



**ARTICLES OF ASSOCIATION
THE SWATCH GROUP LTD**

MAY 2015

[Only the German version is legally binding.]

I. NAME, REGISTERED OFFICE, PURPOSE AND DURATION OF THE COMPANY

Article 1 Name and registered office

Under the corporate name of

The Swatch Group AG

The Swatch Group SA

The Swatch Group Ltd

there exists a Corporation with its registered office in Neuchâtel. The company may set up branch establishments.

Article 2 Purpose

- 1 The purpose of the company shall be to acquire shareholding interests in domestic and foreign companies, in particular in the domains of watches, watch movements, watch components, micro-electronics, micro-mechanics, telecommunications, automobiles and in allied fields.
- 2 The company may engage in all commercial activities relating to its purpose and the investment of its resources.
- 3 The company shall be entitled to acquire real property in Switzerland and elsewhere, to mortgage such property and also to sell it.
- 4 The company may acquire, manage, utilize and, in particular, grant licences for intellectual property rights.
- 5 The company shall be authorized to operate its own business establishments.

Article 3 Duration

The company is set up for an unlimited period.

II. AUTHORIZED CAPITAL

Article 4 Share capital

- 1 The share capital of the company shall be CHF 125'210'250.00 (one hundred and twenty-five million and two hundred and ten thousand and two hundred and fifty 00/100 Swiss Francs).
- 2 It shall be subdivided into 124'045'000 registered shares with a par value of CHF 0.45 and 30'840'000 bearer shares with a par value of CHF 2.25.
- 3 The shares are fully paid up.

Article 5 **Increase in the share capital**

- 1 The share capital may be increased at any time by the issue of further shares pursuant to a resolution passed by the General Meeting.
- 2 Any increase in the share capital shall be governed by Art. 650ff of the Swiss Code of Obligations (CO) in the case of an ordinary and authorized capital increase, and Art. 653ff CO for conditional capital increases.
- 3 Save as otherwise resolved by the General Meeting or the Board of Directors in the event of an authorized capital increase, each shareholder shall be entitled to subscribe to a proportion of the new share capital corresponding to the par value of his shares.

Article 6 **Participation capital**

- 1 The General Meeting may create participation capital, increase the amount thereof or authorize the Board of Directors to pass resolutions on this matter. The participation notes shall be bearer certificates.
- 2 The participation notes confer the same claim to a share of the net profit and proceeds of liquidation as that accruing to the shares; however, they shall not confer any rights of membership. In particular, the bearers of participation notes shall have no voting rights, no right to attend the General Meetings and no right to convene such meetings.

Article 7 **Subscription rights**

- 1 The resolution of the General Meeting to increase the share and participation note capital may only abrogate the subscription right if there are important reasons for so doing. Important reasons shall include, in particular, the acquisition of companies, parts of companies or interests therein and employee participation. Abrogation of the subscription right must not unduly favour or prejudice anyone.
- 2 If the participation or share capital alone is increased, or one is increased proportionately more than the other, the subscription rights shall be allocated in a way such that the shareholders and holders of participation notes may retain the same proportion of the total capital as they previously held. If the share and participation capital are increased simultaneously and in the same ratio, shareholders may only subscribe to shares and participation note holders only to new participation notes.
- 3 The shareholders' right of preemptive subscription in the event of the issue of convertible or option loans may be limited or abrogated by the Board of Directors if
 - a) a public issue appears to be the most appropriate form of issue at the time concerned, with particular reference to the issue terms, or if
 - b) the convertible or option loan is to be issued as a consideration for shareholders when their companies or parts thereof or participation interests are acquired.

- 4 The following provisions shall apply to convertible or option loans which, by resolution of the Board of Directors, are not to be offered in advance to the shareholders for subscription:
 - a) conversion rights shall be exercisable for a maximum period of 15 years and option rights for a maximum period of 10 years from the date of issue of the corresponding loan;
 - b) the issue of the new shares shall be effected on the prevailing convertible or option conditions. Convertible or option loans shall be issued on normal market terms (including the habitual market clauses on protection against dilution). The conversion or option price shall correspond at the very least to the average of the latest stock exchange quotations in Zürich for the last 5 days preceding the determination of the definitive issue terms for the particular convertible or option loan.
- 5 Acquisition of the shares by the exercise of convertible and/or option rights and any subsequent transfer of the shares shall be governed by the transfer limitation stipulated in Art. 9 of the Articles of Association.

