing the moment and continues to offer a panoply of styles addressing customers' needs and wishes all over the world, in its stores as well as on the web.

Another very visible and important phenomenon is the importance of art as a language of commerce. Simply unimaginable a few years ago, Swatch was able to anticipate and develop this in a unique and unequalled way: as a brand it lives with art, it looks to art for inspiration, it supports the arts and it sells art on the wrist.

## CREATION

While the Spring Summer and Fall Winter collections continued to explore the many languages of contemporary culture and fashion, 2017 was the year of SKIN. With its typical attitude of positive provocation, Swatch was able to establish worldwide success by introducing full blast a new interpretation of the iconic Swatch SKIN: two sizes, addressing a more classic and a more extroverted audience, a double-injection production process allowing the development of a new and signature design language, new details in the construction enabling more and more opportunities to design and develop the product in the

### FAST FORWARD

Whether the infinite vastness of the universe or the limitless possibilities of the Internet: Sometimes it's worth being ahead of our time. In 1998, under the leadership of Nicolas G. Hayek, Swatch launched Swatch Beat internet time, and only a year later, sent its own Beatnik satellite into orbit. No question: Swatch Group has helped define the future.

future as well, and a very strong coordinated marketing campaign embracing social media, the arts, traditional advertising and a strong PR concept.

In the world of the exclusive Swatch SISTEM51, the introduction of more SISTEM51 Irony models with a skeletonized dial strengthened the position of this product as a real watch-lover's passion. A collaboration with the renowned watch website Hodinkee gave birth to a limited edition presented in New York to great acclaim.

The presence of Swatch as the main partner of Biennale Arte 2017 generated an impressive collaboration with UK artist Ian Davenport: a 14-meter-long wall of colors, *Giardini Colourfall*, installed in the center of the Giardini venue (impressively Swatch and very colorful), along with a limited-edition Swatch Art Special, which sold out in less than three weeks!

Swatch is a truly global brand: around the world, collectors and travelers enjoy the new designs in the Destination Swatch collection; and in Milan, during the Salone del Mobile, the Thammada pattern of Paola Navone's Swatch Special happily and peacefully invaded walls, wrists and furniture.



#YOURMOVE

swatch<sup>+</sup>  
SWISS MADE







## PRESENCE

### RETAIL & SALES

Strategic store openings in Bürgenstock Resort (LU) in Switzerland and in Venice, Italy, as well as the renovations at Japan's Nicolas G. Hayek Center Tokyo (Ginza) and in Wangfujing in China, exemplified the brand's ongoing reinforcement of retail. An impressive roadshow took SISTEM51 Irony and Original models to 15 destinations in China. The March launch of the new SKIN exceeded expectations and led to new bestsellers. Innovation continued with the second generation of SWATCH PAY! contactless payment in four new models in all Chinese stores. Signature Swatch creativity was evident in collections such as A Traveler's Dream and Countryside, with bestsellers Ora d'Aria and Merry Berry, and in winter's A Gala Night collection. The year's key provocation remained secret until the June launch of Swatch X You, which brought excellent sales and great customer satisfaction.

### SWATCH E-COMMERCE AND MARKETPLACE EXPANSION IN 2017

Online sales continued to grow in 2017 with efforts to improve online presence coupled with expansion to China, Singapore and Russia and direct sales through distributors in Portugal and Saudi Arabia. Swatch consolidated direct distribution through strong marketplaces like Tmall (China) and Rakuten (Japan) and pure online retailers like Zalando, tapping into considerable upside potential. Strategic initiatives are underway to merge the various on- and offline channels and move closer to Omnichannel, a key objective for 2018. Steps taken in this direction include efforts to drive customers to stores by allowing them to reserve a watch online and purchase it in a store. The physical and the digital are merging as customers bring their digital devices into Swatch stores. In Milan, for example, customers can have a watch delivered within four hours of buying it online, or can pick it up from a store at their convenience. In some cities the brand deployed its Swatch X You digital configurator arcade to draw customers to the new line of customer-assembled Swatch watches. Initiatives such as these are the beginning of the limitless new world of retail experience known as Omnichannel.

## AROUND THE WORLD

2017 saw the international launch in London of the key Swatch collection SKIN in the presence of more than 300 core media and influencers. Following this March debut, promotional activities and diverse communication initiatives across an increasingly broad range of online and offline channels brought SKIN and Swatch X You closer to customers in all Swatch markets. Store openings, renovations and retail partnerships continued to strengthen distribution worldwide.

### SWATCH & ART

#### Biennale Arte 2017

Swatch returned as main partner of the Biennale Arte for the fourth consecutive edition. Taking up the Swatch Faces theme, Swatch presented work by four resident artists from the Swatch Art Peace Hotel at its pavilion in the Arsenale and a monumental installation in the Giardini location by renowned British painter Ian Davenport.

#### Festival del film Locarno

Official partner of the Locarno Film Festival in Switzerland, Swatch was a highly visible presence with two major prizes: the 15000 Swiss franc *Swatch First Feature Award* and the invaluable *Swatch Art Peace Hotel Award*, a stay for the winning filmmaker at the Swatch Art Peace Hotel. The official Pardo limited edition Swatch quickly sold out as the Festival celebrated its successful 70th edition.

#### Swatch Art Peace Hotel

The brand's renowned artist residency continued to host artists from diverse disciplines and countries. At a press conference at the Hotel in July the winners of the 2017 *Emerging Curators Project* were announced. Each was awarded the opportunity to curate an exhibition in Shanghai, two at the Power Station of Art and the third at the Swatch Art Peace Hotel. In November, former artist-in-residence Anita Gratzner premiered *Traces of the Visible* in the Hotel exhibition space. Among the works on display were some forty large-scale analogue photographs produced in Japan and Shanghai.

## ADVERTISING

### SKIN

The major focus of the year was on the new SKIN, with a massive 360° offline, online and TV campaign under the tagline #YOURMOVE, highlighting motion, flexibility and action. A story of transformation, #YOURMOVE takes SKIN into new territory. Inspired by dreams, ideas and opportunities, it is a tale of freedom, exposing life's pivotal moments when individuals allow themselves to embrace emotion, create change and dance with the unknown. With SKIN, self-expression is king – it is the power to connect with confidence and live life by one's own rules.

### #MySwatch

As an always-on campaign to cover the Spring Summer and Fall Winter collections, Swatch activated the new tagline, #MySwatch, using emojis as a universal language with strong impact on millennials and appeal to all brand target groups. A call to action, #MySwatch encourages customers to express themselves using Swatch collections and social media channels – especially relevant for the Instagram and Snapchat generation. The campaign featured models proud to be unique: free, joyful, without fear of judgment.

### SWATCH PAY!

The coolest way to pay! Swatch created an educational video to explain and promote SWATCH PAY! contactless payment watches launched in China this year.

### Swatch X You

*Design your own, own your design:* Swatch introduced Swatch X You, enabling customers to create their own signature Swatch in five easy steps, online or in-store. Use of pre-designed watch heads, straps, loops and pins makes watchmaking a snap: the perfect gift and great for sharing via #swatchXme on social media. The spirit of customization was transmitted through an original ad campaign animating watches as part of a pop-out-model kit offered to children. The concept highlighted the product's custom DIY elements through four archetypal themes: The Surfer connects the creative Swatch X You process with the freedom of summer. The Illustrator sees design as a lifestyle: from markers to mustaches, the image inspires freedom of expression. The Gamer blends an old-school TV, floppy disk and video game controller into the Swatch X You concept. All three themes employ non-gender-specific visuals. The feminine K-POP teen theme, inspired by South Korea's famous female pop groups, links diversity of choice (ice cream, lollipops) with the Swatch X You concept.

### Digital & Social Media

The brand developed its Influencer strategy with a focus on SKIN and Swatch X You. More than 600 influencers were activated worldwide around Swatch campaigns, with different strategic approaches: fashion for SKIN, creative and arty for Swatch X You! The digital marketing team engaged the brand further in a content strategy, creating specific assets to fulfill needs of Swatch websites or those of retailers and marketplaces. To enrich the visual environment, lifestyle visuals were mixed with key campaign visuals on different channels: official e-commerce websites and swatch.com, social media and newsletters.

Swatch also offered customers an online "look book" for every season, highlighting lifestyle pictures with models wearing Swatch products. The year's last move was about learning from campaigns in order to improve customer experience from one campaign to the next. A special tool made it possible to monitor the impact of SoMe initiatives and created a close connection with local customers.

### SWATCH CLUB & CRM

Swatch's CRM strategy aims to build client relationships, loyalty and brand value. China launched the new loyalty program and CRM system in six cities. The system integrates WeChat, a CRM website, POS and a marketing automation tool to give customers a unique brand experience. Based on the Chinese pilot, Swatch is now ready to roll out the project worldwide.

2017 Club events included two with Ed Banger as well as two for Gold & Pioneer members: one in Geneva and the Holiday / Xmas event held, for the first time, in Moscow. Swatch Club achieved 25% growth, reaching 265 000 members worldwide.

### SPORT

Following a first collaboration Swatch announced a long-term partnership with The Drone Racing League to support a new world of sport with a mix between the physical and digital world. The brand extended its support for beach volleyball as title sponsor of the Swatch Beach Volleyball Major Series. Swatch Proteam athletes Clemens Doppler and Alex Horst took the silver medal at the FIVB Beach Volleyball World Championship in Vienna. Switzerland's Beach Volley superstars Joana Heidrich and Anouk Vergé-Dépré formed a new team and soon posted very positive results in competition and for the brand. Swatch was back in Trestles, California for women's surfing at the Swatch Pro competition. Two new athletes joined the Swatch Proteam, surfer Tia Blanco and freestyle skier Nico Vuignier.





\* 1848

Year of the Monkey

# LOOKING BACK – AND FORWARD

## TRENDS

In 2017, Omega celebrated its legendary heritage while paving the way for an exciting future. This seamless combination of old and new proved yet again that the brand is full of history, but with a very forward-thinking spirit.

Omega celebrated the Speedmaster's 60th anniversary with George Clooney and Buzz Aldrin at an event in London where three new Speedmaster collections were launched, including the "Speedy Tuesday" Limited Edition, the Speedmaster 38 mm and the Racing Master Chronometer.

Omega's history of women's watchmaking was honored at the opening of the *Her Time* exhibition in Paris. Cindy Crawford's children, Kaia and Presley, were introduced as the brand's newest ambassadors, representing the next generation of watch wearers.

Other highlights included Omega's continuing support of Emirates Team New Zealand, which won the 35th America's Cup in Bermuda, and of Team TILT in the Red Bull Youth America's Cup, as well as its new time-keeping duties in the Volvo Ocean Race.

Omega's Olympic Games legacy was extended until at least 2032, which will mark 100 years as Official Timekeeper. The brand also opened its newest production manufacture at its HQ site in Biel/Bienne (BE), creating a strong foundation for the future of watchmaking.

## CREATION

### The Speedmaster "Speedy Tuesday" Limited Edition

To start the year, Omega offered online sales for the very first time. This was exclusively for the Speedmaster "Speedy Tuesday" Limited Edition, a heritage-inspired watch that paid tribute to the online community of Speedmaster's fans. Marketed only through Instagram, all 2012 models were sold out in 4 hours, 15 minutes and 43 seconds, making it a resounding success.

### The Speedmaster Racing Master Chronometer

The design of this watch reintroduced the distinctive racing minute-track that first appeared on a Speedmaster dial in 1968. This tribute to the Speedmaster's motoring heritage included a sublime Master Chronometer movement and advanced materials such as ceramic, rubber and Ceragold™.

### The Speedmaster 38 mm

A new 38 mm collection was introduced into the Speedmaster family in 2017. The models were distinguished by their oval subdials and unique dual bezel design, which often included a ring of diamonds as well as the famous tachymeter scale. The watches retained the true Speedmaster essence, but the refreshed design gave them a pure and simple touch. Different colors, including the popular Cappuccino, offered a diverse selection.

### The Seamaster Aqua Terra

The Aqua Terra collection was given a complete makeover in 2017, with new models, including many Master Chronometers, created for men and women. Features introduced in the redesign included newly integrated bracelets, symmetrical cases, conical crowns and simplified dials. The teak pattern on the dial was changed to run horizontally, as opposed to vertically, giving the watches a brand new look.

## SPEEDY IN SPACE

NASA famously put out a call for a mechanical chronograph that could survive a brutal battery of tests. Only one watch survived the challenge: the Omega Speedmaster. And this chronograph has been part of every NASA piloted mission since March of 1965, including all six lunar landings.







### The 1957 “Trilogy” Limited Editions

Omega released three professional timepieces in 1957 that became absolute classics: the Seamaster 300, the Railmaster and the Speedmaster. In 2017, Omega paid tribute to these mechanical masterpieces with its 60th Anniversary editions of each model, which could be acquired separately or as a beautifully presented trio.

### The Seamaster Planet Ocean “Big Blue”

Inspired by the success of 2016’s Planet Ocean “Deep Black”, Omega introduced the “Big Blue” in 2017, which was created in the Planet Ocean colors of blue and orange. Complementing the blue ceramic case and dial was a blue ceramic bezel with orange rubber covering the first 15 minutes.

### The Seamaster “Edizione Venezia”

Venice has a special connection with Omega, as the city’s gondolas inspired the brand’s famous Seahorse logo. To pay tribute to that story, Omega released the Seamaster “Edizione Venezia” in 2017. Features include a domed opaline-silvery dial influenced by the striking vaulted ceiling effects of Venetian architecture.



## PRESENCE

### SPORT

#### The America’s Cup

As a proud sponsor and Official Timekeeper for Emirates Team New Zealand, Omega celebrated the team’s victory at this year’s America’s Cup in Bermuda and equipped the crew with specially-made Speedmaster X-33 Regatta ETNZ watches. Omega was also in Bermuda in partnership with Team TILT, a group of young Swiss sailors competing in the Red Bull Youth America’s Cup.

#### The Volvo Ocean Race

The Volvo Ocean Race is the world’s toughest and longest offshore race, testing sailing prowess and human endeavor to their absolute limits. This year, Omega joined the excitement, positioning itself as the event’s Official Timekeeper for the 2017–2018 race. Starting in October 2017 and finishing in June 2018, Omega will time all eleven legs and in-port races during the 45 000 nautical mile journey across four oceans.

#### The Olympic Games

Omega’s passion for the Olympic Games was clearly evident in 2017. In May, it extended its contract as Official Timekeeper until 2032, meaning that Omega will be able to mark 100 years of Olympic timekeeping duties, having timed its first in Los Angeles in 1932. Omega was also in Seoul to mark the one-year countdown to the PyeongChang 2018 Olympic Winter Games.

#### The PGA Championship

One of golf’s four Majors, the 2017 PGA Championship was played at Quail Hollow Club, Charlotte, USA. Omega returned as Official Timekeeper and warmed up with a special round of golf with ambassadors Rory McIlroy and Sergio Garcia, who played in astronaut suits to honor the 60th anniversary of the Speedmaster.



## OTHER SPORTS

Other international sporting events included timekeeping at the 17th FINA World Championship and the IAAF Diamond League, as well as title sponsorship of key tournaments on the global golfing calendar: the Dubai Ladies' Masters, the Dubai Desert Classic, and the European Masters at Crans Montana, which included the inaugural Omega Celebrity Masters, won by Michael Phelps and Michelle Monaghan.

## LIFESTYLE

### *The Speedmaster Events*

Surrounded by a universe of light and sound, Omega began the 60th anniversary celebrations of its iconic Speedmaster with a "Lost in Space" event in London. Hosted at the Tate London, Guests of honor George Clooney and Buzz Aldrin helped bring the Speedmaster's space legacy to life, as did a display of 60 historic Speedmasters. More than 20 other similarly-themed celebrations took place in Omega markets around the world, connecting with fans everywhere.

### **The new Boutique in Monaco**

In May, Omega opened a new boutique at the Casino de Monte-Carlo in Monaco and the occasion was celebrated with an evening event attended by His Serene Highness Prince Albert II of Monaco and actress Naomi Harris. The location had special significance, as this is where James Bond was first seen wearing an Omega watch in *GoldenEye* in 1995.

### **The Commander's Event**

At an event with EON Productions at the Tate Britain in London with Bond film producer Michael G. Wilson, Omega unveiled the Seamaster Diver 300M "Commander's Watch" Limited Edition, a time-piece celebrating the rank and regalia of James Bond. While the watch was the star of the show, the event also included many pieces of Bond memorabilia, making it a truly spy-inspired night.

### **The "Her Time" Exhibition – And New Ambassadors**

Cindy Crawford was in Sydney earlier in the year to help open Omega's *Her Time* exhibition, celebrating more than 100 years of exquisite women's watchmaking. In September, Cindy helped open the exhibition again, this time in Paris at the historic Hotel de Sully. She was joined by her family, including children Kaia and Presley Gerber, who were announced as Omega's newest brand ambassadors. To mark the moment, Omega unveiled a stunning family portrait taken by photographer Peter Lindbergh.

### **The Aqua Terra Events**

Two events celebrated the launch of the new Seamaster Aqua Terra collection. The first took place at the Palazzo Pisani Moretta in Venice, with Eddie Redmayne as the special guest. He was there to introduce the Aqua Terra Gent's Collection, which was perfectly at home in the floating city. A few weeks later, Alessandra Ambrosio joined Omega to celebrate the women's Aqua Terra event in Miami. The intimate gathering was held beneath the palm trees on Hibiscus Island.

### **The New Factory Opening**

Omega opened its newest production building at its HQ site in November. Designed by award-winning architect Shigeru Ban, the factory is an eco-friendly masterpiece, built with sustainable Swiss wood and an ingenious indoor climate and energy concept. Inside, technical innovation and human expertise combine for a fully modernized and efficient manufacturing process. The building is a major achievement for Omega, which first arrived on the site in 1882.

### **The Planet Omega Exhibition**

The *Planet Omega* exhibition continued touring in 2017, and was presented in Jakarta and Macau. Projected onto large installations, it highlights the diverse heritage and activities of the brand including Watchmaking, Master Chronometer Innovation, Sporting Spirit, Ladies' Watches, Going to Space, James Bond, and Social Engagement.

### **The Speedmaster Exhibitions**

As part of the Speedmaster's 60th anniversary celebrations, many Omega markets around the world hosted a unique *Speedmaster Exhibition*, whose story arc took visitors on a journey through the iconic chronograph's 60-year history in racing, the skies, space, and exploration.



#### **UNDER A LUCKY STAR**

The observatory on the caseback of the very first Omega Constellation recalls the Geneva Observatory where the chronometer trials of 1931 took place. Eight stars represent the chronometric records Omega broke at those trials. The brand couldn't have imagined how closely it would be linked to space exploration in a few years' time.







## SOCIAL ENGAGEMENT

### Orbis International

Omega continued its support of Orbis International with a dedicated Speedmaster 38 mm "Orbis" watch. The timepiece, with its blue dial, was inspired by the teddy bear given to young patients who are treated aboard Orbis International's Flying Eye Hospital. A portion of sales from the various models is given directly to Orbis International. To celebrate World Sight Day in October, Omega released a photograph across its social media channels featuring new brand ambassador, Presley Gerber, who was holding the Orbis International teddy bear and wearing the new Speedmaster model.

## OTHER MARKETING

### Omega Lifetime

In 2017, *Omega Lifetime*, the brand's lifestyle magazine, was again published with the Magnetism edition.

### Omega Online

2017 began with the successful Speedy Tuesday campaign, offering fans the chance to buy an Omega watch online for the first time. [omegawatches.com](http://omegawatches.com) saw another increase in traffic, largely from China and the USA. The website is now fully responsive with improved usability and a new customer service section, benefitting the more-than-70% of visitors who now connect via mobile phone or tablets. In November, Omega launched e-commerce for the first time, exclusively offering online sales of all collections for customers in the USA.

Omega's presence on social media increased thanks to engaging lifestyle content, live event coverage and major international campaigns. It was also boosted by more sponsored campaigns both internationally and locally, more influencer engagement, and several new ad formats including Canvas and Story. Omega's Instagram channel is already fast approaching 1.5 million followers. A new LINE account was opened and both Pinterest and LinkedIn are due to follow soon.

### Advertising and Promotion

This year's advertising campaigns included a photoshoot and film with George Clooney to promote the Speedmaster 60th Anniversary campaign. With Buzz Aldrin, George also starred in the six-minute *Starmen* documentary in which they shared their moon landing memories with each other. This campaign was complemented by a print release for the new Speedmaster 38 mm collection, which used powder as a captivating backdrop. There was also a full 360° communication surrounding the launch of the new Aqua Terra watches for men and women, featuring Eddie Redmayne and Alessandra Ambrosio in the ocean-inspired campaign. Towards the end of the year, Omega also launched a unique boutique decoration concept for its celebration of Christmas.

## FINE JEWELLERY

The highlight in Omega Fine Jewellery was the Ladymatic Collection, where many of the iconic Ladymatic design features were beautifully adapted into a range of rings and pendants. Like the rest of the brand's jewelry pieces, they perfectly reflect the brand's luxurious universe.





\* August 28th, 1775  
Virgo



# WATCHMAKER TO THE ROYAL NAVY

## TRENDS

Breguet enjoyed a particularly positive year 2017. The House approached Baselworld in an optimistic mood and decidedly on top of its game. The prestigious annual watch industry event saw the release of the new flagship Marine Equation Marchante 5887 model. This Grande Complication watch heralded the renewal of the reworking of the Marine line, which now features new aesthetic codes. To back this launch, Breguet developed a dedicated website ([marine.breguet.com](http://marine.breguet.com)) as well as a traveling exhibition. The communications operations surrounding this launch resulted in excellent international media coverage, particularly in Russia where the model was named "Best of the Best" by *Robb Report*.

While the Marine theme continued to enliven the second half of the year, Breguet chose to interpret the world of its Classique collection through an event-based concept dedicated to the "lifestyle of a gentleman". *The Classic Tour*, which kicked off in London before making a stopover in South Korea, will continue in 2018. These events are held in a context that reinforces the refined image conveyed by Breguet through its network of boutiques. Serving as authentic "embassies" around the world, they have successively evolved towards a new architectural design. In 2017, it was the turn of boutiques in Singapore, Taiwan, and the New York flagship salon on Fifth Avenue – now located in the St. Regis hotel – to be given a makeover.

2017 was also very much about ladies' watches. Breguet enriched its feminine range by introducing new models in the Reine de Naples and Tradition lines. To encourage women's interest in mechanical watchmaking, the House made a point of meeting its female customers in Thailand, the United States and France.

## CREATION

### Tradition Dame 7038

The Tradition collection welcomed a new feminine model in 2017: the rose gold Tradition Dame 7038. With this self-winding model, Breguet has successfully feminized a watch whose aesthetic essence lies in its movement. Visible through the front of the model, the barrel is adorned with a rosette motif, overlapped at 12 o'clock by a natural white mother-of-pearl dial adorned with a hand-crafted engine-turned "Clous de Paris" motif.

### Classique 7147

The new Classique 7147 is one of the emblematic models, imbued with the classicism and the tradition that are hallmarks of the House of Breguet. It features all the refined details that have shaped the identity of the Manufacture since 1775. Like the brand's historical models, the dial of this watch is in Grand Feu enamel, representing an emblematic watchmaking artistic craft.

### Marine Equation Marchante 5887

Launched as a world exclusive at Baselworld, reference 5887 is the first model of a revamped Marine line featuring new aesthetic codes: central lugs that marry polished and satin-brushed surfaces, a more widely-grooved fluted pattern, visible flanks, a crown topped by a polished "B" against a sandblasted background, and a crown adorned with chamfered and satin-brushed waves. Inspired by the work of Abraham-Louis Breguet, this exceptional creation is equipped with a tourbillon and a perpetual calendar as well as one of the rarest and most fascinating complications: the running equation of time. In tribute to his role as Watchmaker to the Royal Navy, the movement bridges are finely chased to depict the finest details of the *Royal Louis*, a first rank vessel of the French Royal Navy.

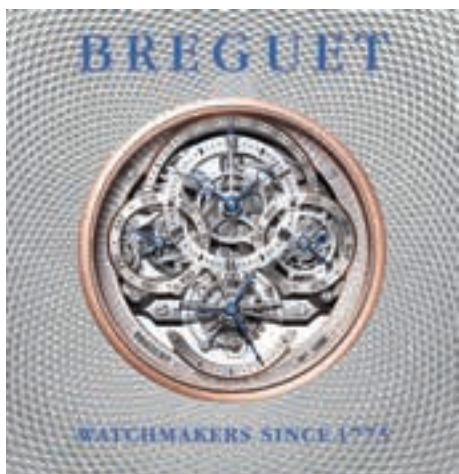


#### REACHING FOR THE STARS

All good things come from above: the same able-bodied sailors who were already so well served by Breguet's marine chronometers also used sextants to calculate the angles between celestial bodies and the horizon – and thus orient themselves to the sun and stars in their navigation.







### Reine de Naples 8918, 8928 and 8965

2017 witnessed the arrival of three new creations in the Reine de Naples line. Breguet revisited one of its bestsellers, the 8918, now available with a champagne-colored Tahitian mother-of-pearl dial. This model comes in two versions: one with a shiny-finish midnight blue leather strap, and another fitted with a rose gold chain bracelet. The Reine de Naples Mini 8928 welcomed six variations distinguished by a chapter ring bearing Arabic numerals. This gem of a timepiece also comes with pink-edged numerals as well as a pink alligator leather strap instead of the traditional black satin version. Finally, Breguet has enhanced its Reine de Naples Princesse model with a new reference, 8965, graced with an engine-turned natural mother-of-pearl dial and a gem-set bezel.

### Classique 5175 "Ginza Anniversary" Special Edition

To celebrate the 10th anniversary of its Tokyo boutique, Breguet created a special ten-piece limited edition for the Japanese market. Attentive to its customers' cultural references, the brand chose to adorn the face of a model from the Classique collection – generally renowned for the purity of its white enamel or gold engine-turned dials – with mineral blue Grand Feu enamel.



## PRESENCE

### Breguet, Watchmaker to the Royal Navy

At Baselworld, Breguet also unveiled its sixth travelling exhibition. Called *Breguet, Watchmaker to the Royal Navy*, it retraces the historical ties between the Manufacture and the maritime world. From a very early stage in his career, A.-L. Breguet began introducing a succession of major inventions enabling horology to make some spectacular breakthroughs. While his reputation spread the length and breadth of Europe, he also found an active admirer in Louis XVIII. In 1814, the King of France appointed him a member of the *Bureau des Longitudes* in Paris. Breguet became the national authority on watchmaking, particularly with regard to calculating longitudes at sea. In addition to this distinction, the king also granted him the title of Watchmaker to the Royal Navy in 1815. This was the most prestigious title a watchmaker could be given and corresponded to a function that was extremely important for the country. At the time, marine chronometers were of capital importance to fleets, because they served to calculate ships' positions.

After Baselworld, this maritime-inspired roadshow told the story of Breguet in Osaka during the Premium Watch Expo 2017, organized by the Hankyu Umeda department store. It was then presented in Seoul at a VIP evening before returning to Europe, first in Paris and then in Zurich, where it rounded off the year. New stopovers are scheduled in 2018, notably in Asia.

The naval theme was also featured in one-off events held in Italy and Spain. In Milan, Breguet associated with a famous yacht builder to set the stage for the arrival in the boutique of the 5887. In Marbella, idyllic surroundings set the tone for the presentation of this timepiece by a specialist watchmaker.

### Breguet, Watchmaker since 1775

Since 2017 coincided with the 270th anniversary of the birth of A.-L. Breguet, the House celebrated the legacy he bequeathed to watchmaking by publishing a re-edition of the book *Breguet, Watchmakers since 1775*. Its author, Emmanuel Breguet, travelled to New York, Beverly Hills and Las Vegas, as well as to the Philippines and Hong Kong, to present this work to the public and to share Breguet's more-than-two hundred-year history.

The exceptional heritage of the Manufacture was also showcased through a series of events held in Oceania. In Melbourne and Auckland, customers and the media were invited to discover the inspirations behind the brand's collections and its famous historical patrons. In Sydney, two exceptional evenings were organized in partnership with the *Australian Financial Review* daily newspaper. These encounters provided opportunities for valuable discussions that enabled the House to establish special ties with its customers, and particularly with collectors. The latter also enjoyed a special treat in the United States, where they were invited to celebrate the annual *Tourbillon Day* in Breguet's US boutiques on June 26th, while the one in Beverly Hills hosted a hundred or so collectors for an evening jointly organized with *WatchTime* magazine.



Alongside the Breguet inventions, the history of the brand was explored in 2017 from the angle of its famous clients, from Marie-Antoinette to Caroline Murat and Sir Winston Churchill. A new corporate advertising campaign featuring these prestigious ambassadors was developed, while the *Breguet, A Story Among the Greats* exhibition first launched in 2016, continued its journey in China. The Queen of France was also the focus of an exclusive gathering in London, where Breguet invited the renowned presenter, actor and collector Nicholas Parsons to co-host a presentation of the Marie-Antoinette 1160 pocket watch. Finally, the English capital also paid tribute to Sir Winston Churchill at a dedicated soirée held in the Breguet boutique.

### Breguet, ancestral skills

While Breguet made the most of 2017 to convey its important messages, the brand also invited enthusiasts to enjoy times of reverie and light-hearted enjoyment. The Manufacture set up a number of workshops, such as those held in the Chinese cities of Tianjin, Shanghai, Chengdu and Shenyang, to provide a chance to discover its artistic crafts. Breguet offered customers an initiation into the artisanal techniques of *haute horlogerie*, including engraving and enamel painting. Workshops dedicated to cameo art were also held in Frankfurt, Germany.

In the Benelux region and in Sweden, Breguet enthralled visitors throughout the year with exhibitions of splendid timepieces. Grandes Complications and dazzling jewelry models were presented to the public in Amsterdam, Antwerp, and Ghent as well as in Stockholm.

### Breguet, exceptional partnerships

In line with its previous commitments to cultural partnerships, Breguet continued to support art and culture in 2017. In Russia, the House sponsored the first performance of the play *Ivanov* at Moscow's Theatre of Nations. In Italy, the Manufacture offered its customers a chance to become more closely acquainted with the artist Wassily Kandinsky, a founding member of the abstract art movement, through a selection of his works displayed at the Mudec in Milan. Finally, several associations around classical music put Breguet in the limelight in Spain. The brand was present at the Teatro Real de Madrid on two occasions: a concert by the opera singer Joyce DiDonato as well as a preview performance of the opera *Carmen*. At the Teatro Principal in Alicante, the House supported a recital by the conductor and pianist Andrés Schiff. Another renowned institution, the Formentor Sunset Classics in Majorca, hosted a recital by the soprano Olga Peretyatko.

In 2017, Breguet and its President Marc A. Hayek once again played a part in *Only Watch*, the biennial charity auction for which the House developed a one-of-a-kind yellow gold Classique model with an in-line perpetual calendar.









\* June 20th, 1932  
Gemini



HARRY WINSTON

# HARRY WINSTON

## TRENDS

In 2017 Harry Winston, under President Nayla Hayek, furthered its mission to preserve and to continue to pursue the qualities that make the Brand one of the most prestigious in the world today. When Harry Winston founded his namesake business 85 years ago, he founded it on the basis of rare jewels of the world, a commitment to exceptional quality in craftsmanship, unparalleled creativity in design, and the promise to share precious stones and incredible jewels with audiences around the world. These ideals are what make the Winston legacy so remarkable and the ideals the Brand proudly continued to uphold and honor this year.

This was achieved through new salon locations; the opening of a new jewelry workshop in New York City; new fine jewelry collections that speak to the rich DNA of the Brand and timepieces that bridge its New York City roots with the expertise of Swiss watchmaking; and prestigious events that reaffirm its position as the ultimate jeweler and the premier destination for incredible, one-of-a-kind jewels.

As the “King of Diamonds,” Harry Winston built his life around the most incredible diamonds and gemstones. When the House acquired the 101.73 carat Winston Legacy Diamond in 2013, it demonstrated to the world that important diamonds were not just a part of its past, but would also be part of its future. The perfect pear-shaped stone, named in honor of the man whose name is synonymous with rare jewels, served as the basis for the House’s latest, most magnificent, one-of-a-kind high jewelry collection – the Legacy Collection. Truly unprecedented in terms of its quality and scale, the collection consists of 22 unique pieces, which all feature a D color, internally flawless center stone. From conception to completion the collection took a little over three years.

The collection was first unveiled at an exclusive event in New York City, attended by international members of the press, and was then on display at select VIP events around the world, including in Düsseldorf, London, Dubai and Taipei.

For fine jewelry, the Brand introduced new designed collections throughout the year that followed the House’s celebrated signature aesthetic, as well as two new engagement ring styles – the Pear-Shaped Cluster and Brilliant Love rings – which were welcome additions to the Brand’s already impressive offering of wedding day jewels. Harry Winston also introduced extraordinary new timepiece novelties at the 2017 Baselworld trade fair. Highlights for the year include the Premier Delicate Silk Automatic 36 mm, which fuses together the ancient art of silk weaving and embossing for the very first time, the Legacy Timepiece and the Histoire de Tourbillon 8.

With the renovation of existing locations, including its West Coast flagship in Beverly Hills, Harry Winston continued its mission to expand its global retail distribution network. In New York, the Brand opened a temporary salon location on Fifth Avenue, while its historic flagship at 718 undergoes renovation, and opened a new fine jewelry workshop in order to accommodate its growing presence.

As the Brand looks to the future, it will continue to keep the extraordinary brilliance of the incredible Winston legacy alive.



### VENUS, THE CELESTIAL SYMBOL OF FEMININITY

It is no coincidence that the astronomical symbol for Venus is the same as that of femininity. This planet, bright and enticing in the night sky, has inspired countless poems, myths and narratives.

As an evening or morning star she points the way – and yet remains an eternal enigma.







## CREATION

### Forget-Me-Not

The Forget-Me-Not Collection continues Harry Winston's tradition of using nature's beauty as a source of inspiration. Celebrating the graceful silhouette of its namesake bloom, the new collection consists of a necklace, pendant, earrings, bracelet, ring and complementing charm, which all feature an enchanting medley of round brilliant, pear-shaped and marquise-cut diamonds that when paired together reveal the beautiful flower. Each of the seven designs in this floral collection brings a fresh perspective to a perennial favorite and adds an unparalleled warmth and radiance to any occasion.

### Legacy Collection

Inspired by the Winston Legacy, the world's most perfect pear-shaped diamond, Winston's renowned team of gemologists, designers and craftsmen embarked on a more-than-three-year journey, exploring the world's finest diamonds, to create an unprecedented collection that is unrivaled in scale and unmatched in quality. Presented as a series of one-of-a-kind high jewelry suites, the Legacy Collection consists of 22 magnificent pieces that all feature a D color, internally flawless diamond center stone. Each of the unique pieces was hand drawn by the House's renowned designers, including its beloved Senior Designer – the late Maurice Galli – to highlight the clean lines and perfect fluidity of its diamond center stones.

In addition to a jewelry collection, Harry Winston also introduced an extraordinary high jewelry timepiece that celebrates the inherent beauty of the flawless Winston Legacy diamond. The Legacy by Harry Winston high jewelry timepiece replicates the silhouette of the pear-shaped stone on its platinum case. Set at an angle, the pear-shaped case is framed by 31 baguette-cut diamonds, which enclose the mesmerizing composition of its interior diamonds. A closer look reveals that the diamonds set on the dial are arranged to recreate the facets of a pear-shaped diamond.

### Premier Delicate Silk Automatic 36 mm

The Premier Delicate Silk Automatic 36 mm timepieces explore the origins of luxury and fuse together the ancient art of silk weaving and embossing. An inimitable luxury product made from embossed raw silk, the Premier Delicate Silk Automatic 36 mm models mark, for the first time, the artistic marriage of silk and the art of embossing. Unlike anything done before in the history of silk production, Harry Winston designers used a novel technique that encourages the silkworm to weave its own fabric. The result is a delicate, small area of raw silk created without the interaction of human hands. This raw silk was then dyed to obtain four colors which form the background of the dial. Presented on satin straps, each model is a limited edition of 30 pieces.

### Histoire de Tourbillon

The House of Harry Winston continues to explore the universe of superlative tourbillon timepieces, with the introduction of the Histoire de Tourbillon 8. Featuring a two-biaxial tourbillon design, unified by a spherical differential, the new timepiece attains the greatest heights of timekeeping and kinematic magic. With a finish inspired by the world of *haute horlogerie*, two large tourbillon cages perform a slow ballet with impressive precision. Together, these tourbillons display time through the use of two off-center cones, housed in a large white gold case dedicated entirely to the grand complication. The exclusivity of the Histoire de Tourbillon 8 is matched only by the exceptional quality of its details, finishes, and engineering.

## PRESENCE

### Salon Openings

Harry Winston continued to open new salons in the most desirable shopping destinations, as well as remodeled some of its existing locations throughout the year. In addition, the brand expanded its West Coast Flagship salon in Beverly Hills, making it the Brand's largest salon in the world. In order to serve its clientele in New York City, Harry Winston opened a temporary location on Fifth Avenue, while its iconic 718 Flagship undergoes a historic renovation.

### Paris 60th Anniversary Event

In 2017, Harry Winston celebrated its 60th Anniversary of its presence in Paris, France. To commemorate the occasion, the House held a recreation of the famed 1961 *Diamond Party*, which was hosted by the Duchess of Windsor and American socialite Elsa Maxwell, in its magnificent Avenue Montaigne salon. At the event, the Brand's growth and development over the last 60 years was expressed through its high-end timepieces, iconic creations that launched Mr. Winston's legendary career.

### Smithsonian Event

In October, Harry Winston partnered with the Smithsonian in Washington, D.C., to celebrate the 20th Anniversary of the Janet Annenberg Hooker Hall of Geology, Gems and Minerals. As part of the celebration, the museum announced a major new discovery about the Hope Diamond, which Mr. Harry Winston famously donated in 1958. Since then, the Hope Diamond has remained on permanent display in the Harry Winston Gallery at the Smithsonian.

### Red Carpet

As "Jeweler to the Stars," Harry Winston's magnificent fine jewelry collections continued to garner worldwide attention at the most acclaimed events of the year. From the *Golden Globe Awards*, to the *Academy Awards*, to the MET Costume Institute Gala, to the Cannes Film Festival, Harry Winston jewels adorned some of the biggest names in Hollywood, including Jennifer Lopez, Nicole Kidman, Meryl Streep, Lily Collins, Drew Barrymore, and Viola Davis.

### Philanthropy

Throughout the year, Harry Winston continued its commitment to philanthropic causes through the Harry Winston Brilliant Futures™ Charitable Program.

In the U.S., Harry Winston furthered its support to organizations based within its local salon communities, including Harlem Academy, Americares, Voices For Children, Mattel Children's Hospital UCLA and CHOC Children's Hospital; while in Japan, the Brand entered its fourth year of partnership with Chance for Children. Globally, 2017 marked Harry Winston's third year of partnership with amfAR, the Foundation for AIDS Research.

### Americares

Harry Winston's support for Americares in 2017 helped to provide vital aid following the two devastating Hurricanes in Texas and Florida. A relief and development organization, Americares responds to people affected by poverty or disaster with life-changing health programs, medicine and medical supplies. In Texas and Florida, Americares has focused on meeting urgent medical needs, providing medicine and medical supplies to survivors and restoring health services for the most vulnerable.



### CHOC

Since 2012, Harry Winston has supported CHOC Children's Hospital in the transformation of caring for children in Southern California. Named one of the best children's hospitals by U.S. *News & World Report*, CHOC offers many primary and specialty care clinics, a pediatric residency program, and four centers of excellence in pediatrics. In 2017, Harry Winston supported CHOC's efforts to provide quality care to children in need, and to expand its outpatient mental health services to support young people facing a serious medical condition and a mental health challenge.

### amfAR

In the third year of its partnership with amfAR, Harry Winston continued to serve as Presenting Sponsor for the organization's gala events around the world, raising vital funding for AIDS research and amfAR's *Countdown to a Cure for AIDS* Initiative focused on developing the scientific basis of a cure by 2020. As a milestone partner, Harry Winston's support has helped amfAR to award research grants and to establish the amfAR Institute for HIV Cure Research, which brings teams of scientists together to collaborate on the search for a cure.





\* 1735

Year of the Rabbit

**BLANCPAIN**  
 MANUFACTURE DE HAUTE HORLOGERIE

# INNOVATION IS OUR TRADITION

## TRENDS

In 2017, Blancpain strengthened its growth in line with its defining values: a constant quest for innovation showing complete respect for tradition, a long-term vision, and an optimistic outlook. These strong and lasting commitments are upheld as much in its Vallée de Joux (VD) workshops as in its communications worlds, ranging from the *Blancpain Ocean Commitment* to motorsport and the Art of Living.

As part of its *Blancpain Ocean Commitment* program, the Manufacture continued its initiatives for the exploration and preservation of the world's oceans. To date, the brand's efforts have led to tangible results, including the doubling of the surface area of marine protected areas. Blancpain has contributed to the creation of nearly five million square kilometers of marine nature reserves, covering a total global surface area that is now approaching ten million square kilometers. As part of the *Gombessa* expeditions, Blancpain supported a fourth scientific project conducted by Laurent Ballesta and his team in French Polynesia. In parallel, the year was punctuated by various roadshows, photography exhibitions, presentations of the historical Fifty Fathoms models, or freediving experiences with the champion of the discipline, Gianluca Genoni.

The ties between Blancpain and the world of gastronomy were also in the spotlight in 2017. A friend of the brand for more than 30 years, the world's most Michelin-starred chef Joël Robuchon attended several international events. Through a combination of joint interviews and gourmet menus inspired by Blancpain creations, the French chef introduced clients and the press to the values uniting these two arts. In addition, the Maison is proud to count among its friends some of the greatest names in haute cuisine, including, most recently, Michelin-starred chefs Martín Berasategui and Holger Bodendorf. The year was also an opportunity to consolidate these new friendships through a series of events. On the hospitality side, Blancpain continued its cooperation with Relais & Châteaux and Leading Hotels of the World.



## MOONSTRUCK

The moon does not leave anyone cold. It shows us a different face every day – and has a lasting influence on our oceans' tides. Blancpain long ago succumbed to its charms. The brand pays tribute to it with supernaturally beautiful moon phase displays. And at the same time dedicates itself to the preservation of our seas, which the moon so magically affects.

Meanwhile, on the motorsport front, Blancpain consolidated the global benchmark status it has built over the past nine years in GT competitions. 2017 was the seventh season of the Blancpain GT series, which attracted record numbers of 1179 drivers and 446 cars across endurance and sprint races. This significant progress in the number of participants was accompanied this year by the launch of this championship in Asia.

Finally, the brand broadened and reinforced its worldwide distribution network by modernizing various points of sale and openings in new locations. In October, the new Blancpain boutiques in New York and in Ginza (Tokyo, Japan) were notably celebrated with exclusive events.

## CREATION

### FIFTY FATHOMS COLLECTION

#### Range extension for the Fifty Fathoms Bathyscaphe

The vintage-inspired new Fifty Fathoms Bathyscaphe 38 millimeter version comes in a shade of blue echoing the color of the deep blue seas. Like the original watch from the 1950s, the luminescent dot on the bezel is both an essential point of reference for divers and an additional safety function. Its steel bezel features a blue ceramic insert along with Liquidmetal® indexes. Equipped with the caliber 1150, which integrates a silicon balance spring, this timepiece is water-resistant to 30 bar (approx. 300 meters), and is distinguished by its sturdiness as well as its precision timekeeping performance.

#### Tribute to Fifty Fathoms MIL-SPEC

The Tribute to Fifty Fathoms MIL-SPEC model combines all the technical criteria expected of diver's watches, as established by the original 1953 Fifty Fathoms and soon thereafter adopted by the entire watch industry. The Super-LumiNova® hour-markers on its black dial pick up the same shapes as those of the MIL-SPEC 1 model developed by Blancpain in 1957–1958. In a nod to the original, the bicolor moisture indicator once again appears at 6 o'clock. This additional safety feature indicates whether a liquid of any kind has seeped into the case by switching from white to red. The 40 millimeters stainless steel case is equipped with self-winding Caliber 1151, comprising two series-coupled barrels ensuring a four-day power reserve. It is issued in a 500-piece limited edition.







## VILLERET COLLECTION

### Villeret “Day-Date”

For the first time in the Villeret collection, Blancpain introduced a model displaying the day of the week and the date, complemented by a small seconds indicator. The 40 millimeter steel or red gold case houses the self-winding 1160DD movement, fitted with a Glucydur balance wheel and a silicon balance spring. This caliber is equipped with two series-coupled barrels ensuring a 72-hour power reserve.

### Villeret Métiers d’Art, a tribute to Switzerland

Blancpain and its Métiers d’Art workshops presented a one-of-a-kind gold and shakudō model depicting a “battle of the queen cows” staged in front of the Matterhorn. The red gold appliques are hand-engraved and fixed by miniature feet to the dial made from a gold and copper alloy called shakudō. Once assembled, these three parts are given a rokushō patina, which is a copper salt bath into which the dial is dipped. The intensity and shimmer of the color are determined by the number of dipping treatments. Finally, each cow’s yellow gold necklace is integrated into the applique using the damascening technique. This 42 millimeter timepiece is equipped with manual-winding caliber 13R3A, whose structure is defined by the three series-coupled barrels. The eight-day power-reserve indicator appears on the bridge side of the model.

