FINANCIAL STATEMENTS 2014

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE HOLDING
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FINANCIAL REVIEW

Key financial developments in 2014

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

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

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

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

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

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

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

Financial review

1. Key figures Group

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>Change in % at constant rates</th>
<th>currency effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>9 219</td>
<td>8 817</td>
<td>+ 6.1%</td>
<td>− 1.5%</td>
<td>+ 4.6%</td>
</tr>
<tr>
<td>Net sales</td>
<td>8 709</td>
<td>8 456</td>
<td>+ 4.5%</td>
<td>− 1.5%</td>
<td>+ 3.0%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1 752</td>
<td>2 314</td>
<td>− 24.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- in % of net sales</td>
<td>20.1%</td>
<td>27.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>1 416</td>
<td>1 928</td>
<td>− 26.6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- in % of net sales</td>
<td>16.3%</td>
<td>22.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>10 674</td>
<td>9 574</td>
<td>+ 11.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- as % of total assets</td>
<td>83.7%</td>
<td>82.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>
2. Environment / Financial year

## Development operating results

<table>
<thead>
<tr>
<th></th>
<th>2014 Third</th>
<th>2014 Group</th>
<th>2014 Total</th>
<th>2013 Third</th>
<th>2013 Group</th>
<th>2013 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watches &amp; Jewelry</td>
<td>8 935</td>
<td>1</td>
<td>8 936</td>
<td>8 531</td>
<td>1</td>
<td>8 532</td>
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<tr>
<td>Electronic Systems</td>
<td>277</td>
<td>22</td>
<td>299</td>
<td>279</td>
<td>20</td>
<td>299</td>
</tr>
<tr>
<td>Corporate and elimination</td>
<td>7</td>
<td>– 23</td>
<td>– 16</td>
<td>7</td>
<td>– 21</td>
<td>– 14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9 219</td>
<td>–</td>
<td>9 219</td>
<td>8 817</td>
<td>–</td>
<td>8 817</td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watches &amp; Jewelry</td>
<td>8 428</td>
<td>1</td>
<td>8 429</td>
<td>8 172</td>
<td>1</td>
<td>8 173</td>
</tr>
<tr>
<td>Electronic Systems</td>
<td>274</td>
<td>22</td>
<td>296</td>
<td>277</td>
<td>20</td>
<td>297</td>
</tr>
<tr>
<td>Corporate and elimination</td>
<td>7</td>
<td>– 23</td>
<td>– 16</td>
<td>7</td>
<td>– 21</td>
<td>– 14</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>8 709</td>
<td>–</td>
<td>8 709</td>
<td>8 456</td>
<td>–</td>
<td>8 456</td>
</tr>
<tr>
<td><strong>Operating result</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watches &amp; Jewelry</td>
<td>1 860</td>
<td>22.1%</td>
<td>2 424</td>
<td>29.7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronic Systems</td>
<td>– 9</td>
<td>– 3.0%</td>
<td>– 12</td>
<td>– 4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate and elimination</td>
<td>– 99</td>
<td>–</td>
<td>– 98</td>
<td>–</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1 752</td>
<td>20.1%</td>
<td>2 314</td>
<td>27.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

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

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

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

Development net income

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Result from marketable securities at fair value</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Net currency result</td>
<td>– 2</td>
<td>– 27</td>
</tr>
<tr>
<td>Other financial expense</td>
<td>– 4</td>
<td>– 5</td>
</tr>
<tr>
<td>Interest expense</td>
<td>– 2</td>
<td>– 2</td>
</tr>
<tr>
<td>Share of result from associates and joint ventures</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td><strong>Net financial result</strong></td>
<td><strong>14</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

Net income

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income</strong></td>
<td><strong>1 416</strong></td>
<td><strong>1 928</strong></td>
</tr>
<tr>
<td>– in % of net sales</td>
<td>16.3%</td>
<td>22.8%</td>
</tr>
<tr>
<td>– Change from previous year in %</td>
<td>– 26.6%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

Basic earnings per share – expressed in CHF per share:

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF per share)</th>
<th>2013 (CHF per share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Registered shares</td>
<td>5.10</td>
<td>7.08</td>
</tr>
<tr>
<td>– Bearer shares</td>
<td>25.49</td>
<td>35.41</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

Development balance sheet structure

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>8,946</td>
<td>8,673</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>1,308</td>
<td>1,338</td>
</tr>
<tr>
<td>Equity</td>
<td>10,674</td>
<td>9,574</td>
</tr>
<tr>
<td>– as % of total assets</td>
<td>83.7%</td>
<td>82.3%</td>
</tr>
<tr>
<td>Average return on equity (ROE)</td>
<td>14.0%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

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

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

Development liquidity

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at 1.1.</td>
<td>908</td>
<td>1,520</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>1,848</td>
<td>1,309</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td>– 1,122</td>
<td>– 1,309</td>
</tr>
<tr>
<td>Cash flow from financing activities (incl. foreign exchange rate differences on cash)</td>
<td>– 432</td>
<td>– 612</td>
</tr>
<tr>
<td>Cash and cash equivalents at 31.12.</td>
<td>1,202</td>
<td>908</td>
</tr>
</tbody>
</table>

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

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

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

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

3. Outlook

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

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

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

<table>
<thead>
<tr>
<th>Notes</th>
<th>2014 CHF million</th>
<th>2013 CHF million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross sales</td>
<td>9 219</td>
<td>8 817</td>
</tr>
<tr>
<td>Sales reductions</td>
<td>– 510</td>
<td>– 361</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net sales</th>
<th>(4.5a)</th>
<th>8 709</th>
<th>100.0</th>
<th>8 456</th>
<th>100.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other operating income</td>
<td>(5b)</td>
<td>231</td>
<td>2.6</td>
<td>518</td>
<td>6.1</td>
</tr>
<tr>
<td>Changes in inventories</td>
<td></td>
<td>397</td>
<td>4.6</td>
<td>586</td>
<td>6.9</td>
</tr>
<tr>
<td>Material purchases</td>
<td>(5c)</td>
<td>– 2 240</td>
<td>– 25.7</td>
<td>– 2 456</td>
<td>– 29.0</td>
</tr>
<tr>
<td>Personnel expense</td>
<td>(5c)</td>
<td>– 2 343</td>
<td>– 26.9</td>
<td>– 2 144</td>
<td>– 25.3</td>
</tr>
<tr>
<td>Depreciation on tangible assets</td>
<td>(15)</td>
<td>– 324</td>
<td>– 3.7</td>
<td>– 276</td>
<td>– 3.3</td>
</tr>
<tr>
<td>Amortization on intangible assets</td>
<td>(16)</td>
<td>– 34</td>
<td>– 0.4</td>
<td>– 28</td>
<td>– 0.3</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(5d)</td>
<td>– 2 644</td>
<td>– 30.4</td>
<td>– 2 342</td>
<td>– 27.7</td>
</tr>
</tbody>
</table>

| Operating profit | 1 752 | 20.1 | 2 314 | 27.4 |
| Other financial income and expense | (5f) | 13 | 0.2 | 25 | 0.3 |
| Interest expense | (5f) | – 2 | – 0.0 | – 2 | – 0.0 |
| Share of result from associates and joint ventures | (5f, 17) | 3 | 0.0 | 13 | 0.1 |

| Ordinary result | 1 766 | 20.3 | 2 350 | 27.8 |
| Non-operating result | (5g) | – 1 | – 0.0 | 6 | 0.1 |
| Extraordinary result | | 0 | 0 | 0 | 0 |

| Profit before taxes | 1 765 | 20.3 | 2 356 | 27.9 |
| Income taxes | (6a) | – 349 | – 4.0 | – 428 | – 5.1 |

| Net income | 1 416 | 16.3 | 1 928 | 22.8 |
| Attributable to equity holders of The Swatch Group Ltd | 1 384 | | 1 921 | |
| Attributable to non-controlling interests | 32 | | 7 | |

| Earnings per share (EPS) – expressed in CHF per share: | (7) |
| Registered shares | | | | |
| Basic earnings per share | 5.10 | | 7.08 | |
| Diluted earnings per share | 5.09 | | 7.08 | |
| Bearer shares | | | | |
| Basic earnings per share | 25.49 | | 35.41 | |
| Diluted earnings per share | 25.47 | | 35.38 | |

The accompanying notes form an integral part of the consolidated financial statements.
## CONSOLIDATED BALANCE SHEET

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

The accompanying notes form an integral part of the consolidated financial statements.
## CONSOLIDATED BALANCE SHEET

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>CHF million</td>
<td>%</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
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</tr>
<tr>
<td>Financial debts and derivative financial instruments (20)</td>
<td></td>
<td>35</td>
<td>0.3</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>371</td>
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<tr>
<td>Other liabilities (21)</td>
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<tr>
<td>Provisions (23)</td>
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<tr>
<td>Accrued expenses (22)</td>
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<td><strong>Total current liabilities</strong></td>
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<td><strong>Non-current liabilities</strong></td>
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<td>Financial debts (20)</td>
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<td>Deferred tax liabilities (6d)</td>
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<td>Retirement benefit obligations (24)</td>
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<td>0.3</td>
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<td>Accrued expenses (22)</td>
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<td><strong>Total non-current liabilities</strong></td>
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<tr>
<td><strong>Total liabilities</strong></td>
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<tr>
<td>Capital reserves (26b)</td>
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</tr>
<tr>
<td>Treasury shares (26c)</td>
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</tr>
<tr>
<td>Goodwill recognized</td>
<td></td>
<td>– 1 372</td>
<td></td>
</tr>
<tr>
<td>Translation differences</td>
<td></td>
<td>– 6</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td>13 174</td>
<td></td>
</tr>
<tr>
<td><strong>Equity of The Swatch Group Ltd shareholders</strong></td>
<td></td>
<td>10 583</td>
<td>83.0</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td>91</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
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<td>83.7</td>
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<tr>
<td><strong>Total equity and liabilities</strong></td>
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<td>100.0</td>
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</table>

The accompanying notes form an integral part of the consolidated financial statements.
### CONSOLIDATED STATEMENT OF CASH FLOWS