Article 8 Share certificates and participation notes

- 1 Instead of the shares and participation notes, certificates with or without coupon sheets may be issued.
- 2 The shares, participation notes and certificates, shall each bear the facsimile signature of the Chairman and at least one member of the Board of Directors.
- 3 The company may refrain from printing and delivering documentary evidence of registered shares. However, the registered shareholder shall be entitled at any time to require the company to print and issue the certificate for his registered shares free of charge.
- 4 Registered shares for which no documentary evidence exists, including the rights pertaining thereto, may only be disposed of by assignment, respectively in accordance with the provisions of the Federal Act on Book-Entry Securities (BESA). The assignment shall be valid only if it is duly notified to the company. Undocumented shares and the resulting rights shall be transferred with the participation of the bank at which the shareholder causes books to be kept in respect of such shares. They may also be pledged only in favour of said bank, in which case a report to the company shall not be necessary. The provisions of Art. 9 shall likewise apply in relation to the transfer of non-documented registered shares.

Article 9 Share register, transfer of shares, registered shares subject to transfer restrictions

- 1 The company shall keep a share register in which the names and addresses of the proprietors and beneficiaries of the registered shares shall be listed. Every change of address must be notified to the company. The share register shall consist of two parts: "Shareholders with voting rights" and "Shareholders without voting rights". Only the person who is validly registered in one such part shall be regarded as a

shareholder or beneficiary in relation to the company. The shareholder with voting rights may exercise all the rights pertaining to the share, subject to the statutory limitations. A shareholder who has no voting right may exercise neither the voting right nor the other associated rights.

- 2 Where a share purchaser presents an application for recognition as a shareholder of the company, he shall be regarded as a shareholder without voting rights until the company has recognized him as a shareholder with voting rights. If the company fails to refuse the purchaser's application for recognition within 20 days, he shall be acknowledged as a shareholder with voting rights.
- 3 The Board of Directors shall refuse registration of a purchaser as a shareholder with voting rights
 - a) if the latter fails to give an express written declaration to the effect that he or she has acquired the shares in his/her own name and for his/her own account or
 - b) if said purchaser, either alone or in conjunction with related persons, already holds 5% or more of the registered share capital (held either directly or indirectly) at his disposal, or in so far as he would have more than 5% at his disposal after the registration. Corporations and partnerships which are associated with each other by capital or voting arrangements, by uniform management or in some other way, as well as all individuals or legal entities or partnerships which join forces for the purpose of evading the limitation, shall be treated as a single person.
- 4 The limitation to 5% pursuant to the above provisions shall also be applicable in the event of subscription or acquisition of registered shares by the exercise of option or conversion rights associated with shares or other securities issued by the company or by third parties. A natural or legal person or partnership which has acquired shares for third parties in a trustee capacity shall be registered in respect of those shares in the share register as a shareholder without voting rights. In the event of ownership of registered shares worth more than 5% of the registered share capital, the same provision shall apply to the proportion of shares exceeding that limit.
- 5 In special cases, the Board of Directors may approve exceptions from these rules.
- 6 The Board of Directors shall register an individual as a shareholder with voting rights even if the percentage limits are exceeded,
 - a) if said person was registered in the share register on the reporting date of 31 May 1997 as holding on his own not less than 5% of the registered share capital, or
 - b) if said shareholder is the spouse, descendant or brother/sister of such a person pursuant to sec. a above, or
 - c) to the extent that he/she has acquired registered shares designated as having voting rights directly by inheritance, division of inheritance or under marital property law or

- d) if the individual with shares registered as having voting rights acquires them from a legal entity whose name has been registered in the share register pursuant to para. 7 below, and in which the purchaser has a majority shareholding interest.
- 7 The Board of Directors shall also register a legal entity as shareholder with voting rights even if the percentage limits are exceeded, if said entity
 - a) was entered in the share register as being the owner of at least 5% of the registered share capital on the reporting date of 31 May 1997, and
 - b) on the reporting date of 31 May 1997, and at the time of the application for the new registration, was or is controlled by persons who satisfy the requirements set out in para. 6, sec. a and b, above.
- 8 The Board of Directors shall delete the registration of a purchaser as a shareholder with voting rights with retroactive effect to the date of registration if said registration was acquired by false declarations or by evading limitations on registration.