### Villeret Week of the Year, Large Date and Day of the Week

With its pure lines, full fired enamel dial and double-stepped bezel, this new timepiece is a pleasing addition to the iconic Villeret line. It features a twin-aperture large date display and a week of the year indication showing the number of the current week around the dial’s rim by means of a blued serpentine hand. The days of the week appear at 9 o’clock. The chapter ring and the Blancpain logo are enamel-painted, a technique requiring several high-temperature firings at over 800°C. The 42 millimeter red gold case houses the self-winding caliber 3738G2. This movement is equipped with three barrels guaranteeing an eight-day power reserve, as well as a titanium balance wheel and a silicon balance spring.

### Villeret Date Moonphase (red gold)

The Manufacture introduced a new Date and Moon Phase model for women, featuring some of the brand’s iconic complications, as well as the signature characteristics of the Villeret collection. The opaline dial of this red gold model bears a pointer-type date display and a moonphase indication, a horological complication that had all but vanished from the watchmaking scene before being reintroduced by Blancpain in the late 1980s. On this model, the moon is depicted by a smiling feminine face with a beauty spot (known in French as a *mouche*) appearing at the corner of its mouth. These *mouches* were used by ladies of the Court in 18th century Europe to symbolize a playfully teasing attitude. The 29.20 millimeter case is topped by a bezel adorned with 48 full-cut diamonds, and houses the automatic 913QL movement.

### Villeret Date Moon Phase (stainless steel)

The new Villeret Date Moon Phase watch is also available in steel and offered with a set of five interchangeable bracelets in different colors and materials. These can be detached easily by simply pressing the strap catches. Its matt white dial is encircled by a bezel set with 48 diamonds, and features a date pointer along with a moon phase indicator. It is powered by the self-winding caliber 913QL. Its sapphire caseback reveals a yellow gold oscillating weight decorated with a snailed bevel, polished chamfers and straight and circular Côtes de Genève patterns.

## PRESENCE

### Blancpain Ocean Commitment

For more than 60 years, Blancpain has been involved in supporting the exploration and preservation of the underwater world, as well as furthering knowledge of this milieu. Its commitment began with the 1953 launch of the Fifty Fathoms, the world’s first modern diver’s watch. Since then, this passion for the oceans has taken the form of numerous projects in cooperation with environmental organizations, scientists, explorers and marine photographers. In recent years, Blancpain has funded 18 major scientific expeditions, such as the National Geographic’s Pristine Seas project (from 2011 to 2016) and Laurent Ballesta’s Gombessa project (since 2013). United under the banner of the *Blancpain Ocean Commitment*, these initiatives continued around the world in 2017.

### World Ocean Summit and World Oceans Day

In order to mobilize the international community and stir public interest in this cause, Blancpain has been supporting the World Ocean Summit since its creation in 2012. Organized by *The Economist*, this international conference brings together governments, companies, universities and NGOs with the aim of proposing solutions for a sustainable blue economy. The fourth edition took place in February in Bali and attracted more than 400 participants. In a similar vein, Blancpain has been taking part in organizing the World Oceans Day, an event held in New York in conjunction with the United Nations, since 2013.

### Blancpain and Laurent Ballesta –

#### A scientific and photographic success story

Since 2013, Blancpain has been the principal partner of Laurent Ballesta and his *Gombessa* project. In 2017, the *Gombessa IV* expedition travelled to Fakarava in French Polynesia, in order to study the hunting behavior of the 700 gray reef sharks that inhabit the southern pass of the atoll. In addition to Blancpain’s regular support this fourth mission benefited from an additional 250000 euro donation stemming from the sale of the first BOC (*Blancpain Ocean Commitment*) limited edition model. Ongoing analysis of the scientific data in several research centers could well reveal for the first time a collaborative behavior among the individuals of this species that appear to hunt in packs. A documentary produced by the ARTE television channel, a

book written by Laurent Ballesta, and a photography exhibition will be unveiled in early 2018.

In October, Laurent Ballesta's exceptional photographic work won an award in the *Earth's Environments* category of the *Wildlife Photographer of the Year* competition – the world's longest running and most prestigious nature photography competition, organized by London's Natural History Museum. The prize-winning shot taken during the *Gombessa III* – Antarctica expedition shows the entire submerged part of an iceberg for the very first time.

#### **Blancpain and the Natural History Museum of London**

Following the distinction awarded to Laurent Ballesta and having discovered the major work accomplished by London's Natural History Museum, Blancpain announced its support for this institution spanning a first year of cooperation. To mark the occasion in December, the Manufacture invited media representatives, collectors, VIP clients and partners to attend a one-of-a-kind evening in the Museum's main hall. In his welcoming speech, Marc A. Hayek introduced the 230 guests to the key theme of the evening: Blancpain's long-term investment in safeguarding the oceans. The other speakers were Laurent Ballesta, who gave a preview of images from the Gombessa IV expedition, as well as Paul Rossi – President of The Economist Group Media Businesses – who announced a strengthening of the group's partnership with Blancpain and the 2018 launch of the World Ocean Initiative. After enjoying a dinner prepared by Michelin-starred chef and friend of the brand Claude Bosi, guests had a chance to admire a collection of vintage Fifty Fathoms watches.

#### **Record participation and international expansion in the world of motorsport**

Over the past nine years, Blancpain has established itself as a global benchmark in the field of GT racing by becoming the co-founder of some of this discipline's greatest championships. This commitment led in 2011 to the creation of the Blancpain GT series, stemming from close cooperation between the watch Manufacture and the SRO Motorsports Group.

2017 marked the seventh season of this GT racing series, which attracted a record number of teams and drivers. Across the year, an average of 56 cars vied for the Blancpain GT Series Endurance Cup, and 33 for the Blancpain GT Series Sprint Cup. This progress was confirmed during the final weekend of the Blancpain GT Series Europe in Barcelona, which drew a historic lineup of 168 vehicles during the races of this last leg.

Another major accomplishment this year was the decision to export the Blancpain GT Series to Asia, in the form of six weekends featuring one-hour races. Achieving unprecedented success among automakers and spectators, the Blancpain GT Series Asia took a mere seven months to become the region's biggest championship, with an average of 28 cars on the starting line.

Finally, Blancpain's 2017 Motorsport season wound up in November with GT racing's 25th anniversary celebrations. On this occasion, the brand presented the eight winning drivers of the season's various championships with a Blancpain L-evolution Flyback Chronograph featuring a special engraving.

#### **Highlighting the Art of Living**

For more than 30 years, Blancpain has tirelessly pursued its involvement in the field of haute cuisine, a cherished arena with which the brand shares a passion for craftsmanship, meticulously executed work, attention to detail and a sure touch – all driven by a constant quest for quality and excellence. To showcase these common values, Blancpain organized several events around the world in the course of the year, combining gourmet dinners with demonstrations of its horological expertise. On these occasions, 31 Michelin-starred chef and friend of the brand Joël Robuchon treated clients and the press to original gourmet menus inspired by the collections from the Manufacture.



For the third consecutive year, Blancpain presented the *Heritage Trophy* at the annual Relais & Châteaux convention. The 2017 prize was awarded to the La Pyramid Hotel in France for its philosophy of combining tradition, modernity and the passing on of know-how. For 17 years, the Manufacture has also been partnering the Leading Hotels of the World and annually presenting the year's finest establishments with a Blancpain watch.

#### **Corporate philanthropy: the Only Watch auction**

A partner of the *Only Watch* charity auction since its creation in 2001, Blancpain donated a stunning reinterpretation of its successful Tribute to Fifty Fathoms MIL-SPEC specially created for this seventh edition. In tribute to the visual identity of the *Only Watch* 2017, the bright yellow Super-LumiNova®-enhanced hour-markers, hands and date ensured this model was truly unique. Visible through the transparent case-back, the solid gold oscillating weight coated with NAC (a ruthenium-based alloy) is engraved with the name of the Monaco Association against Duchenne Muscular Dystrophy, which organizes the annual event.

At the auction held in November in Geneva, it took less than a minute and half for this one-of-a-kind model to go under the hammer for the record amount of 53 000 Swiss francs – five times more than its starting bid. In a novel added bonus for 2017, the purchaser of this rare model was also given a double Blancpain experience, consisting of a private static freediving lesson with the champion of this discipline, Gianluca Genoni, followed by a visit to the Manufacture.





*Glashütte*  
ORIGINAL

# POWERED BY ORIGINALITY AND EXCELLENCE

## TRENDS

Glashütte Original once again enjoyed a positive year in 2017, which was marked by stable demand across all its markets. In Europe, Asia and the Middle East, the brand continued to achieve robust growth and benefited from enhanced worldwide awareness. With numerous events and the *Originality and Excellence* roadshow, exclusive distribution was further promoted and the brand's international presence was strengthened.

At the beginning of 2017, in New York, Glashütte Original launched a special collection of iconic chronographs featuring unique dials from its own Manufacture. At Baselworld, the ambitious expansion of the Senator Excellence line was underscored with the introduction of a new variation of the Senator Chronographe Panorama Date. In addition, two models of the Senator collection, the Senator Tourbillon and the Senator Cosmopolite, were reissued as special limited editions. For women, Glashütte Original proposed a colorful range of new Pavonina timepieces and presented a rose-colored edition of the PanoMatic Luna in China.

## CREATION

### Senator Excellence Perpetual Calendar

Glashütte Original created the Senator Excellence Perpetual Calendar, equipped with the caliber 36 automatic movement first introduced in 2016. Like all the models in this line, this timepiece is characterized by the reliability of its precision, by its great stability and by its 100-hour power reserve, along with its superb, timeless esthetics. Each model is accompanied by a test certificate guaranteeing that each timepiece meets the demanding quality criteria set by the Manufacture.

### Senator Chronograph Panorama Date

The new Senator Chronograph Panorama Date, which is based on the integrated chronograph caliber 37, impresses with its sporty looks and the sheen of blue Super-LumiNova®. Its compact construction, along with a flyback mechanism and chronograph counter at 12 o'clock, makes it a perfectly reliable companion with a harmonious design.

### Pavonina

For the first time, the new models in this collection feature Roman numerals. Guilloché decoration in the center of the mother-of-pearl dial diffuses sophisticated reflections. The new face of the Pavonina is complemented by bracelets in intense colors, ranging from velvety shades of taupe and rose-colored Louisiana alligator leather, to options in bright red, anthracite, turquoise, orange and dark blue.

## PRESENCE

### Partnership with the Berlinale

For the seventh year of its partnership, the Manufacture strengthened its commitment to the Berlinale (*the Berlin International Film Festival*), assuming the role of main sponsor for the first time. Also for the first time, the brand awarded the *Glashütte Original – Documentary Award* in recognition of the film *Istiyad Ashbah (Ghost Hunting)*. The awards ceremony was the culmination of a ten-day festival filled with events to which Glashütte Original devoted its new Sixties Iconic Square Collection on the red carpet of the Golden Bear Lounge.

### Dresden Music Festival

Renowned British cellist Steven Isserlis was named winner of the 14th edition of the *Glashütte Original Music Festival Award*. The award was presented to him at the Dresden Kulturpalast at his concert with the London Philharmonic Orchestra. Worth 25000 euros and made by two apprentice watchmakers, Steven Isserlis won the prize for his exceptional efforts in support of talented young musicians.

### Special exhibitions in Asia

Glashütte Original hosted a special ten-day exhibition, *Discover German Originality and Excellence*, at the Nicolas G. Hayek Center in Tokyo. Another exhibition, *Travel around the world*, was presented at the Shin Kong Place (SKP) shopping mall in Beijing, where Chinese movie star Wang Qianyuan presented a limited edition of the Senator Cosmopolite.





# THE ART OF ASTONISHMENT

## TRENDS

Jaquet Droz, thanks to boundless creativity, has considerably developed its reputation and communication throughout the world. The launch of its new “Some watches tell time. Some tell a story.” advertising campaign, enabling the implementation of a true storytelling strategy and reinforcement of its presence on digital platforms, was a resounding success. Various partnerships with local influencers highlighted the brand’s heritage and expertise.

## CREATION

### GRANDE SECONDE COLLECTION

#### Grande Seconde Moon

Jaquet Droz’s emblematic model, the Grande Seconde, welcomed a new horological complication in the form of a moonphase display. The brand chose what is known as an astronomical moon phase, which requires adjustment only once every 122 years and 46 days.

#### Grande Seconde Quantième Satin-Brushed

Streamlined and elegant, the iconic Grande Seconde model was launched with a satin-brushed sunray dial, a finish that captures and diffuses light rays, and creates fascinating reflections. Exceptionally sophisticated, fitted with a date display at 6 o’clock and a silicon balance spring and pallet horns, the Grande Seconde Quantième Satin-Brushed is a magnificent example of watchmaking skill.

### AUTOMATA COLLECTION

#### Loving Butterfly Automaton

A masterpiece of watchmaking and craftsmanship, this latest automaton presented by Jaquet Droz is a truly animated scene. The Loving Butterfly Automaton tells the tale of a watchmaking genius, Henri-Louis Jaquet-Droz, who 242 years ago produced an android automaton delivering breathtaking sketches that include a cherub sitting on a chariot drawn by a butterfly, celebrating love and passion. The same emotion is sparked today when, with a simple press on the crown button, the butterfly flies away with grace and lightness, pulling an angel on its animated chariot.

#### Tropical Bird Repeater

Part of the line-up of exceptional automata presented since 2012, Jaquet Droz launched a new model inspired by a tropical landscape enhanced by the hand of engravers and miniature painters from the *Ateliers d’Art*. The dial of the timepiece stages seven animations, including a hummingbird that can flap its wings at the incredible speed of 40 times a second, a world premiere. This feat is accompanied by a *grande complication* in the form of a minute repeater.



#### ASTRONOMICAL PRECISION

The Moon is the only nocturnal celestial body that can provide information about the passing of a month – which is why it enjoys a special status among watchmakers worldwide. Jaquet Droz celebrates this fascination with an astronomical moon phase display, which only has to be corrected once every 122 years and 46 days.



JD  
**JAQUET DROZ**  
 SWISS WATCHMAKER SINCE 1738



«Some watches  
 tell time.  
**Some tell  
 a story»**

*For nearly three centuries, Jaquet Droz has placed time under the banner of astonishment, excellence and constantly renewed creativity.*

Grande Seconde Moon Ivory Enamel

**JAQUET DROZ BOUTIQUES**

GENEVA - PARIS - MOSCOW - DUBAI - TOKYO - HONG KONG - MACAU - SHANGHAI - BEIJING - SINGAPORE

Discover our official point of sales on [www.jaquet-droz.com](http://www.jaquet-droz.com)



## PRESENCE BOUTIQUES

In 2017, Jaquet Droz continued to open monobrand boutiques in exceptional locations. For example, in the luxurious Dubai Mall, the design of the point of sale was based on a brand-new concept with architectural shapes offering a warm yet sophisticated atmosphere.

## LOCAL EVENTS

In 2017, Jaquet Droz enjoyed a tremendous presence around the world. The year was punctuated with a large number of events at which journalists and VIP clients were invited to try the art of miniature painting.

Jaquet Droz revealed an exclusive preview of its new automaton complication, the Tropical Bird Repeater, at a fascinating exhibition of automata in Beijing at the famous Shin Kong Place (SKP) shopping mall. After China, the Tropical Bird Repeater tour continued its journey to Singapore, Sydney, Moscow, Geneva and Tokyo.

## PHILANTHROPY

### Only Watch

The brand with two stars once again displayed its social engagement with the launch of a limited edition Grande Seconde Off-Centered for the seventh edition of *Only Watch*, the biennial charity auction for unique watchmaking pieces sold to raise funds for research on Duchenne Muscular Dystrophy (DMD).

### Automates et Merveilles.

Jaquet Droz takes pride in maintaining and enhancing the watchmaking heritage in the Neuchâtel region. The development of a project to restore a songbird clock by Pierre Jaquet-Droz revealed new elements regarding its origin and history. In time, the clock should be returned as faithfully as possible to its original glory. The restoration project in conjunction with Automates & Merveilles will be completed in 2018, in time to celebrate the brand's 280th anniversary.





\*October 23rd 1832  
Libra

LONGINES®

# 185 YEARS OF TRADITION, ELEGANCE AND PERFORMANCE

## TRENDS

In 2017, Longines celebrated its 185th anniversary, along with the 60th anniversary of its Flagship collection and the 90th anniversary of the first non-stop transatlantic solo flight, piloted by aviator Charles Lindbergh and timed by Longines. A numbered 90-piece edition of the famous hour angle watch designed in conjunction with Lindbergh was launched to commemorate this achievement. Longines announced the creation of a *Longines Lindbergh Award*, intended to reward an adventurer or pioneer, which will be presented for the first time in May 2018.

True to its values, the brand strengthened its commitment to charity through various partnerships. It produced an exclusive gold watch in collaboration with its Ambassador of Elegance, Kate Winslet. Three models of this Flagship Heritage by Kate Winslet, produced as a very limited edition, were auctioned online for the benefit of the Golden Hat Foundation, a charity that was co-founded by the British actress.

## WINGED LEGENDS

In Greek mythology, Pegasus was the name of a winged horse transformed by Zeus into a constellation. No stars could be a better match for Longines: the brand with the symbol of the winged hourglass has been dedicated to equestrian sports for years.



## CREATION

In 2017, Longines presented two new flagship collections, while expanding its existing collections and drawing on its rich history to offer re-editions of iconic models.

### Conquest V.H.P.

The Conquest V.H.P. constitutes a new achievement in the area of quartz, by combining extreme precision ( $\pm 5$  s/year), a high level of technicality and a sporty nature, stamped with the elegance that is characteristic of the brand.

### Record

Longines expresses its full identity through its new Record collection, a masterpiece of timeless elegance and excellence. These models house a movement with a silicon balance spring, chronometer-certified by the Official Swiss Chronometer Testing Institute (COSC).

### Flagship Heritage 60th anniversary 1957–2017

For the 60th anniversary of the first Flagship collection, Longines presented a timepiece inspired by a Flagship model kept at the brand's headquarters. These numbered, limited edition-models are available in steel, yellow gold or rose gold.

### The Longines Master Collection

Longines presented new pieces, dressed in blue. These on-trend chromatic variations are a perfect fit with the classic, restrained ethos of the Longines Master Collection.

## PRESENCE

### Boutiques

In 2017, Longines opened several boutiques, including its first monobrand boutique in Switzerland at the Bürgenstock Resort (LU) above Lucerne, as well as a boutique in the Dubai Mall, the largest shopping center in the United Arab Emirates.

The brand also launched its first e-commerce platform in China. Fully integrated into the brand's official website, this online boutique targets customers in mainland China.

### 185th anniversary of the brand

On every day of the year, Longines published an anecdote about its rich history on the "On this day" page of its website. Longines watches from every year since 1832 can also be viewed on the "In this year" online page.





Longines organized an anniversary party and an exhibition tracing its history and presenting its latest models at Tai Miao Temple in Beijing. It was also an opportunity for the brand to launch the *Longines Through Time* book and unveil its new Ambassador of Elegance, Chinese actress Zhao Liying.

### Equestrian sports

Longines has had close ties with equestrian sport for over a century. In the field of racing, Longines returned to timing races from White Turf to St. Moritz (GR), where the brand has been operational since the 1960s. It presented its sport timing services along with its second screen application, based on the Longines Positioning System and allowing races to be watched live at the Hoppegarten Racecourse in Berlin. Partnering with the International Federation of Horseracing Authorities (IFHA), the brand awarded the *Longines World's Best Horse Race* prize to the Breeders' Cup Classic, the *Longines World's Best Racehorse* prize to American thoroughbred Arrogate, the *Longines and IFHA International Award of Merit* to Japanese jockey Yutaka Take and the *Longines World's Best Jockey* prize to Australian Hugh Bowman.

In show jumping, the brand announced a new leg as part of the Longines Masters in New York in April 2018. The Longines Global Champions Tour made a stopover in Berlin for the first time. Longines is now title sponsor of the Longines FEI Nations Cup, whose final took place in Barcelona. The brand announced the creation of two prizes in cooperation with the FEI: the *Longines FEI Best Jumping Rider* and the *Longines FEI Best Horse*.

In its capacity as Top Partner of the FEI, the brand operated as Title Sponsor, Official Timer and Official Watch at the Longines FEI European Championships, which took place at Gothenburg, Sweden.

Longines presented its *Longines Ladies Awards* for the fifth time at a ceremony in Washington, D.C. The 2017 laureates are Reed Kessler, Georgina Bloomberg, Michelle Payne and Belinda Stronach, all rewarded for their contributions to the equestrian world.



### Tennis

To celebrate the tenth anniversary of its collaboration with its Ambassador of Elegance Andre Agassi, Longines invited the media to discover The Andre Agassi Foundation for Education in Las Vegas.

Alongside Roland Garros, Longines organized the eighth edition of the Longines Future Tennis Aces, which brought together twenty players under the age of 13. Martyn Pawelski (Poland) won against Chak Lam Coleman Wong (Hong Kong). The two players then played a match against Alex Corretja, sponsor of the 2017 edition, and Andre Agassi.

The brand was also associated with the *Rendez-vous à Roland-Garros*, which allows the best junior boys and girls to win a wild card for the great Parisian tournament. Japan's Anri Nagata and India's Abhimanyu Vannemreddy were the winners of the final.

### Alpine skiing

Longines timed the FIS Alpine World Ski Championships in St. Moritz. For the occasion, the brand launched a Conquest Classic FIS Alpine World Ski Championships St. Moritz 2017, sporting the event's logo. Longines presented its new technology for timing and monitoring Alpine ski races, the Longines Live Alpine Data.

St. Moritz was also the setting for the Longines Future Ski Champions competition, which saw 13 skiers under the age of 16 racing against each other in a two-heat giant slalom with conditions identical to those of the professional circuit. Finland's Erika Pykäläinen won this event.

The end of the 2016–2017 season in Aspen, the brand presented the *Longines Rising Ski Stars* award to Italian Marta Bassino and Norwegian Henrik Kristoffersen, winner for the third consecutive time. Longines Elegance Ambassador Mikaela Shiffrin won her first *Crystal Globe*.

### Gymnastics

Official partner and timekeeper for the International Gymnastics Federation (FIG), Longines presented the *Longines Prize for Elegance* at the 2017 World Championships in Pesaro (Italy) and Montreal (Canada). Alexandra Agiurgiuculese (Italy) won the jury's hearts with her rhythmic performances, while Brooklyn Moors (Canada) and Kenzo Shirai (Japan) won the artistic gymnastics.

The brand presented its new Ambassadors of Elegance, Japan's Kohei Uchimura, multiple world champion in artistic gymnastics and the Russians, Arina and Dina Averina, rising rhythmic gymnastics stars.

### Archery

Official partner to the Archery World Cup, Longines presented the *Longines Prize for Precision* to Denmark's Stephan Hansen and Sarah Sonnichsen at the final in Rome (Italy).

### Commonwealth Games

Longines announced that it has become Official Partner, Official Timer and Official Watch to the Gold Coast (Australia) 2018 Commonwealth Games. The brand welcomed the Queen's Baton at several of its boutiques around the world.



\* 1957

Year of the Rooster

**RADO**  
 SWITZERLAND

# A CREATIVE RELATIONSHIP WITH TIME

## TRENDS

### Portraits of Time

Individual style was in the spotlight as Rado sought to highlight the diverse appeal of its collection. Comfort, poetry, memory and design were the four “portraits of time” – or unique style statements – that served as inspiration for the brand’s 2017 offerings.

The True Thinline Colors collection embodied a poetic mood, with four jewel-toned watches in romantic and understated high-tech ceramic hues. Memory came back to life through the revival of the brand’s Captain Cook line from the 1960s. The DiaMaster Grande Seconde and DiaMaster Power Reserve represented comfort, as seen in the cozy and softly masculine look of these timepieces. Design was also a key value of the collection: Rado teamed up with six international designers from outside the watch industry, with each employing their personal vision to create special editions of the Rado True.

## CREATION

### Diamaster Power Reserve

Rado welcomed a new addition to its dynamic DiaMaster family: the DiaMaster Power Reserve. Embellished with a sunray pattern, the wide-open dial shines in black, blue or silver and features a power reserve indicator at 9 o’clock. Perhaps the most practical of all complications, the power reserve indicator helps ensure peak performance for both the wearer and their timepiece – while serving as a pleasant reminder of the technology within. The handsome horological package is crafted in black, plasma or brown high-tech ceramic – Rado’s high-performance signature material.

### HyperChrome Captain Cook

A reinterpretation of the 60s-era Rado watch collection of the same name, the new HyperChrome Captain Cook family offers hip casual timekeeping options for both men and women. Oversized indexes, chunky arrow-shaped hands, and a rotating bezel in high-tech ceramic and stainless or carbon-diffused steel combine to give the Captain Cook an unmistakably retro aesthetic. The flagship wristwatch from the new Captain Cook collection is limited to 1962 pieces – a nod to the year in which the original collection was launched.

### True Designers’ Collection

Rado always looks to diverse outside industries for inspiration, and the True designers’ series was no exception. In 2017 the Rado True collection added a series of limited edition timepieces in collaboration with renowned designers from around the world. Prominent architects and sculptors as well as famous fashion and furniture designers were asked to bring their vision to the Rado True. The resulting collection includes six exclusive timepieces with unique design elements – a dial that mirrors the structure of diamond powder (True Blaze), for instance, or changes color depending on the presence of UV light (True Shadow).

### SOME LIKE IT HOT

When meteors speed through the atmosphere, they reach temperatures in excess of 1600 °C. Do you like heat? Some of Rado’s ceramic watch components are placed in a plasma furnace and heated to 20000 °C.









## PRESENCE

### Rado on Court

Rado reaffirmed its dedication to tennis in 2017, with Rado branding and corner clocks prominent at numerous international tournaments from London to Tokyo. The Rado True Limited Edition AMT was launched in honor of the Abierto Mexicano Telcel tournament, where Rado served as Official Timekeeper for the third consecutive year.

Rado also expanded its sponsorship presence, acting as Official Timekeeper for the ATP Next Gen tournament in Milan for the first time. In a victory for the Rado YoungStar program, the brand's South Korean YoungStar Hyeon Chung won the inaugural title of the tournament. Two additional YoungStars also joined the brand: Jason Wu of China and Ashleigh Barty of Australia.



### Passion For Design

Rado continued sharing its design message on a global stage, strengthening its position as the leading design-driven watchmaker. The brand teamed up with several new international design platforms including Dubai Design Week, Design Shanghai, designjunction in London, and Business of Design Week in Hong Kong. The *Rado Star Prize* competition for young designers was held once again in the USA, Italy, France, Austria and Switzerland, with a new edition of the prize launched in the UK.

To unveil the True Designers collection, Rado held Asian and European launch events in the fall. President Matthias Breschan joined several of the collection's co-designers on stage in Tokyo and Vienna for panel discussions on design, watches and the creation of the True limited editions. The European launch took place during Vienna Design Week and was held in conjunction with the award ceremony for the *Rado Star Prize Austria 2017*. Local launches of the collection also took place in France as part of Paris Design Week, Poland as part of Lodz Design Festival, and Belgium in the form of a stylish pop-up gallery in downtown Brussels.

### Brand ambassadors go global

2017 got off to a star-studded start with the addition of Russian screen and stage actress Yulia Peresild as a new Rado brand ambassador. Yulia joined Rado for a springtime launch of the True Thinline Colors in Moscow, unveiling the collection with a poetry reading. The actress paid a visit to the Rado headquarters in Lengnau (BE) in the summer, where she was treated to a behind-the-scenes look at what goes into the creation of a Rado high-tech ceramic watch. A visit to the Alps and the historic city of Lucerne followed Yulia's Rado tour.

In Beijing the brand launched a new pair of couple's watches at a glamorous event with Chinese actress Tang Wei. Rado President Matthias Breschan joined the A-list entertainer for the presentation of the two timepieces from the brand's DiaMaster family. Indian film star Hrithik Roshan and Bollywood beauty Lisa Ray both toured the sub-continent again this year; highlights include Hrithik opening the new Rado boutique in Mumbai and Lisa launching Rado's latest collection in a three-city tour.

On the tennis front, Rado brand ambassador Agnieszka Radwanska took part in a meet-and-greet and autograph session with fans at the Hour Passion boutique in Warsaw, Poland. The sports star also promoted pieces from the True, True Thinline, HyperChrome and Ceramica collections in a new photoshoot for the brand.



\* January 1st, 1893  
Capricorn

**UNION**  
GLASHÜTTE/SA.

# DEDICATED TO TRADITION – BUT WITH AN EYE ON THE FUTURE

## TRENDS

In 2017, Union Glashütte's growth continued to accelerate and won important market share in the core markets of Germany and Austria in particular. It also made a positive impact and established itself as an emerging brand in the new markets of Russia, Dubai, the Czech Republic and Romania.

As a key measure at the points of sale, new displays and presentation materials were implemented, which effectively underscored the quality of the products with their modern design in customized brand colors. The new advertisement featuring the recently launched Belisar Chronograph Sport attracted a great deal of attention in all markets. It was also used for selected window displays, which caused a stir at jewelers in strategic locations.

In the most important sales period, the Christmas season, the German horology magazine *Chronos* dedicated a special edition to Union Glashütte, celebrating the 125th anniversary, in 2018, of the company's founding. In December, the German Watch Museum Glashütte opened its special exhibition *Union Glashütte – 125 Years German Art of Watchmaking* for an early start to a full year of celebration that will mark this important milestone.

## CREATION

### 1893 Johannes Dürrstein Anniversary Edition

In December, to mark its upcoming anniversary, Union Glashütte presented a special model – only 125 of which will be made – featuring an exquisitely finished manual winding movement. This special anniversary edition has a rose-gold case and features a dial with white enamel varnish and Arabic numerals in a perfected classic design.

### Belisar Chronograph Sport

This extremely sporty and versatile timepiece makes a striking impression in many ways, from its bezel made from carbon fiber to its screwed-down rubber flanks. More impressive still is its ability to sport a new look every day, thanks to its three eye-catching interchangeable straps: truly the perfect accessory for any occasion.

### Viro Date for men and women

The Viro collection – with its resolutely simple design – was launched to notable success last year. With dials in blue and brown, the new models revisit the established linear design with a more contemporary edge.

### Noramis Chronograph Limited Edition Sachsen Classic 2017

Gentlemen, start your engines! Union Glashütte once again presented a special limited-edition (250 pieces) Sachsen Classic timepiece at the vintage car rally – and they were sold out before the first one was even delivered. Its dark-green dial with racing stripes and cordovan strap harken back to the classic cars of yesteryear. From a technical point of view, however, thanks to its highly advanced mechanical movement, this timepiece is state of the art.

## PRESENCE

### Vintage car rallies

The year marked the eighth time that Union Glashütte had been involved in the Sachsen Classic vintage car rally, which runs through its home region of Saxony. The brand was also the official timepiece partner of the Silvertta Classic, Paul Pietsch Classic, ADAC Deutschland Klassik and ADAC Trentino Classic, which go through the picturesque streets of Germany, Austria and Switzerland. Those who attend such events are fascinated in equal measure by the technology and the aesthetics, and strengthen the brand with their positive feedback and commitment. Union Glashütte is therefore particularly proud to have established itself as a sought-after partner in the vintage car rally sector.

### Vernissage of the Union Glashütte – 125 Years German Art of Watchmaking Anniversary Exhibition

The German Watch Museum in Glashütte is hosting in 2018 a special exhibition *Union Glashütte – 125 Years German Art of Watchmaking* to mark the 125th Anniversary of the founding of Union Uhrenfabrik GmbH in 1893. It is intended to create a link between the beginnings of the brand and its continuation in the 21st century and to illustrate this rich journey by means of numerous exhibits and documents. The exhibition will run until 2 April 2018. The vernissage at the beginning of December launched a year of anniversary celebrations.



**FASCINATING TIMEPIECES,  
PASSION AND  
A GREAT DEAL OF SENSITIVITY**

The sporty side of time. Exclusive chronograph, date window, moon phase, 100m water resistance, 100% leather strap, 100% Swiss. Premium quality automatic movement with 48 hours of power reserve and ultrahigh sapphire crystal case. Individually finished and assembled by hand in Glashütte. A guarantee for enthusiasts of German watchmaking genius. *Swiss made.*

**125 YEARS**

**UNION  
GLASHÜTTE/SA.**  
GERMAN WATCHMAKING SINCE 1861

www.union-glashutte.com





\*July 1st, 1853  
Cancer

**TISSOT**  
SWISS WATCHES SINCE 1853

# IT'S TIME TO GO HIGHER!

## TRENDS

In 2017, Tissot continued to introduce some groundbreaking new products. The new Tissot Ballade reinforced its "Innovators by Tradition" philosophy with the addition of a silicon balance spring, incorporated for the first time in the brand's history, which increases the precision of the watch.

The innovations continued with the launch of the new Swissmatic movement which, in the Tissot Everytime, provides up to three days of power reserve, allowing the brand to offer an automatic watch at a fair and reasonable price point. Tissot also maintained its timekeeping partnerships in its role as Official Timekeeper at many prestigious events including the Tour de France, the NBA and the MotoGP™, among many others. The brand's commitment to accuracy was seen in the innovative new timing systems it developed, such as the 24-second shot clock for the NBA, which is a revolutionary first for the league. Elsewhere, Tissot strengthened its brand presence across the globe by increasing its retail network with new openings, including boutiques in Rome and Hong Kong. The online presence was also enhanced, with the corporate and e-commerce websites merging into one unique website, and e-commerce becoming available in 12 countries, including China.



## CREATION

Blazing a trail for innovative technology is the new Tissot Ballade, which offers increased longevity and precision thanks to the silicon balance-spring at its core. Its non-magnetic, durable and non-oxidizable properties mean that it will neither erode easily nor be susceptible to temperature variation or magnetism, signs of the brand's commitment to excellence. The Tissot Everytime Swissmatic, with its timeless design, is another testament to Tissot's expertise. The new Swissmatic movement incorporated into the popular watch succinctly reinforces its contemporary nature. Tissot continued to release sporty new watches too, with the Tissot Chrono XL taking center stage with its large 45 millimeter case. The generous size and contemporary Arabic numerals make reading the time easier than ever. Meanwhile, with its bold design accents, clear logos and bold team colors, the Tissot Chrono XL NBA Team collection pays homage to six teams, making it a must-have for sports fans. In sharp contrast, the lightness and elegance of the Tissot T-Wave appealed to a feminine audience, with its pure dial and refined details encapsulating elegance itself. A gently curved silhouette, hands resembling skeletonized leaves, and a teardrop index set with mother-of-pearl show how refined a Tissot watch can be. Other new releases are a tribute to Tissot's illustrious history, with the Tissot Heritage Banana Centenary Edition looking back to a watch exported to Russia. It was sent to Tissot for maintenance in 1917, but unfortunately the brand was unable to return it due to the revolution, which broke out in October. This new piece replicates the banana shape of its famed predecessor, and is evocative of a bygone era.

Style is automatic.

TISSOT EVERYTIME SWISSMATIC.  
UP TO 3 DAYS OF POWER RESERVE.



**T+ TISSOT**

#ThisIsYourTime

TISSOTWATCHES.COM  
TISSOT. INNOVATORS BY TRADITION







## PRESENCE

### Events and Communication

Tissot was proud to launch the new Tissot Ballade collection in Beijing in April, which took place at the beautiful Chinese Academy of Oil Painting. Global ambassadors Liu Yifei and Huang Xiaoming were thrilled to join CBA legend Liu Xiaoyu, President of Tissot François Thiébaud and Country Manager of Swatch Group China Susan Chen at the prestigious event. It was followed by the making of the glamorous Tissot Ballade film, launched in August, which portrayed the two ambassadors enjoying a romantic game of hide and seek as the tension built. The advertising campaign and TVC for the Tissot Everytime Swissmatic, launched at the end of the year, is equally as sensational. This time, the message is an empowering one, inviting consumers to live their lives to the fullest. The “Style Is Automatic” message dares everyone to wear a precise, high-quality Swiss watch of their own. Tissot also enjoyed working with new partners in 2017, and was honored to become the first official timekeeping partner of Tmall. This leading e-commerce platform, the largest in China, signed a timing partnership agreement for the Double Eleven Global Carnival with Tissot at an official ceremony at Alibaba headquarters in Hangzhou. As well as providing timekeeping services, Tissot also took part in marketing and promotion during the Carnival, which took place on November 11th. The event established a record number of online transactions, each of which was closely monitored by Tissot. The brand’s prominent presence during the gala evening gave the Chinese audience a chance to see its countdown and also to enjoy its advertising campaigns.

### Sports Partnerships

The NBA All-Star Game in February had fans on the edges of their seats. The partnership further blossomed as the season started in style in October with the launch of Tissot’s collection of team watches. The summer saw a different sport make headlines, with the Tour de France departing from Dusseldorf in July, continuing its prominent association with Tissot. To the delight of the spectators lining the routes, the Tour welcomed French as well as international personalities to the various stages. Ahead of the official competitors, these special guests were given the privilege of cycling the final 20 km of their chosen stretch. They were thrilled to finish with a picture on the podium, and awarded a yellow jersey, presented in some cases directly by Tissot President François Thiébaud. Later in the year, François Thiébaud took part in the MotoGP™ final, alongside Tissot’s ambassadors in the discipline, Jorge Lorenzo and Thomas Lüthi, with an end-of-season event in Valencia. Another exhilarating season may have ended, but Tissot and MotoGP™ fans will continue to relive the adrenaline-fueled event with the 2018 official MotoGP™ watch collection. The three new watches reflect the long-standing alliance between the two partners, with sporty detailing and the latest technologies, and also show the multi-faceted nature of Tissot’s watches. A mechanical model limited to 3333 pieces, a quartz model limited to 8888 pieces and a Special Edition quartz watch all look set to become favorites with collectors.

### Retail

Tissot increased its retail network with 30 new stores around the world. Particularly special is the new Hong Kong boutique, which opened in July. It successfully merges tradition and innovation with new high-tech visual animations along with a wider selection of watches to choose from. The opening was celebrated with Pakho Chau, a renowned singer in Hong Kong, who officiated at the ceremony. Later in the year, Tissot marked another important opening, with a large boutique in Rome opening its doors in September. The grand new space, close to the city’s luxury areas, allows Tissot to exhibit its new collections against a backdrop of state-of-the-art design. In total, Tissot has 14000 POS, 4000 SIS and 360 boutiques around the world.





\* January 30th, 1997  
Aquarius

CALVIN KLEIN

# A STEP INTO THE FUTURE

## TRENDS

Following the much anticipated appointment of world-renowned Belgian fashion designer Raf Simons as Chief Creative Officer for Calvin Klein, the brand was unified by a unique and global creative vision, the first since that of its founder and namesake. 2017 marked a new chapter for Calvin Klein, and particularly, its watch and jewelry segment: the brand has reinvented itself, seizing new opportunities and winning new customers.

New design codes have emerged with the use of colors, textures, and a modernist design language; distinctive elements that are evolving from the timeless, understated style that has always characterized the brand. Combined with Calvin Klein's iconic styling references, there is no doubt that they will appeal to new generations of fans around the world.

The new advertising campaign, officially launched at Baselworld, perfectly reflects the global vision Raf Simons has developed across all product categories. Shot in Miami by Raf Simons' long-time collaborators, stylist Olivier Rizzo and photographer Willy Vanderperre, the first new-generation Calvin Klein campaign revolved around the concept of youth and highlighted the American spirit.

Just as Calvin Klein did in his early days, Raf Simons also personally chose the new faces, young and attractive, unknown to the general public, to be included in the new advertising campaign. Thus the brand announces – without compromise – its bold intention to create its own talents, focusing primarily on their personalities and their personal journeys.

Among these rising stars, Lulu Tenney – better known as Lulu – became the new face of Calvin Klein as she lit up the catwalk during New York Fashion Week in February. Alongside Lulu, Kiki Willems and Jonas Gloer, a couple in real life as well as “on-screen”, made their appearance, embracing passionately and giving place of privilege to the brand's most emblematic watch, the ‘Calvin Klein minimal’.

Another model made his grand entrance into the fashion sphere: Fernando Schuster starred in the campaign along with the ‘Calvin Klein city’, an impactful gents' timepiece with a classic black leather strap, whose silhouette communicates an appealing blend of sobriety and character. On the feminine side, Arizona-bred Italian *Vogue* cover star Samantha Ellsworth was the perfect embodiment of the ‘Calvin Klein dainty’, a watch that simultaneously expresses modernity and glamour.

With a focus on individuality rather than homogeneity, the brand bet on never-before-seen faces to bring something special to the advertising campaign both in traditional and digital media.







## CREATION

Calvin Klein's style has remained faithful to the pure, sleek, contemporary and sensual spirit of ready-to-wear collections, which have become a staple and a signature in the fashion watch market over the last 20 years. Today the brand proudly introduces itself as the only brand in its segment sporting the Swiss Made label, an asset that guarantees matchless quality and know-how.

The creative team at Calvin Klein, working closely with the brand's watch and jewelry specialists, ensured the consistency of all the watchmaking creations with the rest of its products, supported by advertising campaigns that communicate a strong unified message: the fresh, clean and provocative Calvin Klein is back, and is aimed primarily at a young audience.

With its round case, clean dial and refined hands, the 'Calvin Klein minimal' watch was again a bestseller. The 2017 anniversary edition is indeed faithful to the original curves: round, flat and presented on a comfortable Milanese mesh bracelet. The true evolution delivered by the new team to the renowned 'Calvin Klein classic' is its logo, now engraved on the dial in an extra-large format, offering a striking contrast to the hands. The ultra-modern matt chromatic palette alternates between black, anthracite and gold.

The introduction of fashionable hues such as vibrant blue, passionate burgundy and seasonal green added a touch of pep to the legendary 'Calvin Klein city' line. The global success was vigorously proclaimed for new style statements such as the 'Calvin Klein endless', chosen by Lulu, and 'Calvin Klein chic', perfect for the younger generation.

Since the launch of the very first jewelry collection in 2004, Calvin Klein has developed many collections characterized by their essential lines creating a pure and striking shape. At Baselworld, the symmetric, sophisticated 'Calvin Klein outline' was described through all modes of communication as the absolute "must" of the season, which can be worn by day or at night for a radiant look. This stunning jewelry set is available in stainless steel, yellow gold PVD, and pink gold PVD and consists of a choker, an open bangle, a ring, and two pairs of earrings – large and small – that light up any outfit.

## PRESENCE

VidCon Europe is a three-day event creating unique momentum by bringing together – on one hand – the world's leading experts in digital community management, inviting them to share their secrets and – on the other – the leading creators and marketers to provide hands-on training in building digital channels and collaborating with brands. In that context, the Calvin Klein experience kicked off with an intimate dinner on the second evening for over 70 leading designers. Among them were Grace Helbig, Tyler Oakley, Hannah Hart, Savannah Brown, who became ambassadors representing the 'Calvin Klein disclose' watch or 'Calvin Klein boost' jewelry pieces. During the two days of VidCon, guests were hosted in an exclusive Calvin Klein environment and introduced to the year's new products. They also had the opportunity to enjoy a photo activation with Instagram artist, Radiant Human, as well as the chance to be photographed with their Calvin Klein watches by Dutch photographer Melody Lieftink, who posted them on social media.

Thanks to its unique positioning, allying the latest fashion trends with Swiss-made savoir faire, Calvin Klein has remained on track for a strong expansion in the Asian markets; the brand has surfed wisely on China's market dynamism and has benefitted from the recovery of Hong Kong in the watch and jewelry sectors. Making the most of the unisex items in its product portfolio, the brand reinforced its positioning in Japan, South Korea, Thailand, and Malaysia, countries whose projected market growth will allow Calvin Klein to exploit the full potential of these important markets.

The brand continued to pursue its development in the south of Europe, making progress in a challenging economic environment, thanks to the focus on entry-level models of both watches and jewelry. At the same time, Calvin Klein enjoyed historic growth in Germany and Great Britain.

The powerful *black and white* advertising campaign peacefully invaded style and fashion capitals around the world, sometimes presented in unexpected formats and dynamics.

At Baselworld, Calvin Klein celebrated the 2017 Collection by inviting leading international journalists from around the world to a gala dinner. It was the first watch brand to invest in the Kunstmuseum's new Contemporary Art wing. The event featured an impressive musical performance by Kelsey Lu which, combined with the artistic atmosphere, created a buzz and fueled lively discussions in the city on the banks of the Rhine.



\* December 21st, 1971  
Sagittarius

**BALMAIN**  
swiss watches

# A SENSE OF BEAUTY

## TRENDS

Despite an uncertain economic and political climate and a difficult start to the year, Balmain continued to turn heads and captivate hearts, perpetuating the tradition of a time when “custom-made” ruled supreme. Year after year, the collections are designed like an item of clothing, making the eyes – even of the most demanding women – sparkle.

In 2017, the Maison created its very first timepiece with a moon phase indicator. The starry sky, shining on the movement like thousands of lanterns in the dark night, is a custom-made decor specially conceived and designed for Balmain watches. It is surrounded by the brand’s signature arabesque motif.

Just like the best fashion shows, the new Balmain collection, presented at Baselworld 2017, struck the right note. As a result, all the efforts made – as much in terms of creation as in the main markets like the Middle East, Europe, Russia and India – were rewarded with a satisfactory sales increase in the second half of the year.