<table>
<thead>
<tr>
<th>Notes</th>
<th>2014 CHF million</th>
<th>2013 CHF million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>1 416</td>
<td>1 928</td>
</tr>
<tr>
<td>Reversal of non-cash items</td>
<td>(28a) 739</td>
<td>712</td>
</tr>
<tr>
<td>Changes in working capital and other items included in operating cash flow</td>
<td>(28b) 92</td>
<td>- 965</td>
</tr>
<tr>
<td>Dividends received from associated companies</td>
<td>(17) 3</td>
<td>21</td>
</tr>
<tr>
<td>Interest received</td>
<td>28</td>
<td>9</td>
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<tr>
<td>Interest paid</td>
<td>- 2</td>
<td>- 4</td>
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<tr>
<td>Income tax paid</td>
<td>(6c) - 428</td>
<td>- 392</td>
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<tr>
<td><strong>Cash flow from operating activities</strong></td>
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<td>1 309</td>
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<tr>
<td><strong>Investing activities</strong></td>
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<td></td>
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<tr>
<td>Investments in property, plant and equipment</td>
<td>(15)</td>
<td>- 1 040</td>
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<tr>
<td>Proceeds from sale of property, plant and equipment</td>
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<tr>
<td>Investments in intangible assets</td>
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<tr>
<td>Proceeds from sale of intangible assets</td>
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<tr>
<td>Investments in other non-current assets</td>
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<td>- 115</td>
</tr>
<tr>
<td>Proceeds from sale of other non-current assets</td>
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<td>2</td>
</tr>
<tr>
<td>Acquisition of subsidiaries – net of cash</td>
<td>(18)</td>
<td>- 4</td>
</tr>
<tr>
<td>Divestments of businesses</td>
<td>(17)</td>
<td>3</td>
</tr>
<tr>
<td>Investments in associated companies and joint ventures</td>
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<td>-</td>
</tr>
<tr>
<td>Divestments of associated companies and joint ventures</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Purchase of marketable securities</td>
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<td>- 187</td>
</tr>
<tr>
<td>Sale of marketable securities</td>
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<td>262</td>
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<tr>
<td><strong>Cash flow from investing activities</strong></td>
<td>- 1 122</td>
<td>- 1 309</td>
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<tr>
<td><strong>Financing activities</strong></td>
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<tr>
<td>Dividends paid to shareholders</td>
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<tr>
<td>Dividends paid to non-controlling interests</td>
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</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(26b)</td>
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<td>Sale of treasury shares</td>
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<td><strong>Net impact of foreign exchange rate differences on cash</strong></td>
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<td>- 14</td>
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<td><strong>Change in cash and cash equivalents</strong></td>
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<td>- 612</td>
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<tr>
<td>– At beginning of year</td>
<td>908</td>
<td>1 520</td>
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<tr>
<td>– At end of year</td>
<td>(9)</td>
<td>1 202</td>
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The accompanying notes form an integral part of the consolidated financial statements.
## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Share capital</th>
<th>Capital reserves</th>
<th>Treasury shares</th>
<th>Goodwill recognized¹</th>
<th>Translation differences</th>
<th>Retained earnings⁴</th>
<th>Total share capital</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
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<tr>
<td><strong>Balance at 31 December 2012</strong></td>
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<td>– 1 128</td>
<td>– 343</td>
<td>– 701</td>
<td>– 41</td>
<td>10 642</td>
<td>8 554</td>
<td>19</td>
<td>8 573</td>
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<tr>
<td>Net income</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1 921</td>
<td>7</td>
<td>1 928</td>
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<td>Currency translation of foreign entities</td>
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<td></td>
<td></td>
<td>– 74</td>
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<td>– 75</td>
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<td>Compensation of goodwill Group</td>
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<tr>
<td>companies (Note 18)</td>
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<td></td>
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<td>– 668</td>
<td></td>
<td>– 668</td>
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<td></td>
<td></td>
<td>– 366</td>
<td>– 5</td>
<td>– 371</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>– Value of employee services (net of tax)</td>
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<tr>
<td>Repurchase of treasury shares</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<td>12 197</td>
<td>9 508</td>
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<td>9 574</td>
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<td>1 416</td>
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<td>109</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>companies (Note 18)</td>
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<td>– 3</td>
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<tr>
<td>Dividends paid</td>
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<td></td>
<td>– 407</td>
<td>– 14</td>
<td>– 421</td>
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<td></td>
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<td>21</td>
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<tr>
<td>– Proceeds from sale of shares</td>
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<td>77</td>
</tr>
<tr>
<td>Repurchase of treasury shares</td>
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<td></td>
<td></td>
<td></td>
<td>– 107</td>
<td></td>
<td>– 107</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2014</strong></td>
<td>125</td>
<td>– 1 037</td>
<td>– 301</td>
<td>– 1 372</td>
<td>– 6</td>
<td>13 174</td>
<td>10 583</td>
<td>91</td>
<td>10 674</td>
</tr>
</tbody>
</table>

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

⁴ The accompanying notes form an integral part of 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 26 brands in all market and price segments. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components as well as in the electronic systems sector.

The Company is a limited company incorporated and domiciled in Switzerland. Its registered office is located in Neuchâtel, Faubourg de l'Hôpital 2. The administrative headquarters are in Biel, Seeverstadt 5.

The shares of The Swatch Group Ltd are listed in Switzerland on the Main Market of the SIX Swiss Exchange, under the ISIN numbers CH0012255144 (registered shares) and CH0012255151 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI, SPI Extra and SMIM. In addition, Swatch Group shares are also listed on the BX Berne eXchange.

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

2. Summary of significant accounting policies

a. Basis of preparation

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

b. Consolidation policies

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

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

In the event that shares of Group or associated companies are sold, the difference between the proceeds from the sale and the proportional book value of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement. Non-controlling interests in equity and in net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are recognized as equity transactions, provided that control continues. Intercompany transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated in full.

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

At 31 December 2014, the Group’s consolidation structure comprised 172 legal entities (previous year: 185) including two joint ventures (previous year: two) and six associated companies (previous year: six). The decrease resulted primarily from Group internal mergers and liquidations. Information on acquisitions and disposals of companies is available in Note 18. Note 32 includes a complete list of Group companies.

d. Accounting estimates and judgments

The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.

e. Changes in accounting policies

Changes not yet in force to existing Standards

The Group did not adopt early the following changes to existing Standards which were published by the end of 2014 and which are binding as of 1 January 2015 or later:

New guideline on revenue recognition: changes in Swiss GAAP FER Framework, FER 3 and FER 6

New rules in the area of revenue recognition specify how revenue is to be recognized, valued and disclosed. To this end, the Framework, FER 3 and FER 6 were adapted. The amendments stipulate that revenue is to be recognized when a service was provided or an asset was delivered, and the risks and rewards as well as the control have been transferred to the purchaser. In addition, net revenues from sales and services are defined as revenues from ordinary business activities which include the value of the services provided, less sales reductions. In the case of agents, only the value of own services performed is to be recognized. Separately identifiable elements of business transactions are to be recognized and valued separately. In addition, the most significant sources of revenue and their recognition are to be disclosed in the notes. The new rules come into force on 1 January 2016 (early adoption is permitted). The Group is currently evaluating the effect of these changes, but anticipates no major impact on the manner in which the Group recognizes revenue.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

f. Foreign currency translation

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

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

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

The main exchange rates used are:

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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
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<td>CNY</td>
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<td>0.1496</td>
<td>0.1598</td>
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<td>JPY</td>
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<td>0.8683</td>
<td>0.8300</td>
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<td>USD</td>
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<td>0.9226</td>
<td>0.9905</td>
<td>0.9277</td>
<td>0.8930</td>
</tr>
</tbody>
</table>

g. Sales and revenue recognition

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

All intercompany sales are eliminated upon consolidation.

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectability of the related receivables is reasonably secured. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. Revenue from services is recognized in the accounting period in which the service is rendered.

h. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at banks and short-term deposits with an original maturity of three months or less. They are recorded at their nominal value. In the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, less current account overdrafts (Fund “Net Cash”).
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

i. Marketable securities
Purchases and sales of securities are recognized in accordance with the settlement date principle. The securities are initially measured at cost, and the transaction costs are charged to the income statement. Subsequently, the listed securities are recorded in the balance sheet at market value on the balance sheet date. Private equity investments are adjusted to the current net asset value on the balance sheet date. All realized and unrealized gains and losses resulting from variations in market values and foreign currencies are recorded in the income statement.

j. Trade receivables
Trade receivables are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables. Provision is made for balances overdue more than 12 months or for receivables where specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables.

k. Inventories
Inventories are valued at the lower of cost or net realizable value. Any discounts received are treated as cost reductions. Manufacturing costs comprise all costs directly attributable to material and production, as well as overhead costs incurred in building up the inventory at its current location and/or to its current condition. Acquisition costs are determined according to the weighted average method. Some production companies value their inventories using the standard cost method. As these costs are regularly reviewed and updated, this method approximates the result of the weighted average method. Inventories with unsatisfactory inventory turnover are revalued accordingly.

l. Property, plant and equipment
Property, plant and equipment (including investment property) are recorded in the balance sheet at historical cost less accumulated depreciation and any impairments. Acquisition costs comprise the purchase price as well as the costs directly attributable to the utilization of the property, plant and equipment. Investments in existing property, plant and equipment are only capitalized if their value in use is sustainably increased or their useful life is extended considerably. Self-constructed assets are only capitalized if they are clearly identifiable and the costs can be reliably determined, and if the assets generate measurable benefits for the Group over a period of several years. Maintenance and repair costs that do not add value are charged directly to the result for the period.

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

- Land
- Investment properties
- Administrative buildings
- Production plants and workshop buildings
- Machines and technical equipment, workshop equipment
- Measuring instruments, tools, processing equipment, automation components
- Furniture, office machinery, motor vehicles
- IT equipment

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

Goodwill
The difference between the acquisition costs and the actual value of the net identifiable assets of the acquired company at the time of the purchase represents goodwill from business combinations. The goodwill resulting from acquisitions is recognized in Group equity at the time of the acquisition. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the goodwill would have (see Note 27). Goodwill may also arise from investments in associated companies, calculated as the difference between the acquisition costs of the investment and its proportional revalued net assets.

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

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

n. Impairment of assets

The recoverable value of non-current assets (including goodwill recognized in equity) is verified on every balance sheet date. If there are indications of a sustained impairment, the recoverable amount of the respective assets will be determined. The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the smallest group of assets to which the individual asset belongs. If the book value of an asset exceeds the recoverable amount, an impairment loss is recognized separately in the income statement. As the goodwill is already recognized in equity at the time at which it was acquired, a goodwill impairment would not result in a charge being recorded in the income statement, but leads to a disclosure in the Notes to the financial statements. In the event that a Group company is sold, any goodwill acquired at an earlier point in time and recognized in equity is taken into consideration when determining the gain or loss in the income statement.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

r. Income taxes
The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized directly in equity. In this case, the tax is also recognized directly in equity.

Current income tax
Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.
Deferred tax
Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply. Deferred tax assets are recognized for all deductible temporary differences, carryforward tax losses and tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax is recognized on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is not intended that the temporary difference will reverse in the foreseeable future.
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Pension obligations
Group companies operate various pension schemes, which conform to the legal regulations and provisions in force in the respective countries. The actual economic effects of pension schemes on the Group are calculated at balance sheet date. An economic obligation is recognized as a liability if the requirements for the recognition of a provision are met. An economic benefit is capitalized provided that this can be used for future Group pension expenses. Freely available employer contribution reserves are capitalized. Employees of Swiss Group companies are insured as part of the "Swatch Group Pension Fund", which is a separate legal entity and is financed by contributions from both employers and employees. Surpluses or deficits are calculated based on the Pension Fund’s financial statements, which have been drawn up in accordance with Swiss GAAP FER 26. The Group’s pension costs include the employer contributions accrued in the period as well as any economic effects from the excess/shortfall and the change in employer contribution reserves. Pension schemes outside of Switzerland are of comparatively minor importance. Some companies operate fully financed pension funds. These funds are treated in the same way as the Swiss plan in terms of accounting, i.e. paid contributions are basically recorded as expenses. In some countries, there are also pension plans that do not have their own assets, whereby the corresponding benefit provisions are recognized directly in the balance sheet and any changes are recognized in the income statement.

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

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

t. Share capital and treasury shares

Shares issued by The Swatch Group AG are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 0.45, and bearer shares, each with a nominal value of CHF 2.25. Other than the higher voting power of registered shares, no differences in terms of shareholder rights exist between the two categories.

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group’s own equity instruments. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

u. Dividends

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

v. Share-based payment transactions

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

A block of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. The proceeds received net of any transaction cost are credited to equity when the options are exercised. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 7).

w. Leases

Finance leases

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

Operating leases

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

a. Financial risk factors

In view of the global and varied nature of its activities, the Group is exposed to different financial risks, including foreign currency, market, credit and liquidity risks. The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, mainly against the US Dollar, the Chinese Renminbi, the Euro and the Japanese Yen, with the aim of minimizing its impact on Group net income. In order to hedge exchange rate risk, the Group may use derivative financial instruments such as forward currency contracts or currency options. Currently no cash flow hedging is used.

Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group’s management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under the regular supervision of the Group’s Top Management.

Credit risk

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

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

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit ratings are usually at least A-. Exposure to this type of risk is closely monitored by Group management and is contained within strict and pre-determined limits.

Given the very high standards of creditworthiness applied to the commercial and financial partners, the default risks to which the Group is exposed are estimated to be limited.

Liquidity risk

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

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1 202</td>
<td>908</td>
</tr>
<tr>
<td>Marketable securities and derivative financial instruments</td>
<td>263</td>
<td>325</td>
</tr>
<tr>
<td>Short-term accessible liquidity reserves</td>
<td>1 465</td>
<td>1 233</td>
</tr>
<tr>
<td>Committed credit facilities</td>
<td>539</td>
<td>519</td>
</tr>
<tr>
<td>Utilized credit facilities</td>
<td>– 40</td>
<td>– 47</td>
</tr>
<tr>
<td>Total short-term accessible liquidity reserves and undrawn credit facilities</td>
<td>1 964</td>
<td>1 705</td>
</tr>
</tbody>
</table>

b. Capital management

The primary objective of the Group with regard to capital management is to preserve a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2014, equity represented 83.7% (31 December 2013: 82.3%) of total assets.

