Address of Nayla Hayek, Chair of the Board of Directors of the Swatch Group, to the 2013 General Assembly of the Swatch Group Shareholders on May 29, 2013, at the Kongresshaus in Biel / Bienne (Switzerland)

Dear Madam, Dear Sir, Dear Fellow Shareholders,

The 2012 Annual Report in Swiss German! For one single edition! We want to spotlight to an even greater extent our strong identity with our country and its values. Among these are dependability, quality work and intelligence, but especially diversity, simplicity and modesty. In this spirit, we have again done something positively provocative: we have published a version of our report entirely in Swiss-German! This act of true Swissness was done partly to shake up our compatriots who – governed by a predominant desire to play safe – sometimes allow themselves to follow a rather conventional, prudent, and comfortable path. We intend it as a positive provocation, completely in the spirit of Swatch Group. We did something that was not necessarily required but which makes a bold statement – something that only a company like ours can afford to do. I am certain that our fellow citizens from French-, Italian- and Romansh-speaking parts of Switzerland also appreciate this expression of our deep connection to our roots through a humorous nod.

You may have been astonished to see that the 2012 Annual Report has a lot to do with the 30th anniversary of Swatch. Like all Swiss people, as well as many people in other countries, you all know that Swatch was born in 1983. And they and you are right: Swatch’s market launch in Switzerland, which marked a renaissance in the Swiss watchmaking industry and the beginning of our company’s success story, did indeed take place in March 1983. Happy birthday, Swatch!

Nonetheless, we had two good reasons to celebrate this anniversary both in 2012 and 2013. On the one hand, an anniversary surprise was all ready for 2013, as my brother will explain in more detail later. And on the other, for Swatch, as with all good stories, there is a back-story or prequel... It began in 1982. In November. In Texas. And the story did not start too well.

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

In the early 1980s, the Swiss watchmaking industry was practically bankrupt. In this situation, something had to be done. At the time, ETA had in its files an idea for a technical feat. The watch
barons of the day showed little enthusiasm for such a low-prestige project. But it was nonetheless potentially able to generate business. So the decision was taken to give this «thing» a try.

But in typically Swiss fashion, the idea was to take things slowly and cautiously. In Switzerland, you don’t just forge full speed ahead. Not even if you are at death’s door. First, you test it to see if it will really work. A few watches were made to see how they’d sell through an American distribution partner in Texas. An ad campaign was prepared for an inexpensive, colored plastic watch with the Swiss Made label: Swatch. The result? A flop!

According to conventional logic, a project that flops is not worth pursuing. Especially bearing in mind that the income recorded in 1982 by the company that would subsequently – after many years and a lot of hard work – become Swatch Group, was a net loss of over 156 million francs.

What a contrast with today! With an operating profit of one billion 984 million francs, an increase of nearly 23% from 2011, Swatch Group in 2012 did anything but flop. The same period saw a net income of one billion 608 million francs, an increase of 26%.

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

He was an intuitive person, made gut decisions, loved challenges, and never let convention get in his way. Our father, Nicolas G. Hayek, was also a great communicator. Above all, he was a doer, he had ideas, and he was persistent about their implementation. And really, the end of the story should have been predictable and he predicted it correctly: what the Texans didn’t like, the Swiss – and subsequently the entire world, men and women, young and old alike – loved. With the «Second Watch», Swatch was really on the way! The company that was the best embodiment of the Swiss watch industry had recaptured the success that had eluded it for so long. By virtue of the commitment shown by all members of his staff, along with innovation, ideas and dreams, a lot of emotion, and a huge amount of hard work, it pulled itself up to where it is today. In 2012 it reached an operating margin of more than 25%, with an equity-capital ratio of more than 83%, nearly 30,000 employees,
more than half in Switzerland; and today it has the financial strength to make important acquisitions such as the exclusive jewelry and watch brand Harry Winston in early 2013.

In our 2012 Annual Report you will find 30 legendary Swatch models to celebrate this young adult. These watches are also displayed outside this room. A true birthday present, just like the Swatch that we have prepared for you to day, an «Est. 1983» special edition. As you will see, you are being gifted something unique that only shareholders will own!