Article 10 Obligation to submit an offer to purchase

Anyone who acquires shares either directly or indirectly or in agreement with third parties and by so doing exceeds the limit of 49% of voting rights, including the shares that he already possesses, regardless of whether those rights can or cannot be exercised, shall be required to make an offer to purchase all the listed shareholding papers of the company (Art. 32 BEHG).

III. ORGANIZATION OF THE COMPANY

A. General Meeting

Article 11 Terms of reference of the General Meeting

The General Meeting of shareholders shall be the supreme body of the company; its decisions taken pursuant to the law and Articles of Association shall be binding on all the shareholders.

Article 12 Ordinary General Meeting

The Ordinary General Meeting shall be held annually within six months of the end of the business year.

Article 13 Extraordinary General Meeting

- 1 An Extraordinary General Meeting shall be convened when deemed necessary by the Board of Directors or the statutory auditors or if resolved by the General Meeting.
- 2 The Board of Directors shall also convene an Extraordinary General Meeting if one or more shareholders, who together own at least 10% of the share capital, so request in writing stating the matters to be discussed and the motions presented. The

Extraordinary General Meeting shall be held within 40 days of the date of receipt of such a request.

Article 14 Convening the General Meeting, Agenda

- 1 The General Meeting shall be convened by the Board of Directors or, if necessary, by the statutory auditors.
- 2 The General Meeting shall be convened no later than 20 days before the date fixed for the meeting by publication in the statutory publication journals. Shareholders who are registered in the share register may also be invited by letter sent to the addresses recorded in said register.
- 3 Shareholders who represent shares with a par value of 1 million francs may submit a written request for a meeting to be held to discuss a particular subject; the motions tabled shall likewise be indicated.
- 4 The invitation to attend shall indicate the matters to be discussed, together with the motions of the Board of Directors and of the shareholders who have requested the holding of a General Meeting or the discussion of a particular subject.
- 5 No resolutions can be passed on motions relating to matters that have not been duly announced; an exception shall be motions to convene an Extraordinary General Meeting or to effect a special audit.
- 6 No later than 20 days before the Ordinary General Meeting, the annual report, the compensation report and the auditors' reports shall be laid open to inspection by the shareholders at the registered office of the company. Express reference shall be made thereto in the invitation to attend. Every shareholder may request that a copy of these documents be sent to him immediately.

Article 15 Chairmanship of the General Meeting: minutes

- 1 The General Meeting shall be chaired by the Chairman of the company or, in his absence, by a member of the Board of Directors designated by said Board.
- 2 The Chairman shall appoint a Secretary who need not be a shareholder, as well as the tellers. Minutes shall be written of the discussions and signed by the Chairman, the Secretary and the tellers.
- 3 The minutes shall indicate
 1. the number, nature, par value and category of the shares represented by the shareholders and the independent voting rights representative;
 2. the resolutions and election results;
 3. the requests for information and the answers received thereto;
 4. the declarations placed on record by the shareholders.

Article 16 **Voting rights and representation of the shareholders**

- 1 Each share shall carry one vote. The voting right shall be subject to the provisions of para. 3 below.
- 2 For the exercise of voting rights, no shareholder may combine, either directly or indirectly, more than 5% of the total share capital in respect of his own shares and those represented by him. Legal entities which are associated by capital, voting rights, management or in some other manner, as well as individuals or legal entities who join forces for the purpose of evading the limitation shall be treated as a single person.
- 3 The above limitation shall not apply to the shares falling under the provisions of Art. 9, paras 5 - 7. Moreover, the limitation shall not apply in respect of the exercise of voting rights by the independent voting rights representative.
- 4 In special cases, the Board of Directors shall be entitled to depart from the limitations set out in para. 2.
- 5 A shareholder who cannot participate in person at the General Meeting may be represented by his/her legal representative, by another shareholder entitled to vote or by the independent voting rights representative.
- 6 The Board of Directors issues the procedural rules with regards to the participation and representation of shareholders at the General Meeting and regulates the requirements regarding powers of attorney and instructions.