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

4. Segment information

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

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

- Watches & Jewelry: Production and sale of watches and jewelry
- Electronic Systems: Design, production and commercialization of electronic components, Sports timing activities

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

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

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

Income statement

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF million)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Watches &amp; Jewelry</td>
<td>Electronic Systems</td>
<td>Corporate</td>
<td>Elimination</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>– Third parties</td>
<td>8 935</td>
<td>277</td>
<td>7</td>
<td>9 219</td>
</tr>
<tr>
<td></td>
<td>– Group</td>
<td>1</td>
<td>22</td>
<td>6</td>
<td>–29</td>
</tr>
<tr>
<td>Gross sales</td>
<td>8 936</td>
<td>299</td>
<td>13</td>
<td>–29</td>
<td>9 219</td>
</tr>
<tr>
<td></td>
<td>– Third parties</td>
<td>8 429</td>
<td>274</td>
<td>7</td>
<td>8 709</td>
</tr>
<tr>
<td></td>
<td>– Group</td>
<td>1</td>
<td>22</td>
<td>6</td>
<td>–29</td>
</tr>
<tr>
<td>Net sales</td>
<td>8 429</td>
<td>296</td>
<td>13</td>
<td>–29</td>
<td>8 709</td>
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<tr>
<td>Operating result</td>
<td>1 850</td>
<td>–9</td>
<td>–99</td>
<td>–</td>
<td>1 752</td>
</tr>
<tr>
<td></td>
<td>– As a % of net sales</td>
<td>22.1</td>
<td>–3.0</td>
<td>–</td>
<td>20.1</td>
</tr>
<tr>
<td></td>
<td>– As a % of total</td>
<td>106.2</td>
<td>–0.5</td>
<td>–5.7</td>
<td>100.0</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>2013 (CHF million)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Watches &amp; Jewelry</td>
<td>8 531</td>
<td>279</td>
<td>7</td>
<td>8 817</td>
</tr>
<tr>
<td></td>
<td>– Group</td>
<td>1</td>
<td>20</td>
<td>6</td>
<td>–27</td>
</tr>
<tr>
<td>Gross sales</td>
<td>8 532</td>
<td>299</td>
<td>13</td>
<td>–27</td>
<td>8 817</td>
</tr>
<tr>
<td></td>
<td>– Third parties</td>
<td>8 172</td>
<td>277</td>
<td>7</td>
<td>8 456</td>
</tr>
<tr>
<td></td>
<td>– Group</td>
<td>1</td>
<td>20</td>
<td>6</td>
<td>–27</td>
</tr>
<tr>
<td>Net sales</td>
<td>8 173</td>
<td>297</td>
<td>13</td>
<td>–27</td>
<td>8 456</td>
</tr>
<tr>
<td>Operating result</td>
<td>2 424</td>
<td>–12</td>
<td>–98</td>
<td>–</td>
<td>2 314</td>
</tr>
<tr>
<td></td>
<td>– As a % of net sales</td>
<td>23.7</td>
<td>–4.0</td>
<td>–</td>
<td>27.4</td>
</tr>
<tr>
<td></td>
<td>– As a % of total</td>
<td>104.8</td>
<td>–0.5</td>
<td>–4.3</td>
<td>100.0</td>
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</table>
### Balance sheet and other information

#### 2014

<table>
<thead>
<tr>
<th></th>
<th>Watches &amp; Jewelry</th>
<th>Electronic Systems</th>
<th>Corporate</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Segment assets</td>
<td>11 440</td>
<td>397</td>
<td>4 225</td>
<td>– 3 385</td>
<td>12 677</td>
</tr>
<tr>
<td>– Investments in associated companies and joint ventures</td>
<td>6</td>
<td>–</td>
<td>64</td>
<td></td>
<td>70</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>11 446</td>
<td>397</td>
<td>4 289</td>
<td>– 3 385</td>
<td>12 747</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>– 4 472</td>
<td>– 91</td>
<td>– 895</td>
<td>3 385</td>
<td>– 2 073</td>
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<tr>
<td><strong>Net assets</strong></td>
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<td>306</td>
<td>3 394</td>
<td>– 10 674</td>
<td>10 674</td>
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#### Other information

<table>
<thead>
<tr>
<th></th>
<th>Watches &amp; Jewelry</th>
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<th>Corporate</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in property, plant and equipment</td>
<td>607</td>
<td>13</td>
<td>431</td>
<td></td>
<td>1 051</td>
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<tr>
<td>Investments in intangible assets</td>
<td>44</td>
<td>5</td>
<td>2</td>
<td></td>
<td>51</td>
</tr>
<tr>
<td>Investments in other non-current assets</td>
<td>115</td>
<td>0</td>
<td>0</td>
<td></td>
<td>115</td>
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<tr>
<td>Depreciation on property, plant and equipment</td>
<td>–</td>
<td>– 25</td>
<td>– 11</td>
<td></td>
<td>– 324</td>
</tr>
<tr>
<td>Amortization on intangible assets</td>
<td>– 29</td>
<td>– 2</td>
<td>– 3</td>
<td></td>
<td>– 34</td>
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<tr>
<td>Impairment charges</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td>–</td>
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</table>

#### 2013

<table>
<thead>
<tr>
<th></th>
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<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Segment assets</td>
<td>10 239</td>
<td>453</td>
<td>3 768</td>
<td>– 2 886</td>
<td>11 574</td>
</tr>
<tr>
<td>– Investments in associated companies and joint ventures</td>
<td>5</td>
<td>–</td>
<td>60</td>
<td></td>
<td>65</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>10 244</td>
<td>453</td>
<td>3 828</td>
<td>– 2 886</td>
<td>11 639</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
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<td>– 118</td>
<td>– 908</td>
<td>2 886</td>
<td>– 2 065</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>6 319</td>
<td>335</td>
<td>2 920</td>
<td>– 9 574</td>
<td>9 574</td>
</tr>
</tbody>
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#### Other information

<table>
<thead>
<tr>
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<th>Corporate</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in property, plant and equipment</td>
<td>559</td>
<td>8</td>
<td>15</td>
<td></td>
<td>582</td>
</tr>
<tr>
<td>Investments in intangible assets</td>
<td>44</td>
<td>1</td>
<td>3</td>
<td></td>
<td>48</td>
</tr>
<tr>
<td>Investments in other non-current assets</td>
<td>84</td>
<td>0</td>
<td>0</td>
<td></td>
<td>84</td>
</tr>
<tr>
<td>Depreciation on property, plant and equipment</td>
<td>–</td>
<td>– 27</td>
<td>– 11</td>
<td></td>
<td>– 276</td>
</tr>
<tr>
<td>Amortization on intangible assets</td>
<td>– 23</td>
<td>– 2</td>
<td>– 3</td>
<td></td>
<td>– 28</td>
</tr>
<tr>
<td>Impairment charges</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td>–</td>
</tr>
</tbody>
</table>
b. Information on geographical regions

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

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

5. Revenues and expenses

a. Analysis of sales revenue (CHF million)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of goods</td>
<td>8 680</td>
<td>8 424</td>
</tr>
<tr>
<td>Rendering of services</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total net sales</strong></td>
<td><strong>8 709</strong></td>
<td><strong>8 456</strong></td>
</tr>
</tbody>
</table>

b. Other operating income

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

c. Personnel expense (CHF million)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>1 902</td>
<td>1 747</td>
</tr>
<tr>
<td>Social security costs</td>
<td>316</td>
<td>292</td>
</tr>
<tr>
<td>Share-based compensation (Note 29)</td>
<td>21</td>
<td>19</td>
</tr>
<tr>
<td>Pension costs (Note 24)</td>
<td>104</td>
<td>86</td>
</tr>
<tr>
<td><strong>Total personnel expense</strong></td>
<td><strong>2 343</strong></td>
<td><strong>2 144</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual headcount</td>
<td>34 492</td>
<td>31 114</td>
</tr>
<tr>
<td>Total headcount at 31 December</td>
<td>35 623</td>
<td>33 590</td>
</tr>
<tr>
<td>Men</td>
<td>17 035</td>
<td>15 986</td>
</tr>
<tr>
<td>Women</td>
<td>18 588</td>
<td>17 604</td>
</tr>
<tr>
<td>Swiss contracts</td>
<td>17 408</td>
<td>16 704</td>
</tr>
<tr>
<td>Non-Swiss contracts</td>
<td>18 215</td>
<td>16 886</td>
</tr>
</tbody>
</table>

Headcount is expressed as the number of employment contracts. The number of employees includes home workers, trainees and auxiliary staff.

d. Other operating expenses (CHF million)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing, sales and administration</td>
<td>1 347</td>
<td>1 281</td>
</tr>
<tr>
<td>Subcontracting and other direct costs of sales</td>
<td>304</td>
<td>313</td>
</tr>
<tr>
<td>Maintenance, rents and energy</td>
<td>843</td>
<td>703</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>150</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total other operating expenses</strong></td>
<td><strong>2 644</strong></td>
<td><strong>2 342</strong></td>
</tr>
</tbody>
</table>

e. Research and development costs

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

f. Net financial result (CHF million)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>7</td>
<td>28</td>
</tr>
<tr>
<td>Result from marketable securities at fair value</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Net currency result</td>
<td>– 2</td>
<td>– 27</td>
</tr>
<tr>
<td>Other financial expense</td>
<td>– 4</td>
<td>– 5</td>
</tr>
<tr>
<td><strong>Other financial income and expense</strong></td>
<td><strong>13</strong></td>
<td><strong>25</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense</td>
<td>– 2</td>
<td>– 2</td>
</tr>
<tr>
<td>Share of result from associates and joint ventures</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td><strong>Net financial result</strong></td>
<td>14</td>
<td>36</td>
</tr>
</tbody>
</table>

g. Non-operating result

Only net income from investment property is included in the non-operating result position.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Income taxes

a. Income tax expenses

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current income taxes</td>
<td>344</td>
<td>403</td>
</tr>
<tr>
<td>Adjustments recognized for current income taxes of prior periods</td>
<td>– 1</td>
<td>10</td>
</tr>
<tr>
<td>Deferred taxes</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total income taxes</strong></td>
<td><strong>349</strong></td>
<td><strong>428</strong></td>
</tr>
</tbody>
</table>

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.

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

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

c. Current income tax

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net current income tax liability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 January</td>
<td>– 171</td>
<td>– 150</td>
</tr>
<tr>
<td>Recognized in income statement</td>
<td>– 343</td>
<td>– 413</td>
</tr>
<tr>
<td>Recognized in equity</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>428</td>
<td>392</td>
</tr>
<tr>
<td>Translation differences</td>
<td>– 3</td>
<td>0</td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td><strong>– 89</strong></td>
<td><strong>– 171</strong></td>
</tr>
<tr>
<td>thereof current income tax assets</td>
<td>– 45</td>
<td>19</td>
</tr>
<tr>
<td>thereof current income tax liabilities</td>
<td>– 134</td>
<td>– 190</td>
</tr>
</tbody>
</table>

Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>– 111</td>
<td>– 146</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>– 22</td>
<td>– 13</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>– 112</td>
<td>– 96</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>– 31</td>
<td>– 0</td>
</tr>
<tr>
<td>Provisions</td>
<td>– 33</td>
<td>– 33</td>
</tr>
<tr>
<td>Retirement benefit obligations</td>
<td>– 5</td>
<td>5</td>
</tr>
<tr>
<td>Tax losses</td>
<td>– 36</td>
<td>57</td>
</tr>
<tr>
<td>Other</td>
<td>– 2</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total deferred tax assets (liabilities)</strong></td>
<td><strong>– 234</strong></td>
<td><strong>– 239</strong></td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>429</td>
<td>337</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>– 576</td>
<td>– 576</td>
</tr>
</tbody>
</table>
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:

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Not recognized</th>
<th>Recognized</th>
<th>Total 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Two years</td>
<td>3</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Three years</td>
<td>3</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Four years</td>
<td>4</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Five years</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Six years</td>
<td>0</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>More than six years</td>
<td>129</td>
<td>82</td>
<td>211</td>
</tr>
<tr>
<td>Total at 31.12.2014</td>
<td>144</td>
<td>127</td>
<td>271</td>
</tr>
</tbody>
</table>