In 2012, we were pleased to welcome Simon Et Membrez of Delémont into our group. This case maker, with its modern production facilities, is truly a little jewel. We continued our efforts to save trades essential to our industry by intensifying our policy of training young people. We created 1500 jobs, including 900 in Switzerland. We opened and expanded significant industrial sites, for example, in Boncourt, Grenchen, and Le Locle, an approach that is also an expression of our desire to strengthen our country’s real economy. In 2012 we joined Breguet in celebrating the 200th anniversary of the first wristwatch. Omega continued its support of Orbis International whose Flying Eye Hospital delivers quality eye care to some of the world’s remotest regions. In 2012, Orbis traveled to the Philippines, Indonesia, Vietnam, China, Salvador, Ethiopia and Zambia.

In January, we also began our work with Harry Winston.

Let me briefly present Harry Winston. In 1920, the founder created his first own business, which became known from 1932 as Harry Winston Inc. As early as 1935, at less than 40 years of age, he acquired a rough diamond that would later become one of the world’s most famous diamonds: the «Jonker». In 1949 came the «Hope», an extremely rare blue diamond that once belonged to the French Court – first to the ‘Sun King’ Louis XIV and later to Breguet’s famous client, Marie-Antoinette. After the French Revolution, it became the property of the English family, the Hopes, after which it was named. In 1958, Harry Winston bequeathed this incredible precious stone to the Smithsonian Institution in Washington. As a natural non-conformist, he simply sent the diamond by registered mail, to the place where it can still be admired to this day.

Harry Winston is also known as the «jeweler to the stars». Numerous celebrities have worn jewelry by Harry Winston, including Marilyn Monroe who even immortalized them in a song (Diamonds are a Girl's Best Friend), as well as the Duchess of Windsor, Farah Diba, Jacqueline Kennedy, Nancy Reagan and countless other eminent figures. When Harry Winston died in 1978, he left a prestigious brand to his sons.

With Harry Winston, not only have we acquired a fantastic manufacturer of top-level jewelry and watches, but also a brand with a vast history and a philosophy similar to that of Breguet in the...
watchmaking field. Harry Winston said that he would have preferred to place gems directly on people’s skin and that he did not like having too much metal between the stones and the skin – which is why he created the art of gemsetting that is so famous and so typical of Harry Winston jewelry. The metal is barely visible between the precious stones. It is the gems rather than the metal (however noble it may be) that dictate the appearance of the jewelry. We have recently acquired a very rare diamond that we have named the «Winston Legacy». Known as the world’s most perfect diamond, it is one of the most famous gems in history, on a par with the «Hope Diamond». It will now travel the world in an exhibition staged in the Harry Winston boutiques. Nor will we forget the Harry Winston watches that are taking their place within our family, slotting in nicely between Breguet and Blancpain. In this domain, Harry Winston is particularly famed for its Opus series.

In 2012, we all worked with a healthy attitude in a spirit of consensus and personal motivation, in accordance with a salary structure tailored to the efforts of each and every individual. The Board of Directors also unanimously decided to revert to using the Swiss GAAP ARR standards for our financial statements, as they are much better suited to our national industrial needs than those from the English-speaking world. Effective as of January 1, 2013, we have added four new members to our Executive Group Management Board and our Extended Group Management Board.

We have continued to fight for the truly important Swiss Made by making such decisions concerning the manufacture of our products as seemed to us essential and beneficial in the long run. The various acquisitions, decisions, and strategic advances – all of which strengthen Swiss industry, which create real products and real value – allow us to present this General Meeting of Shareholders with particularly outstanding results today. This justifies our proposal to the General Meeting to significantly increase the dividend per bearer share this year, raising it from last year’s 5.75 Swiss francs to 6.75 francs, and the dividend per registered share from last year’s 1.15 Swiss francs to 1.35 francs. Thank you, Swatch! And thank you to the Swatch Group family!

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

I am very proud to be able to say that this is the result of genuine teamwork and team spirit, without which our successes would simply not be possible.