## CREATION

### Laelia Lady II: Intrinsically young

The incredibly modern new range of Balmain watches exudes simplicity that is both elegant and infinitely captivating. The power of its design lies in the details. The essence of the range has been developed around two ideas: clarity and quality. This solid foundation provides scope for a great many variations enabling different looks. The round case featuring a circumference engraved with perfect circles makes a strong impression and represents guaranteed value.

### Madrigal Lady Oval II: The expression of elegance

This is Balmain’s little black dress of watches. This model’s streamlined oval case, with its contemporary design, is extended by its metal bracelet. The versatile range incorporates a selection of quality materials with a variety of combinations, offering modern women the luxury of a perfect look for every occasion. The new Balmain watches create an elegant marriage between jewelry and the meticulous art of watchmaking.

### Orithia II: A treasure of femininity

Just as a simple cut, a pleat, or a touch of color can make an outfit exceptional, the many variations of the new Orithia collection are the key to a truly unique look. The innovative, sparkling style of the dials with their arabesques at first sight evokes abstract representations of the zodiac signs.

### Balmain de Balmain Moon Phase: Lunar legends

On rare occasions, the stars of haute couture and ancient art align to perfection. Balmain has managed to skillfully combine the two with a moon phase watch, adding an intriguing dimension to the passing of time. Balmain’s design of the Balmain Moon Phase intensifies this fascination by associating an elegant display of moon phases with various resolutely feminine backgrounds. These decorations bring life to a garden blossoming with arabesques in a large silver-colored central circle, enlivened by discreet elements with a modern look that is slightly in relief. These timepieces light up the severest of looks as do Maison Balmain’s haute couture pieces, which blossom on the catwalks of fashion shows and create the trends of tomorrow.

## PRESENCE

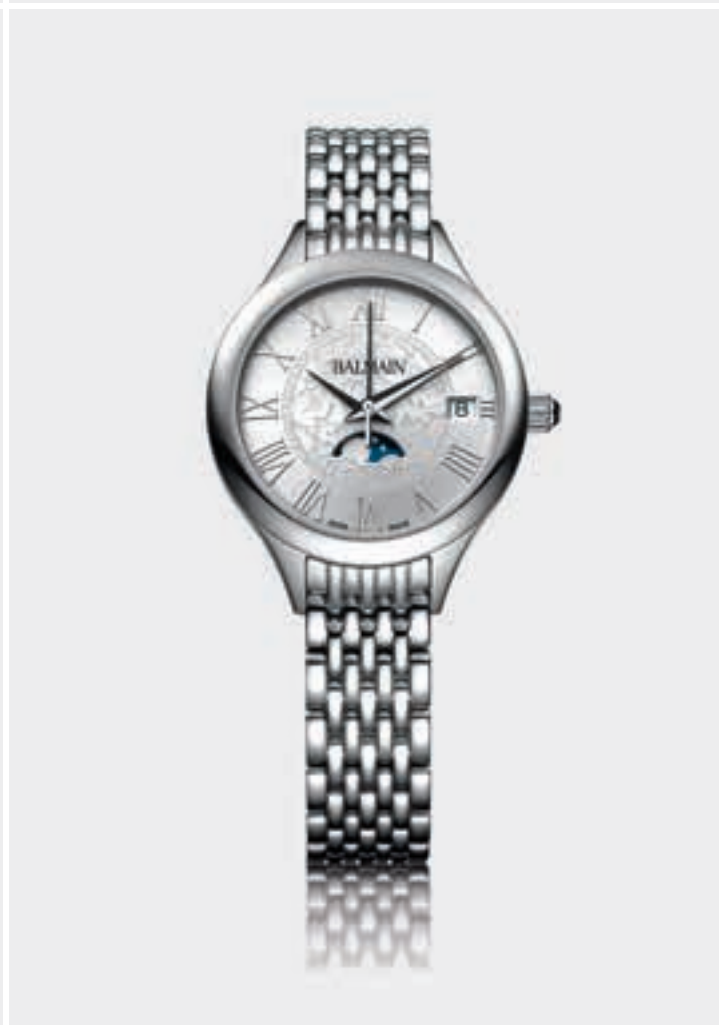
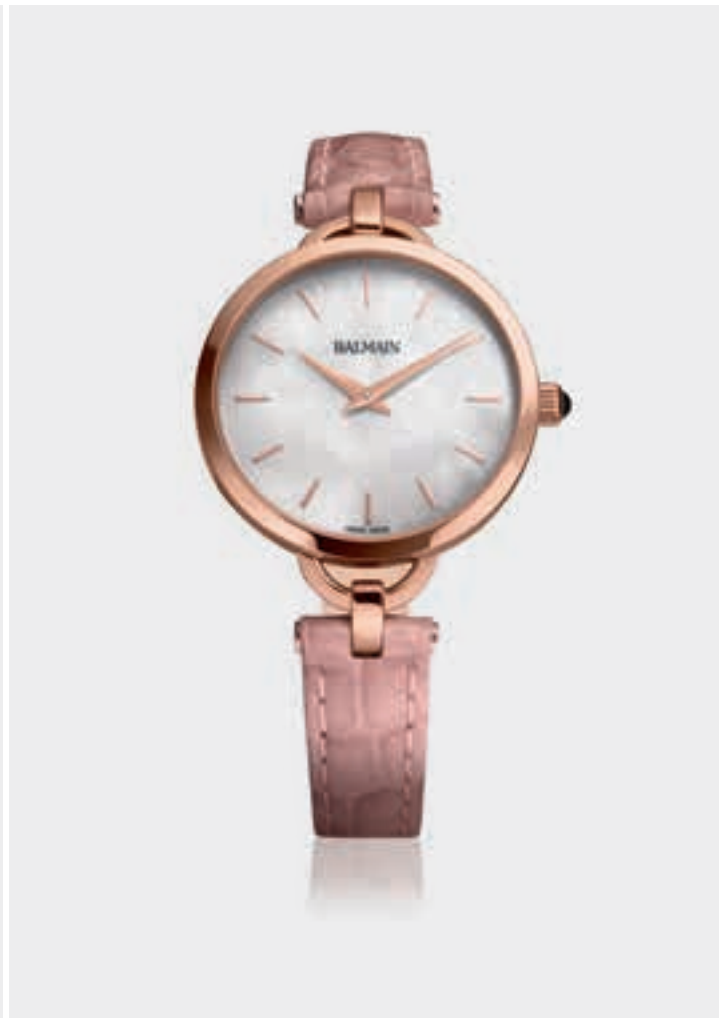
In 2017, Balmain focused primarily on its key markets by organizing training sessions and animations in its points of sale.

The watch brand of the celebrated designer Pierre Balmain has developed a genuine watchmaking language, imbued with the elegance that characterizes the fashion house. Today, each Swiss wristwatch bearing Balmain’s well-known name pays homage to this union. Balmain has become the must-have brand in the mid-range segment, with creations offering every woman the luxury of wearing a timepiece that meets the most demanding criteria at a price they can afford.

### A MAN IN THE MOON?

We know that humans walked on the moon (we were there!). But a man in the moon? The Roman moon goddess Luna would be horrified. Balmain has lifted the veil on the gender of the moon: the brand has adorned her face with its arabesques. So her fascination remains boundless, seductive – and worthy of a goddess.







# SPORT AND PRECISION

## TRENDS

Certina is the specialist when it comes to sporty watches and chronographs. In 2017 the brand successfully expanded its DS Action collection and in doing so, strengthened the distribution markets worldwide for this complementary segment. This focus generated a growth dynamic and the brand is fortunate to have made significant gains in market share in all regions. As in the past, Certina obtained the majority of its turnover in Europe, in particular in Eastern Europe and Russia. Promising growth was achieved among young Chinese consumers, and the Middle East also saw an increase in market share.

Thanks to innovative new products, mechanical watches play a larger role in the brand's collections, and the ladies' segment was strengthened by the DS Action and DS-8 models. As of 2017, all new quartz watches meet the highest demands in terms of rate precision, and are COSC-certified. This exclusive sign of quality offers end consumers added value and underscores the exceptionally positive development in this area.

Its presence as Official Timekeeper and Partner of the FIA World Rally Championship and the Super Sports Car ADAC GT Masters series garners a great deal of attention from the general public.

## CREATION

### DS Podium Chronograph LAP Timer

The chronograph functions are tailored precisely for motorsports with a display of tenths of a second in real time, a certified COSC chronometer PreciDrive™ quartz movement and a lap timer function for measuring round-the-track times.

### DS Podium GMT

With a separate 24-hour indicator styled like a globe and officially certified chronometric precision, the watch enriches life and lets the wearer check home and destination time or time at a reference location at a glance.

### DS Action

This sporty three-hand quartz model unites water resistance up to 20 bar (approx. 200 metres) with genuine, COSC-certified chronometer precision.

### DS Action Lady

This COSC-certified quartz chronometer unites maximum precision with water resistance up to a pressure of 30 bar (approx. 300 metres). Design details including delicate case dimensions and a refined wave motif assure a stylish appearance.

### DS Action Diver Automatic

Water and action simply go well together. The most recent edition effortlessly meets the stringent ISO 6425 norm for dive watches, exceeding these high standards with a Powermatic 80 movement.

### DS-8 Lady Chronograph

An expert in modern accessories and the measurement of short intervals: a 30-minute counter at 10 o'clock, a 1/10th-second counter at 2 o'clock and the stop seconds in the center are complemented by the date and small seconds displays and completed with the COSC chronometer certification.

## PRESENCE

### Launch of the DS Podium Chronograph LAP Timer

The new DS Podium Chronograph LAP Timer Racing Edition was presented to journalists on the occasion of the ADAC GT Masters at the Lausitzring race track in Germany. As the Official Timekeeper of the blindingly fast Super Sports Car Championship, a visit with journalists to the pit lane was a must, topped off by seats in the stands to watch the race.

### Partnership with Sea Turtle Conservancy

From July 2017 Certina has been a proud partner of the Florida-based Sea Turtle Conservancy, supporting the organization's environmental protection and sustainability goals. As partner Certina helps to raise awareness of such unique activities as the *Tour de Turtles* (migration marathon). Appropriately, the path for both institutions can be traced back to the year 1959, when Certina engineers launched the now well-established DS Concept and the Sea Turtle Conservancy was founded. Given this common ground, a partnership seemed only natural.

### Dealer Event in Sanya, China

Certina invited its most important Chinese partners to the island of Hainan for the market debut of the DS Action Diver. Guests had an opportunity to try out the dive watch in an authentic environment and discover the virtues of this high-performance timekeeper.





**CERTINA**  
SWISS WATCHES SINCE 1888

PRECISELY  
YOUR  
MOMENT

DS ACTION DIVER  
AUTOMATIC MOVEMENT  
DIVER'S WATCH 300 M  
ISO 6425

WWW.CERTINA.COM





\*November 11th, 1918  
Scorpio

**MIDO**  
SWISS WATCHES SINCE 1918

# ARCHITECTURE AND INNOVATION

## TRENDS

On the eve of its 100th anniversary, Mido successfully enhanced its position and its visibility across the world, while remaining true to its values.

In 2017, still closely linked with architecture, the brand from Le Locle (NE) interacted with the first art in an even more eye-catching manner than usual, notably by associating it with some spectacular sports.

In addition, Mido continued to focus on innovation and functionality with the creation of new timepieces renowned for their timeless character and excellent value for money.

## CREATION

### Belluna

The Belluna Sunray models and their magnificent sunray guilloché dials were graced by British elegance. An aura of mystery settled on the new Mysterious Date line and its display system, which was a first for Mido. Thirty-one apertures surround the center of the dial and each one reveals an elegantly inscribed day of the month while the current date appears in black.

### Multifort

Inspired by a model from the 1940s, the Multifort Escape is endowed with a robust 44 millimeter stainless steel case with an aged and sandblasted black PVD treatment. This finish makes each piece unique. The Special Horween Edition combines the best of Swiss watchmaking with leather from one of the most prominent tanners. Thanks to its two easily interchangeable Horween leather straps, this watch is suited to every occasion.

### Commander

With the Commander Icône, Mido pays tribute to one of its most emblematic models. This neo-vintage line adopts most of the codes responsible for the collection's success and combines them with cutting-edge technology. The Commander Icône is thus fitted with a Caliber 80 Si, a COSC-certified movement with a silicon balance spring. This component offers long-term precision that far exceeds

that of its standard counterparts, thanks to its amagnetic properties and greater shock resistance. This new-generation caliber also ensures up to 80 hours of power reserve.

### Baroncelli

The Baroncelli Prisma is the epitome of femininity. The center of its round grained silver dial reveals a marquetry creation formed of 25 pieces of white mother-of-pearl individually applied by hand. This play of prisms is enhanced with 51 diamonds as well as Caliber 80 technology.

### Inspired By Architecture

Mido reaffirms its attachment to architecture with a timepiece that is directly inspired by the Guggenheim Museum in New York. That building was acclaimed by the public at the end of the interactive #BeInspiredByArchitecture campaign that brought together more than 100 000 participants all over the world. The Inspired By Architecture Limited Edition is enchanting with its contemporary design enhanced with clean lines. Produced in a limited edition of 500 pieces, this unique watch is fitted with the Caliber 80 Si, which provides a power reserve up to 80 hours and whose accuracy is ensured by a silicon balance spring.

## PRESENCE

A great many events and activities across the world combined Mido's architectural inspirations with breathtaking undertakings such as parkour and vertical dance.

On the other hand, the #BeInspiredByArchitecture ended magnificently with an exclusive gala at the heart of the Guggenheim Museum. A spectacular evening marked the international launch of the Inspired By Architecture Limited Edition, which draws its inspiration from this American architectural icon.

In addition, Mido was delighted to pursue its partnership with the International Union of Architects by taking part in the 26th World Congress of Architecture in Seoul. The brand was involved with the presentation of the UIA Prize and also supported the creation of a new *UNESCO-UIA & MIDO Student Design Prize for Responsible Architecture*, dedicated to students.

In Mido's event-studded 2017, the brand successfully revealed all the drive of its 99 years, not only by opening several points of sale, but also by emphasizing the many values that it shares with architecture.





\*December 14th, 1932  
Sagittarius

**HAMILTON**  
AMERICAN SPIRIT • SWISS PRECISION

# AMERICAN SPIRIT ■ SWISS PRECISION

## TRENDS

Hamilton enjoyed another successful year in 2017, continuing to grow and enhancing its retail presence with its first standalone boutique in Tokyo's trendiest fashion district.

The iconic Ventura celebrated its 60th anniversary in 2017, while Hamilton strengthened its presence in the world of aviation by becoming the Official Timekeeper of the Red Bull Air Race World Championship; the brand also supported the launch of new models with prestigious local events.

## CREATION

There were new additions in 2017 to the Ventura, Khaki X-Wind and Broadway lines as well as a limited-edition recreation of the Chronograph B and a new Khaki Aviation line to support Hamilton's aviation engagement.

To celebrate 60 years since the launch of the iconic Ventura, Hamilton created three new models, one of which was dedicated to Ventura's most famous fan – Elvis Presley. The Ventura Elvis<sup>80</sup> Skeleton commemorates what would have been the King of Rock 'n' Roll's 80th birthday.

The limited edition Intra-Matic 68 drew inspiration from the famous Hamilton Chronograph B from 1968, which was a firm favorite with the brand's fans for its unusual "reverse panda" dial. The new version showcased Hamilton's ability to give vintage design a modern twist.

Created to support Hamilton's first year as Official Timekeeper of the Red Bull Air Race World Championship, the special edition Khaki Air Race watches comprised automatic models in the official blue and gray of the Air Race as well as models in black and orange representing Team Hamilton.

The Khaki X-Wind Automatic Chronograph proved a popular technical addition to the line originally launched in 2005 – the first Hamilton to feature a drift angle calculator. The chronograph is powered by the H-21 automatic movement, which has an extended power reserve of 60 hours.

## PRESENCE

As the new Official Timekeeper of the Red Bull Air Race World Championship, Hamilton strengthened its presence in this most exciting branch of aviation, which features the world's best pilots. Team Hamilton pilot Nicolas Ivanoff, a brand ambassador since 2005, participated in the eight stops on this year's calendar. Announced in November, Hamilton has partnered with the fastest pilot in Spain, Juan Velarde, who also competes in the Red Bull Air Race World Championship.

Hamilton's engagement with the Red Bull Air Race was also supported by an impressive multimedia exhibition in Geneva Airport throughout January, the airport's busiest month, when it welcomes 1.4 million passengers.

True to its military heritage, Hamilton is the proud sponsor of US Air Force Athletics and the official watch of its athletes.

In South Korea in April, Hamilton brought Broadway to Seoul to celebrate the launch of its new collections in the pop-up Broadway Café. Actor Daniel Henney, brand ambassador and star of *Criminal Minds*, was the guest of honor.

June saw Hamilton host a celebration of the 60th anniversary of the legendary Ventura at the Casino de Paris, the only venue outside the U.S. where Elvis Presley played music. An exhibition showed the new Ventura collection alongside vintage models.

In November the *Hamilton Behind the Camera Awards* took place in Shanghai. It was a fantastic opportunity to underscore Hamilton's status as *the* movie brand as it celebrated and recognized the achievements of the individuals behind the scenes in the blossoming Chinese film industry.

Hamilton closed out the year with the opening of its first standalone boutique on Tokyo's famous Cat Street. With polished concrete, exposed brick and smooth wood surfaces, the boutique has an urban loft look and feel.

For 2018, Hamilton will turn its attention to aviation as it celebrates 100 years of timing the skies.





\* March 1st, 1987  
Pisces

flik flak

# HAPPY BIRTHDAY TO US!

## TRENDS

Candles and cakes all round! In 2017, the world's favorite children's watch turned 30 and promised never ever to grow up. Flik Flak has been helping kids everywhere learn to tell the time for three decades, so it had plenty to celebrate. Colorful events and colorful watches joined forces to make this a year to remember.

## CREATION

The 2017 product offering brought smiles and skills to young wearers everywhere. A beautiful birthday movie shown on YouTube harnessed the wave of joy spread by giving and receiving a Flik Flak watch. Along with the popular special birthday timepieces, there were themed collections that captured the eyes and hearts of all age groups and were purchased in person and online 24/7. The limitless imagination took a trip to London, went on camping adventures, chilled at the beach and even had a spot of space travel on its radar screen. Going hand-in-hand with the fun factor were the intrinsic Flik Flak signatures of Swiss-made high quality and effective learning. For Flik Flak the party never ends.

## PRESENCE

Party time winged its way around the world with 15 PR events. From high-fiving Flik and Flak to crazy face painting, the accent was on fun that ticked the educational box. The calendar bounced from one highlight to the next, with over 200 POS activations worldwide and participation in two major trade shows. Social media opened the door wide to welcome everyone across the planet into the Flik Flak family. A selfie photo competition on Instagram attracted 600 entries to pitch for fabulous prizes. One lucky family walked away with tickets for a vacation in the Swiss Alps, home sweet home to Flik and Flak. The Flik Flak website dressed up for the milestone year in a new outfit, offering easily accessible key information and popular interactivity enabling visitors to share their news and views. Underlining the message of universal belonging, www.flikflak.com became available in 17 languages.



# EXCLUSIVE TIMEPIECES IN LUXURY BOUTIQUES

In 2017, Tourbillon Boutiques focused on VIP treatments by welcoming international and local clients to visit the Swatch Group brands' manufactures, where they had the opportunity to acquire unique timepieces. One of the year's highlights was an event co-sponsored by Blancpain and Tourbillon and organized by Fairmont Le Montreux Palace, where two-star Michelin chef Dani Garcia was invited to serve as guest chef. He helped celebrate the brand's commitment to the culinary expression of the Art of Living in great style.

Tourbillon Boutiques worldwide concentrated their efforts on providing the best personalized service and on focusing particularly on unique and special timepieces, showcasing rare products from each brand. It is little wonder, therefore, that clients took the opportunity to enhance their collections with timepieces including a Platinum Tourbillon from Breguet, a Premier from Harry Winston, a Carrousel Moon Phase from Blancpain, a Grande Tourbillon Cosmopolite from Glashütte Original, and a Bird Repeater from Jaquet Droz among many others.

Events organized across the globe proved to be another avenue of success for Tourbillon Boutiques. Two evenings in Russia (Moscow and St Petersburg) celebrated the Boutiques' namesake by gathering the largest collection of tourbillon movements from all the brands ever assembled under one roof. In cities such as Amsterdam and Lausanne, the Tourbillon Boutiques hosted unique Baselworld events showcasing all the latest products presented during the world's largest watch and jewelry trade fair. Tourbillon San Francisco chose to honor the more feminine side of Breguet by inviting select clients to admire the Reine de Naples collection.

Tourbillon Boutiques also invested considerably in its online presence in 2017, resulting in an impressive, dynamic digital presence.







# PERFORMANCE AND RATIONALIZATION

In 2017, the Hour Passion Retail brand continued its development by prioritizing the performance and rationalization of its network.

The multibrand chain – specializing in the sale of Swatch Group's watch and jewelry, from entry-level brands to the premium segment – opened ten new points of sale (POS). Supported by its international presence, the quality of its concepts and the potential of its business model, Hour Passion continued to expand in key sales environments. At the end of 2017, the network included nearly 60 POS spread across 19 countries in Europe, Asia and North America.

Keenly attentive to changes in the area of distribution, and demonstrating an ability to adapt when circumstances called for it, the brand continued its expansion in premium category outlet villages. Hour Passion is now present in the following malls: Serravalle (Italy), Paju and Siheung (South Korea), Klia Sepang (Malaysia), Roermond (Netherlands), Fox Town Mendrisio (Switzerland), Mitsui Nagashima (Japan) and Woodbury Commons (NY, USA).

In the airport environment, where Hour Passion had its origins, the boutique concept reopened in two terminals at Nice Côte d'Azur, which completed its massive refurbishment program.

With regard to its urban development, Hour Passion implemented its shopping experience in a 145 square meter boutique in the heart of the brand-new Emaar Square Mall in Istanbul.

In order to meet new client expectations, improve satisfaction levels, and strengthen customer loyalty, Hour Passion held a large number of promotional and development programs throughout the year with its partner brands: Blancpain, Omega, Longines, Rado, Tissot, Hamilton, and Calvin Klein, as well as Swatch.

Driven by a desire to develop innovative, differentiated, and value-creating initiatives, Hour Passion has a large number of key assets that allow it to keep pace with the mounting success of its concept and to meet new challenges.



# SWATCH ART PEACE HOTEL

The year began with the French language at the Swatch Art Peace Hotel in Shanghai. It was there that the opening night of the *Fête de la Francophonie* (cultural festival of French-speaking communities) was held in March, attended by numerous members of the diplomatic corps of entirely or partially French-speaking countries. The proceedings featured several noteworthy speeches, including an integrated message of consensus from Alexandre Hoffet, Consul General of Switzerland.

The Swatch Art Peace Hotel was also the location chosen by Federal Councilor Ueli Maurer, head of the Swiss Federal Department of Finance, when he stopped off in Shanghai during his round of meetings with Chinese authorities and media. Eager to explain the new strategic orientation of Swiss financial and fiscal policy, Switzerland's delegation met with local press in a prestigious setting that underscored the scope of the country's ambitions in China.

In May, Debora Rossi, the Vice President of the Venice Biennale, accompanied by Carlo Giordanetti, Creative Director Swatch International, came to present the concept developed by Christine Macel for the Biennale Arte 2017 edition to the Chinese press and to Shanghai's contemporary art circles. Throughout the event, the French curator paid a tribute – called VIVA ARTE VIVA – to Art as a celebration of humankind's ability to resist any powers attempting to dominate it. As part of Biennale Arte 2017, Swatch, as main partner of the event, gave free rein in a room of the Arsenale to four former Swatch Art

Peace Hotel artists-in-residence: French photographer, Virginie Litzler, Belgian architect and sculptor Cédric Van Parys, South African visual artist Rodan Kane Hart and Chinese painter Yuan Jinhua.

In Mid-July, a launch ceremony attended by Nick Hayek, Member of the Swatch Group Board of Directors and President of the Group Management Board, served to introduce SWATCH PAY!, the new version of the watch embodying "the coolest way to pay". A real buzz and a sense of innovation, along with curiosity and excitement among representatives of the press combined for a truly festive atmosphere and a great experience!

As part of the formal and informal partnerships with local institutions most representative of contemporary art, the year's two highlights were exhibitions by Austrian photographer Anita Grazer during Photofairs | Shanghai in September; as well as another held in November – staged for the second time in partnership with the Power Station of Art (PSA) – featuring one of the three winning groups in the 2017 edition of the *Emerging Curators Project*. This type of event gives the Swatch Art Peace Hotel and the Swatch brand considerable visibility among local contemporary art connoisseurs. Both Anita Gratzler's *Thoughts Left Visible*, with her surrealist black and white portraits that stare out and question spectators; and the *LIGHT UP Therapy Resort* by Chinese curators Tiffany Fung and Lu Siqiao, which looks at the frantic quest for "well-being", allowed Swatch Art Peace Hotel visitors to view various approaches to current issues through the eyes of contemporary artists. The 45 new artists-in-residence who arrived in Shanghai in 2017 confirmed this wide range of interests, visions, and questions: in short, exactly the kind of creative perspective supported by the Swatch Art Peace Hotel.





# CITÉ DU TEMPS

In 2017, the Cité du Temps hosted 20 exhibitions and over 80 events.

## Open doors, open minds

All year, this unique Geneva venue endorsed its commitment to giving the public access to a diverse range of artists, media and subjects. From photography to graffiti, acrylics to collage and sculpture to installation, visitors enjoyed creativity on tap. Exhibitors came from all four corners of the globe, as well as the local area, contributing unique elements to the “big picture” of diversity.

Setting the scene were the world-famous *Microcosms* created by Samsofy in LEGO® figures, making the likes of a pineapple-attacking samurai appear commonplace. The photography repertoire kicked off with *Tokyo Station*, a group show comprising shots taken of the Japanese metropolis for seven consecutive days, seven hours per day. Some time later, the focus turned to Bolivia and Pierre Egger’s stunning shots of a train cemetery. Graffiti proved an urban magnet. In a vibrant street art collaboration, Rey and Timer, with their New York graffiti signatures, returned to their roots for a joint exhibition.

## A world of contrasts

The theme of childhood waved its magic wand in two contrasting exhibitions. French artist Lionel By Li used kaleidoscopes of cartoon characters, elements of advertising, text, and graphics to present the impact of images consumed during childhood and adolescence on attitudes and behaviors of adults. The fantasy-style acrylic landscapes of Japanese artist Osamu Oshida later enchantingly depicted the four seasons through the eyes of a child. Catapulting the imagination and intellect back to distinctly adult realms, a group presentation contemplated the mystique of fractioning. *The Power of Love* was the chosen message of young Parisian Jack le Black for his unique multi-media show. The Cité du Temps opens up the world yet never forgets where home is – perfectly expressed by *Léman 2.0*, which united ten local urban artists under the umbrella of Geneva’s lake.



# PRODUCTION

WATCHES / JEWELRY



## HEAVEN ON EARTH

The silent, recurring spectacle of the changing crescent moon in the night sky has a calming effect on many people – but not necessarily on watchmakers. Because it is a special challenge to capture the cycle of 29 days, 12 hours, 44 minutes, and 2.9 seconds with a timepiece.

The result is always a feast for the eyes – and as clear as a starry night.



\* October 31st, 1793  
Scorpio



ETA<sup>SA</sup>  
MANUFACTURE HORLOGÈRE SUISSE  
DEPUIS 1793

## ETA MANUFACTURE HORLOGÈRE SUISSE

1/2/3

[www.eta.ch](http://www.eta.ch)

Despite a difficult business environment in 2017, ETA Manufacture Horlogère Suisse continued to offer swift responses tailored to the needs of the high-quality Swiss Made product market. An ongoing quest for performance, flexibility and innovation remained a key development area for the company.

With regard to mechanical movements, ETA continued to develop and improve products for Swatch Group brands, including the A16.A33 Worldtimer (Omega Co-Axial Master Chronometer 8939) and the A02.A63 (Omega Caliber 2507) for the Seamaster Diver 300M "Commander's Watch", on behalf of Omega. The use of silicon was extended to the Longines A20.L11 Spiral Si and A31.L11 Spiral Si calibers, which are both COSC-certified chronometer movements. Tissot's Ballade Powermatic 80 (ETA C07.811) watch also benefitted from the use of this material. The Tissot Everytime watch is equipped with a new Swissmatic caliber leveraging the technological progress of its SISTEM51 counterpart.

In the area of quartz products, the development of calibers with embedded "NTC NeoTroniC" technology represented a major accomplishment and endowed the Longines Conquest V.H.P. L 289.2 (ETA E57.211) watch with a of intelligence. It is accurate to  $\pm 5$  seconds a year. Its hands reset themselves after a blow or exposure to magnetic fields.

ETA further enhanced its entry level range of Swiss Made movements with the launch of the GMT 24-hour F06.811 and F06.421 PreciDrive™ calibers. A moonphase function was also offered for the F05.841 and F05.441 calibers. The E63.171 and E63.071 calibers were distinguished by their delicacy and optimized design parameters.

Swatch launched the second generation of its contactless payment system SWATCH PAY!. The SKIN collection presented 11 minimalist models with two different and innovative two-tone case sizes. It was the first time ETA had produced two-tone cases with over-molding of the bottom-plate using double-injection technology, a technique requiring special attention to quality and extreme proficiency in the manufacturing process.

A fresh digital communication approach was launched with a presence on social networks and a complete revision of the website. The increased number of visitors to the Baselworld booth was a great achievement and ETA was able to present several movement concepts with the aim of preparing for the future and continuing innovation. These included a new esthetic offering for the 6497-1 and 7001 mechanical calibers with unprecedented, customizable decorations achieved through digital printing technology. The year's marketing activities were successful.

ETA implemented new instruments that allowed it to increase its industrial competitiveness and enhance the cost-effectiveness of its Swiss Made activities at the forefront of cutting edge or traditional technologies.

Thanks to new geometrical shapes and the use of different materials, tougher and more accurate cutting tools enabled the company to enjoy the full benefit of the technical capacities of machines acquired over the past few years. Combined with improved means of measurement, these tools stabilized processes and reduced waste while providing a means of quantifying their lifespans. There was a vast improvement in the tight management of costs and productivity.

A review of processes and an emulation of skills resulted in the enhanced potential of traditional technologies. For example, the productivity of cam-driven machines underwent a 40% increase on certain operations.

New machines based on a modular concept were developed in-house. These were optimized to enable the assembly of small series and frequent changes of different products.



In parallel, great importance was placed on the organization of work rooted in the development of each employee's competencies. A flexibility program encouraging internal staff transfers was implemented. The acquisition and perpetuation of expertise focused on training young people while offering them an attractive apprenticeship. In 2017, 264 apprentices, including 15 adults, were trained in a wide range of watchmaking trades, both technical and administrative.

## MECO

4

[www.meco.ch](http://www.meco.ch)

In 2017, Meco recorded a strong order intake, resulting in full order books from the summer onwards, along with increased staffing requirements.

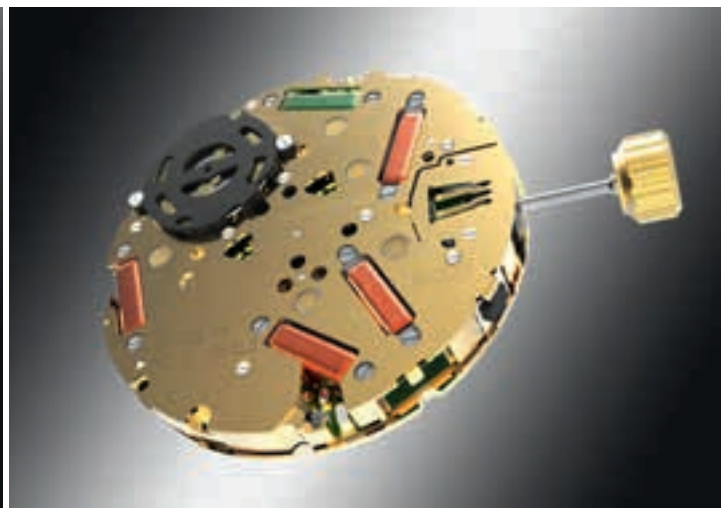
The Swatch Group brands entrusted Meco with the design of numerous new products in the last business year. This enabled the company to prove its high development and industrialization skills for the manufacturing of new crowns, pushers, valves and correctors with its internal, highly-integrated process chains.

Notable examples included the dynamic collaboration with the brand Omega on the De Ville Trésor, the Seamaster Diver 300M collections and the Constellation V, as well as with the brand Glashütte Original for its Senator collection, and with the brand Longines for the Conquest V.H.P. collection, to name but a few of the many achievements with Swatch Group brands.

Meco was also able to increase its innovative strength during the year with the positive involvement of new materials, new designs, and new production processes. In 2017, six new patents were filed.

At the same time, Meco completed several projects for the automation of its production equipment. In order to meet increased requirements, numerous sustainable investments were carried out and completed at the end of 2017 such as the introduction of a manufacturing execution system (MES), an upgrade of the enterprise resource planning (ERP) system, and the development of production capacities.





1/2



3/4



5/6



7/8

## CHH MICROTECHNIQUE

5/6

[www.chh-microtechnique.ch](http://www.chh-microtechnique.ch)

The year 2017 was filled with developments and events at CHH Microtechnique. Thanks to its teams' extremely high level of commitment, the new industrial center displayed an effective blend of responsiveness and long-term vision. In 2017, the internalization initiatives undertaken in mid-2016, together with the synergies between the different Swatch Group sites and partners, yielded positive results in terms of the company's flows and the quality of its products.

To meet an increasingly evident need on the part of its clients, CHH Microtechnique created an organizational structure in 2017 with the goal of producing, with very short lead times, small and very small series (less than 100 units).

The year was marked by other events including:

- The regrouping of workshops within the facility to accelerate certain production flows and to facilitate synergies. This approach makes it possible to concentrate the company's labor force, skills and equipment in one place, allowing for rationalization of operating costs.
- The acquisition of new cutting-edge equipment for thermal treatment, enabling the company to fully meet the requirements of various new materials used in watchmaking.
- The arrival of new technology precision laser cutting equipment, which complemented a vast fleet of existing machines, exemplifying the innovative values for which CHH Microtechnique consistently strives.
- The participation in the EPHJ (Professional Watchmaking and Jewelry Environment) for the first time, which offered an excellent opportunity to meet clients and suppliers and to demonstrate the expertise and scope of the company's employees.

## NIVAROX-FAR

7/8

[www.nivarox.com](http://www.nivarox.com)

### Reinforcement

In line with the wishes of Swatch Group management, Nivarox-FAR maintained all its human resources in the first half of 2017 despite reduced activity. The presence of all the company's human assets made it possible to absorb the strong increase in the needs of Swatch Group brands in the second half of the year thanks to an instant response to the positive developments in the markets.

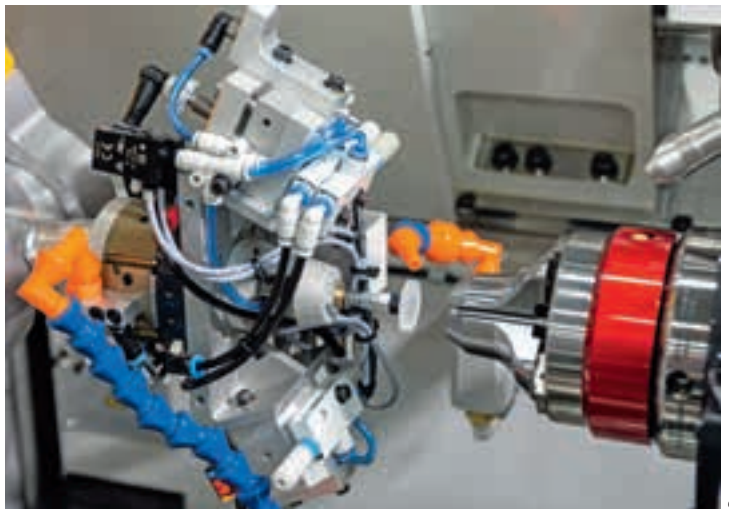
Nivarox-FAR also took advantage of this period to perfect its industrial production methods in the field of adjustment (sprung balance), which was entirely transferred to its Boncourt (JU) and Villeret (BE) sites from the end of 2016.

The increase in capacity in the silicon sector has, in turn, made it possible to meet Omega's latest needs for its manufacture calibers as well as those of Longines, Tissot and Mido.

For Nivarox-FAR, 2017 will remain the year that a precious metal foundry was created on the Crêt-du-Loche (NE) site, requiring a major transformation of the existing building. The proximity of the *Manufacture de Boîtes Breguet* (MBB, Breguet's case-making production facility) has made it possible to take advantage of existing know-how in terms of both people and resources. This particularly contributed to the development of a great many pieces of industrial production equipment that is both specific and indispensable to the creation of alloys, the transformation of precious metals and the processing of precious metal scrap.

Thanks to this new site, Nivarox-FAR can now also meet Swatch Group needs with regard to semi-finished products, blank strip sections, rolling and wire drawing of bands and profiles) and those related to finished parts in precious metals used for exterior watch parts, particularly with dedicated lines for Omega and Longines.

In 2017, Nivarox-FAR also continued its extensive work in the development of non-magnetic materials. Used, among other things, in escapements and regulating parts, they contribute to the awarding of Omega's Master Chronometer certification (which meets the rigorous METAS criteria) and also cope with the effects of magnetism encountered daily by all Swatch Group watch brands.





Respectful of its tradition of unique expertise, Nivarox-FAR has remained attentive to the future of its many technical trades by training more than 30 apprentices who were awarded a Federal Certificate of Competence (CFC) or a Federal Certificate of Vocational Training (AFP) in 2017.

## COMADUR

www.comadur.com

9/10

With regard to sapphire production, 2017 was, for Comadur, a year highlighted by the development of EFG (edge-defined film-fed growth) technology, launched on two machines in 2016 at the Bad Zurzach (AG) site. This technology, commonly known as crystal pulling, currently has twelve machines devoted to it that will ultimately enable the manufacture of several dozen additional tons of Swiss Made sapphire sheets to meet the Swatch Group brands' requirements for spherical and box-type crystals. In parallel, the development and use of two wire-sawing devices saved several tons of sapphire material produced using Verneuil technology.

Also for sapphire production, Comadur continued the expansion of its CNC machine fleet with the acquisition of the first chamfering machines and a new piece of equipment for automated felting.

For the production of ceramics, industrialization activities for new processes were also in great demand throughout 2017, as was the R&D department for the development of new materials and new colors.

All these technological advances, combined with the constant innovation by the brands, enabled Comadur to meet some outstanding challenges in 2017.

Thanks to the trust placed in Comadur, Swatch Group brands were able to highlight a stream of models, each more magnificent than the last.

Accordingly, Omega was able to launch the Planet Ocean "Deep Blue" and the Deep Chrono as well as the Speedmaster Blue Moon-phase. The incredible alchemy of seamlessly integrating gold into noble materials such as ceramic and titanium resulted in the enhancement of the Apollo 17 model.

For Rado, the True Thinline collection was developed in four new high-tech ceramic colors: gray, green, brown and blue. A ceramic bezel adorns the fabulous Captain Cook watch with its box-type sapphire crystal.



The Rado HyperChrome line for its part continued to develop new XXL models. Rado is also looking to the future with its True line, a combination of sophisticated technologies and prestigious designers including Rainer Mutsch, Big-Game, Oskar Zieta, Samuel Amoia, Kunihiko Morinaga and Philippe Nigro.

## RUBATEL & WEYERMANN

11

The growth of confirmed volumes at Rubattel et Weyermann required constant fresh thinking to optimize the logistics flow. Departments have been reinforced, notably in purchasing, to increase negotiation leverage for prices, volumes, quality and delivery times. Initiated some years ago, verticalization actions continued as part of an ongoing quest for efficiency and performance. The development teams were reinforced to enhance creativity while decreasing lead times.

A total revision of the stock concept was another significant activity in 2017.

The machinery pool kept pace with the sustained introduction of new technologies, ensuring increased capacity, notably with self-learning autonomous control systems and the consolidation of lasers as well as with automated index setting equipment.

Finally, these combined resources opened the path to a wide range – diverse and varied – of new materials, notably metals, ceramics, organic materials and polymers. In the same vein, the collaboration with the sister plant in Grenchen (SO), also active in the industrialized production of dials, has also been progressively consolidating the position with Swatch Group's intermediate brands.





13



14/15



16/17



## MOM LE PRÉLET

12

The culture shift initiated during the second half of 2016 to serve brands in the prestige and luxury segments continued throughout 2017. The structure is being transformed from Rubattel et Weyermann towards MOM Le Prélet, in harmony with product industrialization.

In turn, trades and crafts were reconsidered with respect for the purest of watch-making traditions combined with new technologies. The delicate combination has to enable Swatch Group brands to offer exceptional products with an appreciation for cutting-edge, high-quality know-how. The transformation is being completed with care, vigilance, and essential support from the development structure launched last year. This structure covers the three production sites dedicated to dials for testing and measurement requirements, from pigment layers to parameters related to the resistance of a multitude of materials.

MOM Le Prélet, just like its sister company Rubattel et Weyermann, is preparing for an upcoming ERP (Enterprise Resource Planning) migration involving aligning IT tools with ongoing product evolution and client needs.

## UNIVERSO

[www.universo.ch](http://www.universo.ch)

13/14/15/16

Watch sales during the first few months of the year reflected a subdued market that had a direct influence on orders for hands and dial appliques. Conversely, a robust recovery in watch sales recorded in the second half of 2017 in the Asian markets generally enabled Universo to consider the overall results for the year under review highly positively. Thanks to the major investments made over the past three years to optimize its production methods, Universo successfully met its clients' expectations by appropriately adjusting its capacity of its workshops.

In pursuit of the new process development strategy, several hundred projects focusing both on management and industrial optimization were launched or maintained in 2017. Several projects linked to infrastructure security management and the IT network deserve particular mention in this regard. Other IT-related subjects concerned compliance with shared standards linking Universo to other Swatch Group companies. This will allow it to integrate the remaining Swatch Group clients that are not yet part of the EDI (Electronic Data Interchange) environment.

Efforts to improve the reliability of manufacturing processes affected the focus of industrialization projects and the development of tools and machines specific to certain operations. In particular, the avowed objective to abandon all galvanic treatment in the medium term made perfect sense with the 2017 production launch of a Physical Vapor Deposition (PVD) coating device for hands and appliques.

Throughout 2017, the ongoing quest for original and quality products generated a large number of development projects for new hands or dial appliques with materials as varied as gold, brass, steel, Pfinodal and other alloys.

## MANUFACTURE RUEDIN

17

In recent years, Manufacture Ruedin has made significant investments intended to improve its production facility. The year under review was no exception, and it saw the machining sector as the main beneficiary of the upgrading and enhancement of the machine fleet.

As a result, the Manufacture from the Jura was able to meet the needs of the Swatch Group brands. The 2017 fiscal year ended with double digit growth in the number of parts produced.

In order to continue to meet the quantitative and qualitative requirements of its clients, Manufacture Ruedin needs to optimize its structure and with that goal in mind, it makes sense to collaborate with ETA Manufacture Horlogère Suisse in Boncourt (JU). A brand new 2000 square meter surface area was rented for this purpose. The profile-turning department has been relocated there.

In the year under review, the Manufacture from the Jura continued to provide support in the design of new Swatch Group brand products. For example, a great deal of work was done on behalf of Omega for the launch of its new Aqua Terra family and the Speedmaster "Trilogy" 1957, not to mention research conducted for the Constellation family. For Longines, resources were focused primarily on the Conquest V.H.P., HydroConquest and the Conquest Sport families. At Rado, attention was focused on the Centrix family, and notably the Centrix XL Automatic.

The ability to rely on qualified staff is also essential. Accordingly, Manufacture Ruedin made a decision to strengthen its role as a training company and to train 14 apprentices in trades as varied as finisher in watch decoration, automatic machine operator, microtechnology draftsman, micro-mechanic or polymechanic.



## LASCOR

### LASCOR

18

During the year 2017 Lascor carried out the conversion of the manufacturing process by permanently ending the production of precious metals and specializing in the high-end manufacture of steel bracelets for the Swatch Group brands.

A part of the production was transferred to a new production site in Casorate Sempione (Italy), which is dedicated to the mass production of bracelet links including a rolling line and a wire drawing device; it is now in the starting phase. This plant allows Lascor to realize the upstream part of bracelet production.

The Sesto Calende site (Italy) has been renovated and transformed to accommodate all downstream stages of manufacturing such as mechanical finishing and final assembly, including the production of buckles, clasps and cutting steel products.

The production cycle is undergoing restructuring and reorganization and progressive automation.

In terms of environmental and occupational safety, the company is about to complete the adaptation of its regulations to the new production processes.

## SIMON & MEMBREZ

HABILLAGGIO HORLOGER HAUT-DE-GAMME

### SIMON ET MEMBREZ

19

[www.simon-membrez.ch](http://www.simon-membrez.ch)

In 2017 Simon Et Membrez was able to position itself as a key player in the manufacture of bracelets, buckles and clasps for the prestige and high-end segments. Significant investments supported by Swatch Group management and the constant involvement of the company's employees made it possible to achieve the set objectives. A number of innovations were achieved with the cooperation of the brands.

The case business reaped the benefits of the momentum created by bracelets in order to optimize the sector's performance. Support from the luxury brands is a key asset in the company's development.

The mechanical workshop remains one of the company's cornerstones and the synergies developed with other Swatch Group partner producers were firmly consolidated.