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

**a. Basic**

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

**b. Diluted**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to registered shareholders (CHF million)</td>
<td>612</td>
<td>848</td>
</tr>
<tr>
<td>Average number of shares outstanding – basic (as above)</td>
<td>119,894,096</td>
<td>119,514,584</td>
</tr>
<tr>
<td>Potential number of shares from options outstanding</td>
<td>230,587</td>
<td>232,711</td>
</tr>
<tr>
<td>Average potential number of shares outstanding – diluted</td>
<td>120,124,683</td>
<td>119,747,296</td>
</tr>
<tr>
<td>Diluted earnings per share (in CHF)</td>
<td>5.09</td>
<td>7.08</td>
</tr>
</tbody>
</table>

**Bearer shares**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to bearer shareholders (CHF million)</td>
<td>772</td>
<td>1,073</td>
</tr>
<tr>
<td>Average potential number of shares outstanding</td>
<td>30,320,769</td>
<td>30,335,000</td>
</tr>
<tr>
<td>Diluted earnings per share (in CHF)</td>
<td>25.47</td>
<td>35.38</td>
</tr>
</tbody>
</table>

### 8. Dividends paid and proposed

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

At the Annual General Meeting on 28 May 2015, payment of the following dividends for 2014 will be proposed:

<table>
<thead>
<tr>
<th>Dividend per share</th>
<th>Registered</th>
<th>Bearer</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHF 1.50</td>
<td>CHF 7.50</td>
<td></td>
</tr>
</tbody>
</table>

Total dividend: CHF 186,067,500

CHF 231,300,000

The financial statements ending 31 December 2014 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2015.
9. Cash and cash equivalents

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts and liquid assets</td>
<td>984</td>
<td>810</td>
</tr>
<tr>
<td>Short-term deposits with financial institutions</td>
<td>218</td>
<td>98</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td><strong>1 202</strong></td>
<td><strong>908</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1 202</td>
<td>908</td>
</tr>
<tr>
<td>Current account overdrafts (Note 20)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total funds net cash</strong></td>
<td><strong>1 202</strong></td>
<td><strong>908</strong></td>
</tr>
</tbody>
</table>

10. Marketable securities and derivative financial instruments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity securities</td>
<td>49</td>
<td>95</td>
</tr>
<tr>
<td>Bond securities</td>
<td>195</td>
<td>238</td>
</tr>
<tr>
<td>Investment funds and other investments</td>
<td>19</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total marketable securities at fair value</strong></td>
<td><strong>263</strong></td>
<td><strong>325</strong></td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total marketable securities and derivative financial instruments</strong></td>
<td><strong>263</strong></td>
<td><strong>325</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contract</td>
<td>Positive fair value</td>
<td>Negative fair value</td>
</tr>
<tr>
<td>Forward contracts in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNY</td>
<td>50</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>EUR</td>
<td>361</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>GBP</td>
<td>40</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>JPY</td>
<td>21</td>
<td>–</td>
<td>0</td>
</tr>
<tr>
<td>RUB</td>
<td>6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SGD</td>
<td>16</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>USD</td>
<td>949</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other currencies</td>
<td>31</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>Gold</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 474</strong></td>
<td><strong>0</strong></td>
<td><strong>–</strong></td>
</tr>
</tbody>
</table>
11. Trade receivables

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables – gross</td>
<td>1 121</td>
<td>1 083</td>
</tr>
<tr>
<td>Allowance for impaired receivables</td>
<td>– 13</td>
<td>– 10</td>
</tr>
<tr>
<td><strong>Total trade receivables – net</strong></td>
<td><strong>1 108</strong></td>
<td><strong>1 073</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January</strong></td>
<td>– 10</td>
<td>– 8</td>
</tr>
<tr>
<td>Translation differences</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business combinations</td>
<td>–</td>
<td>– 1</td>
</tr>
<tr>
<td>Utilization</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Reversal</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Creation</td>
<td>– 5</td>
<td>– 2</td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td>– 13</td>
<td>– 10</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CHF</td>
<td>208</td>
<td>209</td>
</tr>
<tr>
<td>CNY</td>
<td>294</td>
<td>301</td>
</tr>
<tr>
<td>EUR</td>
<td>182</td>
<td>185</td>
</tr>
<tr>
<td>HKD</td>
<td>57</td>
<td>54</td>
</tr>
<tr>
<td>JPY</td>
<td>30</td>
<td>27</td>
</tr>
<tr>
<td>USD</td>
<td>122</td>
<td>104</td>
</tr>
<tr>
<td>Other currencies</td>
<td>215</td>
<td>193</td>
</tr>
<tr>
<td><strong>Total trade receivables – net</strong></td>
<td><strong>1 108</strong></td>
<td><strong>1 073</strong></td>
</tr>
</tbody>
</table>

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

12. Other current assets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT to be refunded</td>
<td>104</td>
<td>126</td>
</tr>
<tr>
<td>Other receivables</td>
<td>31</td>
<td>130</td>
</tr>
<tr>
<td><strong>Total other current assets</strong></td>
<td><strong>135</strong></td>
<td><strong>256</strong></td>
</tr>
</tbody>
</table>
13. Inventories

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>345</td>
<td>383</td>
</tr>
<tr>
<td>Work in progress</td>
<td>565</td>
<td>582</td>
</tr>
<tr>
<td>Semi-finished goods</td>
<td>2 069</td>
<td>1 933</td>
</tr>
<tr>
<td>Finished goods</td>
<td>2 659</td>
<td>2 246</td>
</tr>
<tr>
<td>Spare parts for customer service</td>
<td>305</td>
<td>282</td>
</tr>
<tr>
<td><strong>Total inventories</strong></td>
<td><strong>5 943</strong></td>
<td><strong>5 426</strong></td>
</tr>
</tbody>
</table>

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

14. Prepayments and accrued income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid sales, marketing and administration costs</td>
<td>107</td>
<td>104</td>
</tr>
<tr>
<td>Income tax assets</td>
<td>45</td>
<td>19</td>
</tr>
<tr>
<td>Other prepayments and accrued income</td>
<td>143</td>
<td>562</td>
</tr>
<tr>
<td><strong>Total prepayments and accrued income</strong></td>
<td><strong>295</strong></td>
<td><strong>685</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Land, buildings and properties 1)</th>
<th>Technical equipment &amp; machinery</th>
<th>Other equipment &amp; fixtures</th>
<th>Advances and construction in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost, 31 December 2013</td>
<td>1 453</td>
<td>3 218</td>
<td>435</td>
<td>134</td>
<td>5 240</td>
</tr>
<tr>
<td>Translation differences</td>
<td>− 1</td>
<td>29</td>
<td>4</td>
<td>−</td>
<td>32</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 18)</td>
<td>1</td>
<td>−</td>
<td>0</td>
<td>−</td>
<td>1</td>
</tr>
<tr>
<td>Disinvestments of businesses (Note 18)</td>
<td>−</td>
<td>− 10</td>
<td>− 3</td>
<td>−</td>
<td>− 13</td>
</tr>
<tr>
<td>Additions</td>
<td>558</td>
<td>390</td>
<td>64</td>
<td>39</td>
<td>1 051</td>
</tr>
<tr>
<td>Disposals</td>
<td>− 3</td>
<td>− 95</td>
<td>− 29</td>
<td>0</td>
<td>− 127</td>
</tr>
<tr>
<td>Transfers</td>
<td>65</td>
<td>− 5</td>
<td>5</td>
<td>− 65</td>
<td>−</td>
</tr>
<tr>
<td>Historical cost, 31 December 2014</td>
<td>2 073</td>
<td>3 527</td>
<td>476</td>
<td>108</td>
<td>6 184</td>
</tr>
<tr>
<td>Accumulated depreciation, 31 December 2013</td>
<td>− 600</td>
<td>− 2 129</td>
<td>− 239</td>
<td>−</td>
<td>− 2 968</td>
</tr>
<tr>
<td>Translation differences</td>
<td>− 1</td>
<td>− 17</td>
<td>− 1</td>
<td>−</td>
<td>− 19</td>
</tr>
<tr>
<td>Depreciation on divestments of businesses (Note 18)</td>
<td>−</td>
<td>9</td>
<td>3</td>
<td>−</td>
<td>12</td>
</tr>
<tr>
<td>Annual depreciation</td>
<td>− 47</td>
<td>− 227</td>
<td>− 50</td>
<td>−</td>
<td>− 324</td>
</tr>
<tr>
<td>Impairment</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Depreciation on disposals</td>
<td>2</td>
<td>95</td>
<td>28</td>
<td>−</td>
<td>125</td>
</tr>
<tr>
<td>Transfers</td>
<td>− 2</td>
<td>− 2</td>
<td>− 2</td>
<td>−</td>
<td>−</td>
</tr>
<tr>
<td>Accumulated depreciation, 31 December 2014</td>
<td>− 646</td>
<td>− 2 267</td>
<td>− 261</td>
<td>−</td>
<td>− 3 174</td>
</tr>
</tbody>
</table>

Net book values:

<table>
<thead>
<tr>
<th></th>
<th>Land, buildings and properties 1)</th>
<th>Technical equipment &amp; machinery</th>
<th>Other equipment &amp; fixtures</th>
<th>Advances and construction in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 2013</td>
<td>853</td>
<td>1 089</td>
<td>196</td>
<td>134</td>
<td>2 272</td>
</tr>
<tr>
<td>Balance at 31 December 2014</td>
<td>1 427</td>
<td>1 260</td>
<td>215</td>
<td>108</td>
<td>3 010</td>
</tr>
</tbody>
</table>

Insured value: 6 667

Net book value of property, plant and equipment under finance lease contracts: 1

Total non-current assets pledged to guarantee the commitments of Group companies: 40

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

### Historical cost, 31 December 2013

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80</td>
<td>111</td>
<td>109</td>
<td>300</td>
</tr>
<tr>
<td>Translation differences</td>
<td>0</td>
<td>0</td>
<td>–1</td>
<td>–1</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 18)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Divestments of businesses (Note 18)</td>
<td>–4</td>
<td>0</td>
<td>–4</td>
<td></td>
</tr>
<tr>
<td>Additions</td>
<td>15</td>
<td>16</td>
<td>20</td>
<td>51</td>
</tr>
<tr>
<td>Disposals</td>
<td>–1</td>
<td>–5</td>
<td>–3</td>
<td>–9</td>
</tr>
<tr>
<td>Transfers</td>
<td>9</td>
<td>1</td>
<td>–10</td>
<td>0</td>
</tr>
<tr>
<td><strong>Historical cost, 31 December 2014</strong></td>
<td><strong>99</strong></td>
<td><strong>123</strong></td>
<td><strong>115</strong></td>
<td><strong>337</strong></td>
</tr>
</tbody>
</table>

### Accumulated amortization, 31 December 2013

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Translation differences</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation on divestments of businesses (Note 18)</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Annual depreciation</td>
<td>–15</td>
<td>–13</td>
<td>–6</td>
<td>–34</td>
</tr>
<tr>
<td>Impairment</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Depreciation on disposals</td>
<td>0</td>
<td>5</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Transfers</td>
<td>–</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Accumulated amortization, 31 December 2014</strong></td>
<td><strong>–58</strong></td>
<td><strong>–92</strong></td>
<td><strong>–37</strong></td>
<td><strong>–187</strong></td>
</tr>
</tbody>
</table>

### Net book values:

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2013</strong></td>
<td><strong>34</strong></td>
<td><strong>27</strong></td>
<td><strong>75</strong></td>
<td><strong>136</strong></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2014</strong></td>
<td><strong>41</strong></td>
<td><strong>31</strong></td>
<td><strong>78</strong></td>
<td><strong>150</strong></td>
</tr>
</tbody>
</table>

### Historical cost, 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>88</td>
<td>96</td>
<td>80</td>
<td>264</td>
</tr>
<tr>
<td>Translation differences</td>
<td>–</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 18)</td>
<td>–</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Additions</td>
<td>10</td>
<td>17</td>
<td>21</td>
<td>48</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>–1</td>
<td>–12</td>
<td>–13</td>
</tr>
<tr>
<td>Transfers</td>
<td>–18</td>
<td>–</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td><strong>Historical cost, 31 December 2013</strong></td>
<td><strong>80</strong></td>
<td><strong>111</strong></td>
<td><strong>109</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