Article 17 **Independent voting rights representative**

- 1 The General Meeting shall elect the independent voting rights representative.
- 2 The term of office starts after the closure of the General Meeting at which the election took place and ends with the closure of the next Ordinary General Meeting. Re-election is possible.
- 3 The independent voting rights representative is obligated to exercise the voting rights delegated to him by the shareholders in accordance with the instructions given.
- 4 If the company does not have an independent voting rights representative, the Board of Directors shall appoint an independent voting rights representative for the next General Meeting.

Article 18 **Quorum and resolutions**

- 1 The General Meeting shall be entitled to deliberate without reference to the number of shareholders present or shares represented, save where the Articles of Association stipulate otherwise.

- 2 In so far as the law or the Articles of Association do not prescribe a qualified majority, the General Meeting shall pass its resolutions and determine its elections by a relative majority of the votes cast in respect of shares.
- 3 In the event of a tie, the Chairman shall cast the deciding vote.

Article 19 **Voting procedures**

- 1 Votes and elections shall take place openly, save where the Chairman orders a written or electronic election or vote.
- 2 One or more shareholders, who together dispose of not less than 10% of the represented votes, may require written votes or elections.
- 3 The Chairman may at any time order that a vote or an election be repeated if, in his opinion, there are doubts as to the result. In this case, the preceding vote or election shall be deemed not to have taken place.

Article 20 **Non-assignable powers of the General Meeting**

- 1 The General Meeting has the following non-assignable powers:
 1. adoption and amendment of the Articles of Association;
 2. election and removal of the members of the Board of Directors, the Chairman of the Board of Directors and the members of the compensation committee;
 3. election and removal of the statutory auditors;
 4. election and removal of the independent voting rights representative;
 5. approval of the management report and the consolidated statement of accounts;
 6. approval of the annual statement of accounts and the resolution on the utilization of the balance sheet profit, with particular reference to the determination of the dividend and directors' fees;
 7. approval of the compensation of the Board of Directors and of the Group Management Board pursuant to Art. 31 of the Articles of Association;
 8. granting of a discharge to members of the Board of Directors and the Group Management Board;
 9. decisions on the matters which are reserved for the General Meeting by law or by the Articles of Association.
- 2 In addition, the General Meeting shall deal with all matters which are placed before it by the Board of Directors for a resolution to be taken.

Article 21 **Special quorum and qualified majority**

- 1 A resolution of the General Meeting which receives at least two-thirds of the votes represented and an absolute majority of the par values of shares, shall be required for:
 1. a change of the company's registered purpose;
 2. the introduction of shares with privileged voting rights;
 3. limitation of the transferability of registered shares;
 4. an authorized or conditional capital increase;
 5. a capital increase by means of share capital, by non-cash capital contribution or for the purpose of acquisition in kind and the granting of special benefits;
 6. limitation or abrogation of the subscription rights;
 7. transfer of the company's registered office;
 8. winding up the company;
 9. the removal of the members of the Board of Directors.
- 2 Provisions of the Articles of Association which prescribe a larger majority than that stipulated by law for the passing of certain resolutions can only be introduced, amended and abolished if the prescribed majority is obtained.
- 3 Registered shareholders who have not voted in favour of a motion on the change of purpose or on the introduction of shares with privileged voting rights shall not be bound by statutory limitations of share transferability for a period of six months after publication of the decision in the Swiss Commercial Register Gazette.

B. Board of Directors

Article 22 **Number of Board Members, Term of Office**

- 1 The Board of Directors shall consist of not less than 5 and not more than 9 members, who must be shareholders or representatives of a legal entity or commercial company which has a shareholding interest in the company.
- 2 The Chairman and the members of the Board of Directors shall be individually elected by the General Meeting for a term of office extending until closure of the next Ordinary General Meeting. Re-election is possible.
- 3 If the office of the Chairman is vacant, the Board of Directors shall appoint a new Chairman from among its members for the remaining term of office.
- 4 One member of the Board of Directors shall be designated as the representative of the registered shareholders and another as representative of the bearer shareholders.