Particular emphasis was placed on the improvement and the securing of manufacturing processes leading to quality standards in line with clients' expectations.

The year was also marked by the migration of the computer assisted design system (CAD) to the Catia multi-platform software suite, in order to integrate the designers' developments as closely as possible.

Simon Et Membrez is approaching 2018 highly motivated to strengthen its position as a major player in watch exterior elements. The ability to remain attentive to the employees' needs and nurture close relationships with its personnel will be key elements of its objectives.

### NOVI

20

Due to extensive demand from the brands, Novi continued to develop positively in 2017 with a steady increase in the number of pieces produced.

With the growth in watch finishing volumes (T2) which was the highlight of the past year, the reorganization of the production workshops into islands was completed with the implementation of an instrument enabling the processing of production indicators.

Novi continued its efforts to optimize production monitoring to better meet the needs of Swatch Group brands in the areas of mechanical movement assembly (T1), watch finishing (T2 - T3) and after-sales service.





To facilitate flows and further improve reliability of exchanges between the workshops, a hoist system was installed, which will ensure more secure transfers between various floors, further improve the production plant, and offer optimal service.

Facing a constantly changing environment, Novi is preparing to take on the new challenges that the coming year will bring, backed by employees whose commitment, flexibility and versatility contributes to the comprehensive optimization strategy being implemented in the area of assembly at Swatch Group.

## SWATCH GROUP ASSEMBLY 21

In 2017, Swatch Group Assembly activities gathered pace with regard to the flexibilization of assembly offered to the brands and the implementation of new lines and modular islands. Quality remains the company's spearhead, and process-integrated quality control systems are operational at every level.

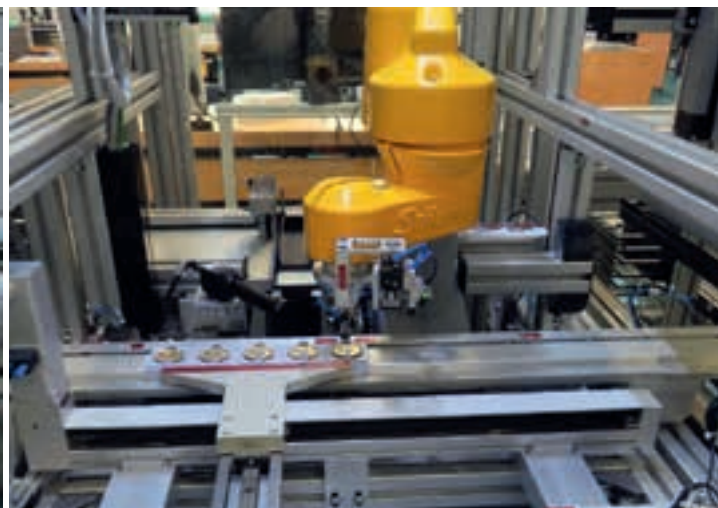
A new automated robotic line was incorporated into quartz assembly in order to facilitate this process.

The reorganization of space, the separation of goods receiving areas, and the implementation of a new unpacking island make it possible to better respond to rapid market changes.

The training cell and analysis unit enables fast turnaround of new products and their related tools.

The company continued to develop its versatility and to provide short throughput times in line with client expectations. The diversity of its processes allows Swatch Group Assembly to assemble every kind of watch – from quartz models to chronographs and mechanical timepieces, along with Tissot's tactile T-Touch – while offering identical throughput times regardless of their degree of complexity. With the finalization of the robotic lines in 2017, the company is entering a new phase in the industrialization of its activities.

With all these measures relating to the environment, to processes, to assembly tools and to human resources, Swatch Group Assembly consolidated its position as Switzerland's largest watch industry finisher in the mid-range product segment.





## DRESS YOUR BODY (DYB) 22/23

Dress Your Body (DYB) enjoyed a year marked by sales growth in all its activities.

The workload in 2017 led DYB production to focus on the flexibility and training of its employees with the aim of using its production capacity to best meet the needs of its clients and to accelerate the internalization of traditional gem setting through internal skills transfer while retaining its expertise.

The quantities of parts manufactured, gem-set and finished crossed a threshold enabling it to ensure delivery of the planned volumes in 2018. Production shifted from a limited-series approach to large series runs with a new logistics structure.

The technical evolution of the development, industrialization and manufacturing departments continued with the roll-out of the automation of loading, tool management and machining. New programming software enabled a reduction in development and cycle times through optimization of feeds during machining operations.

The jewelry department completed an extension to Omega's Swing line. A wave of diamonds composes various necklaces or bracelets and the stones are set using two prongs that give the piece a precious, light allure. In terms of enamel, DYB successfully enameled a double-sided crystal. Its transparent depiction of the planet displays all the subtlety and delicacy of the work involved and is used to adorn the center of an Omega watch.

As procurement center for diamonds and precious stones for Swatch Group, DYB Gems is made up of gemology and procurement experts. Participating in the development of its clients' products, DYB Gems continued to provide valuable advice in the selection and procurement process.

The year under review was marked by renewed demand after a long period in which its suppliers were under intense pressure. Pre-empting the recovery and leveraging its global market knowledge, DYB Gems once again ensured a supply for Swatch Group brands at the best possible market conditions while adhering to the strictest quality standards.

The recent appearance of undeclared synthetic diamonds on the watch market, which had been anticipated for the past few years, had no impact on its supply. The strategy implemented by DYB Gems in partnership with its suppliers, laboratories and the most competitive equipment manufacturers was an opportunity to illustrate Swatch Group leadership in the area, and for DYB Gems to ensure a level of diamond product integrity for its clients that is unmatched in the market.



# ELECTRONIC SYSTEMS



## **OUR SOLAR SYSTEM**

It takes the Earth about a year to make a trip around the Sun, which seems reasonable. Our neighboring planets have their orbiting times, of course, from Mercury, which makes the trip in 88 Earth days, to distant Neptune, which takes just under 165 years. Our former fellow planet, Pluto, needs 248.59 Earth years to circle the Sun. We miss Pluto and marvel at the fact that it started its current orbit before the American Revolution began. Good to know that Jaquet Droz, Breguet, and Blancpain were already making watches back then.



## EM MICROELECTRONIC

1/2

[www.emmicroelectronic.com](http://www.emmicroelectronic.com)

2017 was a pivotal year for repositioning EM Microelectronic on a sustainable growth pattern, with a strong focus on exiting the high-volume commodity business and refocusing on new high-potential areas.

The company has successfully reoriented away from the SIM smartcard business while maintaining a stable top line. This was possible thanks to strong uptake in the area of electronic modules, building on the strong momentum around EM Microelectronic's Bluetooth ICs, which took EM Microelectronic to a leading supplier position for Bluetooth beacons worldwide.

In the Watch segment, EM Microelectronic pursued the ongoing concentration process, focusing on just a few high-tech watch IC's for the module manufacturing. Streamlining the product portfolio and minimizing the stock resulted in lower overall quantity compared to previous years. New features, such as wheel position detection, shock detection, ultra-precise temperature compensation, magnetic field detection and high speed bidirectional motor drive took their first steps into the high-precision NeoTroniC watch modules using EM Microelectronic's new ultra-low power watch IC's. These modules allow unprecedented user experience and open the door for many future watch developments.

In the *RFID* segment, EM Microelectronic was successful in ramping up key projects in product authentication, luxury goods, retail and event management applications, while consolidating its worldwide leadership position in low frequency ICs for livestock and companion animal identification.

EM Microelectronic is driving market adoption for its dual-frequency em | echo product line, combining NFC and RAIN RFID technology. This revolutionary concept allows the retailers and brands to enhance the consumer experience and strengthen the link to their end-customers. The novel em | aura-C RAIN RFID IC, featuring top-of-the-range cryptographic engines, is setting a new industry benchmark in performance and demonstrates EM Microelectronic's commitment to innovation and customer satisfaction.

EM Microelectronic managed to maintain a steady pace in a semiconductor industry environment heavily doped by the consumer electronics applications. The *Motion & Optical Sensing* business took advantage of a strong demand in this space, thanks to its flagship sensor interface ICs, while the impact of this market volatility on EM Microelectronic's business is mitigated by a strong diversification of the application portfolio in areas such as e-bikes, power tools and logistics.

EM Microelectronic's *Smart Systems* segment managed a complete turnaround of its portfolio, completely refocusing on high added-value ASIC developments. In 2017 the company ramped up new projects in the promising smart pen application, expected to deliver sustainable growth over the coming years.

The substantial growth in the electronic module business, especially in the *Wireless & Sensing* segment, opened new horizons for EM Microelectronic not only in terms of business, but also in terms of expertise and internal industrial capabilities. A big focus area in 2017 was strengthening the quality system for addressing the challenges of integrating various electronic functions and RF communication on a PCB encapsulated using specific materials. The growth in R&D and production required the teams to quickly adapt and learn in quick iteration loops between development and industrialization. This effort will continue into 2018, with a strong step-up in terms of competencies and development processes in order to fully respond to the market needs, meeting customers' satisfaction and uncompromised quality level.

In parallel, EM Microelectronic signed a key partnership agreement with a market leader in the field of ultra-low power microcontrollers, enabling promising new markets for EM Microelectronic's Bluetooth technology.

In the *Display & Touch* business, EM Microelectronic made available, on a custom basis, a range of high resolution, colorful and ultra-low power displays, serving Swatch Group's needs. These displays can be combined with additional technology bricks such as solar cells, fully transparent capacitive touch films, back or front lighting, as well as optical lamination to a cover glass or any other substrate type. Regarding our unique plastic display technologies, several new projects using its specific features (curved, lightweight, unbreakable, etc.) are ready to ramp up in production in 2018.

EM Microelectronic also concluded a partnership for smart electronic eyewear, enabling the company to manufacture, on an exclusive basis, electro optical dimming devices especially for sports glasses, industrial applications or augmented reality applications.

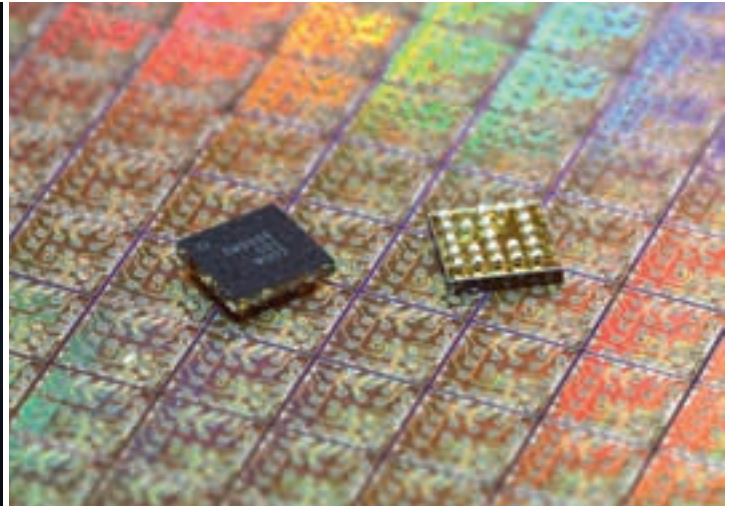
In 2017 EM Microelectronic's front-end fab continued the implementation of its next technology generation for best-in-class low-power/low-voltage products, also making significant improvements in terms of cycle time.

Furthermore, EM Microelectronic initiated a major overhaul of its legacy Manufacturing Execution System (MES) to meet the demanding and fast-evolving requirements of Industry 4.0. A new, modern and scalable MES platform combined with an Equipment Automation Program, which will integrate the semiconductor, displays and the electronic module manufacturing processes, is scheduled to go live early in 2018.

In 2018, EM Microelectronic foresees an acceleration of its growth thanks to the strategic initiatives implemented in 2017 and its renewed business focus.







1/2



3



4

## RENATA

[www.renata.com](http://www.renata.com)

3/4/5/6

Despite a tough economic climate, the Itingen-based (BL) micro-battery specialist Renata enjoyed a record year in 2017 and posted healthy growth in virtually all areas.

Although, as with Swiss quartz movement exports, the watch battery segment stagnated somewhat year-on-year, an upward trend was observed in this area too, particularly during the second half of the year.

Lithium batteries made strong progress thanks to the development of a new high-capacity cell, which helped drive a very significant sales increase in this segment.

Once again, the rechargeable button cell sector experienced continuous growth. Most miniature accumulators are custom-developed and used in medical applications, with sales effectively doubled in 2017.

In 2017, flexible thin-film cells – measuring less than 0.5 millimeters thick – were introduced to the market, both as a primary battery and in a rechargeable version. Throughout the year, a number of clients successfully sampled this product, and the first high-speed production line will begin operating in 2018.

The first automated production line for rechargeable lithium button cell batteries began running in 2017. Clients showed strong interest in this new development after samples were distributed. Another new improvement was also put in place: in December, Renata became the first button cell battery producer to commission its own button cell recycling plant, a contribution to sustainable environmental responsibility that is unique in the world. The start of operations for these new facilities was backed by several process improvements, including implementing Lean Management techniques across the entire company.

All of these activities were once again backed by Renata's participation in several trade fairs, alongside other Swatch Group companies: for the first time, the Itingen-based firm was present at the Wearable Technology Congress in Munich. As in previous years, Renata took part with Micro Crystal in the MD&M West in Anaheim (USA); Embedded World in Nuremberg in the company of EM Microelectronic and Micro Crystal; as well as in Baselworld, with ETA Manufacture Horlogère Suisse. In Asia, Renata was also an exhibitor at the Hong Kong Watch & Clock Fair and the Shenzhen Watch & Clock Fair.





## MICRO CRYSTAL

[www.microcrystal.com](http://www.microcrystal.com)

7/8

As the only non-Asian manufacturer of tuning-fork quartz crystals, Micro Crystal once again achieved good results in 2017, despite a continued highly competitive market. Each year, the company produces several hundred million quartz crystals. In the year under review, it successfully continued the strategy of transferring its product portfolio from low-cost mass-produced quartz crystals towards more highly integrated quartz products. At the same time the product lines of miniature Real-Time Clock Modules and oscillators have been expanded extensively.

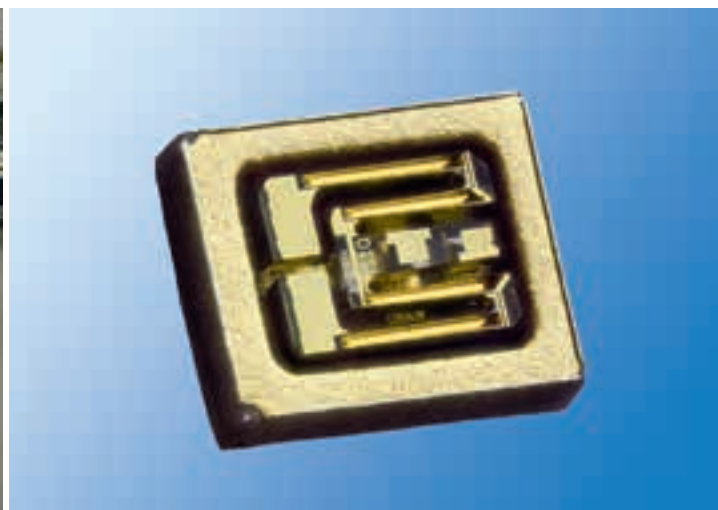
The Swiss-based quartz crystal manufacture destined for the watch industry is of great strategic importance for Swatch Group and also for the entire Swiss watchmaking industry. During the course of the past year, Micro Crystal developed a new and significantly more accurate watch module in partnership with EM Microelectronic and ETA Manufacture Horlogère Suisse. Combining the quartz crystal and the integrated circuit into this module makes it possible to produce quartz watches with significantly higher accuracy while including a number of different timekeeping functions.

Real-Time Clocks are distinguished by their extremely low power consumption and guarantee of high timekeeping accuracy, even when subjected to major ambient temperature fluctuations. Their vast fields of application include surveillance cameras, power meters, Internet of Things sensors, and electronic locking systems. In the automotive field, Real-Time Clock Modules have been used for several years to transmit the time and date to various integrated displays and instrument clusters. In recent years, the Real-Time Clock Modules produced by Micro Crystal have also assisted various manufacturers in the development of battery management systems intended for electric or hybrid vehicles. Mass-production for this market segment should begin in 2018.

Due to the consolidations that have occurred during the last few years within the quartz crystal and oscillator markets, Micro Crystal is now, for many customers, the only remaining European manufacturer for those products. Among the high tech markets served are applications related to the avionics industry, oil-exploration, and satellite-based localization systems.

The medical sector – with its stringent demands in terms of both quality and reliability – remains an important key market segment. Micro Crystal is the world's leading supplier of quartz crystal products for implantable pacemakers and defibrillators, and now increasingly also for neuro stimulators. In addition, Micro Crystal also delivers quartz products to manufacturers of non-implantable medical devices such as glucose meters and insulin pumps.

Based on the new products available and numerous ongoing project evaluations, in particular related to the more highly integrated quartz products, Micro Crystal is confident it will achieve continued growth in the future.





## SWISS TIMING

[www.swisstiming.com](http://www.swisstiming.com)

Swiss Timing, Swatch Group's sports timekeeping specialist, works with the brands to deliver state-of-the-art timing and scoring expertise at the world's top sporting events. Some of the highlights of 2017 were the FIS Alpine World Ski Championships in St. Moritz (GR) under the Longines banner, the World Games in Wroclaw (Poland) with Tissot, and the Winter Universiade in Almaty (Kazakhstan). At the 17th FINA World Championships with Omega in Budapest (Hungary), new technology included buoys with antennas in the open water that picked up signals from sensors on the swimmers' wrists. The sensors sent intermediate times to the timekeepers who displayed them for spectators and TV viewers alike. Swiss Timing also delivered vision-based swimmer tracking. Four cameras installed above the pool collected data for broadcast including speed, position,

distance, and gaps between athletes. At the FIS Alpine World Ski Championships, the *Longines Live Alpine Data* system was introduced, consisting of a chip equipped with a radar and motion sensor attached to each skier's boot. It provided competition-relevant information of athletes' performances including the real-time and continuous measurement of their speed, acceleration and deceleration, and the effective time needed to reach 100 kilometers per hour, along with analysis of jumps. These data are available to athletes and coaches for analysis and in the form of TV graphics for viewers at home and on scoreboards for spectators at the competitions. The year ahead will keep Swiss Timing's timekeepers and engineers busier than ever. At high-profile events – the PyeongChang 2018 Olympic Winter Games in South Korea with Omega in February, the Commonwealth Games on the Gold Coast in Australia with Longines in April, and the Asian Games in Jakarta in Indonesia with Tissot in late summer – Swiss Timing will maintain the exacting standards of precision and technology long associated with Swatch Group's prestigious brands.



# CORPORATE, BELENOS



## **BELENOS**

Belenos was a sun god in Celtic mythology.

Today he is the namesake of a company dedicated to the exploration of alternative energies and the harnessing of the boundless power of the sun. Also, some people believe that the name of our hometown of Biel derives from the Celtic deity. No doubt about it: our love of the sun started in the cradle.

## SWATCH GROUP RESEARCH AND DEVELOPMENT

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

### Division Asulab

1/2

As Swatch Group's central research and development laboratory, Asulab's core mission is to design technically innovative watch products, subsystems and watchmaking components, as well as to develop the state-of-the-art technologies and processes required for their manufacture. In 2017, Asulab fulfilled this mission by offering the brands and manufactures the expertise and high-performance equipment needed to achieve original products presented at a range of events as well as for the industrialization of new processes and components.

Asulab continued to maintain close contact with the different Swatch Group companies, pursuing joint projects in order to ensure that the technical results obtained corresponded as closely as possible to the needs expressed. The acquisition, implementation and development of new competencies and technologies, acquired through targeted collaborations with renowned research institutes both in Switzerland and abroad, remained key objectives for Asulab with the aim of finding new opportunities.

Thanks to the multidisciplinary skills within Asulab, and a good working relationship with Swatch Group internal partners, particularly good results were achieved over the past year. A representative example is Swatch Group's internalization of the manufacture of a new raw material (feedstock) and the process related to its implementation, enabling the production of complex metal cladding components with an excellent finish and little or no adjustment.

Together with our internal partners, new technological combinations also enabled a number of exceptional pieces to be presented at Basel, which were subsequently produced as limited editions used to celebrate an anniversary.

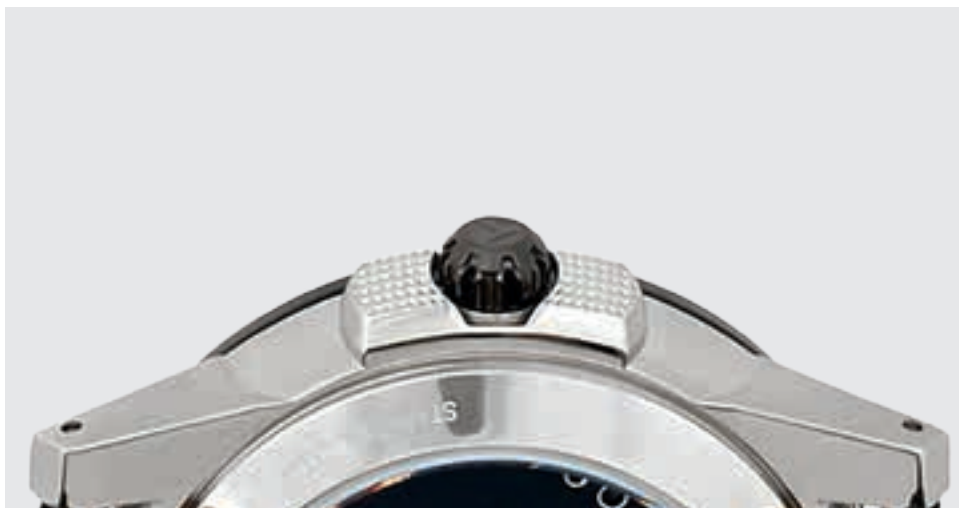
Finally, other innovations were also completed and approved or are being produced for the brands and manufactures, including new high-performance phosphorescent inks, as well as thin film deposition processes or the composition transformation processes for cladding components. Developments of user interfaces were also revealed and are ready to be incorporated into future products.

### Division Moebius

3/4

[www.moebius-lubricants.ch](http://www.moebius-lubricants.ch)

A division of The Swatch Group Research and Development Ltd, Moebius specializes in the production and commercialization of lubricants and epilames used in the fields of micro-technology and watchmaking. Moebius also strives to innovate and develop new products designed to meet the ever-more-stringent demands in this sector. In 2017, the range of fluorescent lubricants was expanded. Used under ultra-violet light, these products light up to provide a better view of lubrication points during the production of movements. In close collaboration with a large number of Swatch Group companies, including Nivarox-FAR and ETA Manufacture Horlogère Suisse, prestigious brands like Breguet, Blancpain and Omega, and well-known Swiss research institutes, Moebius also worked on the development of new products such as next-generation eco-friendly epilames that are completely free of fluorinated solvents.



1/2

## CDNP

### Division CDNP (Centre de développement des nouveaux produits)

5/6

In 2017, the CDNP (*Centre de développement des nouveaux produits*) worked intensively with Swatch Group brands and production companies. The company put its innovative spirit into play, a key factor in operational terms for design creation, product engineering and the development of new materials and processes, as well as in new Industry 4.0 solutions to be rolled out across Swatch Group. Ten patent applications were filed in 2017.

The CDNP's expertise in the construction of watchmaking exterior modules – cases, clasps, bracelets – was further confirmed by the consolidation of know-how and feedback, which it made available to the product departments of all the brands.

The digitization of development processes began with pilot projects using the CDNP's knowledge bases and realistic animated 3D renderings along with technical and esthetic configurators. This now enables the alignment of development, industrialization and production phases as well as marketing and

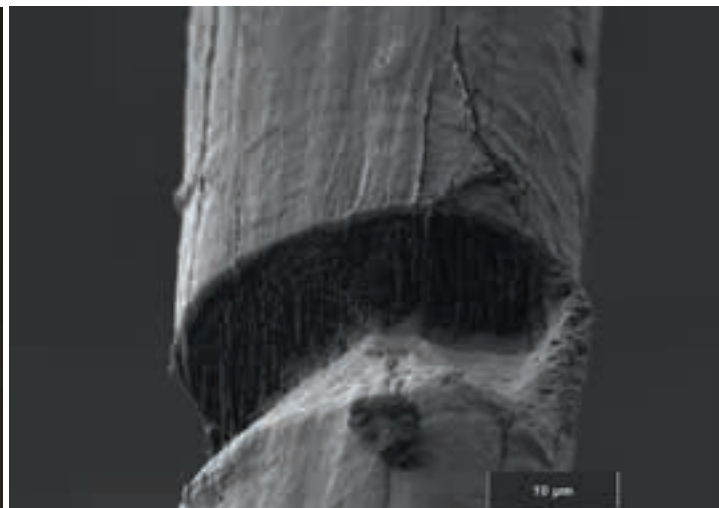
provides brands with new opportunities in terms of products, marketing operations and e-commerce in order to commercialize innovative proposals more quickly.

New processes relating to powders, developed in conjunction with Swatch Group companies, are in some cases already operative and integrated into watches sold by the brands. The extension of the prototyping and production equipment pool with 2D and 3D printing capabilities allowed for the consolidation of Swatch Group knowhow in the areas of metal, ceramic, polymer and other feedstock additive manufacturing processes.

International partnerships established in 2017 are opening up interesting prospects and generating creative momentum for the brands' upcoming collections.

In the area of mechanical operations, additive manufacturing, and assembly, for the production of prototypes and pre-series for approval, high-quality service was maintained and offered to the brands and manufacturing companies.

The ability of multidisciplinary teams to coordinate information and manage projects between different entities within Swatch Group remains one of the CDNP's key assets. The spirit of the CDNP staff is reflected by its receptiveness, flexibility, curiosity and great enthusiasm.



3/4

5/6



## BELENOS CLEAN POWER

[www.belenoscleanpower.com](http://www.belenoscleanpower.com)

### Batteries

In light of the industrialization of the vanadium-based compound that acts as a cathode in the Belenos Clean Power lithium battery, the production process used up till now required a complete overhaul, in order to meet productivity objectives and optimize costs, and also to be competitive in relation to commercial products. In order to do this, a new type of reactor requiring shorter production times, less space, and greater throughput was successfully tested. Thus synthesized, the product offers greater battery life compared to its predecessor. For high energy density batteries, several patent applications regarding the electrolyte – a key component – were filed.

A pilot assembly line for conventional 5 Ah type cells, activated weekly, is currently being optimized. Similarly, in order to improve productivity, work has been done on the key limiting stages in assembling cells. Thus, for a normal cell, stacking the different electrodes takes around half a minute. With a focus on innovation, a new method is currently being assessed to reduce stacking time to around a second.

### Micro-inverter

The solar installations at the new Omega manufacture and its parking area, consisting of 1537 BLUE AC micro-inverters, are now in operation, representing power generation with an output of 309 kWp. Coaching on these two installations has resulted in improved product reliability and encouraged Belenos Clean Power to plan an initial validated version for the solar market. The company was able to show its advantages in terms of power generation in partial shadow and to demonstrate the simplification in installing a solar device with its technology. Belenos Clean Power is seeking partners to market this first version of the BLUE AC micro-inverter. The initial contacts have been promising and the company has every confidence in the future of its product.



### High speed compressor

The mechanical department has already successfully implemented and tested a compressor for 3 kW fuel cells. A prototype has been delivered to a partner who will conduct trials under real conditions in a hydrogen-powered test car. In parallel, in order to improve battery yield and charging time, a compressor was developed to regulate and manage thermal energy in cars, and particularly electric cars. As a result, the autonomy of electric, hybrid and fuel cell vehicles is increased.

## ICB INGÉNIEURS CONSEILS EN BREVETS

11/12/13

ICB Ingénieurs Conseils en Brevets pursued its mission to protect the technical innovations of Swatch Group, promote its technological knowledge, monitor markets and combat counterfeiting.

In 2017, ICB once again continued to identify technical innovations in the various Swatch Group research and development companies in order to ensure optimal protection of their technological assets. The number of new patent applications remained as high as in the previous years. This was the result of continued awareness among all those involved in research and development of the importance of patents as part of the strategy of an innovative company, as well as efficient synergies between all the engineering and research teams from the different Swatch Group companies. This cooperation was again particularly important in both the watchmaking and non-watchmaking areas of the company.



Substantial efforts were made to support the brands' strategies for penetrating international markets. Accordingly, the financial investments required to obtain patents for the protection of new products abroad continued in a targeted manner in order to cover the main markets and production sites.

In partnership with Swatch Group's legal department, ICB continued to support the companies and the various departments to ensure that their rights were defended wherever and whenever this was required.

ICB management kept its operating costs under control, in line with its financial strategy. Additionally, operating costs related to the maintenance and acquisition of patent rights were stabilized. Accordingly, ICB recorded positive financial results in line with the budget forecast.

## SWATCH GROUP QUALITY MANAGEMENT (SGQM)

14/15

The mission of Swatch Group Quality Management (SGQM) is to establish the standards of quality assurance and the security of products brought to the market. The aim is to ensure both their legal compliance and their reliability by leveraging specific competencies for the benefit of Swatch Group Companies.

### Legal compliance

In 2017, SGQM monitored the evolution of the following legislation:

**REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals):** A new restriction concerning certain perfluorinated substances was introduced and will come into force on July 4, 2020. While these substances are not intentionally used by Swatch Group companies, the very low level

of restriction (up to 25 ppb) requires internal controls to ensure that the supply chain respects these limits. Five substances were also identified as being of very high concern in 2017 and 12 were added to the authorization list. While not actually banned by REACH, Swatch Group voluntarily bans the use of these substances in its products.

**Biocidal Products Regulation (BPR):** Since March 1, 2017 the European regulation concerning biocidal products includes a restriction on the launch of articles treated with certain biocidal products. Biocidal products authorized for a specific application must also have passed a process of approval by the authorities. In close collaboration with the brands, SGQM monitors strict application of these regulations.

The new European Radio Equipment Directive (RED) came into force in the European Union on June 13, 2017. Smart watches with a Bluetooth function are subject to this directive. SGQM provided support to the brands concerned to ensure both that the transition was made before the deadline and that there is strict compliance with related ETSI (European Telecommunications Standards Institute) regulations.

### Continuous improvement

**Seminars:** Always eagerly awaited, a large number of highly informative seminars were organized in 2017 by the Swatch Group Quality Management team. These thus facilitate sharing of skills and knowledge within Swatch Group, which is essential to product improvement.

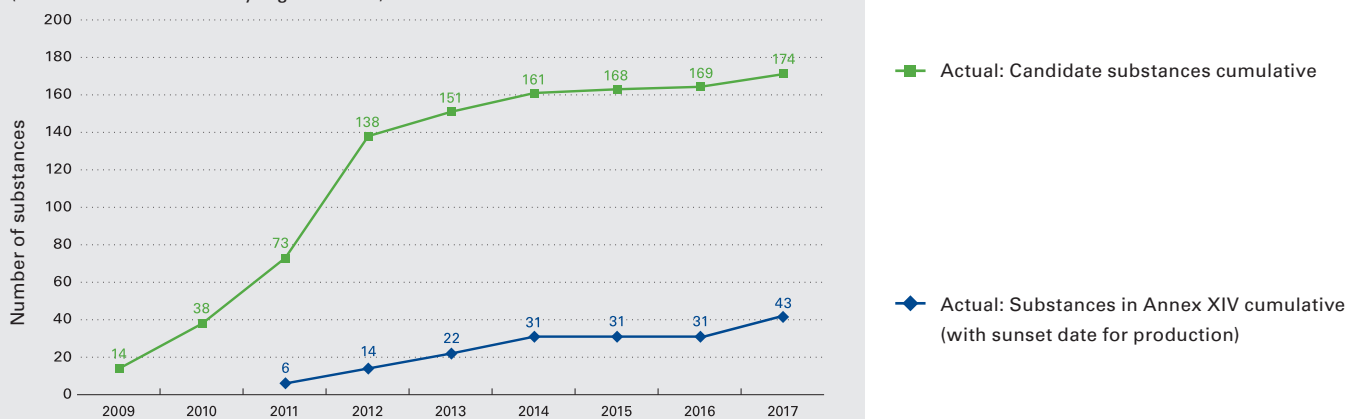
**Standards and Specifications:** At the ISO/TC 114 (Horology) Technical Committee's international conference held in Hong Kong in September, SGQM, along with other Swatch Group entities, took part in the systematic revision of ISO standards currently in force, as well as in the development of new ones.

Among the areas covered (materials, technical designs, manufacturing processes and methods, and tests), the key 2017 resolutions and actions concerned water-resistant and diving watches, watchmaking exteriors in hard materials, watches resistant to magnetic fields, watch battery and cell requirements, and miniature screw threads.

11/12/13



**REACH: SVHC candidate development list + SVHC subject to authorization for production according to Annex XIV**  
 (SVHC: Substances of very high concern)



## SWATCH GROUP SERVICES

16/17/18/19/20/21

### Division European Distribution Center (EDC)

The division European Distribution Center (EDC) increased the number of shipped watches in 2017 while maintaining its shipping costs at the previous year's level. The e-commerce volume increased significantly and additional brands, including Rado, Tissot, and Hamilton, were integrated into further European markets. With the successful implementation of a new provider, the last mile service resulted in greater customer satisfaction. The organization of the warehouse was tailored to improve the service level. Collaborative workshops were conducted in several countries to enhance their logistical knowledge. The distribution of Renata products was extended to direct POS shipments to Germany and France, leading to increased product availability and efficiency gains.

### Division Swatch Group Logistics (SGL)

Specializing in the implementation and management of supply chains (planning systems, management of logistic details, and process and flow optimization) as well as in the fields of transport, the construction of new storage warehouses, storage, import and export, controlling and IT systems, the division Swatch Group Logistics (SGL) is developing its activities both in Switzerland and abroad.

In 2017, Swatch Group Logistics (SGL) focused on optimizing planning within Swatch Group, in close collaboration with foreign subsidiaries and the brands in Switzerland. Performance indicators were defined and monitored, thus improving monitoring of service rates, productivity and throughput times. Where necessary, flows, processes, systems and structures were adapted and training programs being offered. In the area of transport, the centralization of expertise with regard to the documentation and formalities required for product import and export enabled negotiations with transport companies.

The SGL-Campus exchange platform continued to expand its offers. Following the success of the first online planning course, a second course focusing on order processing will be launched in 2018. Workshops such as time management, as well as the creation of customized training programs, are also part of the many services offered, with the aim of further improving the supply chain.

### Division Swatch Group Information Technologies

In 2017, the Swatch Group Information Technologies division pursued its strategy of providing Swatch Group companies with modern IT systems to ensure the smooth functioning of their business operations. In the interest of transparency regarding its activities and to increase efficiencies, Swatch Group Information Technologies was restructured into three distinct units. The first focuses on governance of IT services, the second on the provision of infrastructure and solutions, and the third deals with the delivery of business solutions to the international subsidiaries.

The IT Governance unit reinforced principles and guidelines related to data and IT systems and adapted security concepts in line with new risks inherent to digitalization, while the enterprise IT architecture department ensured data consistency and harmonization of IT resources.

The Swatch Group IT Services unit inaugurated a server room in the computing centers, equipped with new security and deployment concepts drawing on cutting-edge technologies. New data storage processes were implemented to increase capacity and reduce costs.

Together with Swatch Group Germany, the IT Distribution unit took part in the introduction of an after-sales service application. Through the division European Distribution Center (EDC), IT Distribution commissioned a new high-performance logistics process for the distribution of Renata batteries in France and Germany. Having successfully streamlined the export process for the Austrian subsidiary's brands, a similar setup will be deployed to all other European subsidiaries, integrating a new one every two months. In the meantime, the retail teams implemented



a new solution with Swatch Group France and Swatch Group Les Boutiques. IT Distribution also contributed with Swatch to the introduction of the new Swatch X You concept, which involves retail and e-commerce activities. The division continued to provide support for the development of logistics, financial and e-commerce projects.

#### Division Swatch Group Corporate Customer Service (CCS)

Building on the previous years' achievements for sustained success and with its customers' expectations at the very heart of its performance, the Swatch Group Corporate Customer Services (CCS) division worked closely with its subsidiaries on key projects that ensured continuous delivery of value-added services to its clients and brands in 2017.

**Watchmaking training programs:** Perfecting the skills of timepiece maintenance is a relentless passion built into the fabric of Swatch Group Corporate Customer Service (CCS). To that end, 2017 saw the development and introduction of a Group-wide Watchmaker Training and Evaluation Program. The one-year watchmaking course was successfully rolled out in Miami.

**China:** The operations of the Customer Service Competence Center in Shanghai were optimized by enhancing process flows. As a result, turnaround times were reduced and technical services capacity was increased. The cooperation between Swatch Group China and its independent service partners was also strengthened by the introduction of an Authorized Service Center Information System. In order to bring Customer Service support closer to its retail network and more accessible to its end customers, a number of CS Centers were opened in China's shopping malls.

**IT systems:** Following 15 months of concerted efforts aimed at enabling the business and IT needs underpinning the implementation of an Enterprise Management System, the CS organization in Germany successfully migrated to an updated version of the SG CS IT platform. In Thailand, a comprehensive business process reengineering of the CS organization was launched in preparation for the implementation of a CS IT system planned for the first quarter of 2018.

**Subsidiaries' CS layouts:** Direct interaction with its end customers was an invaluable opportunity to demonstrate excellence in customer service. Because reception areas are a key element in the delivery of exceptional service, the ones in Bangkok in Thailand and Kuala Lumpur in Malaysia were upgraded to the latest process and infrastructure standards.

#### Division Real Estate Development

The division Real Estate Development division had a busy year in 2017 with Swatch Group companies both in Switzerland and abroad.

The modernization process, the upgrading of the real estate portfolio, and the infrastructure improvement continued, notably at Blancpain in Le Sentier and Paudex (VD), Comadur in La Chaux-de-Fonds and Col-des-Roches (NE), Harry Winston in Plan-les-Ouates (GE), Longines in Saint-Imier (BE), Manufacture Ruedin in Bassecourt (JU), Nivarox-FAR in Crêt-du-Loche (NE), Renata in Itingen (BL), as well as in Biel/Bienne (BE) at Calvin Klein, Omega, Swatch Group and Swatch Group Services. All these projects were part of an ongoing policy to improve employee safety at work and company values, and to maintain production facilities. They also corresponded to a will to optimize and verticalize production flows in the interest of better production quality. In addition, they reflected the company policy to reduce water, fossil fuel and electric energy consumption.

The new Omega manufacture in Biel / Bienne enables storage under one roof of all the brand's assembly, test and storage processes. The new 45 000 square meter Universo and Rubattel et Weyermann buildings in La Chaux-de-Fonds are complete and open for production. The Swatch site in Biel / Bienne is well-advanced with the construction of buildings that will progressively become available to the end of 2018.

The Real Estate Development Division also provided a range of consulting, feasibility and design development services to the various Swatch Group subsidiaries and brands. In particular, it was responsible for coordinating their participation at Baselworld 2017 in March, with the construction of 16 stands in an exhibition and sales area totaling 10 000 square meters.

16



Finally, Real Estate Development division specialists made a very active contribution to developing and updating the extensive boutique network for Swatch Group's most prestigious brands: Breguet and Blancpain boutiques in New York City; Omega, Longines and Swatch boutiques at the Bürgenstock Resort (LU); and also, Tourbillon and Hour Passion in Istanbul. A specific team focused on Harry Winston boutiques in Beverly Hills, San Francisco, Taipei and Tokyo, as well as shops-in-shops in key locations around the world

## SWATCH GROUP IMMEUBLES

[www.swatchimmo.ch](http://www.swatchimmo.ch)

For Swatch Group Immeubles, 2017 was characterized by intense activity in the management of a large rental base consisting of more than 5000 rental properties, mainly in the cantons of Bern, Jura, Neuchâtel, Solothurn and Vaud. The company manages the real estate that is part of the Swatch Group Pension Fund and Fondation d'Ebauches S.A., as well as other employer pension funds and several affiliated companies. During the year, its real estate management focused on close monitoring of renovation and sanitization work, as well as the brokerage agreements that Swatch Group Immeubles successfully managed on its clients' behalf. This positive development helped reduce the number of objects for rent as well as brokerage agreements. The company intends to continue advising its clients on real estate matters as well as providing follow-up on the implementation of real estate operations.



# SWATCH GROUP IN THE WORLD



## **THE BLUE PLANET**

Astronauts who were able to view the earth from afar always told us about the fragile beauty of our blue planet. And that we should handle it with care. Nicolas G. Hayek raised awareness of this issue in a memorable speech in 2010. "I admit that it is difficult. But in the interest of everyone concerned, we will try to do it." His words still show us the way: "Time to move!"

## SWISS MARKET

1/2/3/4/5/6/7

Demonstrating a winning attitude, combined with a healthy dose of pragmatism and realism, Swatch Group continued to consolidate its position in Switzerland in 2017, as demonstrated by its three boutiques at the Bürgenstock Resort (LU) with Omega, Longines and Swatch.

Breguet launched its major new traveling exhibition, Breguet, Watchmaker of the Royal Navy, and also once again participated in *Only Watch*, the industry's key charity auction. As usual, Blancpain organized several events in the course of the year. The inauguration of the *Blancpain Ocean Commitment* exhibition held at Zurich Airport to mark the launch of the Blancpain Ocean Commitment II watch was one of the highlights. Glashütte Original organized a unique customer event in a prestigious Geneva restaurant. Jaquet Droz continued to develop its local client base. The Tropical Bird Repeater, a new creation from the Automata Collection, made its European debut in Geneva. For Omega, the first months of the year were all about the Speedmaster's 60th anniversary. In the world of golf, the brand took part in the Golf Trophy and the Omega European Masters in Crans-Montana (VS). It also began a fresh chapter in its history with the inauguration of the brand-new production unit at its Biel/Bienne (BE) headquarters.

In January, Longines timed the FIS Alpine World Ski Championships in St. Moritz (GR) and the Longines Future Ski Champions competition in its role as partner of the International Ski Federation (FIS). Longines also officiated for the Swiss events of the FIS Alpine Ski World Cup. At the *Grand Prix d'Horlogerie de Genève*, the brand was awarded the *Revival Prize* for The Longines Avigation BigEye model. Rado continued its partnership with *Design Prize Switzerland*, organizing the *Rado Star Prize Switzerland for Young Talents*. Union Glashütte successfully asserted its presence in several highly selective points of sale that are favorites with tourists.

At events such as the Unspunnen Festival in September 2017, Tissot celebrated beautiful Swiss traditions to the sound of cowbells, in the presence of its ambassador, Swiss wrestling (*Schwingen*) 'king' Matthias Sempach. Partnerships with the Matterhorn and Glacier 3000 railways and with various boat companies of French-speaking Switzerland enabled the brand to win market share in Switzerland, particularly in tourist regions. A refreshingly original campaign also contributed to highlighting its new Swissmatic model, which has a three-day power reserve. The new models introduced by Balmain at Baselworld 2017 sold extremely well. Certina announced its sponsorship of the successful Swiss professional motocross rider Jeremy Seewer; the brand

launched the DS Podium Lap Timer with the World Vice-Champion in the MX2 category at an event in the Glattzentrum in Wallisellen (ZH). Mido consolidated its position in Switzerland by opening several points of sale. To celebrate its new role as official Timekeeper for the Red Bull Air Race, Hamilton kicked off the year with a spectacular exhibition at Geneva Airport. Various roadshows conducted by Calvin Klein and aimed at the Swiss press proved to be highly successful.

Swatch further reinforced its network by converting three franchise stores into own-name boutiques, in Basel as well at the Zurich and Geneva airports. Flik Flak celebrated its 30th anniversary with a stand at Bern's 2017 Suisse Toy show.

In terms of distribution, Tourbillon organized a number of special events for its VIPs, notably including a gourmet 'summit meeting' at Fairmont Le Montreux Palace. Hour Passion opened its first Swiss outlet in Canton Ticino. Located in the FoxTown center, it brings together eight brands, including Longines, Rado, Tissot and Calvin Klein.

1/2/3/4/5



## SWATCH GROUP GERMANY

8/9/10/11

Swatch Group Germany experienced a positive year in 2017, mainly due to its selective distribution and a more targeted approach to consumers.

In several cities, Breguet presented a special exhibition devoted to the art of cameo carving. The managers of several Bucherer subsidiaries were introduced to the universe of *haute horlogerie* during a visit to the Manufacture Blancpain. Glashütte Original expanded its Senator Excellence watch family and was voted Trendsetter 2017 among men's watches at the *Watch of the Year* competition, while Jaquet Droz held a special event with the Tourbillon boutique in Baden-Baden. For Omega, the year was marked by the 60th anniversary of its Speedmaster collection with a spectacular celebration in Munich. Berlin officially joined the ranks of preferred locations for the international show jumping events that make up the Longines Global Champions Tour. For the fifth time, Rado served as official Timekeeper for the Porsche Tennis Grand Prix. In Glashütte (Saxon), the *Union Glashütte – 125 years German Art of Watchmaking* exhibition was set up in anticipation of the jubilee year in 2018. Official Timekeeper to

the Tour de France, Tissot invited retailers and journalists to Dusseldorf, where the kick-off for the race was held in a German town for the first time in 30 years. Certina celebrated its DS Podium Chronograph Lap Timer Racing Edition with a press conference targeting clients and VIP journalists. Mido again enhanced its national presence with a sensational campaign. Hamilton signed a partnership agreement as official Timekeeper with the Red Bull Air Race. Calvin Klein invited jewelers to a gala dinner and a presentation of its watches and jewelry in an unforgettable atmosphere. In collaboration with Zalando Germany, Swatch and Flik Flak watches are now offered by Europe's biggest multi-brand online boutique. In Munich and Berlin, two events were held with bloggers to mark Flik Flak's 30th birthday.