### Accumulated amortization, 31 December 2012

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Translation differences</td>
<td>–</td>
<td>0</td>
<td>–1</td>
<td>–1</td>
</tr>
<tr>
<td>Annual depreciation</td>
<td>–11</td>
<td>–12</td>
<td>–5</td>
<td>–28</td>
</tr>
<tr>
<td>Impairment</td>
<td>–</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation on disposals</td>
<td>0</td>
<td>1</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Transfers</td>
<td>0</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Accumulated amortization, 31 December 2013</strong></td>
<td><strong>–46</strong></td>
<td><strong>–84</strong></td>
<td><strong>–34</strong></td>
<td><strong>–164</strong></td>
</tr>
</tbody>
</table>

Net book values:

<table>
<thead>
<tr>
<th></th>
<th>Capitalized development costs</th>
<th>Software</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2012</strong></td>
<td><strong>53</strong></td>
<td><strong>23</strong></td>
<td><strong>40</strong></td>
<td><strong>116</strong></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2013</strong></td>
<td><strong>34</strong></td>
<td><strong>27</strong></td>
<td><strong>75</strong></td>
<td><strong>136</strong></td>
</tr>
</tbody>
</table>
17. Investments in associates and joint ventures

(CHF million)  
<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January</td>
<td>65</td>
<td>110</td>
</tr>
<tr>
<td>Share of result from associates and joint ventures</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>Dividends received</td>
<td>–3</td>
<td>–21</td>
</tr>
<tr>
<td>Investments</td>
<td>–</td>
<td>14</td>
</tr>
<tr>
<td>Reclassification of previously held interests</td>
<td>–</td>
<td>–52</td>
</tr>
<tr>
<td>Investments acquired through business combinations</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Translation differences</td>
<td>5</td>
<td>–2</td>
</tr>
<tr>
<td><strong>Balance at 31 December</strong></td>
<td><strong>70</strong></td>
<td><strong>65</strong></td>
</tr>
</tbody>
</table>

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

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

In 2013, the Group increased its stake in Belenos Clean Power Holding AG from 42% to 49%. Additionally, on 24 November 2013, the Swatch Group increased its stake in Rivoli Investments LLC from 40% to 58%, effectively taking control of the company. As a result, Rivoli Investments LLC and its subsidiaries became fully consolidated entities of the Swatch Group. The share in Rivoli Investments LLC previously held was removed from investments in associates and included in the calculation of goodwill from this acquisition (see Note 18).

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

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

18. Business combinations

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

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

On 26 March 2013, the Swatch Group acquired 100% of the shares of the US company HW Holdings Inc., which owns Harry Winston Inc., New York. The Group took over all the company’s activities in connection with high jewelry and watches, including its watch manufacturer in Geneva (Switzerland). This does not affect the operations of Dominion Diamond Corporation in Toronto (Canada). As a result of this acquisition, a total of ten companies were incorporated into the Swatch Group’s consolidation structure.

Also, on 24 November 2013, Technocorp Holding AG, a subsidiary of the Swatch Group, increased its 40% share in Rivoli Investments LLC (Rivoli Group) to 58%, with the purchase of an additional equity stake. Rivoli Group operates an extensive network of retail stores in the Middle East which are primarily active in the watch sector and employed over 1,500 persons at the acquisition date. Until the purchase of the additional share package, Rivoli Group was treated as an associate of the Swatch Group. With the increase of its investment, Swatch Group took control of Rivoli Group (comprised of 18 companies and one joint venture). As a result, these companies became fully consolidated subsidiaries of the Swatch Group. The previously held share in Rivoli Group was removed from investments in associates (see Note 17) and included in the calculation of goodwill from this acquisition.
The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date, as well as the consideration paid and the goodwill arising on acquisitions:

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

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

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

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

**b. Divestments of businesses**

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

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

<table>
<thead>
<tr>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>Actual Values</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>0</td>
</tr>
<tr>
<td>Current assets</td>
<td>14</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>(15)</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>(16)</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>–</td>
</tr>
<tr>
<td>Provisions</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Net assets disposed of</strong></td>
<td>12</td>
</tr>
<tr>
<td>Loss on divestment of businesses</td>
<td>– 9</td>
</tr>
<tr>
<td><strong>Total disposal consideration</strong></td>
<td>3</td>
</tr>
<tr>
<td>Cash and cash equivalents disposed of</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Cash inflow on disposal</strong></td>
<td>3</td>
</tr>
</tbody>
</table>

No companies were disposed of in 2013.
### 19. Other non-current assets

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Prepaid marketing and rental cost</th>
<th>Security deposits</th>
<th>Other financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2013</strong></td>
<td>74</td>
<td>71</td>
<td>11</td>
<td>156</td>
</tr>
<tr>
<td>Translation differences</td>
<td>2</td>
<td>6</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 18)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Additions</td>
<td>94</td>
<td>21</td>
<td>0</td>
<td>115</td>
</tr>
<tr>
<td>Disposals</td>
<td>-1</td>
<td>-2</td>
<td>-</td>
<td>-3</td>
</tr>
<tr>
<td>Transfers to current assets</td>
<td>-74</td>
<td>-</td>
<td>-</td>
<td>-74</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2014</strong></td>
<td>95</td>
<td>95</td>
<td>11</td>
<td>201</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Prepaid marketing and rental cost</th>
<th>Security deposits</th>
<th>Other financial assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 31 December 2012</strong></td>
<td>22</td>
<td>45</td>
<td>110</td>
<td>177</td>
</tr>
<tr>
<td>Transfers from Prepayments at 1 January</td>
<td>51</td>
<td>-</td>
<td>-</td>
<td>51</td>
</tr>
<tr>
<td>Translation differences</td>
<td>-1</td>
<td>-4</td>
<td>-2</td>
<td>-7</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 18)</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Additions</td>
<td>67</td>
<td>16</td>
<td>1</td>
<td>84</td>
</tr>
<tr>
<td>Disposals</td>
<td>0</td>
<td>-1</td>
<td>-8</td>
<td>-9</td>
</tr>
<tr>
<td>Transfers to current assets</td>
<td>-65</td>
<td>-</td>
<td>-90</td>
<td>-155</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2013</strong></td>
<td>74</td>
<td>71</td>
<td>11</td>
<td>156</td>
</tr>
</tbody>
</table>

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.
20. Financial debts and derivative financial instruments

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account overdrafts</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Short-term leasing commitments</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Short-term bank debt</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>29</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total current financial debts and derivative financial instruments</strong></td>
<td><strong>35</strong></td>
<td><strong>15</strong></td>
</tr>
<tr>
<td><strong>Total non-current financial debts</strong></td>
<td><strong>38</strong></td>
<td><strong>44</strong></td>
</tr>
<tr>
<td><strong>Total financial debts</strong></td>
<td><strong>73</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>less than 1 year</th>
<th>1–5 years</th>
<th>over 5 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2014</td>
<td>35</td>
<td>17</td>
<td>21</td>
<td>73</td>
</tr>
<tr>
<td>At 31 December 2013</td>
<td>15</td>
<td>22</td>
<td>22</td>
<td>59</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CHF</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>JPY</td>
<td>39</td>
<td>45</td>
</tr>
<tr>
<td>EUR</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other currencies</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
<td><strong>59</strong></td>
</tr>
</tbody>
</table>

The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review. The long-term financial debts at the end of 2014 included a mortgage of JPY 4,250 million or CHF 35 million (previous year: JPY 4,750 million or CHF 40 million) at a fixed interest rate of 2.41% with a term until March 2021 (without a termination clause).

21. Other liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Advance payments</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Income tax liabilities</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>VAT due</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Other payables</td>
<td>95</td>
<td>108</td>
</tr>
<tr>
<td><strong>Total other payables</strong></td>
<td><strong>158</strong></td>
<td><strong>164</strong></td>
</tr>
</tbody>
</table>
22. Accrued expenses

(ChF million) 

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued salaries and social security</td>
<td>177</td>
<td>168</td>
</tr>
<tr>
<td>Accrued sales, marketing and administration costs</td>
<td>162</td>
<td>162</td>
</tr>
<tr>
<td>Accrued income taxes</td>
<td>118</td>
<td>169</td>
</tr>
<tr>
<td>Accrued sales reductions</td>
<td>84</td>
<td>74</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>158</td>
<td>158</td>
</tr>
<tr>
<td><strong>Total accrued expenses</strong></td>
<td><strong>699</strong></td>
<td><strong>731</strong></td>
</tr>
<tr>
<td>thereof current</td>
<td>661</td>
<td>702</td>
</tr>
<tr>
<td>thereof non-current</td>
<td>38</td>
<td>29</td>
</tr>
</tbody>
</table>

**23. Provisions**

(ChF million) 

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

**a. Warranty**

In the majority of cases, the Group offers a two-year warranty covering the repairs or replacement of products that do not perform to customers’ satisfaction. The provision made at year-end to cover anticipated warranty costs is based on past experience with respect to the volume of repairs and returns.

**b. Legal risks**

Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of currently available information and recorded adequate provisions. However, there are inherent risks within legal claims depending on court and adversary party behaviour and opinion that may cause a significant outflow of economic benefits.

**c. Other**

Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties.
24. Retirement Benefit Obligations

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

The Group has an employer contribution reserve in the Swiss pension fund of the Swatch Group, which amounts to CHF 5 million. This reserve is capitalized in other non-current assets. The ECR remained unchanged in the year under review; there has been no formation or dissolution, nor has there been a waiver of usage.

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

Economic benefit / economic obligation and pension benefit expenses

### 2014

<table>
<thead>
<tr>
<th>Surplus / deficit</th>
<th>Group’s economic share</th>
<th>Change from previous year and/or income statement impact in current year</th>
<th>Contributions concerning the business period</th>
<th>Pension costs within personnel expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patronage funds / patronage pension plans</td>
<td>320</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pension plans without surplus / deficit</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>98</td>
</tr>
<tr>
<td>Pension plans with surplus</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pension plans with deficit</td>
<td>–11</td>
<td>–6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Pension plans without own assets</td>
<td>–</td>
<td>–32</td>
<td>4</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>309</td>
<td>–38</td>
<td>5</td>
<td>99</td>
</tr>
</tbody>
</table>

### 2013

<table>
<thead>
<tr>
<th>Surplus / deficit</th>
<th>Group’s economic share</th>
<th>Change from previous year and/or income statement impact in current year</th>
<th>Contributions concerning the business period</th>
<th>Pension costs within personnel expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patronage funds / patronage pension plans</td>
<td>301</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pension plans without surplus / deficit</td>
<td>–</td>
<td>–</td>
<td>0</td>
<td>84</td>
</tr>
<tr>
<td>Pension plans with surplus</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pension plans with deficit</td>
<td>–18</td>
<td>–9</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Pension plans without own assets</td>
<td>–</td>
<td>–24</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>283</td>
<td>–33</td>
<td>10</td>
<td>86</td>
</tr>
</tbody>
</table>

The change in the Group’s economic share was attributed to business combinations and reclassifications within the balance sheet and had no impact on the income statement.

Summary of pension benefit expenses

<table>
<thead>
<tr>
<th>(CHF million)</th>
<th>Switzerland</th>
<th>Abroad</th>
<th>Total</th>
<th>Switzerland</th>
<th>Abroad</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to pension plans charged to Group companies</td>
<td>86</td>
<td>13</td>
<td>99</td>
<td>76</td>
<td>10</td>
<td>86</td>
</tr>
<tr>
<td>Contributions to pension plans paid from ECR</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total contributions</td>
<td>86</td>
<td>13</td>
<td>99</td>
<td>76</td>
<td>10</td>
<td>86</td>
</tr>
<tr>
<td>Change of ECR from evolution of fortune, impairments, discounting, etc.</td>
<td>0</td>
<td>–</td>
<td>0</td>
<td>0</td>
<td>–</td>
<td>0</td>
</tr>
<tr>
<td>Contributions and change in ECR</td>
<td>86</td>
<td>13</td>
<td>99</td>
<td>76</td>
<td>10</td>
<td>86</td>
</tr>
<tr>
<td>Increase / decrease of Group’s economic benefits from surpluses</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Decrease / increase of economic obligations from deficits</td>
<td>–</td>
<td>5</td>
<td>5</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total changes of economic effects from surpluses / deficits</td>
<td>–</td>
<td>5</td>
<td>5</td>
<td>–</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pension benefit expenses within personnel expenses of the period</td>
<td>86</td>
<td>18</td>
<td>104</td>
<td>76</td>
<td>10</td>
<td>86</td>
</tr>
</tbody>
</table>
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Commitments and contingencies

a. Guarantees and sureties
At 31 December 2014, guarantees to third parties as security for commitments of Group companies amounted to CHF 8 million (2013: CHF 5 million).
Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 95 million at 31 December 2014 (2013: CHF 71 million).