Article 23 **Organization of the Board of Directors**

- 1 Except for the election of the Chairman of the Board of Directors and the members of the compensation committee, the Board of Directors shall be self-constituting. It shall designate one or several Vice-Chairmen and the Secretary who need not be a member of the Board of Directors.
- 2 The Board of Directors shall arrange for its powers to be set out in organisational rules and shall define its own organization.

Article 24 **Calling of meetings and resolutions**

- 1 The Chairman or, in his absence, his substitute, shall call the meetings and lead the discussions.
- 2 Each member of the Board of Directors may require the Chairman to immediately call a meeting, citing the reasons for doing so.
- 3 Minutes shall be kept of the discussions and resolutions and signed by the Chairman and the Secretary.
- 4 The Board of Directors shall have a quorum for resolutions when a majority of its members are present.
- 5 The resolutions of the Board of Directors shall be taken by a majority of the votes cast. The Chairman shall likewise vote and may cast a deciding vote.
- 6 Save where expressly provided otherwise by law, resolutions of the Board of Directors may also be made in writing by e-mail, facsimile or using some other form of transmission which permits visual confirmation of the decision by a text, as long as no member requires oral procedure.
- 7 Circular resolutions shall stand adopted when a majority of members of the Board of Directors have given their written consent.

Article 25 **Terms of reference of the Board of Directors**

The Board of Directors shall conduct all business operations of the company, insofar as they are not reserved to the General Meeting or transferred pursuant to the organisational rules referred to in Art. 27.

Article 26 **Non-assignable tasks of the Board of Directors**

The Board of Directors shall have the following tasks which cannot be delegated or withdrawn:

1. management of the company at the highest level and issuing the necessary instructions;

2. determination of the company's organization and enactment of organisational rules;
3. definition of accounting procedures, financial control and financial planning;
4. appointment and removal of the persons charged with management and representation;
5. high level supervision of the persons responsible for management of the company, with a particular view to compliance with laws, Articles of Association, regulations and instructions
6. preparation of the business report and the compensation report and also of the General Meeting and implementation of its resolutions
7. informing the judge in case of insolvency.

Article 27 Assignment of powers

- 1 The Board of Directors may set up committees from among its members which shall be responsible for the preparation and implementation of its resolutions or for the monitoring of certain specific types of business. The Board of Directors shall ensure proper reporting.
- 2 Pursuant to the provisions of the organisational rules, the Board of Directors may delegate management responsibility, in whole or in part to individual members (delegates), to a committee or to third parties who need not necessarily be shareholders (executive directors).

Article 28 Compensation Committee

- 1 The compensation committee shall consist of no less than three members of the Board of Directors. The General Meeting shall elect the members individually. The term of office starts after the closure of the General Meeting at which the election took place and ends with the closure of the next Ordinary General Meeting. Re-election is possible.
- 2 Should one or more members resign or should the compensation committee be incompletely made up, the Board of Directors may appoint substitute members from among its members for a term of office extending until closure of the next Ordinary General Meeting.
- 3 The Board of Directors shall elect the chairman of the compensation committee. Apart from the chairman, the compensation committee is self-constituting.
- 4 Should the Board of Directors comprise less than (8) eight members, the compensation committee may also consist of the same members as the Board of Directors.

- 5 The compensation committee concerns itself with the compensation policy of the company. It has the tasks as well as the decision and proposal powers assigned to it by the organisational rules and regulations of the compensation committee. In particular, it shall assist the Board of Directors in determining the compensation system and the principles of compensation as well as in the preparation of motions to the General Meeting regarding the approval of compensation in accordance with Art. 31 of the Articles of Association. The compensation committee may submit motions and recommendations to the Board of Directors in other compensation-related issues.
- 6 The organisational rules and the regulations of the compensation committee may assign further tasks to the compensation committee.

Article 29 Representation of the company in relation to third parties

- 1 The Board of Directors may assign the representation of the company in relation to third parties to one or more of its members and/or third parties (executive directors).
- 2 The Board of Directors may appoint persons holding powers of attorney and other authorized persons.
- 3 The Board of Directors shall grant authority to sign to the persons who are empowered to represent the company in relation to third parties. The method of signing shall be stipulated in the organisational rules.