6/7



8/9/10/11



## SWATCH GROUP AUSTRIA

12/13/14

Swatch Group Austria can look back positively on an exceptional year, due to strong development in all its business areas. Visitors flocked to the Breguet boutique, thanks in large part to its prominent advertising display at Vienna Airport. Glashütte Original optimized its distribution network and the incredible development of its boutique led to amazing results. Omega focused on the qualitative improvement of its partner network and held exclusive *Speedmaster Cocktail* and private *Her Time* dinner events in its boutique in Vienna. Longines invited clients and journalists to take part in exclusive activities around the famous ski runs at Kitzbühel and Schladming. Rado organized events for the launch of the True Designers' models, presented the *2017 Austrian Design Award* and highlighted its commitment to sports in the tennis arena by sponsoring the Erste Bank Open. Union Glashütte sponsored events devoted to vintage cars and the brand acted as official timer to the Silvretta Classic Rally. Tissot set up a PR event for the launch of its Ballade collection and focused its communication on the Tour de France and the MotoGP™ races. Certina organized a major event for its clients during the ADAC motor races at Spielberg. Calvin Klein presented its new launches at another exclusive occasion. Swatch was one of the main partners to the Beach Volleyball World Championships in Vienna and with the Swatch Beach Boat, staged one of the year's most exceptional happenings.

## SWATCH GROUP BELGIUM

15/16

Swatch Group Belgium consolidated and elevated its position in the market. The Breguet *Best in Class* training program was an opportunity to improve expertise across its distribution network and business development. For the Flyback Ocean Commitment launch, Blancpain invited VIP guests to Knokke for an introduction to static apnea with champion freediver, Gianluca Genoni. Exhibitions were held at Omega points of sale for the 60th anniversary of the Speedmaster collection. Longines sponsored four equestrian events: the *Fegentri Awards* and jumping competitions in Lummen, Lanaken and Mechelen. For the first time in Belgium, Rado transformed a hip location in Brussels into a pop-up gallery. Thanks to the Tour de France and classic cycle races, Tissot improved its visibility and image. Balmain sponsored Mizbiz, which brings together influential women from different sectors. Certina communicated its quartz watches' COSC chronometric certification through themed window displays. Hamilton proudly announced its partnership with the Belgian Air Force, which chose the brand to celebrate its 100th anniversary. Calvin Klein focused on the personalized decoration of its display windows and public relations. Swatch presented to a large number of *fashionistas* and influencers the Swatch X You during the DS Brussels Fashion Days. Flik Flak invited adults and children to come to its 30th birthday party, held at the Swatch Store in Brussels.

12/13/14



15/16



## SWATCH GROUP NETHERLANDS

17/18

Omega organized a successful watch clinic in the Tourbillon Boutique. Longines introduced a limited edition watch made with Gassan Diamonds to celebrate their 30-year partnership. During the Dutch Design Week, Rado presented its True Designers watches. Tissot opened a new boutique in the Bijenkorf Amsterdam. Balmain opened seven new points of sale. Certina organized multiple events in collaboration with *Top Gear Magazine* in the Bijenkorf. Hamilton's distribution expanded thanks to new POS in the five biggest Dutch cities. Calvin Klein implemented tailor-made special windows. The Amsterdam Destination Swatch Tulpen uit XXX was launched by Carlo Giordanetti. Flik & Flak organized a creative 30th birthday party. In April, the first Hour Passion store in the Netherlands was opened. Hudson's Bay opened ten new stores in August with Swatch Group's midrange brands.

## SWATCH GROUP LUXEMBURG

Throughout 2017, Swatch Group Luxemburg's companies further assisted Swatch Group's international development with their support activities by providing their services in the areas of operation financing, liquidity management and optimization of insured risk, this in a still challenging and volatile financial market environment. Located in the financial heart of Europe, Swatch Group Luxemburg benefits from the vast range of services provided by an internationally recognized and efficient banking and insurance system, which is regulated and supervised by national and European authorities.

## SWATCH GROUP FRANCE

19/20/21/22

High-end watch brands devoted considerable effort to enlivening their boutiques throughout the year. Breguet presented its Marine and Reine de Naples collections at exhibitions in Paris. Over the summer, the Blancpain point of sale at the Place Vendôme in Paris displayed a collection of the most spectacular photographs taken by its partner, Laurent Ballesta. In honor of Women's Month, Jaquet Droz Paris invited its most loyal admirers to a gourmet tea, where fans of mechanical and bejeweled beauties were given the opportunity to take a wonderful journey through time. The year was filled with events for Omega with the inauguration of a new boutique in the heart of the Monte Carlo Casino, attended by HSH Prince Albert of Monaco. Paris hosted the *Her Time* exhibition, retracing 100 years of feminine watch and jewelry creations in the gardens of the prestigious Hotel de Sully in the Marais district. The opening was attended by Cindy Crawford and her family, and her children Kaia and Presley Gerber were introduced as new brand ambassadors.



17/18



19/20/21/22



## SWATCH GROUP FRANCE

23/24/25/26/27/28

Longines also had a busy year through its participation in 20 sporting events in its preferred disciplines, including equestrian events like the Longines Prix de Diane, the Longines Paris Eiffel Jumping and the Longines Masters; tennis with the Roland Garros tournament; and skiing. True to its partnership with the Paris Design Week for the sixth consecutive year, Rado held a week-long exhibition on the theme of materials and design in several emblematic locations. Hamilton celebrated the 60th anniversary of the Ventura, the first electric watch, at the Casino de Paris, the legendary venue where Elvis Presley sang. Tissot invited several celebrities to pedal the final kilometers of the sixth leg of the Tour de France 2017, from Vesoul to Troyes. The Swatch Art Party, held at the boutique on the Rue des Francs-Bourgeois, allowed participants to delve into the history of the brand through its limited editions, created in collaboration with the artists. Flik Flak celebrated its 30th anniversary at Kidexpo. The most popular Swiss watch brand among children presented its anniversary collection and its mobile app for a fun way to learn to tell the time.



## SWATCH GROUP SPAIN

29/30/31/32

Spain welcomed Swatch Group brands for a series of high-profile events. A Breguet exhibition at Madrid's Teatro Real framed a concert by American mezzo-soprano Joyce DiDonato, and Blancpain kept Official Time at Madrid Fusión 2017, the up-market gastronomy fair. German manufactory Glashütte Original chose the luxurious Hotel Santo Mauro to launch its Senator Chronograph Panorama Date, while Omega was on hand as Official Timekeeper for the start of the Volvo Ocean Race in Alicante in October. Longines affirmed its equestrian connections with the launch of its Conquest V.H.P. during the Longines FEI Nations Cup Jumping Final in Barcelona. Rado presented its True Designers Collection, while Tissot focused on weddings, brides and the choice of the perfect watch for the most important day of their lives. Certina met with journalists in Madrid to present the new DS Podium GMT Chronometer, and Hamilton took great pleasure in presenting acrobatic pilot Juan Velarde as its new ambassador. Calvin Klein leveraged news of fashion star Raf Simons's partnership with the brand

to hold a post-Basel event. Swatch & Art joined forces in Madrid for the debut of Brianda Fitz James Stuart's Swatch Art Special. The Swatch X You collection met with great success, and the brand followed up with the launch of Swatch X You Holiday and A Gala Night. As always, Flik Flak closed out the year with a party for journalists' kids.



29/30/31/32



## SWATCH GROUP ITALY

33/34/35/36/37

Breguet increased its visibility in Milan with the Marine Equation Marchante preview and La Vendemmia di Via Montenapoleone with Marquise Malaspina, owner of an 1881 Breguet pocket watch. In November, Blancpain and free diver Gianluca Genoni hosted dealers and journalists at Y-40, the world's deepest pool. Glashütte Original launched the Sixties Chronograph in Rome and Milan on the day of the Berlinale opening. Jaquet Droz experienced substantial growth by strengthening its distribution with local retailers. Omega celebrated the Speedmaster's 60th anniversary with an exhibition at the Triennale Design Museum. Eddie Redmayne helped launch the Seamaster Aqua Terra Collection in Venice. Tissot inaugurated a boutique in Rome's Via del Corso with an event attended by journalists, clients and VIPs. Longines opened a boutique in Rome's La Rinascente and activated its Facebook page with a high-profile contest; two other digital projects complemented the Longines Global Champions Tour and the FEI World Cup Jumping. Rado reaffirmed its commitment to design with its *Rado Star Prize* at the Istituto Marangoni. Mido partnered with Piano City Milan to promote and support music and culture. At the 71th edition of *Nastri d'Argento* in Taormina, Hamilton honored director Gabriele Muccino for his movie *Summertime (L'estate addosso)*. Calvin Klein reached consumers on- and offline with dynamic communications. Swatch supported the launch of New SKIN with a complete media campaign and the Swatch X You collection was debuted on digital platforms while the Swatch X You tram took to the streets of Milan for the holiday season.

## SWATCH GROUP UNITED KINGDOM

38/39/40/41/42

Swatch Group United Kingdom enjoyed a very positive year, increasing market share across all brands. Breguet held an exclusive exhibition in its boutique exploring the secrets of the most complicated watch of its time, the Marie Antoinette pocket watch. Invitees were treated to a unique evening with guest of honor, TV presenter Nicholas Parsons. The much-anticipated *Blue Planet II* premiered on BBC and featured friend of Blancpain, the esteemed wildlife photographer Laurent Ballesta, wearing his Fifty Fathoms and a Blancpain wetsuit as he dived to new depths, offering phenomenal brand exposure on primetime BBC. Glashütte Original focused on developing its distribution as it continued to open new accounts in key cities. At the Tate Modern in London, Omega celebrated the 60th anniversary of its Speedmaster with a spectacular space-themed event with George Clooney and Buzz Aldrin. Soon afterward was a celebration of the rank and regalia of James Bond to launch the Seamaster Diver 300M "Commander's Watch" Limited Edition at Tate Britain. Longines leapt to new heights with its equestrian events in 2017 as it attracted a strong social media presence by inviting digital influencers and VIPs. Rado worked in partnership with designjunction, London's

33/34/35/36/37



38/39



leading design event, to find the next generation of British design talent. In another year of sport, Tissot was pleased, as Official Timekeeper of the NBA, to welcome the Global Games to London. Press and consumers were invited to the boutique to meet NBA legends. Hamilton went online with its UK e-commerce platform and also partnered with *Luxury or Adventure*, a new TV show whose presenters wore the brand as they travelled the world. In a huge year, Calvin Klein increased its distribution. Swatch opened a pop-up in one of the most unique shopping areas in London, Carnaby Street. Famous for its street style fashion and colorful personality, Swatch celebrated the opening with an array of events for customers including the international SKIN collection event, which generated unprecedented PR coverage. To the surprise and delight of young customers, Flik and Flak made guest appearances in stores to celebrate the brand's 30th birthday.

## SWATCH GROUP IRELAND

43

Swatch Group Ireland achieved great success in 2017. Brands continued to improve their distribution networks, opening qualitative accounts and focusing on outstanding shop-in-shops. Longines has always had an active presence in Ireland and continued its momentum in its Official Timekeeper role at a variety of equestrian events, including the Irish Champions Weekend and Dublin Horse Show, which were attended by key wholesale partners and Irish editors. Tissot was Official Timekeeper of the Six Nations, the hugely popular rugby tournament. Passionate fans were encouraged to share their #TopMoment to win a watch, which resulted in an impressive social media campaign. Swatch saw a strong sales increase in its Grafton Street store and continued to expand its wholesale network. It partnered with IMAGE magazine to create a fashion-focused and trend-led shoot promoting SKIN and SS17 products. Flik Flak celebrated its birthday and helped children learn to tell the time in key accounts with the successful Flik Flak app.



40/41/42



43

## SWATCH GROUP NORDIC COUNTRIES

44/45/46/47

### Denmark

In 2017, Swatch Group Denmark met all its targets. Omega and Longines had special exhibitions in cooperation with Bucherer in the fabulous renovated Illum department store in Copenhagen's city center. These showcased the 60th anniversaries of the Omega Speedmaster and the Longines Flagship. Customers welcomed Rado's new lines, which set the pace for the future. Tissot's international sponsorships in cycling and ice hockey, including its partnership with the Danish Hockey League, established a fantastic base for the brand's local communication and sales throughout Denmark. Certina earned significant market share in Denmark with its stylish Scandinavian design philosophy. Calvin Klein and Swatch successfully launched new lines in the country.

### Finland

Swatch Group Finland hosted Omega's Nordic Ambassador training in Ruka-Kuusamo.

As a result of the training, the Nordic subsidiaries have 15 new Omega ambassadors. Longines again had excellent branding and visibility with its official Timekeeper roles at the Helsinki International Horse Show and at the FIS Alpine Ski World Cup competition in Levi. Despite a challenging market climate, Rado, Tissot, Certina, Calvin Klein and Swatch maintained their leadership positions in their own market segments.

### Norway

Omega presented Speedmasters to the winners of Starmus Stephen Hawking Medals for Science Communication hosted in Trondheim. Rado had a positive reception for the originality of its Captain Cook Limited Edition model. Longines strengthened its position as one of the leading brands in its price segment and the new Heritage models were well received. Tissot was proud Official Timekeeper of the UCI World Road Championship in Bergen. Certina continued the successful development of its new models.

### Sweden

Omega's strong, positive year was highlighted by the sale – at a record price – of a rare early Speedmaster by Bukowskis, the Swedish auction house. Longines continued to drive brand awareness through alpine and equestrian sports, notably the FEI European Championships. Rado enhanced its profile and reached new target groups through social media. Tissot's successful 2017 included its partnership with the Tour de France and a new shop-in-shop concept. Certina continued to be one of the strongest brands, with major PR coverage during the Swedish Rally. Calvin Klein's strong position was maintained with great output resulting from the introduction of its new concept. Swatch focused heavily on e-commerce and on constantly improving the consumer shopping experience.

44/45/46/47



## SWATCH GROUP GREECE

48/49/50

Swatch Group Greece enjoyed a tremendous increase in its overall sales in 2017, thanks primarily to luxury and high-end brands. In its Athens boutique, Omega commemorated the 60th Anniversary of Speedmaster with a special exhibition of vintage pieces provided by the Omega Museum and by private local collectors. It also opened a new shop-in-shop on Santorini Island. Longines experienced further growth in its share of the domestic and touristic markets and enjoyed significant PR coverage by participating in international events and creating impressive window decorations. Rado launched its new duty-free area in the main local airports and had a dynamic presence during the tourist season with window displays and promotions. Tissot achieved high sales growth in its Athens boutique, introduced 13 new shop-in-shops projects, and had a prominent presence at an event for the Greek Association of CEOs. Hamilton opened new shop-in-shops in Athens and Salonika and successfully launched the Khaki Scuba and

the Broadway models. Calvin Klein marked solid improvement in the domestic market against competition, particularly with the Minimal 2017 collection. Swatch had a remarkable launch of the SKIN collection with a dominant media presence, POS activations, and PR coverage.



48/49/50



## SWATCH GROUP TURKEY

51/52/53

Swatch Group Turkey's successful year far exceeded expectations. Omega maintained its market leadership with the support of strong PR and marketing activities. It successfully launched the new Aqua Terra Collection at its boutique in Istanbul. Longines continued as title partner and Official Timekeeper with the Longines International Racing Festival in Istanbul. Rado made significant growth in major cities and organized magnificent events at prime locations. Tissot achieved very good results, reinforced its selective distribution, and enhanced its retail expertise by expanding its shop-in-shop program. It also increased its visibility at the EuroBasket '17 tournament in Istanbul. Balmain enhanced its presence by opening more POS. Hamilton increased its market share and started collaborations with new partners. Iconic models like the Ventura, Elvis Presley's watch, impressed customers greatly. Calvin Klein maintained its leading market position with a focus on distribution and successful PR events. Swatch continued to introduce more corporate stores. Turkey was ranked first worldwide in terms of retail growth rate for Swatch, with greater focus on social media-based campaigns. 2017 witnessed the opening of Swatch Group Turkey's first multibrand store, the Hour Passion boutique in Emaar Square Mall.

## SWATCH GROUP POLAND

54/55

In Poland, Omega's strong growth was a result of its TV campaign promoting the Speedmaster's 60th anniversary, an event for VIPs and collectors and the huge demand following the re-launch of Seamaster Aqua Terra. New POS were opened at Warsaw Airport and in Wrocław. Longines was the Official Timekeeper for the prestigious CSIO 5-star equestrian event in Sopot and its time-keeping equipment was used at the FEI European Eventing Championships, which were held in Poland for the first time. Rado boldly enhanced its place in the world of design with the new True Face watch designed by Polish architect Oskar Zieta who, with Carlos Cardenas, VP Sales, attended the exhibition of the brand's True Designers Collection at Łódź Design Week. Tissot was official Timekeeper of the 2017 Tour de Pologne, the biggest cycling race in Poland, which attracted 3.2 million spectators and 8.5 million TV viewers. Certina, the WRC's Official Timekeeper, maintained momentum by inviting key retailers to 74th Rally Poland and its top sales associates to *Expedition Program* in Amsterdam. Swatch reached young audiences through its successful cooperation with influencers and saw great success from press events promoting the Swatch SKIN and Flik Flak collections.

51/52/53



54/55





## SWATCH GROUP RUSSIA

56/57/58/59/60

For Swatch Group Russia, 2017 was rich in projects aimed at increasing consumer awareness of its brands, building customer loyalty and boosting sales.

Breguet expanded its presence with new POS in Sochi and Vladivostok. In April, Harry Winston invited Moscow's *haute société* for a cocktail party celebrating the opening of its first monobrand boutique in Russia. Blancpain's sales rose thanks to a number of exclusive events in its boutiques. Glashütte Original remained strong in the market with its support for the Berlinale and the Dresden Music Festival. Jaquet Droz was introduced in the south of Russia in Rostov-on-Don. In April Omega celebrated the 60th anniversary of the legendary Speedmaster at a party whose guests included astronauts, pilots, journalists, TV anchors, and actors. Omega marked the second half of the year with the opening of a newly-renovated boutique in the GUM department store on Red Square. Tourbillon enjoyed active marketing with an updated Russian version of its website and interesting customer events.

In June, Longines was again named the Official Timekeeper for the Russian Federation President's Cup equestrian event. The brand also named young artistic gymnastic stars, Dina and Arina Averin, as brand ambassadors. A third monobrand boutique in Russia was opened at the GUM department store. Popular theater and cinema actress, Yulia Peresild, joined Rado's family of brand ambassadors. Rado remained the Official Timekeeper of Russia's largest tennis tournament, the VTB Kremlin Cup. Union Glashütte's dealer network continued its active expansion: the brand is already represented in twelve Russian cities.

Tissot's dynamic promotion strategy featured advertising campaigns across all media with the slogan "Tissot Is Your Time". The brand organized events with theater and film stars, bloggers, and opinion leaders. Certina announced in its traditional and online advertising campaigns that all quartz models of the brand would be COSC certified chronometers. Mido captured further market share by promoting iconic models, Multifort Special Edition and Baroncelli Diamonds, in its extensive advertising campaigns, which resulted in a tremendous

growth of its website traffic and greater brand recognition. Hamilton became the Official Timekeeper of the Red Bull Air Race; a stage of which was held in Kazan City. Calvin Klein made a private presentation of its new collection of watches and jewelry for journalists and bloggers at the Erarta Museum of Contemporary Art in St. Petersburg.

One of the 2017 key points for Swatch was the launch of its online store. Russia became the 25th country to give every citizen an opportunity to have a Swatch watch delivered to their doors. Swatch launched a large-scale TV-campaign in the summer and in order to reach millennials, it partnered with two of Moscow's most popular festivals, Bosco Fresh Fest and Afisha Picnic.



56/57/58/59/60



## SWATCH GROUP USA, CARIBBEAN AND LATIN AMERICA

61/62/63/64/65/66/67/68

Swatch Group USA's focus during 2017 remained on continuing to optimize its retail networks and building brand awareness in the US. Additionally, all Swatch Group Caribbean teams were integrated into the US team structure.

Breguet debuted the reopening of its New York flagship store on Fifth Avenue, now at the St. Regis Hotel. An entirely renovated salon features a new architectural concept, its ambiance exudes heritage and craftsmanship. Blancpain relocated its New York Flagship in the fall of 2017. Located in Midtown on one of the world's most iconic shopping streets, the boutique extends over two floors and is a true place of hospitality. It is the first North American boutique to feature an in-house customer service center. Glashütte Original continued its positive development in the US and further increased brand awareness. In New York, it presented the limited Sixties Iconic Square collection, consisting of five colorful models with a distinct vintage style, to media and influencers. An exclusive event with *GQ* in July at its The Gent location in New York offered an environment ideally suited to presenting the brand to VIPs, media and influencers. Jaquet Droz honored the meticulous art of painting on enamel at an event in Miami. Guests had the chance to become artists for a night and to marvel at the secrets behind the art of the dials created by hand by Jaquet Droz's artisans. Omega celebrated the 60th anniversary of its iconic Speedmaster with ambassador General Thomas Stafford. The brand reaffirmed its commitment to the world of golf as Official Watch and Patron of the PGA Championship. In December, Omega opened its *Her Time* pop-up boutique on New York City's Fifth Avenue.

Longines served as Official Timekeeper and Watch of the Triple Crown series, and also presented special heritage exhibitions at the COUTUREtime trade show in Las Vegas and at WatchTime New York. Andre Agassi joined brand VP Juan-Carlos Capelli for the launch of the new Conquest V.H.P. collection at Macy's Herald Square, followed by a VIP event at the Longines boutique at the World Trade Center. Rado continued its partnership with NYCxDesign and held the second edition of the *Rado Star Prize US*. Festivities included an exhibition at Wanted Design Manhattan, which provided a platform for Rado's design-driven timepieces as well as the *Rado Star Prize* winner and finalists.

Tissot furthered its status as Official Watch of the NBA throughout the season. The brand worked with retailers and basketball stars to drive awareness of the partnership, including an activation at the 2017 All-Star Game in New Orleans and retail events with Macy's Flagship in New York and Dillard's in San Antonio with Ambassador Tony Parker. Hamilton paid tribute to its American heritage and became the Official Watch for the athletics programs at the Air Force Academy and the Military Academy in West Point. Hamilton's first year as the Official Timekeeper of the Red Bull Air Races was celebrated with races in San Diego and Indianapolis, with a notable presence on national sport channel NBCSN. Mido reinforced its collaboration with the NCAA, adding four prestigious universities – Stanford, UCLA, Texas, and USC – to its partnership with the Miami Hurricanes. It also celebrated the culmination of its #BeInspiredByArchitecture cam-

61/62/63/64/65/66



paigned with a gala at the Guggenheim Museum, and the launch of the Inspired by Architecture Limited Edition watch. Calvin Klein presented its 2017 collection at the annual JCK trade show in Las Vegas, attracting new clients and elevating its market presence.

Swatch celebrated the worldwide launch of the new SKIN collection and reinforced its Sports pillar with the Swatch Beach Volleyball Fort Lauderdale Major and the Swatch Pro Trestles event in California. It also opened its new Powell Street location in San Francisco. Finally, the year culminated with a special collaboration with Hodinkee, launching the first-ever SISTEM51 Hodinkee Vintage 84.

**SWATCH GROUP CANADA** 69/70/71

Swatch Group Canada ensured qualitative visibility within all distribution channels. Breguet, Blancpain, Glashütte Original and Jaquet Droz strengthened their leadership positions. Omega continued to be a leader with growth at the retail level, impressively hosting various events. Longines formed partnerships with the Commonwealth Games, Gymnastic World Championships and the FIS Alpine Ski World Cup. Rado promoted its design heritage and reinforced its brand awareness. Tissot formed partnerships with the Montreal Canadiens, Toronto Raptors and the UCI Track Cycling World Cup. Hamilton hosted the 60th anniversary of the Ventura, worn by Elvis himself, and became the Official Timekeeper of the Red Bull Air Race. Mido continued its successful expansion in Canada. Calvin Klein expanded its branding in department stores. Swatch celebrated Canada's 150 years with a special edition and saw a significant increase in e-commerce sales and growth while expanding its retail presence.



67/68



69/70/71



## SWATCH GROUP MEXICO

72/73/74/75/76/77

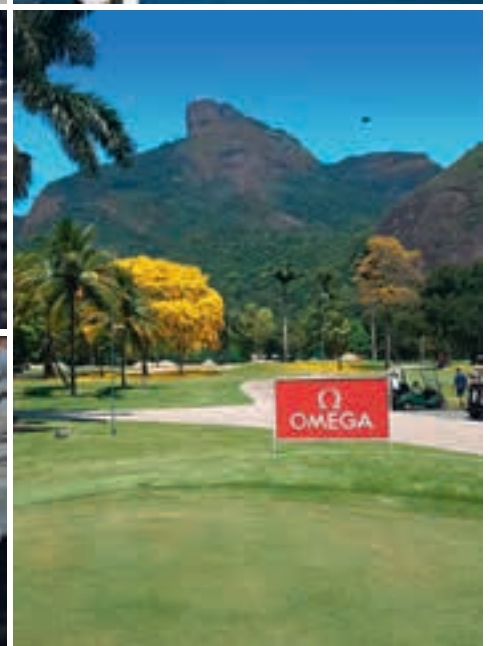
Breguet enhanced its reputation and demonstrated its *savoir-faire* at a guilloche workshop. With the *Blancpain Ocean Commitment*, the brand continued to grow and expand throughout Mexico. Omega celebrated its historical legacy at an event commemorating Speedmaster's 60th Anniversary. Longines inaugurated its first boutique with the presence of André Agassi. Rado's presence at its third Abierto Mexicano Telcel tennis event in Acapulco was highlighted by the presentation of a limited-edition timepiece. Tissot strengthened its position with its new-concept road shows, its special activations during the Mexico NBA Games at Arena Ciudad de México, and with the official launch of the Tissot Chrono XL. Mido opened its fifth boutique, launched its Commander watch inspired by the city's Metropolitan Cathedral, and collaborated in a custom motorcycle activity influenced by the Multifort Adventure. Hamilton consolidated its position with double-digit growth and increased brand awareness in Mexico. Calvin Klein elevated its image as a leading brand in the fashion market in Mexico. Swatch opened a new store in Cancun, reinforced its relationship with influencers and bloggers, and sustained healthy growth with the successful launch of e-commerce.

## SWATCH GROUP BRAZIL

78

Despite a challenging environment and following two major international events in the last three years – the World Cup in 2014 and the Olympic Games in 2016 – 2017 was a year of consolidation and increased market share in Brazil. Omega enhanced its presence in the country with the opening of new retailers with shop-in-shops in important cities, including those in Porto Alegre and Fortaleza. At events that reinforced Omega's concept and image, customers had a chance to interact with the brand personally. Tissot and Mido remained well positioned with a new distribution channel featuring the most prominent windows in their respective segments. Swatch, with its corporate stores and e-commerce, continued to perform well and is prepared for a sales boost in the coming year with plans to open retailers around the country.

72/73/74/75/76/77



AVAILABLE ONLY IN C A N C U N **swatch** SWISS MADE



## SWATCH GROUP AUSTRALIA

79/80/81/82/83/84

For Swatch Group Australia, 2017 saw a continued focus on quantitative and qualitative standards in distribution platforms and in operational excellence. The prestige brands made significant headway in market share growth and brand awareness and strengthened retail partnerships with dynamic events. Both Breguet and Blancpain expanded distribution in Sydney, Melbourne and Gold Coast. Omega's year commenced with the opening of its new flagship Martin Place Boutique featuring special guests Cindy Crawford and brand President Raynald Aeschlimann, and ended with a strong campaign around the relaunch of the Seamaster Aqua Terra. Longines opened its first corporate boutique in Sydney and announced its Official Watch and Timekeeper role at the Gold Coast 2018 Commonwealth Games with the unveiling of a Longines Countdown Clock at Brisbane Airport. Rado focused on improving brand awareness via key sponsorships with the Brisbane International tennis event and the local Rado YoungStar announcement. Tissot further enhanced its retail presence, welcomed ambassador Jorge Lorenzo to Melbourne, and strengthened brand awareness through its AFL (Australian Football League) sponsorship. Mido entered the Australian market by establishing distribution in major cities and airports. Calvin Klein maintained a focus on its expanding distribution, supported with brand training and marketing activation. Swatch added Perth to its corporate retail network and key product launches such as SKIN and Swatch X You were supported with strong digital and outdoor advertising. Flik Flak celebrated its 30th anniversary with events across its retail network.

## SWATCH GROUP CHINA

85/86/87

Swatch Group China achieved double digit sales growth in 2017. One of the year's big stories was e-commerce. Tissot pioneered its launch in China, followed by Swatch, Longines and Mido; other brands will follow. Tissot became Tmall's first Official Timekeeper, which created tremendous success for the brand. The prestige brand, Omega, and Customer Service (CS) were the first beneficiaries of a mobile e-learning app. The CS network was expanded and the new Authorized Service Center Information System proved a great success. Customer experience was further enhanced with five branch offices open seven days a week. The number of CS WeChat fans increased by 61% from 2016.

Breguet launched the Marine Equation Marchante 5887, staged *Breguet, Watchmaker to the Royal Navy* exhibits and continued *Breguet, a Story Among the Greats* exhibitions. Harry Winston evoked New York's historic art deco scene with its Avenue Classic Automatic. Blancpain presented the *Métiers d'Art* exhibition and introduced Wu Xiubo as brand ambassador. It presented a Chinese calendar watch and a new feminine moonphase. Glashütte Original held 360 Panorama exhibitions in Nanjing and Hangzhou. The Panomatic Luna Rose and Senator Cosmopolite SKP Limited Edition were highly sought after.



79/80/81/82/83/84



85/86/87



## SWATCH GROUP CHINA

88/89/90/91

Jaquet Droz unveiled its Automaton Collection Exhibition at the Shin Kong Place (SKP) shopping mall; the new Tropical Bird Repeater was launched in Beijing. Omega celebrated the 60th Anniversary of Speedmaster in Shanghai with film director and writer Liu Yulin and with artist Zhang Ding. It also welcomed Liu Shishi to its family and celebrated the 65th anniversary of the Constellation collection with a gala dinner in Beijing.

In Beijing, Longines celebrated its 185th Anniversary with the launch of the Record Collection and the introduction of brand ambassador Zhao Liying. Rado was named Official Watch of Design Shanghai, Asia's leading design show. In June, it launched the DiaMaster in Beijing with President Matthias Breschan and ambassador Tang Wei.

Tissot launched the Ballade in Beijing with President François Thiébaud, Swatch Group China Country Manager Susan Chen, brand ambassadors Liu Yifei and Huang Xiaoming, and basketball star Liu Xiaoyu. Mido continued its charity support, giving children a newly re-designed learning environment and a new library. Hamilton's *Behind the Camera Awards* at Shanghai's Theater Above attracted actors and backstage professionals. Certina collaborated with the non-profit Sea Turtle Conservancy and featured new products, notably the DS Action Diver. Calvin Klein launched an integrated Valentine's Day campaign and successfully brought traffic to its off-site roadshow, making significant gains over the previous year.

Swatch implemented a new e-commerce channel, which showed great potential in sales performance. The brand remained a pioneer in contactless payment with the launch of SWATCH PAY! in collaboration with China UnionPay. The CRM program aims to recruit more target consumers and to drive repeat purchases.

## SWATCH GROUP HONG KONG

92/93/94/95/96/97

Swatch Group Hong Kong reinforced its support and services to its customers through improved retail distribution, including the first on-line store with Swatch. This was complemented by emotional product launches, in-store events, upgraded staff training, and greatly enhanced customer service.

Breguet presented the new edition of its *Breguet, Watchmaker Since 1775* book. The brand continued to support classical music concerts as part of Breguet's Celebration of Excellence to promote cultural collaboration through music. Harry Winston's wholesale distribution network for its watches enjoyed healthy development and the brand's profile was elevated with its shop-in-shop in a prime position at Yes Watch. Blancpain presented the *Métiers d'Art* exhibition showcasing rare timepieces to more than 400 visitors who also enjoyed an opening gala dinner and two luncheons. Glashütte Original continued to enhance brand exposure with the *Time for Excellence* exhibition and strengthened its customer relationships through select VIP events. Jaquet Droz President Christian Lattmann presented the latest automaton, Tropical Bird Repeater, to VIP guests and editors at a luncheon at the Four Seasons Hotel. Omega celebrated the 60th anniversary of the Speedmaster with an exhibition in Central and launched the new Aqua Terra in December, demonstrating the brand's dynamism and innovation in the market.

88/89/90/91



92/93



Longines celebrated its 185th anniversary. For the sixth year running, it was the sponsor and timekeeper for the Longines HK International Races and the Longines Masters HK. Rado hosted *Portraits of Time*, a product launch event and pop-up store opening in Causeway Bay. The brand also promoted design at DesignInspire and exhibited its True Designers Series.

Tissot presented the UCI Track Cycling World Championships in April. The opening of the Tissot Lee Garden Road Flagship Store in August was attended by the celebrity Pakho Chau. Balmain, the perfect watch choice for creating an individual style with a greater sense of elegance, was promoted in social media. Certina's DS Action Diver, meeting the stringent ISO 6425 standard, became one of the most popular dive watches in the market. Mido opened a new boutique in Mongkok. Its new corporate identity was applied in the shop design and the brand's styles were presented in one of HK's prime shopping areas. Hamilton held a pre-Basel event for media and enhanced its brand exposure through different marketing channels including the sides of buses and at Mass Transit Railway stations. Seasonal in-store decorations were launched in Calvin Klein's own retail stores to direct foot traffic to points of sale and to highlight special collections.

Swatch's voyage of #YOURMOVE with SKIN was kicked off with a music party in April, creating noise in town with a video featuring key opinion leaders Jim Yan and Yvette Kong.

## SWATCH GROUP MACAU

98/99

Swatch Group Macau achieved strong sales results built on the development of retail operations and customer experience activities. At Galaxy, watch enthusiasts gathered to discover this most spectacular creation, the Breguet Marine Equation Marchante 5887. Blancpain and Glashütte Original held successful exhibitions at Parisian and Studio City respectively. Omega hosted an exclusive Planet Omega exhibition at Galaxy and opened a sixth boutique at MGM. Longines expanded its presence with the opening of its seventh boutique at Cotai Central. Rado's exhibition at Venetian showcased its high-tech materials; the brand also opened a new boutique at Cotai Central. Tissot continued to develop its retail network by enhancing the customer shopping experience with in-store events. Balmain received very positive feedback for the introduction of its Baselworld watches. Mido reopened its Venetian boutique with a brand new design concept. Hamilton strengthened its exposure with a marketing campaign on Macau taxis. Calvin Klein enjoyed strong sales growth across the market, and Swatch completed its Venetian relocation, opening its largest store in Macau with a special design concept.



94/95/96/97



98/99



## SWATCH GROUP TAIWAN

100/101/102

Breguet celebrated the reopening of its Taipei 101 Boutique with an exclusive event. Harry Winston organized a festive VIP dinner with its dealers. Blancpain's unique Only Watch model was a true success story. Glashütte Original's Art of German Watchmaking infused its highest quality standards with passion. Omega celebrated the 60th anniversary of the Speedmaster Collection, recalling the legend and looking ahead to its next adventures. Longines' good customer relationships and service led to enhanced market penetration and cooperation with dealers. The launch of the Rado True Designers series enjoyed quality media coverage and impressive sales. Tissot attracted younger customers with several waves of intensive social media activations. Mido's Belluna Mysterious Date, with its 31-aperture dial, increased market share. Hamilton leveraged the Red Bull Air Race mobile gaming experience at consumer events for domestic sales growth and the successful marketing of its aviation DNA. Calvin Klein's diverse PR events attracted its target customers' eyes to its fashionable and affordable Swiss-made watches and jewelry. Swatch took the lead in e-commerce development with the opening of a Yahoo! store to cultivate its status as the millennials' favored brand.

## SWATCH GROUP SINGAPORE

103/104/105/106

Swatch Group Singapore achieved sound growth despite the challenging retail landscape and fluctuating regional socio-economic factors. Breguet played host to VIPs at the boutique's re-opening ceremony with a lion dance and classical violin accompaniment while Harry Winston focused on the launch of its Emerald Collection. Blancpain's commitment to the underwater world was evidenced in the launch of the All-Blue Limited Edition. Glashütte Original generated enthusiasm among collectors with the Art of German Watchmaking and pre-sold its limited edition Sixties Square Iconic Forest. Jaquet Droz enthralled VIPs with an enamel painting workshop and successfully launched the Bird Repeater in a historical colonial style villa. Omega staged a space-inspired soiree to celebrate the 60th anniversary of its legendary Speedmaster collection. Longines, Official Partner of the Gold Coast 2018 Commonwealth Games, proudly welcomed the Queen's Baton in its Marina Bay Sands Boutique. Rado activated a festive outdoor campaign at Orchard Road. Tissot built on growing sales momentum with its MotoGP™ roadshows. Balmain strengthened brand presence with pop-up exhibitions. Digital marketing and billboard advertisements at train stations were the main focus for Mido. Hamilton's Intra-Matic 68 created a buzz following its unveiling in Basel. Calvin Klein's retail investments continued to broaden brand exposure. Swatch unleashed new innovations with its new SKIN and Swatch X You collections.

100/101/102



103/104/105/106





## SWATCH GROUP MALAYSIA

107/108/109

2017 was a momentous year for Swatch Group Malaysia, with important events across all the brands. Swatch Group Malaysia continued its long-term investment in the development of the expansion of its retail distribution while increasing its local market share. Breguet, Harry Winston and Blancpain had strong growth in Malaysia. Glashütte Original flew German watchmakers to Malaysia especially for its *Art of German Watchmaking* event. Omega opened its fourth Malaysian boutique at the world famous Petronas Towers – Kuala Lumpur City Centre. The opening event took place during Chinese New Year in the presence of the Omega President Raynald Aeschlimann and renowned local artist Dato' Sheila Majid. Longines opened a new boutique in the same mall with its VP Sales, Charles Viloz, and Ambassador of Elegance Chi Ling Lin. The official opening of Rado's biggest flagship boutique in Southeast Asia took place at the famous Pavilion KL mall. Tissot continued to expand its footprint with roadshows including the famous annual MotoGP™ at the Sepang International Circuit where it showcased the T-Race MotoGP Limited Edition. Mido opened its first boutique in Pavilion Kuala Lumpur and conducted workshops at Nicolas G. Hayek Watchmaking School. Hamilton succeeded in gaining new market share across the country. Calvin Klein enjoyed steady growth and opened four new boutiques in prominent malls, including Genting. Swatch created several launch campaigns and opened a new store in Malaysia at Genting.

107/108/109



110/111/112/113



## SWATCH GROUP THAILAND

110/111/112/113

Thailand mourned the passing of King Bhumibol for one year from October of 2016, which led to a subdued business climate in 2017. Despite this environment, Swatch Group brands continued to gain market share. Breguet reinforced its ladies' watch profile with exclusive events for VIP clients. Blancpain enhanced its reputation through a media campaign. Glashütte Original opened new POS. Omega had substantial growth thanks to its Speedmaster 60th Anniversary campaign, supported by two exhibitions. Longines brought local influencers to international events, successfully increasing brand awareness, and held an exhibition to mark its 185th anniversary. Rado introduced its new collection to nationwide retailers through the *Portraits of Time* campaign; it also staged an exhibition for watch enthusiasts at an art gallery. Tissot and Mido each hosted a successful dealer event and cultivated local partnerships. Hamilton organized a Ventura Club rock 'n' roll press event. Calvin Klein focused on consumer proximity with targeted on- and offline activities. Swatch had strong retail growth, opened a boutique in Bangkok Airport, and hosted a Swatch X You event for influencers and bloggers. FlikFlak supported its Children's Day party with a strong Instagram campaign.



## SWATCH GROUP SOUTH KOREA

114/115/116/117

Despite a turbulent international climate, Swatch Group South Korea's sales growth was buoyed by strengthened CRM activities, a commitment to distribution excellence and a focus on increasing staff competencies. Breguet celebrated the Marine Equation Marchante 5887 launch with an exhibition for VIPs and journalists. Blancpain confirmed its bespoke positioning with its VIP *Art de Vivre* presentation at Arumjigi in Seoul and focused on its *Blancpain Ocean Commitment* with a Blancpain Fifty Fathoms roadshow. One year ahead of the opening of the PyeongChang 2018 Olympic Winter Games, Omega unveiled the Countdown Clock at a special ceremony at City Hall Plaza. Longines had strong sales and it opened a corporate super corner at Busan Avenuel. Rado highlighted its design DNA by associating with Korea's leading design and publishing company. Tissot's 80-hour movie festival, *The Memorable Moments of 80 Hours*, commemorated the launch of the Powermatic 80 movement. Mido's participation in the International Union of Architects Congress contributed to its remarkable sales growth. Hamilton successfully launched its Broadway Collection and its Aviation Watch exhibition took place across the nation. Calvin Klein maximized its identity as top designer Raf Simons' brand through its press presentation. Swatch had an exciting new SKIN launch event, inviting over 250 press and influencers under the #YOURMOVE digital banner. The news spread through social media postings, leading to spectacular sales results. Hour Passion opened its third outlet store in Shinsegae Paju Premium Outlet.

## SWATCH GROUP JAPAN

118/119/120/121/122

Swatch Group Japan enjoyed a very positive year in 2017 across all its brands. The success was the result of new boutiques and shop-in-shops; great product launches accompanied by strong promotions; and targeted marketing campaigns. The Ginza-based Nicolas G. Hayek Center, which is the home of the Swatch Group Japan organization, its Customer Service Center, and the flagship boutiques for seven of its brands, symbolically showed the way forward in its 10th anniversary year. Strategically located in the heart of Tokyo's high-end commercial district, the brands attracted not only Japanese customers, but also many visitors from all over the world.

Breguet's highlight in 2017 was its launch of the Marine Equation Marchante in summer, which was promoted with a roadshow in key watch stores, assuring the line's success. The renovation of the Blancpain boutique in the Hayek Center allowed the brand to share its passion for watchmaking excellence with its best customers. Both Glashütte Original and Jaquet Droz proudly exhibited their histories and craftsmanship in the Event Hall of the Hayek Center, drawing keen interest from Japan's watch connoisseurs. 2017 marked the 60th anniversary of the launch of the Omega Speedmaster, and friends of the brand, including renowned actor Shohei Miura, were invited to be *Lost in Space* on a Tokyo rooftop! Tokyo will host the 2020 Olympic Games, but interest is already high in Japan. In November, Omega inaugurated its countdown clock on the grounds of the Hayek Center in Ginza in the presence of Omega ambassador and Olympic Champion Chad le Clos and glamorous Japanese actress Nanao.

Longines kept pace, notably with the launch of its Longines HydroConquest "Black Out" edition, in the presence of famous Kabuki actor Hayato Nakamura. The brand ended the year in style, inviting its VIP customers to the Japan Cup in association with Longines. The launch of the Rado True Designers watch collection – particularly the model designed by Japanese designer Kunihiko Morinaga – was a true success and sold out almost imme-

114/115/116/117



118



diately. Tissot continued to grow pursuing its omnichannel strategy, opening new large shop-in-shops in major department stores, and also successfully launching its corporate e-commerce platform. It was also a great year for Hamilton, leader in its price segment, which culminated in the November opening of its first stand-alone boutique, in Cat Street, the heart of Tokyo's vibrant street fashion district. Calvin Klein recorded its best year ever in Japan, taking full advantage of its improved distribution. Finally Swatch, as provocative as ever, surprised its fans transforming the Hayek Center into a Ginza club on the occasion of the re-opening of its flagship store and the launch of its Edo Night city watch.

## SWATCH GROUP INDONESIA

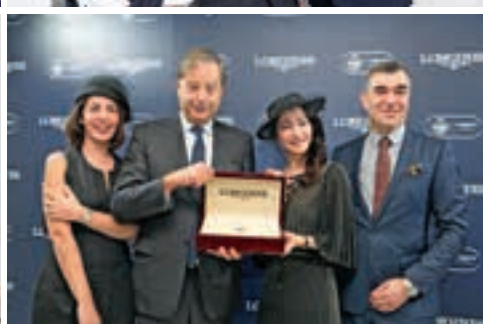
123/124

Swatch Group Indonesia continued to develop new working relationships with two key local business partners. Omega established a professional collaboration with a United Arab Emirates conglomerate, Al-Futtaim Group, to set up a monobrand boutique in Jakarta. The *Planet Omega* exhibition received outstanding response from press and local consumers. Longines continued to strengthen its presence with the Time International Group, and the Roland-Garros event in France generated extensive positive press coverage. Rado expanded its second standalone boutique with Navya in Surabaya. Meanwhile, Tissot commenced a new business relationship with Mitra Adiperkasa, the largest local retail operator. The brand was chosen to be the Official Timekeeper for the 2018 Asian Games to be hosted in Indonesia. Certina organized extensive national training for retailers while Mido sustained sales growth and organized sales exhibitions in Jakarta. It also enjoyed enthusiastic press coverage for its Solomon R. Guggenheim Museum event in New York City. Calvin Klein revitalized product assortments and reconfigured itself through its social media activations.