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>385</td>
<td>334</td>
</tr>
<tr>
<td>Between 1 and 5 years</td>
<td>959</td>
<td>753</td>
</tr>
<tr>
<td>Over 5 years</td>
<td>510</td>
<td>427</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,854</strong></td>
<td><strong>1,514</strong></td>
</tr>
</tbody>
</table>

The figures in the preceding table include all rental contracts for buildings, a major part of which relate to the Group’s retail business, and to all other standard rental contracts existing at 31 December 2014. Leasing costs amounting to CHF 511 million were recognized in the 2014 income statement, compared to CHF 384 million in the previous year.
Other commitments relating mainly to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2014, amounted to CHF 76 million (CHF 156 million in the previous year).

c. Contingent assets and liabilities
Some Group companies have contingent liabilities in respect of legal claims arising from the ordinary course of business and they may be liable to pay compensation. It is not expected that any material liabilities will arise from these contingent liabilities other than those provided for (see Note 23b).
In some cases the Group is defending its rights where there is also an inherent possibility of inflows of economic benefits if the cases are successful.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Share capital and reserves

a. Share capital

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

<table>
<thead>
<tr>
<th>Balance sheet date</th>
<th>Registered shares</th>
<th>Bearer shares</th>
<th>Share capital in CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2012</td>
<td>124’045’000 at CHF 0.45</td>
<td>30’840’000 at CHF 2.25</td>
<td>125’210’250.00</td>
</tr>
<tr>
<td>31.12.2013</td>
<td>124’045’000 at CHF 0.45</td>
<td>30’840’000 at CHF 2.25</td>
<td>125’210’250.00</td>
</tr>
<tr>
<td>31.12.2014</td>
<td>124’045’000 at CHF 0.45</td>
<td>30’840’000 at CHF 2.25</td>
<td>125’210’250.00</td>
</tr>
</tbody>
</table>

At year-end 2014 as well as 2013, there was no authorized or conditional capital. All issued shares are fully paid. No benefit certificates exist. In accordance with the articles of incorporation of the Swatch Group, the Board of Directors shall refuse a registered share ownership of more than 5% per shareholder. In exceptional cases, the Board of Directors may consent to an exception to this rule.

b. Capital reserves

Capital reserves include proceeds from the sale of treasury shares and the effects of capital reductions in prior years. In addition, capital reserves include non-distributable, statutory or legal reserves amounting to CHF 82 million (2013: CHF 57 million). These reserves come from the holding company The Swatch Group Ltd.

c. Treasury shares

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

<table>
<thead>
<tr>
<th></th>
<th>Registered shares</th>
<th>Bearer shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Value</td>
</tr>
<tr>
<td></td>
<td>CHF million</td>
<td>CHF million</td>
</tr>
<tr>
<td>Balance at 31 December 2012</td>
<td>5’677’177</td>
<td>211</td>
</tr>
<tr>
<td>Acquisitions 1)</td>
<td>17’800</td>
<td>2</td>
</tr>
<tr>
<td>Disposals 2)</td>
<td>– 1’568’681</td>
<td>– 77</td>
</tr>
<tr>
<td>Balance at 31 December 2013</td>
<td>4’126’296</td>
<td>136</td>
</tr>
<tr>
<td>Acquisitions 1)</td>
<td>385’000</td>
<td>33</td>
</tr>
<tr>
<td>Disposals 2)</td>
<td>– 252’308</td>
<td>– 1</td>
</tr>
<tr>
<td>Balance at 31 December 2014</td>
<td>4’258’988</td>
<td>168</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Historical cost 1 January</strong></td>
<td>Goodwill Group companies: 1 386</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Goodwill associated companies:</td>
<td>-</td>
</tr>
<tr>
<td><strong>Historical cost 31 December</strong></td>
<td>Goodwill Group companies: 1 389</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Goodwill associated companies:</td>
<td>-</td>
</tr>
<tr>
<td><strong>Theoretical accumulated amortization</strong></td>
<td>1 January: - 415</td>
<td>- 23</td>
</tr>
<tr>
<td></td>
<td>Theoretical annual amortization: - 117</td>
<td>- 9</td>
</tr>
<tr>
<td></td>
<td>Theoretical impairment: - -</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Theoretical amortization on disposals: - -</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Transfers: - -</td>
<td>-</td>
</tr>
<tr>
<td><strong>Theoretical accumulated amortization</strong></td>
<td>31 December: - 532</td>
<td>- 28</td>
</tr>
<tr>
<td><strong>Theoretical net book value 31 December</strong></td>
<td>857</td>
<td>20</td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th></th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity, per balance sheet</strong></td>
<td>10 674</td>
<td>9 574</td>
</tr>
<tr>
<td><strong>Theoretical capitalization of net book value of goodwill</strong></td>
<td>877</td>
<td>996</td>
</tr>
<tr>
<td><strong>Theoretical equity including net book value of goodwill</strong></td>
<td>11 551</td>
<td>10 570</td>
</tr>
</tbody>
</table>

**b. Theoretical impact on equity**

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income, per income statement</strong></td>
<td>1 416</td>
<td>1 928</td>
</tr>
<tr>
<td><strong>Theoretical amortization of goodwill</strong></td>
<td>- 122</td>
<td>- 97</td>
</tr>
<tr>
<td><strong>Theoretical net income after goodwill amortization</strong></td>
<td>1 294</td>
<td>1 831</td>
</tr>
</tbody>
</table>

**c. Theoretical impact on net income**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items

(All amounts are in CHF million)

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

b. Changes in working capital

(All amounts are in CHF million)

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in working capital and other items included in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash flow from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>–410</td>
<td>–597</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>–2</td>
<td>18</td>
</tr>
<tr>
<td>Other receivables and accrued income</td>
<td>602</td>
<td>–396</td>
</tr>
<tr>
<td>Trade payables</td>
<td>–31</td>
<td>–18</td>
</tr>
<tr>
<td>Other liabilities and accrued expenses</td>
<td>–3</td>
<td>–5</td>
</tr>
<tr>
<td>Other items included in cash flow from operating activities</td>
<td>–64</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>–985</td>
</tr>
</tbody>
</table>

29. Employee stock option plan

When the Hayek Pool acquired control of the Swatch Group, a block of shares was reserved in 1986 for an equity-settled management stock option plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Group equity increases from the time the options are granted over the corresponding period by the value of the employee services (net of tax). When the options are exercised, Group equity increases further by the corresponding exercise price.

At the end of 2014, this portfolio comprised 1,544,633 registered shares (1,396,771 at the end of 2013). In 2014, 242,308 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

Movements in the number of share options outstanding were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options outstanding at 1 January</td>
<td>242,915</td>
<td>245,246</td>
</tr>
<tr>
<td>Granted</td>
<td>240,805</td>
<td>244,095</td>
</tr>
<tr>
<td>Forfeited or lapsed</td>
<td>–604</td>
<td>–1,463</td>
</tr>
<tr>
<td>Exercised</td>
<td>242,308</td>
<td>244,963</td>
</tr>
<tr>
<td>Options outstanding at 31 December</td>
<td>240,808</td>
<td>242,915</td>
</tr>
</tbody>
</table>

All options included in the table above have an exercise price of CHF 4.00.
Share options outstanding at the end of the year have the following expiry date:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>161,496</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>160,477</td>
<td>81,419</td>
</tr>
<tr>
<td>2016</td>
<td>80,331</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>240,808</td>
<td>242,915</td>
</tr>
</tbody>
</table>

The fair value of the options granted during the period was determined by using the actual value at the grant date. The following table shows the assumptions on which the valuation of share options granted in 2014 and 2013 was based:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant date</td>
<td>8 July 2014</td>
<td>8 July 2014</td>
</tr>
<tr>
<td>Expiration date</td>
<td>8 July 2015</td>
<td>8 July 2016</td>
</tr>
<tr>
<td>Closing share price on grant date</td>
<td>CHF 95.40</td>
<td>CHF 94.80</td>
</tr>
<tr>
<td>Exercise price</td>
<td>CHF 4.00</td>
<td>CHF 4.00</td>
</tr>
<tr>
<td>Market value of option at grant date</td>
<td>CHF 91.40</td>
<td>CHF 90.80</td>
</tr>
</tbody>
</table>

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

30. Related party transactions

a. Principal shareholders

On 31 December 2014, the Hayek Pool and its related companies, institutions and individuals held 63,169,930 registered shares and 1,650 bearer shares, equivalent to 40.8% of the shares issued (previous year: 40.8%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.3% of the shares issued (previous year: 40.4%).

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term employee benefits</td>
<td>27.7</td>
<td>28.8</td>
</tr>
<tr>
<td>– of which in salaries</td>
<td>9.0</td>
<td>9.1</td>
</tr>
<tr>
<td>– of which in bonus</td>
<td>18.1</td>
<td>19.0</td>
</tr>
<tr>
<td>– of which in expense allowances(^1)</td>
<td>0.5</td>
<td>0.6</td>
</tr>
<tr>
<td>– of which in other benefits</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Share-based compensation</td>
<td>15.5</td>
<td>15.6</td>
</tr>
<tr>
<td>Contributions to pension plans</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Other social benefits(^2)</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47.8</strong></td>
<td><strong>49.0</strong></td>
</tr>
</tbody>
</table>

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

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

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

c. Share ownership

At 31 December 2014, the executive members of the Board of Directors and the members of the Management Board of the company as well as the persons close to them held directly or indirectly a total of 56,571,025 registered shares and 790 bearer shares, representing 36.5% of the voting rights (previous year: 36.5%).

In addition, at 31 December 2014, all the non-executive members of the Board of Directors as well as the persons close to them held 2,010 bearer shares, representing 0.0% of the voting rights (previous year: 7.1%).

d. Loans to members of the governing bodies

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

In 2014 and 2013, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, at the end of both 2014 and 2013, no such loans were outstanding.

e. Associated companies and other related parties

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associates and joint ventures</td>
<td>12</td>
<td>1,044</td>
</tr>
<tr>
<td>Other related parties</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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

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

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

<table>
<thead>
<tr>
<th>Company name, Registered offices</th>
<th>Field of Activity</th>
<th>Capital in millions</th>
<th>Swatch Group Shareholdings %</th>
<th>Consolidation</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Switzerland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Swatch Group SA, Neuchâtel</td>
<td>Holding</td>
<td>CHF 125.21</td>
<td></td>
<td>Fully</td>
<td>Watches &amp; Jewelry</td>
</tr>
<tr>
<td>Assemblé SA, Léscarne</td>
<td>Assembly</td>
<td>CHF 0.10</td>
<td>100</td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Axalab SA, La Tène</td>
<td>Research and development</td>
<td>CHF 0.10</td>
<td>100</td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Belleron Chennai Power Holding SA, Bienne</td>
<td>Holding</td>
<td>CHF 63.00</td>
<td>49</td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Blancheau SA, Le Chêne</td>
<td>Watches</td>
<td>CHF 0.10</td>
<td>100</td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Blancheau Les Boutiques SA, Le Chêne</td>
<td>Retail</td>
<td>CHF 0.10</td>
<td>100</td>
<td>Equity</td>
<td></td>
</tr>
<tr>
<td>Breguet Les Boutiques SA, L’Abbaye</td>
<td>Retail</td>
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<td>Sports timing technology &amp; equipment</td>
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<td>The Swatch Group Immeubles SA, Neuchâtel</td>
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Legend: ◀ Fully consolidated ◀ Equity method ◀ Watches & Jewelry ◀ Electronic Systems ◀ Corporate
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32. The Swatch Group Companies – as at 31.12.2014

<table>
<thead>
<tr>
<th>Company name, Registered offices</th>
<th>Field of Activity</th>
<th>Capital in millions</th>
<th>Swatch Group Shareholdings</th>
<th>Consolidation</th>
<th>Segment</th>
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<td><strong>Germany</strong></td>
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</table>

**Legend:**
- ✔ Fully consolidated
- ◐ Equity method
- ◐ Watches & Jewelry
- ◐ Electronic Systems
- ◐ Corporate
### 32. The Swatch Group Companies – as at 31.12.2014

<table>
<thead>
<tr>
<th>Company name, Registered offices</th>
<th>Field of Activity</th>
<th>Capital in millions</th>
<th>Swatch Group Shareholdings %</th>
<th>Consolidation</th>
<th>Segment</th>
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</table>

Legend:  ❌ fully consolidated  ❌ Equity method  ❌ Watches & Jewelry  ❌ Electronic Systems  ❌ Corporate
## 32. The Swatch Group Companies – as at 31.12.2014

<table>
<thead>
<tr>
<th>Company name, Registered offices</th>
<th>Field of Activity</th>
<th>Capital in millions</th>
<th>Swatch Group Shareholdings %</th>
<th>Consolidation</th>
<th>Segment</th>
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<tbody>
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</tbody>
</table>

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 of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 163 to 204), for the year ended 31 December 2014.