Article 30 Information

- 1 Each member of the Board of Directors may seek information on all matters relating to the company.
- 2 At meetings, all members of the Board and persons responsible for the conduct of business shall be required to give information.
- 3 Outside such meetings, each member may seek information on the general progress of business from the persons who are entrusted with management and - with authorization of the Chairman - also on individual transactions.
- 4 As far as necessary for the performance of a task, each member may ask the Chairman to arrange for him to inspect books and documents.
- 5 If the Chairman rejects an application for information, a hearing or inspection, the Board of Directors shall decide at the request of the applicant.

C. Compensation of the Members of the Board of Directors and the Group Management Board

Article 31 Approval of Compensation by the General Meeting

- 1 The General Meeting shall annually approve the motions of the Board of Directors in relation to the aggregate amounts of:
 - the maximum fixed compensation of the members of the Board of Directors for the period until the next Ordinary General Meeting,
 - the maximum fixed compensation of the members of the Group Management Board for the current business year,
 - the variable compensation of the executive members of the Board of Directors for the completed business year,
 - the variable compensation of the members of the Group Management Board for the completed business year.
- 2 The Board of Directors may propose additional motions to the General Meeting or motions which vary from those mentioned in para. 1, to the extent permitted by law.
- 3 The company or companies controlled by it shall be authorized to pay to persons who become members of the Group Management Board or are being promoted within the Group Management Board after the General Meeting has approved the compensation of the Group Management Board for the relevant period a supplementary amount during the compensation period(s) already approved, if the maximum aggregate amount of compensation already approved by the General Meeting is not sufficient to cover their compensation. The supplementary amount shall not exceed 40% of the last approved aggregate amount of compensation of the Group Management Board.
- 4 In the event that the General Meeting does not approve a motion of the Board of Directors, the Board of Directors shall determine, taking into account all relevant factors, the respective (maximum) aggregate amount or (maximum) partial amounts. The Board of Directors shall submit the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Ordinary General Meeting.
- 5 The company or companies controlled by it may pay out compensation prior to the approval by the General Meeting subject to the subsequent approval by the General Meeting.

Article 32 General Compensation Principles

- 1 The members of the Board of Directors and of the Group Management Board are entitled to compensation corresponding to their job function and degree of responsibility.

- 2 The company may award compensation for activities in companies that are directly or indirectly controlled by the company and for activities at the order of the undertaking. The compensation may be awarded by the company or by the companies that it controls.
- 3 The compensation of the non-executive members of the Board of Directors comprises only fixed compensation elements.
- 4 The compensation of the executive members of the Board of Directors and of the members of the Group Management Board comprises fixed and variable compensation elements. The fixed compensation comprises the base salary and may include additional compensation elements. The variable compensation shall depend on the achievement of certain performance objectives.
- 5 The performance objectives may include personal goals, company-specific and division-specific objectives, along with key economic or market-related figures. In each case, the function and the level of responsibility of the recipient of the variable compensation shall be taken into account.
- 6 The Board of Directors or, to the extent delegated to it, the compensation committee shall determine the performance indicators and objectives of the variable compensation elements, as well as of their achievement.
- 7 The compensation may be awarded in the form of cash, shares, in kind or in the form of services; with regards to the executive members of the Board of Directors and the members of the Group Management Board, their compensation may in addition be awarded in the form of other participation rights, options, or similar instruments or units. The Board of Directors or, to the extent delegated to it, the compensation committee shall determine the applicable conditions relating to the grant, the exercise as well as the deadlines, possible blocking periods and forfeiture conditions.

D. Statutory Auditors

Article 33 Number of members; term of office

- 1 The General Meeting shall elect the statutory auditors with the rights and obligations laid down by law. The term of office of the statutory auditors shall be not more than three years. It shall end with the General Meeting to be presented with the last report. Re-election is possible.
- 2 The statutory auditors shall ascertain whether the bookkeeping and annual statement of accounts, together with the application for use of the balance sheet profit, comply with the statutory provisions and with the Articles of Association.
- 3 The statutory auditors shall report to the General Meeting in writing on the outcome of their audit. They shall recommend acceptance, with or without limitations, or the sending back of the annual statement of accounts.
- 4 The report shall name the persons who have headed the audit; it shall likewise confirm that the criteria applicable to the qualifications and independence of the auditors are satisfied.