119/120/121/122



123/124



## SWATCH GROUP INDIA

125/126/127/128/129/130

Swatch Group India maintained its leadership position in a turbulent year which witnessed the country's biggest tax reform involving GST (Goods and Services Tax) and other regulatory changes that impacted consumer purchase behavior. Breguet continued to be the leader in the *haute horlogerie* segment, successfully focusing on the sale of complication and haute joaillerie watches through an exclusive exhibition in Delhi. The exceptional Marine Equation Marchante 5887 also generated qualitative PR and successful sales in India. Harry Winston expanded its customer base by advertising in luxury lifestyle publications. Blancpain held an exhibition of exquisite and grand complication watches at POS in Mumbai and Delhi. The Villeret Collection was the focus of a wine and cheese evening in Mumbai attended by media, watch collectors, celebrities and high-end clients. Jaquet Droz received a phenomenal response on its digital platform through the targeted use of digital media. Omega opened its new generation boutique in Hyderabad and strengthened its presence in Mumbai with a new point of sale. Premium customers of Mumbai, Kolkata, Bangalore and Delhi were invited to exclusive previews of the products Omega launched at Baselworld. Longines opened its first boutique in Bangalore at the prestigious UB City Mall, inaugurated by its Ambassador of Elegance, Aishwarya Rai Bachchan. The Longines Symphonette Steel and Gold Collection was launched at the renovated Chennai boutique with a popular South Indian actress. The brand opened ten new POS. Rado's first ever airport store opened at Delhi Airport. It also opened its first boutique in Punjab in the city of Chandigarh. Media events with brand ambassador Hrithik Roshan were held in Mumbai and Bangalore to launch HyperChrome Sports Collection. Multiple events with Lisa Ray to showcase women's diamond timepieces in Tier 2 cities helped capitalize on sales in the wedding season. Tissot focused on its digital campaign and a series of three digital films with brand ambassador Virat Kohli, developed and released in India, generated tremendous user engagement and response. The brand partnered with RCB as the Official Watch for the IPL 2017, a very popular cricket tournament. It also opened new boutiques in Pune and Mumbai. Balmain added seven POS taking its total to 95 across 38 cities. Calvin Klein strengthened its qualitative distribution by opening 10 POS and organizing two training sessions for retailer sales staff to ensure product knowledge and quality customer interface. Swatch opened its largest store in Mumbai

and attracted customer traffic through digital marketing. An influencer campaign with UGC (User-generated content), used for the first time to launch the SKIN collection, received 320000 impressions in a week. The Swatch store at the Palladium Mall was expanded and revamped as a special project. Bollywood actress Aditi Rao Hydari launched the unique Swatch X You collection at a media event in Mumbai.

125/126/127/128/129/130



## SWATCH GROUP MIDDLE EAST

131/132/133/134/135/136

Swatch Group Middle East had a very challenging yet successful year due to its proper planning and effective deployment of resources.

Breguet strengthened its presence through the new collaboration with the Dubai Duty Free. It also reinforced its relationship with retailers by upgrading marketing communication. Harry Winston enhanced its strong presence as top luxury jewelry and timepiece brand. It unveiled the Legacy Collection at the prestigious Dubai Mall Salon. The Blancpain highlight at Dubai Aquarium & Underwater Zoo at Dubai Mall attracted a large number of visitors and elevated the popularity of the Fifty Fathoms model. Glashütte Original continued to increase its brand awareness. Events and special exhibitions dedicated to the Calibre 36 and the Senator Excellence family helped strengthen its presence. Jaquet Droz continued to expand distribution and presence, opening a new boutique at Dubai Mall and co-hosting the exclusive *Gentlemen's Evening* in Abu Dhabi. Omega continued its sponsorship of major golf tournaments. In February it congratulated brand ambassador Sergio Garcia, who claimed his first win at ODDC 2017. Its consistency in the quality of its distribution with new boutique openings in Saudi Arabia and in the United Arab Emirates and targeted marketing campaigns marked a successful year.

Longines continued its strong association with some of the most prestigious equestrian events. It forged its image as the leader in its price category with the opening of a contemporary, state-of-the-art boutique in the Dubai Mall. Rado served as an Official Partner of Dubai Design Week. It also expanded its retail presence by opening a stylish new boutique in Mall of the Emirates in Dubai and in Marina Mall in Abu Dhabi.

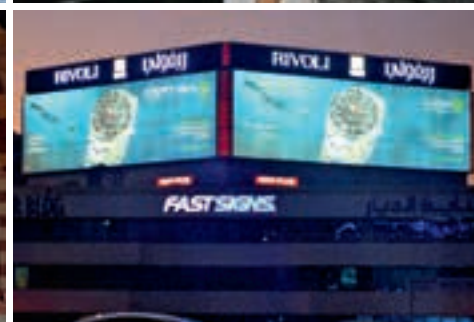
Tissot strengthened its leadership position in its market segment. It opened four boutiques in the United Arab Emirates and rolled out huge shop-in-shop in Saudi Arabia. It also reinforced its online communication mix with key campaigns focusing on the Ballade, T-Wave II and Chrono XL collections. Balmain had very positive results and its major investments in POS improved its visibility. The Aqua collection was Certina's focal point during the year. It rolled out the captivating visual in most of the POS and for outdoor campaigns, which strengthened and validated its presence in the segment of sport and diving watches. Hamilton, the Official Timekeeper of the Red Bull Air Race World Championship, collaborated with Rivoli to offer its VIP customers and

the media an unforgettable experience. Hamilton opened a new loft-style shop-in-shop in Riyadh. Calvin Klein had significant growth thanks to its balanced product mix, which maintained a global look while offering products specifically catered to its local client base, as well as increased visibility.

Swatch enhanced its presence in the market through its strong distribution networks, constant renovations and multiple relocations of its stores. The launch of the Swatch e-commerce platform in Saudi Arabia enhanced growth potential and offered customers a complete Omnichannel experience.



131/132/133/134/135/136



### SWATCH GROUP SOUTH AFRICA

131/132/133/134/135

Breguet continued to concentrate on the local consumers with an increased focus on digital marketing. Blancpain ended the year positively with improved local brand awareness; focus was placed on targeted marketing campaigns. Omega hosted its second successful *Ambassador Training* in 2017. One leg of the famous Volvo Oceans race took place in Cape Town where Omega had a strong brand presence and various marketing and PR activations. Longines partnered with a prestigious jeweler to exhibit the Equestrian Collection, which proved to be a success and enabled Longines to reach Cape Town's high-end equestrian target audience. In conjunction with one of its main accounts, Rado played host to a stylish musical concerto in a luxury theater for its VIP customers. This event was successful in building strong relationships and brand awareness. Tissot also continued to build brand awareness both with key store openings at the best locations and various events. The South African Bike Festival was the main event for 2017 where Tissot was the Official Timing Sponsor. Hamilton enhanced its brand awareness and will continue to focus on digital and billboards in its marketing campaigns for 2018, the year it celebrates

100 years of timing the skies. Calvin Klein had a positive year with growth in distribution across the country while elevating its brand awareness through strong advertising campaigns. Swatch collaborated with *Men's Health* on this year's Menswear Collection 10th Anniversary Fashion Show as the official watch partner. The brand also opened two new stores in 2017, one in Ballito Junction and one in Mall of Africa, the two largest shopping malls in South Africa.



131/132/133/134/135



# GOVERNANCE

ENVIRONMENTAL POLICY  
SOCIAL POLICY  
CORPORATE GOVERNANCE



## ARE WE ALL ALONE?

The SETI (Search for Extraterrestrial Intelligence) Institute is dedicated to detecting signals from alien life forms. At Swatch Group, we don't only receive signals. We have to send them to the authorities and the markets. And even, sometimes, to some particular and mysterious beings.

# SUSTAINABILITY REPORT

## ON ENVIRONMENTAL PROTECTION POLICY AND SAFETY

Environmental protection and safety are self-evident in all Swatch Group's areas and they outline a priority tenet, which is respected, promoted, and implemented daily by every employee of the company. Our motto is "actions, not words" – or exhaustive reports. In this way, we all share in taking care of our environment as well as paying utmost attention to safety in general. These guiding principles are a part of the ESG (Environment, Social, Governance) values on which we all place the greatest importance, as stated in a number of places throughout this Annual Report.

We are all very conscious of our responsibility to protect life, quality of life, safety and health, as well as our environment, and we do our very best to meet our responsibilities in this regard, of course in the sphere which we can influence directly or indirectly.

In principle, resources are used efficiently and sparingly, to ensure that products are manufactured and sold in a sustainable and environmentally friendly manner. Starting with the planning and development phase of every new product, recyclable materials and auxiliary products as well as environmentally friendly production methods are taken into account.

Moreover, measures to reduce energy and resource consumption are implemented, whether through manufacturing facilities with intelligent energy control systems or through energy-efficient and heat-insulated infrastructures. To achieve the best possible ecological and energy balance, ultra-modern technologies and building materials are used for new industrial facilities and renovations; this practice also led to a further positive contribution in the year under review. Every year, all values relevant to operational ecology are consolidated into a comprehensive data collection. This data is evaluated and serves as a measurement of results achieved and also as a basis for further goal setting.







## ENVIRONMENT, SAFETY AND HEALTH – RELEVANT MEASURES

The safety and health of our employees as well as our customers worldwide receive our fullest attention. Our guidelines for sourcing, production, distribution and also for use of our products comply not only with the strictest international laws and directives but also with our own very high standards, which we also constantly upgrade and improve. In this respect, we have also never stopped learning, and this leads to continuous innovation and new investments within the company.

Environmental, ethical and social criteria are also an integral part of our sourcing policy. Responsible purchasing of industry-specific raw materials such as precious metals, diamonds, and exotic leather is of the utmost importance. Furthermore, Swatch Group decided to voluntarily eliminate the use of endangered tree species, and to use only wood originating from sustainable cultivation. This allows Swatch Group companies to make an additional important contribution to the improvement of the ecological balance. As far as possible, Swatch Group requests its suppliers to guarantee that all precious metals delivered originate from ethically impeccable sources and conflict-free regions, and moreover, that the entire supply chain fully complies with all legal regulations. By the same token, we ensure that diamonds used in our products originate solely from suppliers who fully respect and apply the Kimberley Process certification system.

In relation to clearly sustainable production methods and products, Swatch Group complies with the existing directives, particularly the EU directives such as the restriction of hazardous substances (RoHS), the registration, evaluation, authorization, and restriction of hazardous chemicals (REACH), and the disposal of old electrical and electronic equipment (WEEE). Additional information in the area of energy and ecology is available from the Belenos Clean Power report on page 110, and in the area of environmental protection and safety, from the Swatch Group Quality Management statement on page 111.

## RISK MANAGEMENT

The Corporate Risk Management System is an integral part of the environmental protection and safety policy. In this system, crucial risks are regularly identified, analyzed and recorded, in order for us to recognize risks to environmental protection, safety, and health at an early stage, and to plan and implement adequate measures to prevent any incidents. A significant component is Business Continuity Management. Experts determine which operating entities and their networks are important for the Group, identify the main risks (for example, fire, water, chemical substances, interruption of operations), and define measures to ensure the greatest possible Business Continuity. Prevention and emergency procedures are the focal point. A significant element of Swatch Group risk management is its policy of independence. Consequently, dependence on single suppliers, distribution partners, and financial service providers is reduced to the most reasonable. Also taken into account are sufficient inventory, expansion and modernization of production capacities, considering second sources, strategically important acquisitions, and a high level of equity.



## ENVIRONMENTALLY RELEVANT KEY FIGURES

Swatch Group has various industrial and production facilities, which are all highly specialized and therefore all have their own specific profiles in terms of safety, health and environmental protection. The development of every single company is carefully guided, so that additional optimizing measures can be defined and implemented. The most important benchmarks are those in the area of environmental relevance with impact on energy consumption, in particular, power and heat consumption and their associated CO<sub>2</sub> emissions, and the key performance indicators for water consumption, waste management, battery recycling and VOC (Volatile Organic Components) emissions. These benchmarks are implemented for all Swatch Group entities and serve as the basis for the following development.

### CO<sub>2</sub> emissions from energy consumption

As early as 2001, Swatch Group began to set clear climate and efficiency goals and to make voluntarily contribution to environmental protection. Hence, each individual entity was assimilated into the program, and measures to reduce energy consumption were defined.

In order to increase its contribution to climate protection and to reduce energy consumption, it was decided in early 2013 to include all Swiss production entities in a CO<sub>2</sub> exemption program. In the process, the voluntary economic and ecological measures toward reduction of energy consumption and its associated CO<sub>2</sub> emissions are set by the Swiss Federal Office for the Environment (BAFU) and fixed goals are contractually documented. The goal of this agreement is to further reduce energy consumption within the timeframe of 2013 to 2020, particularly by further reducing CO<sub>2</sub> by 27% and at the same time increasing energy efficiency 8% by 2020. In association with the Swiss Business Energy Agency (EnAW), energy audits have been carried out by specialists in all locations since 2013 and additional opportunities to reduce CO<sub>2</sub> emissions were compiled. A corresponding optimized action plan to achieve the goal was developed. Since then, the defined measures have been consistently implemented and have resulted in significant CO<sub>2</sub> reduction and tax exemptions for production sites. The action plan is regularly reviewed and updated, so that a significant contribution to climate protection can also continue to be made. Annual target achievement is of course guided and verified by the Swiss Federal Office for the Environment (BAFU) and the Swiss Federal Office for Energy (BFE). Detailed audits at the individual sites as well as data compilation by the specialists are very time-consuming, which is why the audited figures for the year under review are only available by the middle of the following year. The EnAW issues a specific certificate on a yearly basis when targets have been reached and the audit has been completed.

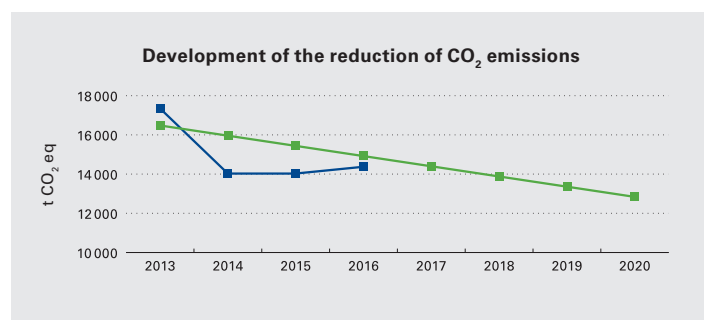
As early as 1990, Swatch Group supported reduction of CO<sub>2</sub> emissions and lowering of energy consumption through its sponsorship of the solar mobile *Spirit of Biel*. At that time, the solar mobile won the World Solar Challenge in Australia. The first solar-powered Swatch (1995), which has lost none of its appeal and can still be purchased today, stems from this period. With this, our early commitment to climate protection remains ever-present and motivates us to continue our contribution to climate protection.

The following diagrams show CO<sub>2</sub> emissions from the start of the new program in 2013, as well as the targets to reduce them 27% by 2020. Since the start of this new program, CO<sub>2</sub> emissions were reduced by a total of 2776 tons, as shown in the following **diagram 1** (below).

Energy efficiency should be increased by a total of 8% up to and including 2020, which leads to a linear target line as shown in the **diagram 2** (below). In the first four years after implementation of the new program, the diagram demonstrates that the predetermined increase in energy efficiency has been clearly exceeded.

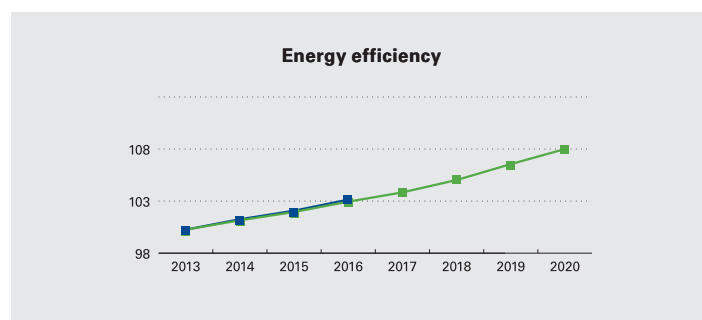
The consumption of electricity decreased by 8.1% in 2016 due to measures to increase efficiency and also, in part, to a decline in production. Heat consumption decreased by 1.0% compared to the previous year. Because of climatic conditions (heating degree days), however, the average additional consumption of 1% was the norm in 2016. CO<sub>2</sub> emissions increased temporarily as new company buildings have not yet started regular operation, because the substitution of fossil fuels will take place only with the definitive commissioning. Nevertheless, it was possible to undercut the target values (see diagram 1).

DIAGRAM 1



The audited Figures 2017 will be available mid 2018

DIAGRAM 2



Of course, foreign distribution subsidiaries, particularly those with many retail stores, also have the goal of improving their energy balances, even though they naturally have much lower energy consumption than the production entities located in Switzerland.

#### **Heat consumption by effective area (kWh/m<sup>2</sup> per year)**

Energy consumption from fossil energy such as heating oil, natural gas and district heating in kWh per m<sup>2</sup> effective area and year decreased by 1.2% in the year under review, despite commissioning and startup of new production facilities. Thanks to ultra-modern heating technology incorporated into new buildings, additional building insulation and renovation, optimization or replacement of various air-conditioning and water-cooling systems, renovation of heating systems and implementation of new heat recovery systems, this target could be reached. Due to continuous investment, heat consumption by effective area has been far more than halved since the beginning of the program in 2001. In 2017, Switzerland's first seasonal aquifer thermal energy storage (ATES) unit was commissioned for the extension of the Omega site in Biel (BE). With this latest technology, heated and cooled water is stored in deep soil storage and recovered when it is needed. Depending on the storage temperature, this results in a cold/heat supply capacity of 1.4 to 2.0 MWh. The system thus contributes to a high level of supply security and is an important substitution for

#### **Power consumption by effective area (kWh/m<sup>2</sup> per year)**

Measured in kWh per m<sup>2</sup> and year, power consumption decreased by 4.3% over the previous year. The decrease in consumption was achieved despite the integration, commissioning and startup of new production plants. The implementation of new, more energy efficient machinery and equipment in the various production entities, as well as significant investment with regard to lighting, in the form of renovation of existing systems, resulted in proportionally lower power consumption. The use of new LED lights has made it possible to achieve optimum light and to decrease the heat load, which reduces power consumption; it also has a positive effect on the costs of room air conditioning.

#### **Energy from self-generated renewable solar energy and hydropower production**

For decades, Swatch Group has not only invested in the area of electronic systems in low-energy and energy-efficient components and integrated circuits, but also runs its own energy production plants using renewable energy such as solar energy and hydropower production. Self-generated production of sustainable energy increased in recent years due to new facilities. Even though self-generated sustainable power production is moderate, it still contributes to climatic and environmental protection. With the opening of the new production building on the Omega site, a further photovoltaic system of the latest generation from Belenos Clean Power with a micro-inverter was put into operation. Already this year, 100 MWh can be generated by these plants. The total energy production is not constant, since the power stations La Suze and Le Bez in Corgémont (BE), which were completely renovated and automated in 2010, are dependent on average precipitation, and solar energy is dependent on the average incoming light on the photovoltaic installations at Distico in Biel/Bienne and at ETA in Boncourt (JU). The hydropower plants and photovoltaic installations have an annual production capacity of approximately 1500 MWh. Among other things, this energy will be used to operate part of ETA's electric vehicle fleet.

#### **Waste management**

Due to a cleaning process within production as well as further internalization of production, the amount of hazardous waste (excluding watch batteries) increased by 0.2% in the year under review. In the same period, the portion of recovered and/or recycled hazardous waste increased by 8.1%. In addition, other industrial waste such as paper, cardboard, synthetic material, and electronic components increased by 0.3%.

### Battery recycling

Excluding internal elimination of expired batteries and liquidation of surplus stock at Renata, over 4.4 tons of batteries were delivered for treatment to authorized recycling firms in the year under review. In addition, Renata invested in a highly-efficient battery recycling plant in the year under review, which will go into operation in early 2018.

### Water management

Due to startup of new production plants, integration of additional production facilities, and additional air conditioning installations, fresh water consumption increased by only 1.4% compared to the previous year, while non-potable water, by contrast, decreased by a significant 65.9%. Special mention should be made regarding the reduction of waste water achieved by installing closed water circulation systems, by increasing the efficiency of water treatment plants, and by using rainwater recovery systems to obtain water for cooling and sanitary installations.

### VOC (Volatile Organic Components) emission

Due to integration of new production plants and further internalization of production in the year under review, VOC consumption increased compared to the previous year, mainly due to the use of acetone, alcohol and gasoline as cleaning agents for produced components. Accordingly, corresponding VOC emissions increased by 1.6%. However, in the year under review, 10% more VOCs were recovered and/or recycled thanks to the recovery systems for gasoline and other volatile solvents. Higher VOC emission were prevented by increased substitution of volatile substances by processes using aqueous solutions that do not contain solvents or contain less volatile substances.

## GENERAL RAW MATERIAL SOURCING

Environmental, ethical and social criteria are an integral part of our sourcing policy, reason why, only suppliers and sub-suppliers who fully comply with our clearly defined and contractually documented criteria regarding safety, environmental and sociopolitical aspects can be considered. This includes not only compliance with national and international laws, but also compliance with the OECD guidelines for sourcing of raw materials and components (OECD Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas and its Supplement on Gold) as well as Standard SA8000 (Social Accountability International) pertaining to responsible sourcing under the premises of fair and ethical working conditions, health protection and occupational safety, observance of human rights and handling of business partners, as well as inclusion of the supply chain, local development and additional social and environmentally relevant factors.

In addition, suppliers must naturally fully adhere to the Swatch Group Quality Management internal guidelines, any ecological and legal regulations, and also the legal compliance related to products, particularly REACH (Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals), RoHS (Restriction of Hazardous Substances) and WEEE (Waste Electrical and Electronic Equipment). To ensure this, every supplier receives direct and secure access to the Swatch Group Quality Management conformity specifications for raw materials and substances. The specifications in the comprehensive database are updated on a regular basis. Swatch Group FEPS (Far East Procurement Service) and Swatch Group Quality



Management constantly check to ensure that suppliers really fulfill the conditions. If the guidelines are not met, they can stipulate that the supplier take corrective measures, and, if necessary, stop deliveries. Any supplier who does not or can no longer meet the qualification guidelines will not receive further consideration.

#### **Organic raw material sourcing**

In relation to organic raw material such as cotton, leather, wood, etc., not only are the many national and international laws respected (EU 995/2010 and EC 338/97, Lacey Act, CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora, UICN *Union Internationale pour la Conservation de la Nature*, FSC Forest Stewardship Council, PEFC Programme for the Endorsement of Forest Certification, Timber Regulation, etc.), but also legal and not endangered materials which are determined by our specialists to be ethically critical are voluntarily eliminated. In this manner, wood from endangered and potentially endangered tree species is voluntarily eliminated, and only wood originating from sustainable cultivation and whose provenance, forestry, and CITES are declared and certified is used. In addition, Swatch Group takes particular care to ensure that its supply of exotic leather originates from very few, clearly identified, controlled, and sustainable farming operations. The result is that only a small number of farms in the United States, which can guarantee the very strict US Fish and Wildlife as well as the above-mentioned CITES guidelines, can be used.

#### **Precious metal sourcing**

Swatch Group has a clear sourcing policy in regard to precious metals. They are only purchased from individual established long-term suppliers who can demonstrate that as well as complying legally and according to all the provisions financial market authority, they are at least certified members of the Responsible Jewellery Council (RJC) or the London Bullion Market Association (LBMA), and can guarantee that the precious metals delivered originate from impeccable sources and conflict-free regions. The RJC norm is specifically aimed at the *haute joaillerie* and jewelry industry and includes the OECD guidelines for precious metal sourcing (OECD Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas and its Supplement on Gold) as well as Standard SA8000 (Social Accountability International) on responsible and ethical sourcing of material.

The processes for metal sourcing have been continuously improved over the years and can be improved even more. In this regard, among other things, we are working together with competent authorities and institutions, for example, the Better Gold Initiative with SECO (State Secretariat for Economic Affairs). We continue through further investments to internalize as much as possible our own processes and precious metal refining in the Group's own foundries and treatment plants, in order to process currently held precious metal stocks ourselves and to manufacture and recycle our own alloys. After processing the alloys, bar profiles and raw ingots will be produced. Then the material will be processed by further internal production into semi-finished goods.

#### **Diamond and gemstone sourcing**

Diamonds are only purchased from the few suppliers who completely respect and implement the Kimberley Process certification system. Certification guarantees that diamonds can be proven to originate from conflict-free regions and from legal trade. Countries, companies, and merchants who do not use this certification system in its entirety are excluded from trade. In addition, only long-term partners who comply with the CIBJO (*Confédération Internationale de la Bijouterie, Joaillerie, Orfèvrerie des diamants, perles, et pierres*; The World Jewellery Confederation) guidelines as well as the Kimberley Process are used, in order to eliminate any quality and sourcing risks.

# SOCIAL POLICY

Every company going through difficult, turbulent times, such as those in the watchmaking industry in 2016 and the beginning of 2017, emerges stronger and more determined as a result of its trials. It has to be able to rely on well-trained employees who are assigned specific tasks in line with their skills and who, together with their line management, have confidence in the future and are committed to shared goals.

This promotes appropriate positioning in different markets, and also fosters the ability to face the future with confidence.

True commitment from people happens when, reciprocally, they enjoy satisfactory working conditions and values that are shared on a daily basis.

Swatch Group and its companies have done everything possible to maintain this balance in the past and continue to do so today, as they will in the future.

## Staff Training

In 2017, internal training programs, designed to increase versatility and consolidate the functional skills matrices in the various companies, were pursued in order to meet increased demand over several months. This versatility serves to bolster internal promotion, not only within the same company, but also between the different Swatch Group entities, which in turn encourages the retention of talented personnel by offering them interesting career opportunities and development.

## EMPLOYMENT

The early months of 2017 continued to suffer from the lingering effects of the decline in market demand, which saw a definite shrinking of resources in 2016. This trend sharply reversed in the second semester of 2017, particularly in Production. This trend continues with a positive outlook for the start of 2018, with companies responding to greater demand throughout the value chain.



### Initial Professional Training

In line with company policy, all technical apprentices who finished their training in June 2017 were offered fixed contracts, if they so wished, in order to build on their knowledge and skills, and with the aim of pursuing a worthwhile career at Swatch Group. The same number of apprenticeship contracts was signed at the beginning of the academic year in August 2017 as the number of outgoing apprentices.

The total number therefore remained stable and identical to the preceding years, at around 500 people.

For the fourth consecutive year, two watchmaking apprentices spent eleven weeks in Hong Kong to become acquainted with the activities in a repair center and to experience working in a multicultural environment. Their feedback upon their return reaffirmed the company's belief in this approach and encouraged it to continue.

In parallel, linguistic exchanges continued. Three French-speaking apprentices from Western Switzerland spent six weeks in Berlin, while three Swiss-German apprentices spent six weeks in Paris, not only to discover the world but also to improve and consolidate their knowledge of the national languages.

### Nicolas G. Hayek Watchmaking Schools

The six Nicolas G. Hayek Watchmaking Schools are unable to accommodate all applicants, due to the high reputation of quality education in their local countries and the extensive demand from young people wishing to acquire watchmaking skills. All available apprenticeship places are filled with highly motivated individuals who are committed and ready to represent Swiss quality in every position that they may subsequently occupy in Swatch Group companies after graduation.

### Professional Development

The two trends experienced in 2017, specifically the end of the downturn in the first semester and the significant subsequent recovery, demonstrated the importance of employee versatility, enabled by skills-monitoring workshops, development centers and internal on-the-job training.

These advantages gave Swatch Group a significant advantage in meeting the increase in demand at the end of the year and the ability to deliver to the markets, particularly for the Christmas period and the Chinese New Year.





### Social Partnership and Working Conditions

2017 was the first year of implementation of the new watch industry Collective Labor Agreement, signed on December 2nd 2016, valid for five years. This first year provided an opportunity to explain the new advantages granted to employees and to make them part of everyday working life.

In parallel, 2017 was the first year in a long time to see an increase in Consumer Price Inflation which, according to the evaluation criteria for standard employment contracts, reached 0.5% between the end of August 2016 and the end of August 2017. This resulted in a salary increase for 2018. It followed negotiations with the unions, who were informed that a revenue increase and a recovery in production volumes did not necessarily indicate a euphoric economic situation that would justify further attribution of advantages with regard to the new labor agreement and inflation compensation.

Working conditions include elements other than remuneration. Promoting work station ergonomics and the monitoring of movements and posture, as well as conducting analyses of its buildings, are areas in which Swatch Group continues to be very active in order to offer all employees a pleasant working environment in line with each individual's duties, competencies and physiological characteristics.



## CORPORATE GOVERNANCE

## 1. Group structure and shareholders

### 1.1 Group structure

The Swatch Group is active worldwide and represented in all market and price segments in the watch sector with 20 brands and in the jewelry sector. In addition, it holds an outstanding industrial position with a high degree of verticalization in the Production sector as well as the strategically important sector of Electronic systems. In the Corporate sector, the operational units which provide services for the whole Group are centralized.

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

An overview of the operational and of the distribution organizations is given on pages 4 and 5. The fully consolidated companies, of which none but The Swatch Group Ltd is listed on the Stock Exchange, are given on pages 208 to 211 with each company's name, domicile, share capital and the percentage of shares held.

The shares of The Swatch Group Ltd are listed on the SIX Swiss Exchange AG. The bearer shares are listed under the ISIN number CH0012255151 at the SMI, SPI as well as SLI indices. The registered shares are listed under the ISIN number CH0012255144 at the SPI, SPI Extra and SMIM indices.

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

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

Further information concerning market capitalization and earnings per share is shown on page 230.

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

### 1.2 Significant shareholders

As of 31 December 2017, the Hayek Pool, related parties, institutions and persons control 61 981 814 registered shares and 5 990 bearer shares, totalling 40.0% (previous year 40.1%) of all the votes.

The Hayek Pool comprises the following members per 31 December 2017:

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

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

Name/Company	Location	Beneficial owners
Hayek Holding SA	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	—
Families Ammann (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	—
Various employer-funded foundations <sup>1)</sup>	Various	—

<sup>1)</sup> Wohlfahrtsstiftung der Renata AG, ETA Wohlfahrtsstiftung, Fonds de prévoyance d'Universo, Fondation Technocorp, Fondation de prévoyance de The Swatch Group Les Boutiques SA and CP Caisse cadre

The community of heirs of N. G. Hayek controls directly, through related parties and institutions and in the context of the Pool 39.6% (previous year 39.7%) of all the votes; third party Pool members are represented therein, they comprise 3.6% of all the voting rights.

## CORPORATE GOVERNANCE

On 31 December 2017, no other individual shareholder or group of shareholders holding more than 5% is known to the Company.

**1.3 Cross-shareholdings**

The Swatch Group holds no cross-shareholdings.

**2. Capital structure****2.1 Capital**

On 31 December 2017, the capital structure of The Swatch Group Ltd was as follows:

124 045 000 Registered shares at CHF 0.45 par value	CHF	55 820 250.00
30 840 000 Bearer shares at CHF 2.25 par value	CHF	69 390 000.00
<b>Total share capital as of 31.12.2017</b>	<b>CHF</b>	<b>125 210 250.00</b>

**2.2 Authorized and conditional capital**

No authorized and conditional capital existed as of 31 December 2017.

**2.3 Changes in capital**

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

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2015	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2017	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

The detailed evolution of equity, reviewed by the auditors for the consolidated financial statements for the years 2016 and 2017, is published on page 177. For The Swatch Group Ltd, it is published for the years 2016 and 2017 in note 11 on page 222. With regard to the previous years we refer to the annual reports 2014, 2015 and 2016.

**2.4 Shares and participation notes**

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

**2.5 Benefit certificates**

No benefit certificates exist.

**2.6 Limitations on transferability and nominee registrations**

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

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

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

**2.7 Convertible bonds**

The Swatch Group currently has no outstanding convertible bonds.

## CORPORATE GOVERNANCE

**2.8 Options**

In 1986, with the takeover of control of the Swatch Group by the Hayek Pool, a block of shares was reserved in favor of a management stock option plan. As of 31 December 2017, the content of this portfolio amounted to 449 319 registered shares; this corresponds to 0.2% of the total share capital (previous year 680 644 registered shares, 0.2% of the total share capital). In 2017, 231 325 registered shares were consequently sold at a preferential price of CHF 4.– per registered share in accordance with the following details:

<b>Year of issue</b>	<b>Number of registered shares</b>	<b>Number of beneficiaries</b>	<b>Year of subscription/payup</b>
2015	76 117	190	2017
2016	85 632	216	2017
2017	69 576	237	2017
<b>Total</b>	<b>231 325</b>		

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

<b>Year of issue</b>	<b>Number of registered shares</b>	<b>Number of beneficiaries</b>	<b>Year of subscription/payup</b>
2016	68 133	200	2018
2017	69 476	235	2018
2017	69 678	235	2019
<b>Total</b>	<b>207 287</b>		

The allocation results from personnel reviews and proposals for employees who stood out through special achievements in the past year and have performed with above-average commitment. The allocation is then approved by the Board of Directors / the Compensation Committee. It allows a first purchase of a third of the promised number of registered shares in the current year, which can be paid up and claimed immediately, and another third in one and two years respectively. The beneficiaries may choose to block their shares for a vesting period of 5 or 10 years. With the exception of Mrs Nayla Hayek and Mr Nick Hayek no members of the Board of Directors received options or shares under this plan.

### 3. Board of Directors

#### 3.1 Members of the Board of Directors

The Board of Directors on 31 December 2017 is composed as follows:

**Nayla Hayek**, Swiss citizen, Dr h.c. European University Montreux, Montreux, is Chairwoman of the Board of Directors of the Swatch Group since June 30, 2010. Mrs Nayla Hayek has been on the Board of Directors of the Swatch Group since 1995. As a member of the World Arabian Horse Organization (WAHO), and as international Arabian horse judge, Mrs Hayek's top-level contacts contribute to many of the business and promotional activities of the Swatch Group and she is responsible for the local organization in Dubai (Swatch Group Middle East) on site. Mrs Hayek is Chairwoman of the Board of Directors of the Rivoli Group, Dubai and represents there the interests of Swatch Group. Following the acquisition of Harry Winston as per 26.03.2013, Mrs Hayek was appointed president and CEO of this new business entity. She is also a member of the Board of Directors of Belenos Clean Power Holding Ltd. As Board member of the Hayek Holding AG, she is responsible for Hayek Engineering AG, Hayek Immobilien AG and Hayek France SA. She holds no official function or political office.

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

**Nick Hayek**, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010. Mr Hayek has worked with the Swatch Group since 1992, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1<sup>st</sup> prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and Chairman of the Board of Directors of Belenos Clean Power Holding Ltd.

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

**Dr Jean-Pierre Roth**, Swiss citizen, Dr oec. Graduate Institute (HEI) Geneva, has been a member of the Board of Directors since 2010. Following postgraduate studies at the Massachusetts Institute of Technology in the USA, Mr Roth taught at the University of Geneva and at the Graduate Institute (HEI). In 2009 the University of Neuchâtel conferred him a honorary doctorate in economics. Jean-Pierre Roth joined the Swiss National Bank in 1979 where he was active in various areas in Zürich and Bern. On May 1, 1996 he was appointed Vicepresident of the board. On January 1, 2001 he was elected President of the board. Jean-Pierre Roth was Swiss governor of the International Monetary Fund (IMF) in Washington. From March 1, 2006 until end of February 2009 he was Chairman of the Board of Directors of the Bank of International Settlements (BIZ) in Basel. At the end of 2009, Mr Roth resigned as President of the Swiss National Bank. Mr Jean-Pierre Roth was elected as President of the «Banque cantonale de Genève» and member of the Board of Swiss Re and of Nestlé Ltd in 2010. In 2014, he was elected as member of the Board of MKS (Switzerland). Since then, Mr Roth retired from the Board of Swiss Re and the «Banque cantonale de Genève». Since July 1, 2017, Mr Roth acts as Vice President of the Arab Bank (Switzerland) Ltd.

## CORPORATE GOVERNANCE

**Daniela Aeschlimann**, a Swiss national, has been a member of the Swatch Group Board of Directors since 2016. Ms Aeschlimann studied Business Economics and graduated with a Bachelor of Science in Business Administration from Lucerne University of Applied Sciences. In 2016, she successfully completed an Executive MBA at the University of St. Gallen. Since 2010, she has been a member of the Board of Directors of the Avesco Group and since 2013, has also served as the Board's vice-president. Ms Aeschlimann serves on several other boards of directors and trustees including, notably, a seat on the Board of Directors of Belenos Clean Power Holding SA that she has held since 2014.

### 3.2 Elections and terms of office

The members of the Board of Directors are elected at the Ordinary General Meeting of the shareholders for a term of one year. The period between two Ordinary General Meetings is regarded as one year. The members of the Board shall be eligible for re-election at any time. There is no limit on the age and/or term of office. According to Article 19 of the Swatch Group Statutes the votes and elections take place openly, except where the Chairman orders a written or electronic election or vote. One or more shareholders, who together dispose of not less than 10% of the represented votes, may require written votes or elections.

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

	First-time election	Term of office
Nayla Hayek	1995	up to 2018
Georges Nicolas Hayek	2010	up to 2018
Prof. Dr. h.c. Claude Nicollier	2005	up to 2018
Dr. Jean-Pierre Roth	2010	up to 2018
Ernst Tanner	1995	up to 2018
Daniela Aeschlimann	2016	up to 2018

On the occasion of the General Meeting 2017 the members of the board of directors were re-elected for another term of one year.

Mr Jean-Pierre Roth has been designated as the representative of the bearer shareholders and Mrs Nayla Hayek as representative of the registered shareholders.

### 3.3 Changes in the Board of Directors

In the year under review, there were no changes in the Board of Directors.

### 3.4 Number of permissible mandates

According to art. 40 of the Swatch Group Statutes, no member of the Board of Directors shall hold more than four additional directorships in listed companies and ten additional directorships in unlisted companies. The following are not covered by these restrictions (i) directorships in companies which are directly or indirectly controlled by the company or which control the company, (ii) directorships held by a member of the Board of Directors on behalf of or at the request of the company or a company controlled by it, provided that no member of the Board of Directors shall hold more than 20 such directorships, and (iii) mandates in associations, charitable organizations, non-profit foundations and employee welfare foundations, as long as no member of the Board of Directors shall hold more than 30 such mandates. Directorships shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Directorships in different legal entities that are under joint control or same beneficial ownership are deemed one directorship.

### 3.5 Internal organizational structure of the Board of Directors

At the General Meeting 2017, the Chairwoman of the Board of Directors (Mrs Nayla Hayek) was elected by the shareholders (until the next General Meeting). Moreover, the Board of Directors is self-constituting. It has appointed a Vice-Chairman (Mr Ernst Tanner) from its midst. The office of Secretary to the Board of Directors is carried out by Mrs Jennifer Meyer-Kluge. The Secretary to the Board of Directors is not a member of the Board. The term of office of the Chairman, the Vice-Chairman and the Secretary respectively is one year. They are all re-eligible for a further term of office. If an officer is substituted, the successor completes the remainder of the term of the predecessor. The Board of Directors has an Audit Committee and a Compensation Committee at its disposal. These committees, which sit separately (normally immediately following an ordinary meeting), because of the relatively small number of company directors, comprise all the members of the Board of Directors. The Audit Committee is chaired by Mrs Nayla Hayek. The office of Chair of the Compensation Committee is conducted by Mr Ernst Tanner, Vice-Chairman of the Board of Directors. The Chairwoman of the Audit Committee and the Chairman of the Compensation Committee were elected by the Board of Directors at their first meeting after the General Meeting 2017.

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

- Review of the Audit reports,
- Reinforcement of points which the auditing firm raised,
- Determination of the audit focal points,
- Discussions of the efficiency of the internal control system including risk management,
- Appraisal of the performance, remuneration and independence of the external auditors,
- Dealing with special questions of the financial statements (for further details see also point 8.3).

## CORPORATE GOVERNANCE

The Compensation Committee concerns itself with the compensation policy of the company. It supports the Board of Directors in determining the compensation systems and the principles of compensation as well as the preparation of proposals to the General Meeting with regard to the approval of compensation. The Compensation Committee can submit proposals and recommendations to the Board of Directors in all compensation matters.

With the entry into force of the revised Swatch Group Statutes, the Compensation Committee deals with all questions in the field of compensation and proposes solutions for the attention of the Board of Directors. The Board of Directors is the decision-making body. It submits the required resolutions to the General Meeting for approval.

Further details can be found in the separate Compensation Report for the business year 2017. The Board of Directors does not have a Nomination Committee at its disposal. The tasks of the Nomination Committee (determination of the criteria for the selection of candidates for election as members of the Board of Directors, selection procedure, etc.) are carried out directly by the Board of Directors, in view of the small number of members.

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

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

### 3.6 Definition of areas of responsibility

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

The Board of Directors has delegated the current operative business to the Executive Group Management Board, the Extended Group Management Board and to the management of The Swatch Group Ltd.

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

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

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

The management of The Swatch Group Ltd. is responsible for the current operative business of the The Swatch Group Ltd.

### 3.7 Information and control instruments

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

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

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

The Chairwoman of the Board of Directors has an Audit-Team available, which she may deploy in specific cases.

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

At December 31st, 2017

### 4.1 Members of the Executive Group Management Board

**Nick Hayek**, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010, Mr Hayek has worked with the Swatch Group since 1992, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1<sup>st</sup> prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and of Belenos Clean Power Holding Ltd.

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

**Pierre-André Bühler**, Swiss citizen, technical education, member of the Extended Group Management Board since 2008 and of the Executive Group Management Board since 2013, responsible for ETA. Mr Bühler started his career within the Group in 1977 as manager of the industrialisation division at Michel SA in Grenchen. Later Mr Bühler held executive functions at ETA (Technical manager of the division Michel) and at Nivarox (Production manager). Before taking over the general management of ETA, Mr Bühler worked as managing director of Nivarox-Far (Le Locle). He represents the Swatch Group on the Executive Board of the Federation of the Swiss Watch Industry FH and is a member of the Board of Directors of CSEM.

**Dr Mougahed Darwish**, Swiss citizen, holds a doctorate in Physics from the ETHL. He has been a member of the Extended Group Management Board since 1994 and of the Executive Group Management Board since 2005, responsible for EM Micro-electronic, Micro Crystal, Renata and Oscilloquartz. Mr Darwish has been with the Group since 1979, starting as Project Manager for the Xicor-Ébauches joint venture. Previously, he had been active in research and development for the Centre électronique horloger (CEH, today Centre Suisse de l'électronique et de microtechnique SA, CSEM). From 1985 to 2007 he managed EM Microelectronic as CEO. Mr Darwish represents the Group on the Board of Directors and the Science Council of the CSEM as well as on the Board of FLRH; he is a member of the Swiss Academy of Technical Science. Since 2008, Mr Darwish actively accompanies the project Belenos Clean Power; since July 2010 he is a delegate of the Board of Directors of Belenos Clean Power Holding AG and since 2015 also the Vice Chairman of this body.

**Marc Alexander Hayek**, Swiss citizen, Dr h.c. European University Montreux, Montreux, holds a bachelor degree in Economics and has undergone training in Marketing and Economics. He became a member of the Extended Group Management Board in 2002 and of the Executive Group Management Board in 2005 with responsibility for Blancpain, the Caribbean, CHH Microtechnique and furthermore, since July 2010 for Breguet and Jaquet Droz. Since August 2017, Mr Hayek is also a member of the Board of Directors of Belenos Clean Power Holding Ltd. He joined Blancpain as Marketing Manager in 2001. Mr Hayek had previously worked as an independent entrepreneur (Restaurant Colors, Zurich) and had been employed by Swatch in the PR area and by Certina in marketing.

**Dr Thierry Kenel**, Swiss citizen, holds a doctorate in Economics, a degree in Mechanical Engineering and a postgraduate degree in Management of Technology. As a Member of the Extended Group Management Board since 2009 and of the Executive Group Management Board since 2012, he is responsible for Corporate Finance, Reporting, Investor Relations, IT, Swatch Group Greece and Swatch Group South Africa. Mr Kenel has been with the Swatch Group since 2003, first as Group Controller in the business segment Electronic Systems and subsequently as head of Finance, IT and Administration at Montres Breguet SA. Prior to joining the Swatch Group, Mr Kenel was a lecturer and researcher in the field of economics at the University of Lausanne; earlier, he was a member of the Board of Directors and the management of the Flumroc-Sperry group of companies. Mr Kenel represents the Swatch Group in the Board of economiesuisse, the Convention Patronale and in the Federation of the Swiss Watch Industry FH, where he presides over the Economic Commission. Mr Kenel continues to be a private lecturer of Finance and Financial Reporting at the University of Lausanne (HEC) as well as at the Swiss Institute of Certified Accountants and Tax Consultants. He is also a member of the Liaison Committee University-Industry at the University of Lausanne (HEC).