Board of Directors’ responsibility

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

Auditor’s responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

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

We confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Gerhard Siegrist
Audit expert
Auditor in charge

Roy Bächinger
Audit expert

Basel, 20 February 2015

Report on other legal requirements

We recommend that the consolidated financial statements submitted to you be approved.
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<thead>
<tr>
<th>TABLE OF CONTENTS</th>
</tr>
</thead>
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<td>Financial statements of the Holding 2014</td>
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<td>Balance sheet of the Holding</td>
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<td>Proposed appropriation of available earnings</td>
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<tr>
<td>Report of the statutory auditor on the financial statements</td>
</tr>
</tbody>
</table>
### INCOME STATEMENT OF THE HOLDING

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHF million</td>
<td>CHF million</td>
</tr>
<tr>
<td>Income from investments in subsidiaries (1)</td>
<td>1 135</td>
<td>1 636</td>
</tr>
<tr>
<td>Other income (2)</td>
<td>5</td>
<td>416</td>
</tr>
<tr>
<td>Personnel expense</td>
<td>– 55</td>
<td>– 55</td>
</tr>
<tr>
<td>Other expenses (3)</td>
<td>– 15</td>
<td>– 16</td>
</tr>
<tr>
<td>Depreciation and impairment (3)</td>
<td>– 7</td>
<td>– 174</td>
</tr>
<tr>
<td>Financial expenses (4)</td>
<td>– 21</td>
<td>– 12</td>
</tr>
<tr>
<td>Other financial income (5)</td>
<td>33</td>
<td>114</td>
</tr>
<tr>
<td><strong>Ordinary result</strong></td>
<td><strong>1 075</strong></td>
<td><strong>1 909</strong></td>
</tr>
<tr>
<td>Non-operating result (6)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Extraordinary result (6)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Income before taxes</strong></td>
<td><strong>1 075</strong></td>
<td><strong>1 909</strong></td>
</tr>
<tr>
<td>Income taxes</td>
<td>– 1</td>
<td>– 29</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>1 074</strong></td>
<td><strong>1 880</strong></td>
</tr>
</tbody>
</table>
### BALANCE SHEET OF THE HOLDING

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

| **Total assets** | | 6 127 | 100.0 | 5 415 | 100.0 |
## BALANCE SHEET OF THE HOLDING

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial debts and derivative financial instruments</td>
<td>(10)</td>
<td>32</td>
<td>0.5</td>
<td>11</td>
<td>0.2</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– to Group companies</td>
<td></td>
<td>51</td>
<td>0.8</td>
<td>49</td>
<td>0.9</td>
</tr>
<tr>
<td>– to third parties</td>
<td></td>
<td>6</td>
<td>0.1</td>
<td>4</td>
<td>0.1</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td></td>
<td>20</td>
<td>0.3</td>
<td>46</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current provisions</td>
<td></td>
<td>90</td>
<td>1.5</td>
<td>90</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>199</td>
<td>3.2</td>
<td>200</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td></td>
<td>125</td>
<td>2.0</td>
<td>125</td>
<td>2.3</td>
</tr>
<tr>
<td>Statutory capital reserve</td>
<td></td>
<td>82</td>
<td>1.4</td>
<td>57</td>
<td>1.1</td>
</tr>
<tr>
<td>Statutory reserve</td>
<td></td>
<td>10</td>
<td>0.2</td>
<td>10</td>
<td>0.2</td>
</tr>
<tr>
<td>Voluntary reserve</td>
<td></td>
<td>4 860</td>
<td>79.3</td>
<td>3 336</td>
<td>61.8</td>
</tr>
<tr>
<td>– Profit brought forward</td>
<td></td>
<td>35</td>
<td></td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>– Net income for the year</td>
<td></td>
<td>1 074</td>
<td></td>
<td>1 880</td>
<td></td>
</tr>
<tr>
<td>Available earnings</td>
<td></td>
<td>1 109</td>
<td>18.1</td>
<td>1 912</td>
<td>35.3</td>
</tr>
<tr>
<td>Treasury shares</td>
<td></td>
<td>– 258</td>
<td>– 4.2</td>
<td>– 225</td>
<td>– 4.2</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>(11)</td>
<td>5 928</td>
<td>96.8</td>
<td>5 215</td>
<td>96.3</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td>6 127</td>
<td>100.0</td>
<td>5 415</td>
<td>100.0</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS

General

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

Valuation principles

Assets are valued at no more than their acquisition cost. Exceptions are current assets with market value, which are valued at the exchange rate or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built. Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity they are not usually combined as a group for valuation. Until 2013 treasury shares reserved for the stock option plan, as well as repurchased treasury shares, were shown at lower of cost or market. As of 2014 treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves. Liabilities are valued at nominal value. All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

Details to specific items

1. Income from investments in subsidiaries

<table>
<thead>
<tr>
<th>Item</th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>1,071</td>
<td>1,565</td>
</tr>
<tr>
<td>Other income from investments in subsidiaries</td>
<td>64</td>
<td>71</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,135</strong></td>
<td><strong>1,636</strong></td>
</tr>
</tbody>
</table>

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

2. Other income

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

3. Depreciation and impairment

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

4. Financial expenses

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

5. Other financial income

<table>
<thead>
<tr>
<th>Item</th>
<th>2014 (CHF million)</th>
<th>2013 (CHF million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>21</td>
<td>34</td>
</tr>
<tr>
<td>Income and gains on securities</td>
<td>12</td>
<td>80</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33</strong></td>
<td><strong>114</strong></td>
</tr>
</tbody>
</table>

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

6. Non-operating / extraordinary result

Both the non-operating and extraordinary results were less than CHF 1 million in the year under review (previous year: both less than CHF 1 million).
7. Assets with an observable market price

(\text{CHF million}) \quad 31.12.2014 \quad 31.12.2013

\begin{align*}
\text{Marketable securities} & \quad 86 & \quad 102 \\
\text{Precious metals} & \quad 8 & \quad 20 \\
\text{Derivative financial instruments (see Note 10)} & \quad 2 & \quad 5 \\
\text{Total} & \quad 96 & \quad 127 \\
\end{align*}

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

8. Receivables and loans

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

9. Investments in subsidiaries and associates

The list of 171 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report.

Investments in subsidiaries accounted for 50.8% of total assets at 31 December 2014 versus 56.4% at end-2013. In absolute terms, the value of investments in subsidiaries amounted to CHF 3,113 million at end-2014. This amount corresponds to consolidated investments and investments in associates, and is CHF 57 million higher than in 2013.

10. Derivative financial instruments

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

\begin{tabular}{|c|c|c|c|c|c|c|c|c|c|c|}
\hline
Type & Contract value & Positive replacement value & Negative replacement value \\
& & Third party & Group & Total & Third party & Group & Total & Third party & Group & Total \\
& (CHF million) & & & & & & & & & \\
\hline
Forward contracts & 1,424 & 415 & 1,839 & 0 & 2 & 2 & -28 & -4 & 32 \\
\hline
Total at 31.12.2014 & 1,424 & 415 & 1,839 & 0 & 2 & 2 & -28 & -4 & 32 \\
Total at 31.12.2013 & 1,118 & 392 & 1,510 & 0 & 5 & 5 & -8 & -3 & 11 \\
\hline
\end{tabular}

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

11. Equity

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

The table below shows the changes in equity:

\begin{tabular}{|c|c|c|c|c|c|c|}
\hline
(\text{CHF million}) & Share capital & Statutory capital reserve & Statutory reserve & Voluntary reserve & Available earnings & Treasury shares & Total equity \\
\hline
Allocated in 2014 & & & & 1,470 & -1,470 & - & - \\
Dividend paid out & & & & - & -407 & -407 & - \\
Sale/Repurchase & & & & & & & \\
treasury shares & & 25 & & & -33 & -8 \\
Mergers & & 54 & & & & 54 & \\
Net income for the year & & & & 1,074 & 1,074 & 1,074 & \\
Balance at 31.12.2014 & 125 & 82 & 10 & 4,860 & 1,109 & -258 & 5,928 \\
\hline
\end{tabular}
NOTES TO THE FINANCIAL STATEMENTS

Share capital
At 31 December 2014, share capital consisted of 124 045 000 registered shares each with a nominal value of CHF 0.45, and of 30 840 000 bearer shares each with a nominal value of CHF 2.25 (unchanged from the previous year).

<table>
<thead>
<tr>
<th>Balance sheet date</th>
<th>Registered shares</th>
<th>Bearer shares</th>
<th>Share capital in CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2013</td>
<td>124 045 000 at CHF 0.45</td>
<td>30 840 000 at CHF 2.25</td>
<td>125 210 250.00</td>
</tr>
<tr>
<td>31.12.2014</td>
<td>124 045 000 at CHF 0.45</td>
<td>30 840 000 at CHF 2.25</td>
<td>125 210 250.00</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Name/Company</th>
<th>Location</th>
<th>Beneficial owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community of heirs of N.G. Hayek represented by Marianne Hayek</td>
<td>Meisterschwanden</td>
<td>Community of heirs of N. G. Hayek</td>
</tr>
<tr>
<td>WAT Holding AG</td>
<td>Meisterschwanden</td>
<td>Community of heirs of N. G. Hayek</td>
</tr>
<tr>
<td>Ammann Group Holding AG</td>
<td>c/o Ernst &amp; Young AG, Bern</td>
<td>Descendants U. Ammann-Schellenberg sen.</td>
</tr>
<tr>
<td>Swatch Group Pension Fund</td>
<td>Neuchâtel</td>
<td>—</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Name/Company</th>
<th>Location</th>
<th>Beneficial owners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hayek Holding AG</td>
<td>Meisterschwanden</td>
<td>Community of heirs of N. G. Hayek</td>
</tr>
<tr>
<td>Community of heirs of N. G. Hayek and family members</td>
<td>Meisterschwanden</td>
<td>Community of heirs of N. G. Hayek</td>
</tr>
<tr>
<td>Personalfürsorgestiftung der Hayek Engineering AG</td>
<td>Meisterschwanden</td>
<td>—</td>
</tr>
<tr>
<td>Ammann families (pension funds, foundations and individuals, Madisa AG)</td>
<td>c/o Ernst &amp; Young AG, Bern</td>
<td>Represented by Daniela Schneider</td>
</tr>
<tr>
<td>Fondation d’Ébauches SA et des maisons affiliées</td>
<td>Neuchâtel</td>
<td>—</td>
</tr>
<tr>
<td>Various welfare foundations</td>
<td>various</td>
<td>—</td>
</tr>
</tbody>
</table>

In the context of the pool, the group of the community of heirs of N.G. Hayek and related parties controlled in total 40.4% of the shares issued at end-2014 (previous year: 40.4%). Mrs. Esther Grether’s group controlled 5.9% of the shares issued (previous year: 7.1%). At 31 December 2014, the Swatch Group was not aware of any other group or individual shareholder having an interest of more than 5% of the total share capital.