- 5 The statutory auditors shall prepare a report for the Board of Directors, explaining how their audit was performed and the results arrived at.

IV. CLOSING OF ACCOUNTS, ALLOCATION OF PROFITS AND RESERVE FUND

Article 34 Business year

The business year shall begin on 1 January and end on 31 December.

Article 35 Annual report

- 1 The Board of Directors shall draft an annual report in respect of each business year. This report shall comprise the annual statement of accounts, the management report and the consolidated accounts.
- 2 The annual accounts consist of the profit and loss account, the balance sheet, the cash flow statement and the appendix.
- 3 The management report shall show the progress of business, together with the company's economic and financial situation and shall include the information required by law.

Article 36 Use of the company's balance sheet profit

Subject to the statutory provisions on the distribution of profit, in particular Art. 671ff CO, the balance sheet profit shall be at the disposal of the General Meeting.

Article 37 Reserves

- 1 A sum corresponding to one-twentieth of the net profit shall be allocated each year to a general reserve fund until this fund reaches the level of one-fifth of the paid-up share capital.
- 2 The remainder shall be placed at the free disposal of the General Meeting subject to the relevant statutory provisions.
- 3 If a dividend is paid out, each share and each participation note shall receive an equivalent proportion in relation to its par value.
- 4 In addition to the statutory reserve fund, the General Meeting may resolve to set up other special reserves which shall remain at its free disposal.

V. WINDING UP AND LIQUIDATION OF THE COMPANY

Article 38 Winding up and liquidation

- 1 The General Meeting may at any time resolve to wind up and liquidate the company in compliance with the provisions of the law and Articles of Association.
- 2 Liquidation shall be effected by the Board of Directors, unless this task is assigned to other persons by the General Meeting.
- 3 Liquidation of the company shall be effected pursuant to Art. 742ff CO. The liquidators shall be empowered to sell assets, including real property, on the open market.
- 4 After the liabilities have been settled, the assets shall be allocated among the shareholders in accordance with their respective percentage holdings determined by par value.

VI. GENERAL PROVISIONS

Article 39 Agreements with Members of the Board of Directors and the Group Management Board

- 1 The company or companies controlled by it may enter into agreements with members of the Board of Directors relating to their function and compensation, such agreements being for a fixed term or for an indefinite term. Their duration and termination shall be in accordance with the term of office and the law.
- 2 The company or companies controlled by it may enter into employment agreements with members of the Group Management Board for an indefinite term with a termination notice period of maximum 6 (six) months.

Article 40 Number of Permissible Mandates

- 1 No member of the Board of Directors shall hold more than four additional directorships in listed companies and ten additional directorships in unlisted companies.
- 2 No member of the Group Management Board shall hold any directorships in listed companies and more than four additional directorships in unlisted companies.
- 3 The following are not covered by these restrictions:
 - a) directorships in companies which are directly or indirectly controlled by the company or which control the company;
 - b) directorships held by a member of the Board of Directors or of the Group Management Board on behalf of or at the request of the company or a company controlled by it. No member of the Board of Directors or of the Group Management Board shall hold more than 20 such directorships;

- c) mandates in associations, charitable organizations, non-profit foundations and employee welfare foundations. No member of the Board of Directors or of the Group Management Board shall hold more than 30 such mandates.
- 4 Directorships shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Directorships in different legal entities that are under joint control or same beneficial ownership are deemed one directorship.
- 5 The Board of Directors shall issue additional guidelines, in particular regarding a consultation obligation of the members of the Board of Directors and the approval procedure for members of the Group Management Board.

Article 41 Credits and Loans

The company or companies controlled by it may grant loans and credits on market terms to executive members of the Board of Directors and of the Group Management Board. Such loans and credits shall not exceed the amount of the fixed annual compensation of the person concerned. Loans and credits shall be granted on the basis of the fixed annual compensation of the previous year.

Article 42 Publications

All publications shall be made in the Swiss Commercial Register Gazette (Schweizerisches Handelsamtsblatt). The Board of Directors may resolve on publication in other journals.