## CORPORATE GOVERNANCE

#### 4.2 Members of the Extended Group Management Board

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

**Raynald Aeschlimann**, Swiss citizen, graduated with a degree in economics and an M.A. from the University of St. Gallen (HSG). He was appointed to the Swatch Group's Extended Group Management Board in 2013. Since 2016 Mr. Aeschlimann is President of Omega Ltd. Prior to that, he was Vice President and International Director of Sales, Retail and Distribution at Omega Ltd. since 2001. He joined Omega in 1996 as Sales and Marketing Project Manager. He was also Brand Manager of Omega and Blancpain Spain in 2000 and has been the Group Coordinator for the Swatch Group's Indian subsidiary since 2010. Mr. Aeschlimann is on the Executive Board of the Federation of the Swiss Watch Industry FH. He had previously worked at Longines and Complementa AG in St. Gallen from 1992 to 1996.

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

**Jean-Claude Eggen**, Swiss citizen, holds an engineering degree from the University of Applied Sciences (HES) in Biel/Bienne. He completed additional studies in business economics and automation and also obtained an Executive MBA. A member of the Extended Group Management Board since 2013, Mr. Eggen began his career at the Swatch Group in 1992 as director of SMH Engineering SA in Grenchen. He subsequently directed the MIM (Metal Injection Molding) activities for the production of steel cases at ETA Manufacture Horlogère Suisse SA. Prior to taking up a position as Vice President Swatch & Quartzline at ETA, Mr. Eggen also worked as Director of Operations for Phonak Communications SA, where he was responsible, inter alia, for organizing production in Vietnam.

**Yann Gamard**, French citizen, holds an MBA from Lausanne and has been a member of the Extended Group Management Board since 1998, responsible for Swatch Group Germany, Swatch Group UK and Ireland, and Swatch Group Nordic (Denmark, Finland, Sweden, Norway) as well as the distribution logistics for watches in Europe and worldwide for the batteries. He joined the Swatch Group in 1995 (Swatch AG). He subsequently assumed responsibility for the telecom business of the Swatch Group and was thereafter appointed as Country Manager for the USA, responsible for Hamilton and later on for Glashütte Original, as well as for further European countries. Before joining the Group, Mr Gamard held various roles with Procter & Gamble and Cartier.

**Hans-Rudolf Gottier**, Swiss citizen, holds an electrical engineering degree from the University of Applied Sciences (HES) in Biel/Bienne and is a member of the Swatch Group's Extended Management Board since 2013, where he is responsible for the segment Electronic Systems. Mr Gottier began his career in Swatch Group in 1980 as head engineer of the quartz production. Since 1990, he is the CEO of Micro Crystal Ltd. During this period, Micro Crystal was developed from being an internal quartz supplier for the watch business to being a worldwide quartz supplier. Over the recent years, Mr Gottier has led various companies within Swatch Group Electronic Systems and completed their restructuring. Prior to joining Swatch Group, Mr Gottier worked in South America where he was responsible for the technical implementation in connection with the importation of large machinery and installations.

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

**Thomas Meier**, Swiss citizen, is a graduate engineer FH from the University of Applied Sciences Karlsruhe (Micromechanics and Microelectronics), with additional training in Business Administration at the University of Munich and an apprenticeship as watchmaker. He has been a member of the Extended Group Management Board since 2005. Mr Meier began his activities for Swatch Group in 1994 as project manager at Mido. Later he became project manager for Swatch Access. After a break he returned to Swatch Group in 1999 as project manager and later as production manager a.i. of Breguet. From 2004 until 2008 he was responsible for ETA and subsequently a member of the management of Frédéric Piguet. From 2010 until 2016, Mr Meier was responsible for the manufacture of the Breguet watch cases. Since October 2016, Mr Meier is the CEO of Glashütte Original. Before joining Swatch Group, Mr Meier worked as development engineer for Junghans in Germany.

## CORPORATE GOVERNANCE

**Calogero Polizzi**, Italian citizen, holds a diploma in information technology from the Industrial Technical Institute L. Cobi-anchi in Verbania, Italy. He was appointed to the Swatch Group's Extended Group Management Board in 2013. Since 2017, he is responsible for the software aspects of the new Swiss Operating Systems of IoT (Internet of Things). He was responsible for the IT systems at Swatch Group since his appointment as CIO (Chief Information Officer) in 2005 and was a member of the management of The Swatch Group Services Ltd. Previously he worked as IT Manager at Swatch Group Italy and as Head of IT at The Swatch Group Distribution LTD. Between his activities for Swatch Group Italy and Swatch Group Distribution he was Chief Information Officer at Tod's S.p.A. Before joining Swatch Group, Mr Polizzi worked at Whirlpool where he was engaged in various information technology positions at the international level.

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

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

#### 4.3 Number of permissible mandates

According to art. 40 of the Swatch Group Statutes, no member of the Group Management Board shall hold any directorships in listed companies and more than four additional directorships in unlisted companies. The following are not covered by these restrictions (i) directorships in companies which are directly or indirectly controlled by the company or which control the company, (ii) directorships held by a member of the Group Management Board on behalf of or at the request of the company or a company controlled by it, provided that no member of the Group Management Board shall hold more than 20 such directorships, and (iii) mandates in associations, charitable organizations, non-profit foundations and employee welfare foundations, as long as no member of the Group Management Board shall hold more than 30 such mandates. Directorships shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Directorships in different legal entities that are under joint control or same beneficial ownership are deemed one directorship.

#### 4.4 Employment Contracts

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

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

#### 4.5 Changes in the Executive Group Management Board resp. Extended Group Management Board

During the year under review, there were no changes in the Executive Group Management Board or the Extended Group Management Board.

#### 4.6 Management Contracts

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

#### 4.7 Country Panel

At the beginning of 2014, a Country Panel was constituted with the task of supporting the Executive Group Management Board, in particular in the fields of distribution and international business development. The Country Panel meets usually twice per business year. The meetings are chaired by the president of the Executive Group Management Board. The function of the Country Panel is purely advisory. It is made up of the Country Managers of 13 important country organisations. In addition, there are further members who are appointed by the Executive Group Management Board from among the presidents of the further country organisations (rotation principle).

## 5. Compensation, shareholdings and loans / credits

### 5.1 Compensation

The material elements of the compensation principles, of the tasks and competences in the field of compensation, of the composition and function of the Compensation Committee and of the various compensation elements, etc. are exposed in a separate compensation report. Additionally, it is pointed out that according to Art. 32 para. 7 of the Swatch Group Statutes, the compensation may be awarded in the form of cash, shares, in kind or in the form of services; with regards to the executive members of the Board of Directors and the members of the Group Management Board, their compensation may in addition be awarded in the form of other participation rights, options, or similar instruments or units. The Board of Directors or, to the extent delegated to it, the compensation committee shall determine the applicable conditions relating to the grant, the exercise as well as the deadlines, possible blocking periods and forfeiture conditions.

The separate Compensation Report also covers the loans, credits and share programs and is thus referred to here.

### 5.2 Participation programs

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

The share program is described in the Compensation Report.

An overview of the shares and options owned by the members of the Board of Directors, Executive Group Management Board and Extended Group Management Board and persons being closely related to them at 31 December 2017 may be consulted on page 225.

### 5.3 Loans, credits

Loans and credits to members of corporate bodies are considered in the Compensation Report.

### 5.4 Approval by the General Meeting

Pursuant to Art. 31 of the Swatch Group Statutes, the General Meeting shall annually approve the motions of the Board of Directors in relation to the aggregate amounts of (i) the maximum fixed compensation of the members of the Board of Directors for the period until the next Ordinary General Meeting, (ii) the maximum fixed compensation of the members of the Group Management Board for the current business year, (iii) the variable compensation of the executive members of the Board of Directors for the completed business year and (iv) the variable compensation of the members of the Group Management Board for the completed business year. The Board of Directors may thereof propose additional motions to the General Meeting or motions which vary from those mentioned above, to the extent permitted by law.

The company or companies controlled by it shall be organized to pay to persons who become members of the Group Management Board or are being promoted within the Group Management Board after the General Meeting has approved the compensation of the Group Management Board for the relevant period a supplementary amount during the compensation period(s) already approved, if the maximum aggregate amount of compensation already reapproved by the General Meeting is not sufficient to cover their compensation. The supplementary amount shall not exceed 40% of the last approved aggregate amount of compensation of the Group Management Board.

In the event that the General Meeting does not approve a motion of the Board of Directors, the Board of Directors shall determine, taking into account all relevant factors, the respective (maximum) aggregate amount or (maximum) partial amounts. The Board of Directors shall submit the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Ordinary General Meeting.

The company or companies controlled by it may pay out compensation prior to the approval by the General Meeting subject to the subsequent approval by the General Meeting.

## CORPORATE GOVERNANCE

## 6. Shareholders' participation

### 6.1 Voting rights and representation restrictions

For the exercise of voting rights, no shareholder may combine, either directly or indirectly, more than 5% of the total shareholders' equity in respect of his own shares and those represented by him. This limitation does not apply to the shares which are excluded from the registration prohibition (point 2.6 above). Nor does this restriction apply to the exercise of voting rights by the independent voting-rights representative.

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

Shareholders who cannot attend the General Meeting in person may arrange to be represented by their legal representative, by another shareholder entitled to vote or by the independent voting-rights representative.

### 6.2 Statutory quorums

In addition to the special quorum regulations provided in Art. 704 CO, the Statutes also apply the same quorum regulation (two-thirds of the votes represented and an absolute majority of the par values of shares) for dismissing members of the Board of Directors.

### 6.3 Convocation of the General Meeting of Shareholders

The General Meeting is convened pursuant to Articles 13 and 14 of the Swatch Group Statutes. Shareholders who together own at least 10% of the share capital can, at any time, request in writing the convening of an extraordinary general meeting. Such an extraordinary general meeting shall be held within 40 days of the date of receipt of such a request.

### 6.4 Agenda

Shareholders who represent shares with a par value of one million Swiss francs may submit a written request for a meeting to be held to discuss a particular subject; the motions tabled shall likewise be indicated (see Article 14 (3) of the Swatch Group Statutes in conjunction with Art. 699 and 700 OR).

### 6.5 Entries in the share register

As a general rule, the share register is closed for entries 20 days before each General Meeting.

## 7. Changes of control and defence measures

### 7.1 Duty to make an offer

Art. 10 of the Statutes provides that a shareholder who acquires shares either directly or indirectly or in agreement with third parties and by so doing exceeds the limit of 49% of voting rights, including the shares that he already possesses, regardless of whether those rights can or cannot be exercised, shall be required to make an offer to purchase all the listed shareholding papers of the Company (Art. 10 of the Swatch Group Statutes in conjunction with Art. 135 FinfraG).

### 7.2 Clauses on changes of control

There are no agreements with members of the Board of Directors, the Executive Group Management Board or other managerial staff for the case of a change in the shareholder structure.

## CORPORATE GOVERNANCE

## 8. Auditors

### 8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers Ltd performs since 1992 the function of external auditor of the Group. Before that, the predecessor organizations already served as auditors for the Group and many of its companies.

Gerhard Siegrist, as head auditor (Engagement Partner), has been responsible for the audit and Group audit since the 2011 accounting year.

### 8.2 Auditing fees and additional fees

The following auditor's fees have been charged to the 2017 annual accounts:

(CHF million)	Audit	Taxes	Other Services	Total
PricewaterhouseCoopers	4.3	0.6	0.6	5.5
Other Auditing Companies	0.7	0.6	0.5	1.8
<b>Total 2017</b>	<b>5.0</b>	<b>1.2</b>	<b>1.1</b>	<b>7.3</b>
Total 2016	5.0	0.7	2.2	7.9

### 8.3 Supervisory and control instruments pertaining to the audit

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

## CORPORATE GOVERNANCE

**9. Information policy**

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

- January 30, 2018 Key figures 2017
- March 14, 2018 Press conference / annual report 2017
- May 24, 2018 General Meeting of Shareholders
- August 2, 2018 Half-year figures 2018

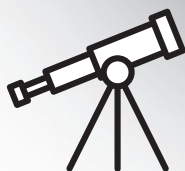
The information is always published in the Swiss and international press and also published and processed in the publications of leading international banks.

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

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

# FINANCIAL STATEMENTS 2017

CONSOLIDATED FINANCIAL STATEMENTS  
FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD



## ORDER IN THE APPARENT CHAOS

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

## CONTENTS

<b>Consolidated financial statements</b>	<b>166–215</b>
Financial review	167
Consolidated income statement	173
Consolidated balance sheet	174
Consolidated statement of cash flows	176
Consolidated statement of changes in equity	177
Notes to the consolidated financial statements	178–211
1. General information	178
2. Summary of significant accounting policies	178
3. Financial risk management	185
4. Segment information	186
5. Revenues and expenses	188
6. Income taxes	189
7. Earnings per share	191
8. Dividends paid and proposed	191
9. Cash and cash equivalents	192
10. Marketable securities and derivative financial instruments	192
11. Trade receivables	193
12. Other current assets	193
13. Inventories	194
14. Prepayments and accrued income	194
15. Property, plant and equipment	195
16. Intangible assets	196
17. Investments in associates and joint ventures	197
18. Business combinations	197
19. Other non-current assets	198
20. Financial debts and derivative financial instruments	199
21. Other liabilities	199
22. Accrued expenses	200
23. Provisions	200
24. Retirement benefit obligations	201
25. Commitments and contingencies	202
26. Share capital and reserves	203
27. Acquired goodwill	204
28. Details to the consolidated statement of cash flows	205
29. Employee stock option plan	205
30. Related party transactions	206
31. Events after the balance sheet date	207
32. The Swatch Group Companies	208
Report of the statutory auditor on the consolidated financial statements	212
<b>Financial statements of The Swatch Group Ltd</b>	<b>216–229</b>
<b>The Swatch Group Ltd securities</b>	<b>230</b>



## FINANCIAL REVIEW

## Key financial developments in 2017

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

## Financial review

## 1. Key figures Group

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

## FINANCIAL REVIEW

2. Environment /  
Financial year

## Development net sales and operating result

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

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

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

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

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

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

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

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

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

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

## FINANCIAL REVIEW

**Development net income**

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

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

- Registered shares	2.77	2.14
- Bearer shares	13.86	10.69

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

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

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

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

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

## FINANCIAL REVIEW

**Development balance sheet structure**

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

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

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

**Development liquidity**

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

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

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

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

## FINANCIAL REVIEW

### 3. Outlook

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

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

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

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

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

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

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

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



## **SOLAR ECLIPSE**

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

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

## CONSOLIDATED INCOME STATEMENT

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

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

## CONSOLIDATED BALANCE SHEET

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

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



## CONSOLIDATED BALANCE SHEET

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

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Total	Non-con- trolling interests	Total equity
	Share capital (Note 26)	Capital reserves (Note 26)	Treasury shares (Note 26)	Goodwill recognized	Translation differences	Retained earnings			
<b>Balance at 31 December 2015</b>	<b>125</b>	<b>- 1 006</b>	<b>- 329</b>	<b>- 1 372</b>	<b>- 134</b>	<b>13 856</b>	<b>11 140</b>	<b>102</b>	<b>11 242</b>
Net income						574	<b>574</b>	19	<b>593</b>
Currency translation of foreign entities					- 8		<b>- 8</b>	1	<b>- 7</b>
Dividends paid						- 403	<b>- 403</b>	- 36	<b>- 439</b>
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		14					<b>14</b>		<b>14</b>
– Proceeds from sale of shares		1					<b>1</b>		<b>1</b>
Repurchase of treasury shares		0	- 332				<b>- 332</b>		<b>- 332</b>
Transactions with non-controlling interests			1				<b>1</b>		<b>1</b>
<b>Balance at 31 December 2016</b>	<b>125</b>	<b>- 991</b>	<b>- 660</b>	<b>- 1 372</b>	<b>- 142</b>	<b>14 027</b>	<b>10 987</b>	<b>86</b>	<b>11 073</b>
Net income						733	<b>733</b>	22	<b>755</b>
Currency translation of foreign entities					27		<b>27</b>	- 3	<b>24</b>
Dividends paid						- 357	<b>- 357</b>	- 17	<b>- 374</b>
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		14					<b>14</b>		<b>14</b>
– Proceeds from sale of shares		1					<b>1</b>		<b>1</b>
Repurchase of treasury shares		- 1	- 204				<b>- 205</b>		<b>- 205</b>
Transactions with non-controlling interests			1				<b>1</b>		<b>1</b>
<b>Balance at 31 December 2017</b>	<b>125</b>	<b>- 977</b>	<b>- 863</b>	<b>- 1 372</b>	<b>- 115</b>	<b>14 403</b>	<b>11 201</b>	<b>88</b>	<b>11 289</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. General information

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

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

The shares of The Swatch Group Ltd are listed in Switzerland in the Swiss Reporting Standard of the SIX Swiss Exchange, under the ISIN numbers CH0012255144 (registered shares) and CH0012255151 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI, SPI Extra and SMIM. In addition, Swatch Group shares are also listed on the BX Berne eXchange.

These consolidated financial statements were approved for issue by the Board of Directors on 28 February 2018 and will be submitted to the Annual General Meeting of Shareholders for approval on 24 May 2018.

### 2. Summary of significant accounting policies

#### a. Basis of preparation

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

#### b. Consolidation policies

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

Companies acquired over the course of the year are revalued and consolidated in accordance with Group principles upon the date of acquisition. Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. In the case of acquisitions, potentially existing non-capitalized intangible assets such as brands, user rights or client lists are not recognized separately, but remain in goodwill. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill from acquisitions is recognized directly in Group equity. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the acquired goodwill would have (see Note 27).

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**c. Scope of consolidation** At 31 December 2017, the Group's consolidation structure comprised 162 legal entities (previous year: 168) including two joint ventures (previous year: two) and five associated companies (previous year: four). One legal entity has been created while four entities have been merged with other Group companies and four legal entities have been dissolved. Note 32 includes a complete list of Group companies.

**d. Accounting estimates and judgments** The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.

**e. Changes in accounting policies** No changes to the Swiss GAAP FER standards have been announced or released in the financial year. As of 2018, the Swatch Group will recognize sales-related transaction costs such as credit card fees, for example, as Other operating expenses. Previously, these costs were deducted from net sales (see Note 2g). This adjustment will be made in order to increase the transparency of net sales and to enable comparison with normal international practice. As a result, Group net sales will increase marginally by approximately 0.4%, with no impact on net income. The Swatch Group will implement this change retrospectively (according to Swiss GAAP FER Framework, paragraph 30) and adjust the prior-year figures accordingly.

**f. Foreign currency translation**

**Translation in the financial statements of the Group companies**

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

**Translation of individual financial statements to be consolidated**

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

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

The main exchange rates used are:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2017	31.12.2017	2016	31.12.2016
		CHF	CHF	CHF	CHF
CNY	1	0.1461	0.1503	0.1491	0.1472
EUR	1	1.1186	1.1720	1.0930	1.0760
HKD	1	0.1263	0.1252	0.1279	0.1320
JPY	100	0.8800	0.8685	0.9121	0.8785
USD	1	0.9849	0.9790	0.9930	1.0235

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **g. Sales and revenue recognition**

Net sales include the inflow of economic benefits from the sale of goods and services within the scope of ordinary business during the period under review. Sales reductions such as discounts, rebates and other concessions as well as payments to third parties such as commissions, credit card fees and any value added tax have been deducted from net sales reported. All intercompany sales are eliminated during consolidation.

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

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectability of the related receivables is reasonably secured. Revenue from services is recognized in the accounting period in which the service is rendered. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. In the case of agency transactions, only the value of own services is recognized. In the event of business transactions involving identifiable multiple elements, these are to be recognized and valued separately. This type of transaction occurs only rarely within the Group.

### **h. Cash and cash equivalents**

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

### **i. Marketable securities**

Purchases and sales of securities are recognized in accordance with the settlement date principle. The securities are initially measured at cost, and the transaction costs are charged to the income statement. Subsequently, the listed securities are recorded in the balance sheet at market value on the balance sheet date. Private equity investments are adjusted to the current net asset value on the balance sheet date. All realized and unrealized gains and losses resulting from variations in market values and foreign currencies are recorded in the income statement.

### **j. Trade receivables**

Trade receivables are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables. Impairment is charged on receivables which are either more than 12 months overdue or for which specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.

### **k. Inventories**

Inventories are valued at the lower of acquisition or production cost and fair value less cost to sell. Any discounts received are treated as cost reductions. Manufacturing costs comprise all costs directly attributable to material and production, as well as overhead costs incurred in building up the inventory at its current location and/or to its current condition. Acquisition costs are determined according to the weighted average method. Some production companies value their own produced inventories using the standard cost method. As these costs are regularly reviewed and updated, this method approximates the result of the weighted average method. Inventories with unsatisfactory inventory turnover are revalued accordingly.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **I. Property, plant and equipment**

Property, plant and equipment (including investment property) are recorded in the balance sheet at historical cost less accumulated depreciation and any impairments. Acquisition costs comprise the purchase price as well as the costs directly attributable to the utilization of the property, plant and equipment. Investments in existing property, plant and equipment are only capitalized if their value in use is sustainably increased or their useful life is extended considerably. Self-constructed assets are only capitalized if they are clearly identifiable and the costs can be reliably determined, and if the assets generate measurable benefits for the Group over a period of several years. Maintenance and repair costs that do not add value are charged directly to the result for the period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The maximum depreciation periods are as follows:

– Land	no depreciation
– Production plants	30 years
– Administrative buildings	40 years
– Investment properties	50 years
– Technical equipment and machinery	15 years
– Other equipment and fixtures	8 years

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

### **m. Intangible assets**

#### **Goodwill**

Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill from acquisitions is recognized in Group equity at the time of acquisition. The notes to the consolidated financial statements disclose the effects of a theoretical capitalization and amortization of goodwill (see Note 27).

#### **Capitalized development costs**

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

#### **Software**

This heading includes in particular the following positions:

- Licenses purchased granting rights to use new technologies and software. They are amortized over their useful life (maximum five years).
- Internally developed software. These costs are recognized as intangible assets if it is likely that they will generate future economic benefits. The costs include software development employee costs and the direct portion of related overhead costs. The capitalized costs are amortized on a straight-line basis over the estimated useful life (maximum five years).

#### **Other intangible assets**

This heading mainly includes key money for strategically located retail stores. If it can be demonstrated by the existence of a market, it is capitalized as an intangible asset and amortized on a straight-line basis over the location's useful life of maximum 20 years. In contrast, key money that is not refundable or only refundable under specific circumstances is treated as prepaid rent and recorded under Other non-current assets (see Note 19). This heading includes also patents and rights of use as well as development and software projects in progress. Those are transferred into the respective categories after project completion.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### n. Impairment of assets

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

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

### o. Provisions

Provisions are recognized:

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

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

### p. Financial debts

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

### q. Derivative financial instruments

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

#### Cash flow hedges

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

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

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

At year-end, there were no such cash-flow hedges.

#### Other derivative financial instruments

Derivative financial instruments not designated as hedging instruments are accounted for at fair value. Changes in the fair value are recognized immediately in the financial result.

### r. Income taxes

The tax expense for the period comprises current income taxes and deferred taxes. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized directly in equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Current income tax

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

### Deferred tax

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

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

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

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

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

### s. Pensions and other post-employment benefits

#### Pension obligations

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

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

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

#### Other post-employment benefits

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

#### Termination benefits

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### t. Share capital and treasury shares

Shares issued by The Swatch Group AG are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 0.45, and bearer shares, each with a nominal value of CHF 2.25. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value.

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

### u. Dividends

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

### v. Share-based payment transactions

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

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

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

### w. Leases

#### Finance leases

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

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

#### Operating leases

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**3. Financial risk management****a. Financial risk factors**

In view of the global and varied nature of its activities, the Group is exposed to different financial risks, including foreign currency, market, credit and liquidity risks. The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, mainly against the US Dollar, the Chinese Renminbi, the Euro and the Japanese Yen, with the aim of minimizing its impact on Group net income. In order to hedge exchange rate risk, the Group may use derivative financial instruments such as forward currency contracts or currency options. At year-end no cash flow hedges existed (previous year: none).

Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group's management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under the regular supervision of the Group's Top Management.

**Credit risk**

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

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

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit ratings are usually at least investment grade. Exposure to this type of risk is closely monitored by Group management and is contained within strict and predetermined limits.

Given the very high standards of creditworthiness applied to the commercial and financial partners, the default risks to which the Group is exposed are estimated to be limited.

**Liquidity risk**

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

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

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

**b. Capital management**

The primary objective of the Group with regard to capital management is to preserve a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2017, equity represented 83.8% of total assets (previous year: 84.5%).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**4. Segment information****a. Operating segment information**

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

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

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

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

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

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

**Income statement**

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

2016 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 304	244	5		7 553
– Group	1	16	6	– 23	–
Net sales	7 305	260	11	– 23	7 553
Operating result	894	10	– 99	–	805
– In % of net sales	12.2	3.8			10.7

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Balance sheet and other information**

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

**Other information**

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

2016 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
<b>Balance sheet</b>					
– Segment assets	11 941	276	5 000	– 4 170	13 047
– Investments in associated companies and joint ventures	6		53		59
<b>Total assets</b>	<b>11 947</b>	<b>276</b>	<b>5 053</b>	<b>– 4 170</b>	<b>13 106</b>
<b>Total liabilities</b>	<b>– 5 363</b>	<b>– 99</b>	<b>– 741</b>	<b>4 170</b>	<b>– 2 033</b>
<b>Net assets</b>	<b>6 584</b>	<b>177</b>	<b>4 312</b>	<b>–</b>	<b>11 073</b>

**Other information**

Investments in property, plant and equipment	464	29	5		498
Investments in intangible assets	32	2	2		36
Investments in other non-current assets	24	0	0		24
Depreciation on property, plant and equipment	– 357	– 18	– 19		– 394
Amortization on intangible assets	– 38	– 2	– 3		– 43
Impairment	0	–	–		0

**b. Information on geographical regions**

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

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**

<b>a. Analysis of net sales</b>	(CHF million)	<b>2017</b>	2016
	Sale of goods	<b>7 931</b>	7 533
	Rendering of services	<b>29</b>	20
	<b>Total net sales</b>	<b>7 960</b>	7 553

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

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

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

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

Headcount is expressed as the number of employment contracts. The number of employees includes home workers, trainees and auxiliary staff.

<b>d. Other operating expenses</b>	(CHF million)	<b>2017</b>	2016
	Marketing, sales and administration	<b>1 267</b>	1 216
	Subcontracting and other direct costs of sales	<b>236</b>	242
	Maintenance, rents and energy	<b>1 044</b>	1 026
	Other operating expenses	<b>60</b>	169
	<b>Total other operating expenses</b>	<b>2 607</b>	2 653

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**6. Income taxes**

<b>a. Income tax expenses</b>	(CHF million)	<b>2017</b>	2016
	Current income taxes	- 273	- 232
	Income tax of prior periods	4	0
	Deferred taxes	17	48
	<b>Total income taxes</b>	<b>- 252</b>	- 184

**b. Reconciliation of the Group's effective tax rate**

Since the Group operates worldwide, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of tax rates in the relevant tax jurisdictions.

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

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

**c. Current income tax**

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

**d. Deferred tax**

Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred taxes relate to the same taxation authority.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(CHF million)	Not recognized	Recognized	Total 2017
One year	2	5	7
Two years	4	0	4
Three years	14	0	14
Four years	12	2	14
Five years	19	10	29
Six years	20	41	61
More than six years	323	121	444
<b>Total at 31.12.2017</b>	<b>394</b>	<b>179</b>	<b>573</b>

(CHF million)	Not recognized	Recognized	Total 2016
One year	4	5	9
Two years	3	6	9
Three years	8	1	9
Four years	15	5	20
Five years	16	7	23
Six years	7	12	19
More than six years	196	117	313
Total at 31.12.2016	249	153	402

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

**b. Diluted**

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

**8. Dividends paid and proposed**

On 23 May 2017, the Annual General Meeting approved the distribution of a dividend of CHF 1.35 per registered share and CHF 6.75 per bearer share. The distribution to holders of outstanding shares totaled CHF 357 million (previous year: CHF 403 million) and has been recorded against retained earnings in the year under review. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount would have totaled CHF 18 million.

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

		<b>Registered</b>	<b>Bearer</b>
Dividend per share	CHF	1.50	7.50
Total dividend	CHF million	186	231

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**9. Cash and cash equivalents**

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

The average yield on short-term bank deposits corresponds to the average interest rate on an investment on the money markets with a term of up to three months.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include the following items:

(CHF million)	31.12.2017	31.12.2016
Cash and cash equivalents	1 291	1 136
Current account overdrafts (Note 20)	0	0
<b>Total funds net cash</b>	<b>1 291</b>	<b>1 136</b>

**10. Marketable securities and derivative financial instruments**

(CHF million)	31.12.2017	31.12.2016
Equity securities	96	97
Bond securities	224	213
Investment funds and other investments	12	13
<b>Total marketable securities at fair value</b>	<b>332</b>	<b>323</b>

<b>Derivative financial instruments</b>	<b>8</b>	<b>3</b>
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<b>Total marketable securities and derivative financial instruments</b>	<b>340</b>	<b>326</b>
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The table below gives an overview of the contract values and fair values of derivative financial instruments by type of contract.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**11. Trade receivables**

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

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

(CHF million)	2017	2016
<b>Balance at 1 January</b>	<b>– 11</b>	<b>– 11</b>
Translation differences	0	0
Utilization	1	1
Reversal	1	1
Creation	– 4	– 2
<b>Balance at 31 December</b>	<b>– 13</b>	<b>– 11</b>

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

Net trade receivables are recognized in the following major currencies:

(CHF million)	31.12.2017	31.12.2016
CHF	160	157
AED	19	23
CNY	341	208
EUR	171	166
HKD	34	31
JPY	36	31
KRW	22	15
USD	104	107
Other currencies	189	165
<b>Total trade receivables – net</b>	<b>1 076</b>	<b>903</b>

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

**12. Other current assets**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**13. Inventories**

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

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

**14. Prepayments and accrued income**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. Property, plant and equipment

(CHF million)	Land, buildings and properties <sup>1)</sup>	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
<b>Historical cost, 31 December 2016</b>	<b>2 230</b>	<b>3 873</b>	<b>623</b>	<b>210</b>	<b>6 936</b>
Translation differences	9	18	8	-1	34
Additions	47	205	90	85	427
Disposals	-4	-78	-27	0	-109
Transfers	108	-12	18	-114	-
<b>Historical cost, 31 December 2017</b>	<b>2 390</b>	<b>4 006</b>	<b>712</b>	<b>180</b>	<b>7 288</b>
<b>Accumulated depreciation, 31 December 2016</b>	<b>- 735</b>	<b>- 2 587</b>	<b>- 338</b>	<b>-</b>	<b>- 3 660</b>
Translation differences	-2	-13	-5	-	-20
Annual depreciation	-67	-273	-93	-	-433
Impairment	-	0	-	-	0
Depreciation on disposals	3	76	27	-	106
Transfers	-5	7	-2	-	-
<b>Accumulated depreciation, 31 December 2017</b>	<b>- 806</b>	<b>- 2 790</b>	<b>- 411</b>	<b>-</b>	<b>- 4 007</b>
Net book values:					
<b>Balance at 31 December 2016</b>	<b>1 495</b>	<b>1 286</b>	<b>285</b>	<b>210</b>	<b>3 276</b>
<b>Balance at 31 December 2017</b>	<b>1 584</b>	<b>1 216</b>	<b>301</b>	<b>180</b>	<b>3 281</b>

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

(CHF million)	Land, buildings and properties <sup>1)</sup>	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2015	2 136	3 735	531	161	6 563
Translation differences	8	-2	3	0	9
Additions	53	238	111	96	498
Disposals	-15	-92	-24	-3	-134
Transfers	48	-6	2	-44	-
Historical cost, 31 December 2016	2 230	3 873	623	210	6 936
Accumulated depreciation, 31 December 2015	- 685	- 2 415	- 290	-	- 3 390
Translation differences	-1	0	-1	-	-2
Annual depreciation	-64	-259	-71	-	-394
Impairment	-	0	-	-	0
Depreciation on disposals	15	87	24	-	126
Transfers	-	-	-	-	-
Accumulated depreciation, 31 December 2016	- 735	- 2 587	- 338	-	- 3 660
Net book values:					
Balance at 31 December 2015	1 451	1 320	241	161	3 173
Balance at 31 December 2016	1 495	1 286	285	210	3 276

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**16. Intangible assets**

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

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
Historical cost, 31 December 2015	120	135	113	368
Translation differences	0	0	–1	–1
Additions	7	14	15	36
Disposals	–2	–5	–1	–8
Transfers	14	9	–23	0
Historical cost, 31 December 2016	139	153	103	395
Accumulated amortization, 31 December 2015	–74	–103	–40	–217
Translation differences	0	0	0	0
Annual amortization	–22	–17	–4	–43
Impairment	–	–	–	–
Amortization on disposals	1	5	1	7
Transfers	–	–3	3	–
Accumulated amortization, 31 December 2016	–95	–118	–40	–253
Net book values:				
Balance at 31 December 2015	46	32	73	151
Balance at 31 December 2016	44	35	63	142

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**17. Investments in associates and joint ventures**

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

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

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

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

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

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

There were no significant acquisitions in 2017 and 2016.

**b. Divestments of businesses**

No companies were sold in 2017 and 2016.

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

**c. Changes in non-controlling interests**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**19. Other non-current assets**

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

(CHF million)	Prepaid marketing and leasing cost	Security deposits	Other financial assets	Total
Balance at 31 December 2015	103	102	12	217
Translation differences	-4	2	0	-2
Additions	12	12	0	24
Disposals	-1	-10	0	-11
Transfers to current assets	-54	-	-	-54
Balance at 31 December 2016	56	106	12	174

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**20. Financial debts and derivative financial instruments**

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

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
<b>At 31 December 2017</b>	<b>16</b>	<b>24</b>	<b>2</b>	<b>42</b>
At 31 December 2016	124	31	0	155

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

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

At the end of 2017, no short term bank loan in USD was open (previous year: USD 100 million or CHF 102 million at an interest rate of 1.0%). The long-term financial debts at the end of 2017 included a mortgage of JPY 2 750 million or CHF 24 million (previous year: JPY 3 250 million or CHF 29 million) at a fixed interest rate of 2.4% with a term until March 2021 (without a termination clause). The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review.

**21. Other liabilities**

(CHF million)	31.12.2017	31.12.2016
Advance payments received	37	38
Income tax liabilities	15	13
VAT liabilities	52	28
Other tax liabilities	14	14
Social benefits liabilities	36	32
Other liabilities	55	41
<b>Total other liabilities</b>	<b>209</b>	<b>166</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**22. Accrued expenses**

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

**23. Provisions**

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

**a. Warranty**

In the majority of cases, the Group offers a two-year warranty covering the repairs or replacement of products that do not perform to customers' satisfaction. The provision made at year-end to cover anticipated warranty costs is based on past experience with respect to the volume of repairs and returns.

**b. Legal risks**

Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of currently available information and recorded adequate provisions. However, there are inherent risks within legal claims depending on court and adversary party behavior and opinion that may cause a significant outflow of economic benefits.

**c. Dismantling / restoration**

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

**d. Other**

Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**24. Retirement benefit obligations****Employer contributions reserve / Shares held by pension institutions**

The Group has an employer contribution reserve in the Swiss pension fund of the Swatch Group, which amounts to CHF 5 million (previous year: CHF 5 million). This reserve is capitalized in Other non-current assets. The employer contributions reserve remained unchanged in the year under review; there has been no formation or dissolution, nor has there been a waiver of usage.

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

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

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact <sup>1)</sup>	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	404	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–6	–6
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–85	–3	0	0	–97	–97
Pension plans without own assets	–	–40	2	–6	–	–6
<b>Total</b>	<b>319</b>	<b>–43</b>	<b>2</b>	<b>–6</b>	<b>–103</b>	<b>–109</b>

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

**2016**

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact <sup>1)</sup>	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	329	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–13	–13
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–206	–3	1	0	–95	–95
Pension plans without own assets	–	–36	1	–5	–	–5
<b>Total</b>	<b>123</b>	<b>–39</b>	<b>2</b>	<b>–5</b>	<b>–108</b>	<b>–113</b>

**Summary of pension benefit expenses**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Total assets pledged by Group companies to guarantee their commitments amounted to CHF 137 million at 31 December 2017 (previous year: CHF 139 million), of which CHF 28 million served to secure financial debts (previous year: CHF 33 million).

**b. Leasing and other commitments**

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

(CHF million)	31.12.2017	31.12.2016
Less than 1 year	443	540
Between 1 and 5 years	1 238	1 401
Over 5 years	1 185	1 261
<b>Total</b>	<b>2 866</b>	<b>3 202</b>

The figures in the preceding table include all rental contracts for buildings, a major part of which relate to the Group's retail business, and to all other standard rental contracts existing at 31 December 2017. Leasing costs amounting to CHF 697 million were recognized in the 2017 income statement, compared to CHF 698 million in the previous year.

At 31 December 2017, other open long-term and irrevocable payment obligations entered into by the Group, which cannot be cancelled within 12 months, had a non-discounted value of CHF 885 million (previous year: CHF 647 million). They mainly relate to marketing and sponsoring commitments, as well as investments in tangible fixed assets.

**c. Contingent assets and liabilities**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**26. Share capital and reserves****a. Share capital**

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

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2015	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2017</b>	<b>124 045 000 at CHF 0.45</b>	<b>30 840 000 at CHF 2.25</b>	<b>125 210 250.00</b>

At year-end 2017, as well as 2016, there was no authorized or conditional capital. All issued shares are fully paid. No benefit or participation certificates exist. In accordance with the articles of incorporation of the Swatch Group, the Board of Directors shall refuse a registered share ownership of more than 5% per shareholder. In exceptional cases, the Board of Directors may consent to an exception to this rule.

**b. Capital reserves**

Capital reserves include the result from the sale of treasury shares and transactions with non-controlling interests as well as effects of capital reductions in prior years.

**c. Non-distributable reserves**

At 31 December 2017, the reserves of the holding company, The Swatch Group Ltd, included a non-distributable amount of CHF 888 million (previous year: CHF 685 million). This amount consisted of CHF 863 million related to treasury shares held (previous year: CHF 660 million) and non-distributable legal reserves of CHF 25 million (previous year: CHF 25 million).

**d. Treasury shares**

On 5 February 2016, the Group commenced a share buyback program with a total value of CHF 1 billion. This program will continue until 4 February 2019 at the latest. In 2017, treasury shares with a market value of CHF 204 million were repurchased. The total volume repurchased since the beginning of the program amounts to CHF 536 million. At year end, there were no disclosable repurchase obligations from this program.

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

	Registered shares		Bearer shares		Total
	Quantity	Value	Quantity	Value	
		CHF million		CHF million	CHF million
<b>Balance at 31 December 2015</b>	<b>4 098 317</b>	<b>174</b>	<b>570 000</b>	<b>155</b>	<b>329</b>
Acquisitions <sup>1)</sup>	2 689 767	166	538 850	166	332
Disposals <sup>2)</sup>	- 246 648	- 1	-	-	- 1
<b>Balance at 31 December 2016</b>	<b>6 541 436</b>	<b>339</b>	<b>1 108 850</b>	<b>321</b>	<b>660</b>
Acquisitions <sup>1)</sup>	1 467 500	103	280 800	101	204
Disposals <sup>2)</sup>	- 242 521	- 1	-	-	- 1
<b>Balance at 31 December 2017</b>	<b>7 766 415</b>	<b>441</b>	<b>1 389 650</b>	<b>422</b>	<b>863</b>

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

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

In 2017 and 2016, no bearer shares were sold.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**27. Acquired goodwill****a. Theoretical statement of changes in goodwill**

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

	2017			2016		
	Goodwill Group associated companies	Goodwill associated companies	Total	Goodwill Group associated companies	Goodwill associated companies	Total
(CHF million)						
<b>Historical cost 1 January</b>	<b>1 389</b>	<b>48</b>	<b>1 437</b>	1 389	48	1 437
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
<b>Historical cost 31 December</b>	<b>1 389</b>	<b>48</b>	<b>1 437</b>	1 389	48	1 437
<b>Theoretical accumulated amortization</b>						
<b>1 January</b>	<b>– 764</b>	<b>– 36</b>	<b>– 800</b>	– 648	– 33	– 681
Theoretical annual amortization	– 111	– 3	– 114	– 116	– 3	– 119
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
<b>Theoretical accumulated amortization 31 December</b>	<b>– 875</b>	<b>– 39</b>	<b>– 914</b>	– 764	– 36	– 800
<b>Theoretical net book value 31 December</b>	<b>514</b>	<b>9</b>	<b>523</b>	625	12	637

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

**b. Theoretical impact on equity**

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

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

**c. Theoretical impact on net income**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**28. Details to the consolidated statement of cash flows**

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

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

**29. Employee stock option plan**

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

Under the terms of this plan, which was revised in 2016, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee being employed by the company on the date of exercise. Options are not transferable and only exercisable by the employee. The exercised options can optionally be subject to a blocking period of either 5 or 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of trea-sury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Group equity increases from the time the options are granted over the corresponding period by the value of the employee services (net of tax). When the options are exercised, Group equity increases further by the corresponding exercise price.

At the end of 2017, this portfolio comprised 449 319 registered shares (680 644 at the end of 2016). In 2017, 231 325 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

Movements in the number of share options outstanding were as follows:

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

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:

<b>Expiry date</b>	<b>31.12.2017</b>	31.12.2016
2017		153 423
2018	<b>137 609</b>	77 248
2019	<b>69 678</b>	
<b>Total</b>	<b>207 287</b>	230 671

The fair value of the options granted during the period was determined by using the actual value at the grant date. The following table shows the assumptions on which the valuation of share options granted in 2017 and 2016 was based:

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

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

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

### 30. Related party transactions

#### a. Principal shareholders

On 31 December 2017, the Hayek Pool and its related companies, institutions and individuals held 61 981 814 registered shares and 5 990 bearer shares, equivalent to 40.0% of all voting rights (previous year: 40.1%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 39.6% of all voting rights (previous year: 39.7%).

In 2017, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 8.8 million to the Swatch Group (previous year: CHF 8.8 million). This amount primarily covered support for Group Management in the following areas of activity:

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**b. Key management personnel**

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

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

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

In the year under review, no termination benefits were paid to members of the Board of Directors, the Management Board or the Extended Management Board (previous year: none). The employment contracts of members of management bodies do not provide for this type of benefit. Final payments totaling CHF 0.9 million were made to former members of the Group's governing bodies for their past functions (previous year: none).

**c. Share ownership**

At 31 December 2017, the executive members of the Board of Directors and the members of the Management Board of the company as well as the persons close to them held directly or indirectly a total of 56 742 642 registered shares and 590 bearer shares, representing 36.6% of all voting rights (previous year: 36.6%).

In addition, at 31 December 2017, all the non-executive members of the Board of Directors as well as the persons close to them held 100 registered shares and 2 010 bearer shares, representing 0.0% of all voting rights (previous year: 0.0%).

**d. Loans to members of the governing bodies**

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

In 2017 and 2016, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, at the end of both 2017 and 2016, no such loans were outstanding.

**e. Associated companies and other related parties**

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

(CHF million)	2017		2016	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	43	481	43	885
Other related parties	0	0	0	0

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

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

At the end of 2017 and 2016 there were no balances outstanding with other related parties.