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

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

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

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

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

<table>
<thead>
<tr>
<th>Shares held by:</th>
<th>Registered shares</th>
<th>Bearer shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Quantity</td>
</tr>
<tr>
<td>The Swatch Group Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 31.12.2013</td>
<td>4,126,296</td>
<td>505,000</td>
</tr>
<tr>
<td>Acquisitions in 2014 1/a</td>
<td>385,000</td>
<td>164,000</td>
</tr>
<tr>
<td>Disposals in 2014 2/a</td>
<td>–252,308</td>
<td>–164,000</td>
</tr>
<tr>
<td>Balance at 31.12.2014</td>
<td>4,258,988</td>
<td>505,000</td>
</tr>
<tr>
<td>Other consolidated companies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 31.12.2013</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Acquisitions in 2014</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Disposals in 2014</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Balance at 31.12.2014</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total balance at 31.12.2014</td>
<td>4,258,988</td>
<td>505,000</td>
</tr>
</tbody>
</table>

1/a of which at 31 December 2014 a total of 1,154,463 registered shares were reserved for the management stock option plan (1,396,771 registered shares in 2013).
2/a In 2014, the Group acquired 385,000 registered shares at an average price of CHF 86.28 each. The Group also acquired 164,000 bearer shares at an average price of CHF 448.63 each.
3/a In 2014, the Group sold 10,000 registered shares at an average price of CHF 87.95 each. The remaining disposals of registered shares relate to the employee stock option plan. Details of the share options granted in connection with the employee stock option plan are provided in Note 29. The Group also sold 164,000 bearer shares at an average price of CHF 466.11 each.

Off-balance-sheet items

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

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

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

Assets pledged
None of the company’s assets are pledged.

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

Contingent liabilities
There were no contingent liabilities at the end of 2014 (previous year: none).
Swatch Group shares and options of the Board of Directors, Group Management and employees

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

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

<table>
<thead>
<tr>
<th>Name</th>
<th>Function</th>
<th>Registered Shares (number)</th>
<th>Bearer Shares (number)</th>
<th>Options (number)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community of heirs N. G. Hayek represented by Marianne Hayek</td>
<td></td>
<td>55,704,144</td>
<td>55,704,144</td>
<td>550</td>
</tr>
<tr>
<td>Nayla Hayek BoD Chairwoman</td>
<td></td>
<td>88,208</td>
<td>68,208</td>
<td>20 002</td>
</tr>
<tr>
<td>Ernst Tanner BoD Vice-Chairman</td>
<td></td>
<td></td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Esther Grether BoD Member</td>
<td></td>
<td>10,068,000</td>
<td>114,000</td>
<td></td>
</tr>
<tr>
<td>Prof. Dr. h.c. Claude Nicollier BoD Member</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr. Jean-Pierre Roth BoD Member</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Georges Nicolas Hayek BoD Member / CEO</td>
<td></td>
<td>77,991</td>
<td>56,491</td>
<td>24 000</td>
</tr>
<tr>
<td>Pierre-André Bühler MB Member</td>
<td></td>
<td>17,366</td>
<td>12,866</td>
<td>8 002</td>
</tr>
<tr>
<td>Dr. Mougahed Darwish MB Member</td>
<td></td>
<td>71,068</td>
<td>67,366</td>
<td>2 602</td>
</tr>
<tr>
<td>Marc A. Hayek MB Member</td>
<td></td>
<td>93,398</td>
<td>80,898</td>
<td>12 502</td>
</tr>
<tr>
<td>Dr. Thierry Kenel MB Member / CFO</td>
<td></td>
<td>38,252</td>
<td>30,252</td>
<td>8 002</td>
</tr>
<tr>
<td>Florence Ullivier-Lamarque MB Member</td>
<td></td>
<td>50,668</td>
<td>40,668</td>
<td>12 000</td>
</tr>
<tr>
<td>Dr. Hanspeter Rentsch MB Member / CLO</td>
<td></td>
<td>97,522</td>
<td>95,022</td>
<td>200</td>
</tr>
<tr>
<td>François Thiébaud MB Member</td>
<td></td>
<td>93,123</td>
<td>84,623</td>
<td>12 502</td>
</tr>
<tr>
<td>Matthias Breschan EMB Member</td>
<td></td>
<td>9,867</td>
<td>6,033</td>
<td>4 001</td>
</tr>
<tr>
<td>Jean-Claude Eggen EMB Member</td>
<td></td>
<td>3,034</td>
<td>3,034</td>
<td>3 000</td>
</tr>
<tr>
<td>Yann Gamard EMB Member</td>
<td></td>
<td>3,616</td>
<td>2,616</td>
<td>2 501</td>
</tr>
<tr>
<td>Hans-Rudolf Gottier EMB Member</td>
<td></td>
<td>7,801</td>
<td>5,501</td>
<td>5 002</td>
</tr>
<tr>
<td>Walter von Känel EMB Member</td>
<td></td>
<td>26,048</td>
<td>30,648</td>
<td>5 002</td>
</tr>
<tr>
<td>Thomas Meier EMB Member</td>
<td></td>
<td>42,879</td>
<td>36,393</td>
<td>40 000</td>
</tr>
<tr>
<td>Calogero Polizzi EMB Member</td>
<td></td>
<td>5,536</td>
<td>4,004</td>
<td>2 002</td>
</tr>
<tr>
<td>Kevin Rollenhagen EMB Member</td>
<td></td>
<td>40,148</td>
<td>52,148</td>
<td>8 002</td>
</tr>
<tr>
<td>Dr. Peter Steiger EMB Member</td>
<td></td>
<td>67,257</td>
<td>60,257</td>
<td>8 668</td>
</tr>
<tr>
<td>Stephen Urquhart EMB Member</td>
<td></td>
<td>38,500</td>
<td>32,000</td>
<td>6 502</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>56,571,025</td>
<td>67,344,042</td>
<td>2,800</td>
</tr>
</tbody>
</table>

Each option gives the right to conversion into one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 30 of the consolidated financial statements. Except for the community of heirs of N. G. Hayek, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2014, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of 2013: community of heirs of N. G. Hayek and Mrs. E. Grether).

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

Additional information, cash flow statement and management report

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

Events after the balance sheet date

These financial statements were approved for issue by the Board of Directors on 20 February 2015 and will be submitted to the Annual General Meeting of Shareholders for approval on 28 May 2015. There were no other significant events after the balance sheet date.
## Proposed Appropriation of Available Earnings

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHF</td>
<td>CHF</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>1 074 510 104</td>
<td>1 880 341 359</td>
</tr>
<tr>
<td>Profit brought forward from previous year</td>
<td>34 681 336</td>
<td>31 731 285</td>
</tr>
<tr>
<td>Available earnings</td>
<td>1 109 191 440</td>
<td>1 912 072 644</td>
</tr>
<tr>
<td>Allocation to special reserve</td>
<td>– 670 000 000</td>
<td>– 1 470 000 000</td>
</tr>
<tr>
<td>Payment on share capital of CHF 125 210 250.00 of a 2013 dividend, i.e.:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– CHF 1.50 per registered share with a par value of CHF 0.45</td>
<td>– 186 067 500</td>
<td></td>
</tr>
<tr>
<td>– CHF 7.50 per bearer share with a par value of CHF 2.25</td>
<td>– 231 300 000</td>
<td></td>
</tr>
<tr>
<td>Payment on share capital of CHF 125 210 250.00 of a 2014 dividend, i.e.:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– CHF 1.50 per registered share with a par value of CHF 0.45</td>
<td>– 186 067 500</td>
<td></td>
</tr>
<tr>
<td>– CHF 7.50 per bearer share with a par value of CHF 2.25</td>
<td>– 231 300 000</td>
<td></td>
</tr>
<tr>
<td>Dividends not paid out on own shares held by the Group2)</td>
<td>9 976 191</td>
<td></td>
</tr>
<tr>
<td>Balance carried forward</td>
<td>21 823 940</td>
<td>34 681 335</td>
</tr>
</tbody>
</table>

1) It is planned not to pay dividends on own shares held by the Group.

2) Based on the decision of the Annual General Meeting of 14 May 2014, the dividend due on own shares held by the Group was not paid out.
REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of The Swatch Group Ltd, which comprise the income statement, balance sheet and notes (pages 207 to 214), for the year ended 31 December 2014.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company’s articles of incorporation.

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company’s articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Gerhard Siegrist
Audit expert
Auditor in charge

Roy Bächinger
Audit expert

Basel, 20 February 2015
### Key data per registered share (nom CHF 0.45) in CHF

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated net income</td>
<td>5.10</td>
<td>7.08</td>
<td>5.91</td>
<td>4.70</td>
<td>4.05</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>6.81</td>
<td>4.83</td>
<td>3.70</td>
<td>2.61</td>
<td>5.11</td>
</tr>
<tr>
<td>Consolidated shareholders’ equity</td>
<td>39.32</td>
<td>35.30</td>
<td>31.77</td>
<td>29.82</td>
<td>26.77</td>
</tr>
<tr>
<td>Dividend</td>
<td>1.50</td>
<td>1.50</td>
<td>1.35</td>
<td>1.15</td>
<td>1.00</td>
</tr>
</tbody>
</table>

### Key data per bearer share (nom CHF 2.25) in CHF

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated net income</td>
<td>25.49</td>
<td>35.41</td>
<td>29.57</td>
<td>23.50</td>
<td>20.27</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>34.03</td>
<td>24.13</td>
<td>18.51</td>
<td>13.05</td>
<td>25.55</td>
</tr>
<tr>
<td>Consolidated shareholders’ equity</td>
<td>196.58</td>
<td>176.52</td>
<td>158.84</td>
<td>149.11</td>
<td>133.83</td>
</tr>
<tr>
<td>Dividend</td>
<td>7.50</td>
<td>7.50</td>
<td>6.75</td>
<td>5.75</td>
<td>5.00</td>
</tr>
</tbody>
</table>

### Stock price of registered shares (adjusted)

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>108.00</td>
<td>104.40</td>
<td>80.40</td>
<td>79.50</td>
<td>78.50</td>
</tr>
<tr>
<td>Low</td>
<td>75.35</td>
<td>80.20</td>
<td>59.90</td>
<td>51.60</td>
<td>50.40</td>
</tr>
<tr>
<td>31.12.</td>
<td>86.00</td>
<td>100.40</td>
<td>78.75</td>
<td>62.60</td>
<td>75.40</td>
</tr>
</tbody>
</table>

### Stock price of bearer shares (adjusted)

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>597.00</td>
<td>606.50</td>
<td>471.70</td>
<td>443.70</td>
<td>434.80</td>
</tr>
<tr>
<td>Low</td>
<td>417.10</td>
<td>473.00</td>
<td>341.70</td>
<td>288.50</td>
<td>262.20</td>
</tr>
<tr>
<td>31.12.</td>
<td>444.20</td>
<td>569.50</td>
<td>461.20</td>
<td>351.50</td>
<td>416.80</td>
</tr>
</tbody>
</table>

### Market capitalization (CHF million)

<table>
<thead>
<tr>
<th>Year-end</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.</td>
<td>24 367</td>
<td>30 634</td>
<td>23 992</td>
<td>18 605</td>
<td>22 207</td>
</tr>
</tbody>
</table>

### Key ratios (year-end)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average return on equity (%)</td>
<td>14.0</td>
<td>21.2</td>
<td>19.7</td>
<td>16.8</td>
<td>16.5</td>
</tr>
<tr>
<td>Dividend yield registered shares (%)</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Dividend yield bearer shares (%)</td>
<td>1.7</td>
<td>1.3</td>
<td>1.5</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Price/earnings ratio – registered shares</td>
<td>16.9</td>
<td>14.2</td>
<td>13.3</td>
<td>13.3</td>
<td>18.6</td>
</tr>
<tr>
<td>Price/earnings ratio – bearer shares</td>
<td>17.4</td>
<td>16.7</td>
<td>15.6</td>
<td>15.0</td>
<td>20.6</td>
</tr>
</tbody>
</table>

1) Board of Directors’ proposal.

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

### Securities

<table>
<thead>
<tr>
<th>ISIN no.</th>
<th>Reuters Symbol</th>
</tr>
</thead>
<tbody>
<tr>
<td>CH0012255144</td>
<td>UHRN.S</td>
</tr>
<tr>
<td>CH0012255151</td>
<td>UHR.VX</td>
</tr>
</tbody>
</table>

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

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![Graph showing the evolution of the Swatch Group Ltd registered shares and the Swiss Market Index from 1988 to 2014](image-url)