**31. Events after the balance sheet date**

There were no significant events after the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. The Swatch Group Companies – as at 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>Europe</b>					
<b>Switzerland</b>					
The Swatch Group AG, Neuchâtel	Holding	CHF 125.21			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
Belenos Clean Power Engineering SA, Bienne	Research and development	CHF 0.25	60	●	▼
Belenos Clean Power Holding SA, Bienne	Holding	CHF 63.00	51	●	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	▲
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	▲
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	▲
Certina AG, Le Locle	Watches	CHF 3.50	100	●	▲
Cité du Temps SA, Genève	Communication	CHF 6.00	100	●	▼
CHH Microtechnique SA, Le Chenit	Watch components	CHF 0.10	100	●	▲
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	▲
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	▲
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Bienne	Distribution	CHF 3.00	100	●	▲
Dress your body SA, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100	●	▲
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100	●	▶
Evaco SA, Möhlin	Watches	CHF 0.50	58	●	▲
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	▲
Harry Winston SA, Plan-les Ouates	Watches	CHF 0.40	100	●	▲
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Manufacture Ruedin SA, Haute-Sorne	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 4.50	100	●	▲
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	▶
Mido AG, Le Locle	Watches	CHF 1.20	100	●	▲
MOM le Prêlet SA, Val-de-Ruz	Watch dials	CHF 0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	▲
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	▲
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Novi SA, Les Genevez	Assembly	CHF 0.14	100	●	▲
Omega SA, Bienne	Watches	CHF 50.00	100	●	▲
PHM Holding SA, Courtételle	Holding	CHF 0.10	100	●	▲
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	▲
Record Watch Co. SA, St-Imier	Administration	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	▶
René Clémence SA, La Chaux-de-Fonds	Watch-glasses	CHF 0.06	100	●	▲
Rubattel et Weyermann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
Simon et Membrez SA, Delémont	Watch cases	CHF 0.10	100	●	▲
S.I. Les Corbes SA, Val-de-Ruz	Real estate	CHF 0.10	34	○	▼
SSIH Management Services AG, Bienne	Services	CHF 0.05	100	●	▼
Swatch AG, Bienne	Watches	CHF 2.00	100	●	▲
Swatch Retail AG, Bienne	Retail	CHF 2.00	100	●	▲
Swiss Timing AG, Corgémont	Sports timing technology & equipment	CHF 2.00	100	●	▶
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
Termiboîtes SA, Basse-Allaine	Watch case polishing	CHF 0.10	60	●	▲
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100	●	▲
The Swatch Group Europa AG, Bienne	Distribution	CHF 29.65	100	●	▲
The Swatch Group Export SA, Neuchâtel	Distribution	CHF 1.00	100	●	▲
The Swatch Group Far East Distribution Ltd, Bienne	Distribution	CHF 0.10	100	●	▲
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80	●	▼
The Swatch Group Lab AG, Zürich	Services	CHF 0.60	100	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	▲
The Swatch Group Management Services SA, Bienne	Services	CHF 0.05	100	●	▲
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	100	●	▼
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	▲
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	▲
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. The Swatch Group Companies – as at 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>Belgium</b>					
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR	1.75	100	● ◀
Retail Services Belgium SA, Bruxelles	Services	EUR	2.09	100	● ◀
<b>Germany</b>					
Fördergesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR	0.03	100	● ◀
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR	0.51	100	● ◀
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR	3.47	100	● ▶
Swiss Prestige Uhren Handel GmbH, Eschborn	Retail	EUR	0.08	100	● ◀
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution	EUR	1.28	100	● ◀
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn	Retail	EUR	0.20	100	● ◀
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR	0.10	100	● ◀
<b>France</b>					
Breguet SAS, Paris	Administration	EUR	0.04	100	● ◀
Fabrique de Fournitures de Bonnétage SAS, Villers-le-Lac	Precision parts	EUR	4.56	100	● ◀
Frésard Composants SAS, Charquemont	Precision parts	EUR	1.80	100	● ◀
Centre Européen de Service Horloger SAS, Besançon	Customer service	EUR	0.70	100	● ◀
Harry Winston SAS, Paris	Retail	EUR	10.09	100	● ◀
Hour Passion SAS, Paris	Retail	EUR	10.00	100	● ◀
The Swatch Group (France) SAS, Paris	Distribution	EUR	15.00	100	● ◀
The Swatch Group (France) Les Boutiques SAS, Paris	Retail	EUR	70.13	100	● ◀
<b>Greece</b>					
The Swatch Group (Greece) SA, Athens	Distribution	EUR	5.00	100	● ◀
<b>Great Britain</b>					
Harry Winston (UK) Ltd, London	Retail	GBP	0.00	100	● ◀
The Swatch Group (UK) Ltd, London	Distribution	GBP	2.00	100	● ◀
<b>Italy</b>					
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	● ◀
<b>Luxembourg</b>					
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	● ▼
<b>Monaco</b>					
The Swatch Group (Monaco) Les Boutiques SAM	Distribution	EUR	2.00	100	● ◀
<b>Netherlands</b>					
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR	3.45	100	● ◀
<b>Austria</b>					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR	0.04	100	● ◀
<b>Poland</b>					
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN	10.00	100	● ◀
<b>Russia</b>					
Swiss Watch Le Prestige OOO Russia, Moscow	Distribution	RUB	0.20	100	● ◀
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB	8 544.12	100	● ◀
<b>Sweden</b>					
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK	0.50	100	● ◀
<b>Spain</b>					
The Swatch Group (España) SA, Alcobendas	Distribution	EUR	0.45	100	● ◀
<b>Czech Republic</b>					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK	0.30	100	● ▶
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK	0.10	80	● ▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK	9.00	100	● ◀
<b>Turkey</b>					
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY	206.00	100	● ◀

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. The Swatch Group Companies – as at 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>Asia</b>					
<b>Bahrain</b>					
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58	●	◀
<b>Greater China</b>					
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	●	◀
<b>India</b>					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 5 280.00	100	●	◀
Swatch Group (India) Retail Private Ltd, New Delhi	Retail	INR 150.10	100	●	◀
<b>Indonesia</b>					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 189 295.90	100	●	◀
<b>Japan</b>					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 100.00	100	●	◀
<b>Qatar</b>					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29	●	◀
Tissot W.L.L., Doha	Retail	QAR 0.20	29	●	◀
<b>Malaysia</b>					
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	●	◀
<b>Oman</b>					
Rivoli & Co. L.L.C., Muscat	Retail	OMR 0.30	58	●	◀
<b>Saudi Arabia</b>					
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33	○	◀
<b>Singapore</b>					
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	●	◀
<b>South Korea</b>					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 6 300.00	100	●	◀
<b>Thailand</b>					
ETA (Thailand) Co. Ltd, Samut Prakan	Assembly electronic components	THB 504.50	100	●	◀
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 500.00	100	●	◀
<b>United Arab Emirates</b>					
Al Khaleej Watches L.L.C., Abu Dhabi	Retail	AED 0.15	58	●	◀
Blue Sky Trading Company L.L.C., Abu Dhabi	Retail	AED 0.30	58	●	◀
Excel Enterprises L.L.C., Dubai	Retail	AED 1.70	58	●	◀
Golden Watch Company L.L.C., Abu Dhabi	Retail	AED 0.50	58	●	◀
Hour Choice L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Marcolin Middle East FZCO	Distribution	AED 0.10	29	○	◀
New Horizons General Trading L.L.C., Dubai	Retail	AED 0.30	29	○	◀
Rivoli Arcade L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Rivoli Enterprises L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Rivoli Group L.L.C., Dubai	Retail	AED 24.02	58	●	◀
Rivoli Investments L.L.C., Dubai	Holding	AED 0.30	58	●	◀
Rivoli Textiles L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	100	●	◀
Vision 2000 L.L.C., Dubai	Retail	AED 1.00	58	●	◀

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32. The Swatch Group Companies – as at 31.12.2017

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>America</b>					
<b>Brazil</b>					
SGA Administração de Imóveis SA, Manaus	Administration	BRL 4.92	100	●	◀
SGB Importação e Varejo de Artigos de Luxo Ltda., São Paulo	Retail	BRL 79.30	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	100	●	◀
<b>Canada</b>					
H.W. Protection Inc., Toronto	Services	CAD 1.94	100	●	◀
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD 4.50	100	●	◀
<b>Mexico</b>					
Operadora y Comercializadora de Relojes y Joyeria SA de CV, Mexico	Services	MXN 1.50	100	●	◀
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 419.99	100	●	◀
<b>Panama</b>					
The Swatch Group Panama SA, Panama City	Administration	USD 0.01	100	●	◀
<b>United States</b>					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	▶
Harry Winston, Inc., New York	High jewelry	USD 0.60	100	●	◀
HW Holdings Inc., Wilmington, Delaware	Holding	USD 0.00	100	●	◀
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 1.01	100	●	◀
<b>Oceania</b>					
<b>Australia</b>					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	◀
<b>Africa</b>					
<b>South Africa</b>					
The Swatch Group (South Africa) (Proprietary) Ltd, Edenvale	Distribution	ZAR 125.00	100	●	◀

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

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING  
OF THE SWATCH GROUP LTD, NEUCHÂTEL

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of The Swatch Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 173 to 211) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

#### Overview

Overall Group materiality: CHF 50 000 000



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

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

- Valuation of inventories

### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The main subsidiaries of the Group are audited by PwC exclusively and we remain in constant contact with the audit teams that perform the work. As the auditor of the consolidated financial statements, we ensure that we visit the local management and the local auditor of the most significant Group companies every three years according to a rotation plan. During these site visits, we discuss the risks of a material misstatement in the local entity's financial statements as well as the focus points of the audit and the audit scope. During the audit of the 2017 consolidated financial statements, we participated in the audit closing meetings of five of the main Group companies in Switzerland and made site visits to discuss the audit with the local auditors and the management of the main Group companies in the USA, China, Hong Kong, Macau and United Arab Emirates.

### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING  
OF THE SWATCH GROUP LTD, NEUCHÂTEL

<b>Overall Group materiality for the audit of the consolidated financial statements</b>	CHF 50 000 000
<b>How we determined it</b>	5% of profit before income taxes
<b>Rationale for the materiality benchmark applied</b>	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, profit before income taxes is a generally accepted benchmark for considerations of materiality. We chose 5% of profit before income taxes to determine materiality as this is a commonly used benchmark in practice.

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks in making operational decisions and for its financial reporting.

**Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Valuation of inventories**

**Key audit matter**

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

Sales of watches and jewellery are subject to market fluctuations. These fluctuations along with the complex structure of inventories – raw materials, components, finished goods and spare parts – mean that there is significant scope for judgement in testing inventories for impairment and recoverability. In performing these tests, the different raw materials used and the durability of the value of each brand's products have to be considered in the light of the differing product life cycles.

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

**How our audit addressed the key audit matter**

We performed the following audit procedures to assess the appropriateness of the valuation of the inventories:

- By reference to historical and expected inventory usage figures, we assessed at subsidiary level the process for identifying slow-moving inventories (raw materials, semi-finished goods and spare parts for customer service) and the appropriateness of the resulting write-downs.
- For finished goods subject to market risk, we tested at subsidiary level and at Group level Management's valuation estimates based on the lower of acquisition or manufacturing cost and net realisable value as well as the recoverability of the book value of finished goods. In doing so, we considered not only sales figures but also the marketability of the watch and jewellery collections.
- Further, at Group level, we checked the process to eliminate unrealised gains and losses from transactions between Group companies. In doing so, we checked that the valuation of the inventories on the consolidated financial statements did not include material unrealised gains.

In performing these audit procedures, we addressed the risk of error in the valuation of inventories. We have no findings to report.

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

### **Responsibilities of the Board of Directors for the consoli- dated financial statements**

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Gerhard Siegrist  
Audit expert  
Auditor in charge



Tobias Handschin  
Audit expert

Basel, 28 February 2018

## CONTENTS

<b>Financial statements of The Swatch Group Ltd</b>	<b>216–229</b>
Income statement	217
Balance sheet	218
Notes to the financial statements	220
Proposed appropriation of available earnings	226
Report of the statutory auditor on the financial statements	227

## INCOME STATEMENT OF THE SWATCH GROUP LTD

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

## BALANCE SHEET OF THE SWATCH GROUP LTD

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

## BALANCE SHEET OF THE SWATCH GROUP LTD

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

## NOTES TO THE FINANCIAL STATEMENTS

**General**

The financial statements of The Swatch Group Ltd, with registered office in Neuchâtel comply with the requirements of the Swiss Code of Obligations (OR). The 2017 financial statements were prepared in accordance with Swiss Accounting Legislation (thirty-second title of the Swiss Code of Obligations).

**Valuation principles**

- a. Assets** Assets are valued at no more than their acquisition cost. Exceptions are current assets with an observable market price, which are valued at the stock price or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built.
- b. Investments** Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity are not usually combined as a group for valuation.
- c. Treasury shares** Treasury shares reserved for the stock option plan, as well as repurchased treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves.
- d. Liabilities** Liabilities are valued at nominal value.
- e. Foreign currency translation** All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

**Details to specific items**

1. Income from investments in subsidiaries	(CHF million)	2017	2016
Dividends		848	1 005
Other income from investments in subsidiaries		55	55
<b>Total</b>		<b>903</b>	<b>1 060</b>

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

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

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

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

- 6. Non-operating / extraordinary result** The non-operating result was less than CHF 1 million in the year under review (previous year: less than CHF 1 million). The extraordinary result was a loss of less than CHF 1 million in the year under review (previous year: loss of CHF 1 million).

## NOTES TO THE FINANCIAL STATEMENTS

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

**8. Receivables and loans** These positions mainly include deposits of surplus cash with the Group-internal finance company in Luxembourg as well as financing of subsidiaries.

**9. Investments in subsidiaries and associates** The list of 161 legal entities, including minority investments, held directly or indirectly by The Swatch Group Ltd and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 47.3% of total assets at 31 December 2017 versus 47.8% at end-2016. In absolute terms, the value of investments in subsidiaries amounted to CHF 3 475 million at end-2017. This amount corresponds to consolidated investments and investments in associates, and is CHF 53 million higher than in 2016.

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

The contract and fair values of derivative financial instruments at 31 December 2017 and 2016 are as follows:

Type	Contract value			Positive fair value			Negative fair value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 818	271	2 089	7	1	8	-5	-1	-6
Options	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2017</b>	<b>1 818</b>	<b>271</b>	<b>2 089</b>	<b>7</b>	<b>1</b>	<b>8</b>	<b>-5</b>	<b>-1</b>	<b>-6</b>

Type	Contract value			Positive fair value			Negative fair value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 714	404	2 118	3	2	5	-11	-2	-13
Options	-	-	-	-	-	-	-	-	-
<b>Total at 31.12.2016</b>	<b>1 714</b>	<b>404</b>	<b>2 118</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>-11</b>	<b>-2</b>	<b>-13</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

**11. Equity**

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

The table below shows the changes in equity:

(CHF million)	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
<b>Balance at 31.12.2015</b>	<b>125</b>	<b>99</b>	<b>10</b>	<b>2</b>	<b>5 572</b>	<b>1 060</b>	<b>- 327</b>	<b>6 541</b>
Allocated in 2016					620	- 620		-
Dividend paid out						- 403		- 403
Change in treasury shares		10					- 332	- 322
Creation / dissolution				- 1	1			-
Net income for the year						992		992
<b>Balance at 31.12.2016</b>	<b>125</b>	<b>109</b>	<b>10</b>	<b>1</b>	<b>6 193</b>	<b>1 029</b>	<b>- 659</b>	<b>6 808</b>
Allocated in 2017					620	- 620		-
Dividend paid out						- 357		- 357
Change in treasury shares		13					- 204	- 191
Creation / dissolution								-
Net income for the year						840		840
<b>Balance at 31.12.2017</b>	<b>125</b>	<b>122</b>	<b>10</b>	<b>1</b>	<b>6 813</b>	<b>892</b>	<b>- 863</b>	<b>7 100</b>

**Share capital**

At 31 December 2017, share capital consisted of 124 045 000 registered shares each with a nominal value of CHF 0.45, and of 30 840 000 bearer shares each with a nominal value of CHF 2.25 (unchanged from the previous year).

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2017</b>	<b>124 045 000 at CHF 0.45</b>	<b>30 840 000 at CHF 2.25</b>	<b>125 210 250.00</b>



## NOTES TO THE FINANCIAL STATEMENTS

**Principal shareholders at 31 December 2017**

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

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

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

<b>Name / Company</b>	<b>Location</b>	<b>Beneficial owners</b>
Hayek Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	–
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	–
Various welfare foundations	various	–

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 39.6% of all voting rights at end-2017 (previous year: 39.7%).

At 31 December 2017, the Swatch Group had no knowledge of any other group or individual shareholder controlling more than 5% of all voting rights.

**Statutory capital reserve**

Gains and losses from the sale of treasury shares, including transaction costs, are recorded directly in the statutory capital reserve. In addition, the statutory capital reserve includes the historical proceeds from the issuance of participation certificates in excess of nominal value and issuance costs (premium).

**Voluntary reserve**

In the year under review, an amount of CHF 620 million was appropriated from available earnings at 31 December 2016 (previous year: CHF 620 million).

**Reserve for treasury shares**

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

**Available earnings**

In compliance with the resolution approved at the Annual General Meeting of 23 May 2017, a dividend of CHF 1.35 per registered share and of CHF 6.75 per bearer share was appropriated from available earnings as at 31 December 2016. The total dividend amount paid to shareholders in 2017 came to CHF 167 million on the registered shares and CHF 208 million on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 18 million, thus remains as an integral part of equity at 31 December 2017. Finally, CHF 620 million was appropriated from available earnings at 31 December 2016 and allocated to the voluntary reserve.

## NOTES TO THE FINANCIAL STATEMENTS

**Treasury shares / Share buyback program**

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

Treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2017 corresponded to 5.3% (versus 4.3% at end-2016) of the nominal value of total share capital. In addition to repurchased treasury shares, this position also includes registered treasury shares intended for the employee stock option plan.

The number of treasury shares held directly or indirectly by the Swatch Group Ltd changed as follows:

Shares held by:	Registered shares		Bearer shares	
	Quantity <sup>1)</sup>		Quantity	
	2017	2016	2017	2016
<b>The Swatch Group Ltd</b>				
Balance at 1 January	6 519 044	4 065 425	1 108 850	570 000
Acquisitions <sup>2)</sup>	1 467 500	2 689 767	280 800	538 850
Disposals <sup>3)</sup>	- 231 325	- 236 148	-	-
<b>Balance at 31 December</b>	<b>7 755 219</b>	<b>6 519 044</b>	<b>1 389 650</b>	<b>1 108 850</b>
<b>Other consolidated companies</b>				
Balance at 1 January	22 392	32 892	-	-
Acquisitions	-	-	-	-
Disposals <sup>4)</sup>	- 11 196	- 10 500	-	-
<b>Balance at 31 December</b>	<b>11 196</b>	<b>22 392</b>	<b>0</b>	<b>0</b>
<b>Total balance at 31 December</b>	<b>7 766 415</b>	<b>6 541 436</b>	<b>1 389 650</b>	<b>1 108 850</b>

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

<sup>2)</sup> In 2017, The Swatch Group Ltd acquired 1 467 500 registered shares at an average price of CHF 70.11. In addition, 280 800 bearer shares at an average price of CHF 360.45 were acquired. In the previous year, The Swatch Group Ltd acquired 2 689 767 registered shares at an average price of CHF 61.52. In addition, 538 850 bearer shares at an average price of CHF 308.21 were acquired.

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

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

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

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

**Leasing liabilities**

The balance of liabilities arising from buy or purchase-like contracts and other leasing commitments which do not expire or cannot be cancelled within 12 months amounted to CHF 1 million at end-2017 (previous year: CHF 10 million).

**Liabilities to pension plans**

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

**Assets pledged**

None of the company's assets are pledged.

**Guarantees**

At end-2017, guarantees provided by The Swatch Group Ltd amounted to less than CHF 1 million (previous year: less than CHF 1 million). This item relates to a guarantee to cover a lease commitment taken out by another Group company (unchanged to the previous year).

**Contingent liabilities**

At end-2017 and 2016, there were no contingent liabilities except the joint and several responsibility in favor of other Group companies in connection with the group taxation of the value added tax.

## NOTES TO THE FINANCIAL STATEMENTS

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

Article 959c paragraph 2 item 11 of the Swiss Code of Obligations require disclosure of the number and value of shares and options granted to members of the Board of Directors and Group Management as well as to employees. Details of the entire plan are disclosed in Note 29 of the consolidated financial statements. Allocations to the Board of Directors and the Management Board are disclosed in the separate compensation report, in which all management remuneration information is disclosed as well.

In the year under review, 5 980 registered shares resp. options valued at CHF 0.4 million (previous year: 5 630 registered shares resp. options valued at CHF 0.3 million) were allocated to other employees of The Swatch Group Ltd.

In addition, Article 663c paragraph 3 of the Swiss Code of Obligations require disclosure of shares and options held by members of the Board of Directors and Group Management, including closely related persons. The table below shows the corresponding holdings at 31 December 2017 and 2016:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2017	2016	2017	2016	2017	2016
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	148 208	128 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member	100	100				
Dr. Jean-Pierre Roth	BoD Member			10	10		
Daniela Aeschlimann <sup>1)</sup>	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	111 991	90 991			24 000	24 000
Pierre-André Bühler	MB Member	30 466	25 966			8 002	8 002
Dr. Mougahed Darwish	MB Member	78 868	76 268			2 602	2 602
Marc A. Hayek	MB Member	130 898	118 398			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	62 252	54 252			8 002	8 002
Florence Ollivier-Lamarque	MB Member	56 000	60 000			12 000	12 000
François Thiébaud	MB Member	128 623	116 123			12 502	12 502
Raynald Aeschlimann	EMB Member	18 867	14 867			4 001	4 001
Matthias Breschan	EMB Member	2 034	1 034			3 000	3 000
Jean-Claude Eggen	EMB Member	4 816	4 316			2 501	2 501
Yann Gamard	EMB Member	2 750				5 501	5 501
Hans-Rudolf Gottier	EMB Member	34 698	33 698			5 002	5 002
Walter von Känel	EMB Member	60 879	54 879	40	40	6 000	6 000
Thomas Meier	EMB Member	6 000	4 800			1 200	1 200
Calogero Polizzi	EMB Member	4 000	5 750			1 500	1 668
Kevin Rollenhagen	EMB Member	64 148	56 148			8 002	8 002
Dr. Peter Steiger	EMB Member	93 000	84 925			9 000	9 000
<b>Total</b>		<b>56 742 742</b>	<b>56 634 867</b>	<b>2 600</b>	<b>2 600</b>	<b>145 319</b>	<b>145 487</b>

<sup>1)</sup> Member of the BoD since May 2016

Each option gives the right to draw one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 30 of the consolidated financial statements. Except for the community of heirs of N. G. Hayek, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2017, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2016: community of heirs of N. G. Hayek).

**Additional information, cash flow statement and management report**

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

**Events after the balance sheet date**

These financial statements were approved for issue by the Board of Directors on 28 February 2018 and will be submitted to the Annual General Meeting of Shareholders for approval on 24 May 2018.

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

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

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

	<b>2017</b>	2016
	<b>CHF million</b>	CHF million
Net income for the year	<b>840</b>	992
Profit brought forward from previous year	<b>52</b>	37
<b>Available earnings</b>	<b>892</b>	1 029
Allocation to special reserve	<b>- 450</b>	- 620
Payment of a 2016 dividend, i.e.:		
– CHF 1.35 per registered share with a par value of CHF 0.45		- 167
– CHF 6.75 per bearer share with a par value of CHF 2.25		- 208
Payment of a 2017 dividend, i.e.: <sup>1)</sup>		
– CHF 1.50 per registered share with a par value of CHF 0.45	<b>- 186</b>	
– CHF 7.50 per bearer share with a par value of CHF 2.25	<b>- 231</b>	
Dividends not paid out on own shares held by the Group <sup>2)</sup>		18
<b>Balance carried forward</b>	<b>25</b>	52

<sup>1)</sup> It is planned not to pay dividends on own shares held by the Group.

<sup>2)</sup> Based on the decision of the Annual General Meeting of 23 May 2017, the dividend due on own shares held by the Group was not paid out.

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of The Swatch Group Ltd, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

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

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Our audit approach

##### Overview

Overall materiality: CHF 35 000 000



We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

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

- Valuation of investments in subsidiaries and associates

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<b>Overall materiality for the audit of the financial statements</b>	CHF 35 000 000
<b>How we determined it</b>	0.5% of total equity
<b>Rationale for the materiality benchmark applied</b>	We chose total equity as the benchmark because it is a relevant and generally accepted benchmark for materiality considerations relating to a holding company. We chose 0.5% of total equity to determine materiality as this is a commonly used benchmark in practice.

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks to support its operational decisions and for its financial reporting.

### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Valuation of investments in subsidiaries and associates

##### Key audit matter

As at 31 December 2017, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 3 475 million (about 47% of total assets). They include the directly held subsidiaries, which hold the other Group companies. These include subsidiaries with different levels of vertical integration, in particular component producers, manufacturers, brand name parent companies, numerous sales organisations and other equity investments. Because of their vertical integration and their similarity, these investments are grouped together, in some cases, for valuation purposes.

Due to the significance of this asset category in the financial statements and because of the scope for judgement in grouping these investments, we consider the impairment assessment of the equity investments as complex and, therefore, as a key audit matter.

*Please refer to page 220 (Valuation principles) and page 221 (Details to specific items, Note 9 Investments in subsidiaries and associates) of the 2017 Annual Report.*

##### How our audit addressed the key audit matter

We performed the following audit procedures:

- Firstly, we checked the grouping of the investments based on their similarity and their vertical integration in the Swatch Group.
- Secondly, we tested the valuation of each investment or group of investments based on its equity and results for the year.

On the basis of the audit procedures performed, we have addressed the risk of investments being grouped together inappropriately with no economic justification and of investments being valued incorrectly. We have no findings to report.

### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors and the Audit Committee or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on other legal and regulatory requirements

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Gerhard Siegrist  
Audit expert  
Auditor in charge



Tobias Handschin  
Audit expert

Basel, 28 February 2018

## THE SWATCH GROUP LTD SECURITIES

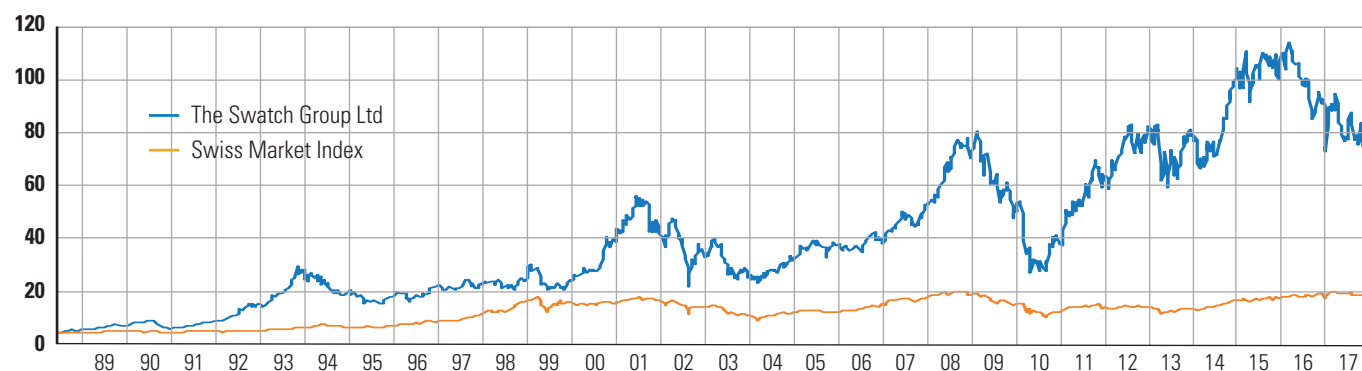
Average number of shares outstanding / Average share capital	2017 basic	2016 basic	2015 basic	2014 basic	2013 basic	
Number of registered shares of CHF 0.45	116 755 450	118 672 611	119 847 161	119 894 096	119 514 584	
Number of bearer shares of CHF 2.25	29 567 412	29 987 419	30 308 846	30 320 769	30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

<sup>1)</sup>Board of Directors' proposal.

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

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

## Evolution of The Swatch Group Ltd registered shares and the Swiss Market Index (1988–2017)





# COMPENSATION REPORT



## JUPITER!

Named for the Roman god of gods. Largest planet in our solar system. Magnificently majestic. This giant also has irresistible charm: on Jupiter's surface, it seems that it also hails diamonds. The father of all gods would be thrilled. Back here on earth, we'd find such a waste of valuable resources to be a bit unnecessary.

## CONTENTS

<b>Compensation Committee</b>	<b>3</b>
<b>Compensation system</b>	<b>4</b>
<b>Additional contractual elements</b>	<b>6</b>
<b>Compensation for the members of the Board of Directors and Group Management (KL/EKL) in 2017</b>	<b>7</b>
<b>Report of the External Auditor to the General Meeting of The Swatch Group Ltd, Neuchâtel</b>	<b>9</b>

## COMPENSATION REPORT

Ladies and Gentlemen

In accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations (Compensation Ordinance; Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV), which came into force on 1 January 2014, all information regarding the compensation of the Board of Directors and the Group Management Board (Executive Group Management Board and Extended Group Management Board) is presented in the Compensation Report.

With the Compensation Report, the Board of Directors and the Compensation Committee give an account of the material elements of the compensation principles, of the tasks and competences in the field of compensation, of the composition and function of the Compensation Committee, and of the various compensation elements.

The aim of the Compensation Report is to create transparency regarding the compensation provided by the company.

The Compensation Report is divided into the following sections:

- one section with information regarding the structure and decision-making processes within the Compensation Committee and the Board of Directors;
- one section with the description of the compensation system;
- one section that sets out the specific compensation in the 2017 business year.

The Compensation Report fulfils the provisions of the Ordinance against Excessive Compensation in Listed Stock Corporations, which came into force on 1 January 2014, and accordingly the provisions of the Swiss Code of Obligations. The Report essentially follows the recommendations of the Swiss Code of Best Practices for Corporate Governance issued by *economiesuisse* and the Guidelines on Corporate Governance issued by SIX Swiss Exchange Ltd.

Disclosure takes place according to the “accrual principle”. The current part of the report (Section 4a-e) was audited by PricewaterhouseCoopers Ltd.

### 1. Compensation Committee

#### 1.1 Composition of the Compensation Committee

As the Board of Directors of the Swatch Group is intentionally kept small in number (currently 6 members), it functions at the same time as the Compensation Committee. This eliminates the need for demarcating the areas of responsibility and ensuring the flow of information.

The Compensation Committee is chaired by Mr Ernst Tanner, Vice-Chairman of the Board of Directors.

All members of the Board of the Directors abstain from discussions and decisions regarding their compensation and from discussions and decisions regarding compensation of persons closely related to them (such as family members).

No members having any cross-involvement belong to the Compensation Committee, such that no conflicts of interest arise from this point of view as well.

#### 1.2 Tasks / Competences

The Compensation Committee handles the compensation policy of the company. It assists the Board of Directors in determining the compensation system and the principles of compensation, and in the preparation of motions to the General Meeting for approving compensation. The Compensation Committee may submit proposals and recommendations to the Board of Directors in all matters pertaining to compensation.

With the coming into force of the revised Articles of Association of the Swatch Group, the Compensation Committee attends to all issues related to compensation, and proposes solutions for the attention of the Board of Directors. The decision-making body is the Board of Directors. The Board of Directors will submit the necessary resolutions to the General Meeting for its approval.

At the Annual General Meeting 2017, the fixed remuneration for members of the Board of Directors until the next annual meeting, as well as the fixed remuneration for the fiscal year 2017 and the variable remuneration for the fiscal year 2016 for executive functions for members of the Board of Directors was voted upon. In addition, fixed remuneration for members of the Management Board and the Extended Management Board for the fiscal year 2017, as well as the variable remuneration for the fiscal year 2016 was voted upon at the Annual General Meeting 2017.

#### 1.3 Meetings

The Compensation Committee met twice during the 2017 business year.

## COMPENSATION REPORT

### 2. Compensation system

#### 2.1 General principles of compensation

The members of the Board of Directors and the Executive Management are entitled to compensation corresponding to their job function and degree of responsibility.

The company may award compensation for activities in undertakings that are directly or indirectly controlled by the company and for activities at the order of the undertaking. The compensation may be awarded by the company or by the companies that it controls.

The compensation of the non-executive members of the Board of Directors comprises only fixed compensation elements.

The compensation of executive members of the Board of Directors and the members of the Executive Management comprises fixed and variable compensation elements. The fixed compensation comprises base salary and may include additional compensation elements. The variable compensation is guided by the achievement of defined performance objectives.

The performance objectives may include personal goals, company-specific and division-specific objectives, along with key economic or market-related figures. In doing so, the function and the level of responsibility of the recipient of the variable compensation are taken into account.

At the request of the Compensation Committee, the Board of Directors sets the performance values and objectives of the variable compensation elements and their achievement.

The compensation system of the Swatch Group is in line with market conditions and based on performance. It is reviewed on an annual basis and adjusted when necessary.

#### 2.2 Compensation elements

##### a) Non-executive members of the Board of Directors

The non-executive members of the Board of Directors receive fixed compensation. It is graduated according to functions.

##### b) Executive members of the Board of Directors, members of the Executive and Extended Group Management Board

The compensation system for the executive members of the Board of Directors and the members of the Executive and Extended Group Management Board provides for the following elements:

- a base salary;
- a lump-sum expenses payment;
- a bonus program with variable compensation;
- a share program with annual share allocations and a minimal guaranteed value;
- payments to the pension fund (Swatch Group Pension Fund) and to the Management Fund of the Swatch Group (in one specific case where the EKL-member is a foreign national, payment was made to the local pension fund).

#### 2.3 Information on individual elements

##### 2.3.1 Base salary

The base salary is usually paid out monthly in 13 equal instalments. The 13th instalment is paid each year in December. The degree of responsibility, the responsibilities and position are taken into account in the base salary.

##### 2.3.2 Lump-sum expenses

The members of the Board of Directors and the Executive Group Management Board receive a lump-sum compensation for expenses in the amount of CHF 30 000; the members of the Extended Group Management Board receive such compensation of up to CHF 24 000. This lump-sum compensation payment covers representation and small expenses and has been agreed with the tax authority of the Canton of Bern. Executive members of the Board of Directors who at the same time belong to the Executive Management receive the lump-sum compensation only once.

##### 2.3.3 Bonus programs

The executive members of the Board of Directors, of the Executive Group Management Board and of the Extended Group Management Board annually receive a variable bonus, which depends on the development of the Group and the business division entrusted to the respective person (brands, countries, functional area) as well as individual performance.

## COMPENSATION REPORT

At the start of the year, a so-called bonus potential is defined, which is paid out if the objectives are achieved. If the objectives are surpassed, more than 100% of the potential bonus will be paid. Where individual objectives are not achieved, a proportionate reduction will be made.

The bonus is determined and paid out at the start of the year, once the annual accounts are available. A recipient with a Swiss contract and residence in Switzerland receives an advance payment in December. This is usually 70% of the bonus potential, provided that the set objectives (turnover, operating profit) will foreseeably be achieved; if not, a payment of 50% will be made.

The assessment criteria that apply are, among other things: turnover development, development of operating profit, changes in market share, development of inventory and receivables, accomplishment of development and set-up projects, success in negotiations, successful implementation of cost reduction programs, personnel fluctuation, and motivation of employees. The assessment criteria are individually tailored to the function holders and weighted accordingly.

For the particular promotion of the Group's interests, a part of the bonus is awarded as a Group bonus. The percentage share of the Group component varies according to function.

### 2.3.4 Share program

On an annual basis, a number of shares with a low exercise price are offered to the executive members of the Board of Directors and the members of the Executive Group Management Board and the Extended Group Management Board. In 2016 and 2017, this amounted to CHF 4.00. One-third of the allocation may be exercised and subscribed immediately. In one and two years respectively, an additional one-third may be exercised and subscribed. Once exercised, the shares may be freely disposed of. As of 2016, these can optionally be subject to a blocking period of either 5 or 10 years. In the event of an early departure, the allocations for non-exercised options expire; upon retirement, they are immediately available.

The allocation of the share subscription rights takes place through the Board of Directors after the Annual General Meeting. A certain minimum allocation value was contractually guaranteed to the executive members of the Board of Directors and the members of the Executive Group Management Board and the Extended Group Management Board. For executive members of the Board of Directors and members of the Executive Group Management Board, this amounted to CHF 50 000; for members of the Extended Group Management Board, this amounted to generally CHF 25 000 (allocation value = share price minus CHF 4.00 exercise price).

The calculation basis for payment of allotted shares and options is the day value at allocation date. The day value corresponds to the share price on the allocation date less the exercise price.

The following values are in force for 2016 and 2017:

	2017	2016
Date of grant	31 May 2017	17 May 2016
Share price on the day of allocation	CHF 73.90	CHF 59.25
Exercise price	CHF 4.00	CHF 4.00
Daily value on the date of allocation	CHF 69.90	CHF 55.25

### 2.3.5 Pension Fund / Management Fund

The executive members of the Board of Directors and the members of the Executive Group Management Board and of the Extended Group Management Board respectively, are insured by the Swatch Group Pension Fund and the Swatch Group Management Fund.

The Swatch Group Pension Fund insures incomes of up to CHF 320 000.

The Management Fund covers income components between CHF 320 000 and CHF 846 000.

The Management Fund provides for contributions of 10% of which 75% are assumed by the employer.

## COMPENSATION REPORT

### 3. Additional contractual elements

- 3.1 Term and termination periods of employment contracts** All employment contracts of the Executive Group Management Board and of the Extended Group Management Board respectively, are concluded for an indefinite term.
- They may be terminated by either party with a notice period of six months as per the end of a month.
- 3.2 Payment of salaries** Salaries are paid on a monthly basis. No advance payments are made, either for the current month or for longer periods. The same applies to compensation within the framework of mandate relationships.
- 3.3 Compensation upon commencement of the employment relationship** Swatch Group does not pay any compensation upon the conclusion of an employment contract or upon the start of work ("golden hellos"/"golden handshakes").
- Moreover, no compensation is provided to settle share options or other financial benefits of a prior employer that were rendered void through the job change.
- 3.4 Loans and credits to members of governing bodies** The company or companies controlled by it may grant loans and credits to executive members of the Board of Directors and the Group Management Board on market terms. Such loans and credits may not exceed the amount of the fixed annual compensation of the person concerned. The fixed annual compensation of the previous year shall be taken as the basis for the grant of credit or loan (Article 41 of the Articles of Association).
- In addition, just like all employees of the Swatch Group in Switzerland, the executive members of the Board of Directors and the members of the Executive Group Management Board and of the Extended Group Management Board respectively, have the option of taking out a mortgage loan with the Swatch Group Pension Fund to finance the purchase of real estate in Switzerland. The applicable conditions are the same as those that apply to all employees of the Swiss Swatch Group companies (lending limit, interest rate, etc.).
- 3.5 Deployment in governing bodies of Group companies** It regularly occurs that executive members of the Board of Directors and members of the Executive Group Management Board and of the Extended Group Management Board respectively, must sit on governing bodies of subsidiaries, both in Switzerland and abroad (as board members, members of supervisory boards, members of advisory boards, or as managers). No additional compensation is awarded for such tasks and functions, either by the Swatch Group or by the relevant Group company.
- 3.6 Severance payments** The employment contracts of the members of the Executive Group Management Board or the Extended Group Management Board do not provide for severance payments or any payments whatsoever upon termination of the employment relationship.
- In addition, no payments ("golden parachutes", etc.) are provided in the event of a change of control.
- 3.7 Mandates with former members of the Executive Group Management Board or the Extended Group Management Board** It may occur that members of the Executive Group Management Board and of the Extended Group Management Board respectively, who have resigned from their functions are employed on a mandate basis from time to time. In all such cases, clear written mandate contracts are concluded; these must be approved by the President of the Executive Group Management Board. Such mandate contracts contain the same restrictive conditions as employment contracts (contractual term, payments, etc.).

## COMPENSATION REPORT

#### 4. Compensation for the members of the Board of Directors and Group Management Board (KL/EKL) in 2017

This part of the report is subject to audit by PricewaterhouseCoopers Ltd.

##### a. Board of Directors BoD)

2017 Name	Function	Compensation for functions in the BoD <sup>1)</sup>	Compensation for executive functions				Total <sup>6)</sup>
			Base compensation <sup>2)</sup>	Bonus <sup>3)</sup>	Share options <sup>4)</sup>	Other compensation <sup>5)</sup>	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Nayla Hayek	Chairwoman	221 919	1 022 942	1 400 000	1 398 000	335 650	4 378 511
	Vice-						
Ernst Tanner	Chairman	160 406				9 029	169 435
Daniela Aeschlimann	Member	152 634				11 190	163 824
Georges Nicolas Hayek <sup>8)</sup>	Member	151 854				6 854	158 708
Prof. Dr. h.c. Claude Nicollier	Member	150 305				8 218	158 523
Dr. Jean-Pierre Roth	Member	150 305				8 218	158 523
<b>Total</b>		<b>987 423</b>	<b>1 022 942</b>	<b>1 400 000</b>	<b>1 398 000</b>	<b>379 159</b>	<b>5 187 524</b>

2016 Name	Function	Compensation for functions in the BoD <sup>1)</sup>	Compensation for executive functions				Total <sup>6)</sup>
			Base compensation <sup>2)</sup>	Bonus <sup>3)</sup>	Share options <sup>4)</sup>	Other compensation <sup>5)</sup>	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Nayla Hayek	Chairwoman	219 602	1 001 928	1 260 000	1 105 000	282 844	3 869 374
	Vice-						
Ernst Tanner	Chairman	158 192				8 119	166 311
Daniela Aeschlimann <sup>7)</sup>	Member	83 943				4 838	88 781
Georges Nicolas Hayek <sup>8)</sup>	Member	149 753				6 736	156 489
Prof. Dr. h.c. Claude Nicollier	Member	148 265				7 402	155 667
Dr. Jean-Pierre Roth	Member	148 265				7 402	155 667
<b>Total</b>		<b>908 020</b>	<b>1 001 928</b>	<b>1 260 000</b>	<b>1 105 000</b>	<b>317 341</b>	<b>4 592 289</b>

<sup>1)</sup> Total annual compensation allocated on a cash or accrual basis, not including any reimbursement for travel and other business expenses incurred. The compensation contains an amount of CHF 20 000 for functions in the Compensation Committee and the Audit Committee as well as lump-sum expense payments in the amount of CHF 30 000 per year.

<sup>2)</sup> Total annual compensation allocated on a cash or accrual basis, not including any reimbursement for travel and other business expenses incurred.

<sup>3)</sup> Bonus payments allocated on a cash or accrual basis.

<sup>4)</sup> The allocation and valuation of share options takes place in accordance with the conditions described in Section 2.3.4. In 2017 and in 2016, Mrs N. Hayek was allocated 20 000 share options.

<sup>5)</sup> Other compensation includes pension benefits in the amount of CHF 65 064 (previous year: 65 064). The remaining social benefits (employer's contributions) amounted to CHF 314 095 (previous year: CHF 252 277) for the year under review.

<sup>6)</sup> All amounts are gross amounts (i.e., before deduction of the social insurance contributions to be taken on by the employee).

<sup>7)</sup> BoD member since May 2016.

<sup>8)</sup> The compensation for the executive functions is set forth in paragraph b of this chapter.

## COMPENSATION REPORT

**b. Executive Group  
Management Board (KL)  
and Extended Group  
Management Board (EKL)**

2017

Name	Base compensation <sup>1)</sup> (CHF)	Bonus <sup>2)</sup> (CHF)	Share options <sup>3)</sup> (number)	Share options <sup>3)</sup> (CHF)	Other compensation <sup>4)</sup> (CHF)	Total <sup>5)</sup> (CHF)
Georges Nicolas Hayek (MB President / CEO)	1 559 798	3 120 000	24 000	1 677 600	609 794	6 967 192
Total other members	5 091 267	11 580 944	101 300	7 080 870	2 814 716	26 567 797
<b>Total</b>	<b>6 651 065</b>	<b>14 700 944</b>	<b>125 300</b>	<b>8 758 470</b>	<b>3 424 510</b>	<b>33 534 989</b>

2016

Name	Base compensation <sup>1)</sup> (CHF)	Bonus <sup>2)</sup> (CHF)	Share options <sup>3)</sup> (number)	Share options <sup>3)</sup> (CHF)	Other compensation <sup>4)</sup> (CHF)	Total <sup>5)</sup> (CHF)
Georges Nicolas Hayek (MB President / CEO)	1 501 925	2 808 000	24 000	1 326 000	497 316	6 133 241
Total other members	5 693 007	11 123 617	126 800	7 005 700	2 627 552	26 449 876
<b>Total</b>	<b>7 194 932</b>	<b>13 931 617</b>	<b>150 800</b>	<b>8 331 700</b>	<b>3 124 868</b>	<b>32 583 117</b>

<sup>1)</sup> Total annual base compensation allocated on a cash or accrual basis, including lump-sum expense payments but not including any reimbursement for travel and other business expenses incurred.

<sup>2)</sup> Variable bonus payments allocated on a cash or accrual basis.

<sup>3)</sup> The allocation and valuation of share options takes place in accordance with the conditions described in Section 2.3.4.

<sup>4)</sup> Other compensation includes pension benefits in the amount of CHF 520 981 (previous year: CHF 626 565). The remaining social benefits (employer's contributions) amounted to CHF 2 900 871 (previous year: CHF 2 495 706) for the year under review. Other compensation also includes further benefits in the amount of CHF 2 658 (previous year: CHF 2 597).

<sup>5)</sup> All amounts are gross amounts (i.e., before deduction of the social insurance contributions to be taken on by the employee).

The figures presented include all direct and indirect compensation.

Mr G.N. Hayek, as the CEO, received the highest compensation.

Final payments totaling CHF 883 221 were made to former members of the Executive Group Management Board and the Extended Group Management Board in connection with their past activities as members of the Company's governing bodies (previous year: none). This amount is not included in the remuneration table above.

**c. Loans and credits to the  
Board of Directors and  
the Group Management**

In the 2017 business year, no loans or credits were granted to members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively. Moreover, no loans or credits were granted to former members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively. The same holds true for the previous business year.

At the end of 2017 and 2016, there were no credit or loans to (current or former) executive members of the Board of Directors or the Group Management Board.

**d. Compensation, loans, and  
credits to closely related  
persons**

In the 2017 business year (as in the business year 2016), no non-market-based compensation was awarded to persons who are closely related to the members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.

**e. Impermissible  
compensation**

In the 2017 business year (as in the business year 2016), the company did not award any severance payments to the members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.

Likewise, in the 2017 business year (as in 2016), no compensation was paid in advance to members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.



REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING  
OF THE SWATCH GROUP LTD, NEUCHÂTEL

We have audited the content of sections 4a-e of the Compensation report dated 28 February 2018 of The Swatch Group Ltd for the year ended 31 December 2017.

**Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and overall fair presentation of the Compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

**Auditor's responsibility**

Our responsibility is to express an opinion on the accompanying Compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the Compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the Compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the Compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Compensation report of The Swatch Group Ltd for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Gerhard Siegrist  
Audit expert  
Auditor in charge



Tobias Handschin  
Audit expert

Basel, 28 February 2018





## **BLACK HOLE**

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A different perspective: take a look at this space. At 9.75 mm, it has exactly the dimensions that the Earth would have if all of its matter and anti-matter had the mass of a black hole. But what would matter be if it were confined to a tiny volume? That would be like a watch without a movement – the end of time!

**THE SWATCH GROUP LTD**

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