



FREDERIQUE CONSTANT GENEVE

Live your passion

Frederique Constant's response when Swatch will reduce movements' supply

For about 20-30 years, Swatch has been the supplier of mechanical movements and their components for most of the Swiss watch industry. Despite its historical relationship, Swatch would like to reduce deliveries of calibers and assortments.

In the Western World, when a monopolistic stakeholder decides to cut supply, antitrust authorities protect smaller players, giving them time to organize themselves. However, in this case, the Comco (the Swiss antitrust governing authority) immediately awarded the Swatch Group an ability to reduce deliveries up to 30%.

"The decision of the Comco came as a bombshell in the Swiss watchmaking industry" says Peter Stas, co-founder and CEO of Frederique Constant.

Supply will stop

So, do independent watchmakers have to give-up? *"Certainly, a number of smaller manufacturers will be forced out of business."*, said Peter Stas. Fortunately, Frederique Constant is large enough to develop its own watch calibers. Moreover, Frederique Constant started its first caliber development already back in 2001. Still, despite this early start, the company considers it needs another 5 years before it can produce the critical assortment, the watch oscillating system.

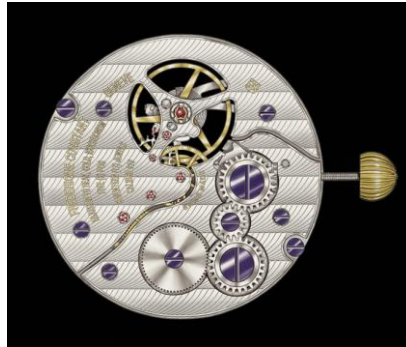
History Frederique Constant

Founded in 1988 by Aletta and Peter Stas and driven by passion, Frederique Constant has grown into one of the larger Swiss watch manufacturers. In 2011, production reaches over 120'000 watches, sold in over 2'700 points of sale in 100+ countries around the globe. Frederique Constant positions itself in the Accessible Luxury segment, with most of its watches selling at CHF 1'000-5'000 retail. The company is expected to continue its annual 25% growth, doubling in size every three years.

Frederique Constant Manufacture Calibers



FC-910MC4H6



Cal FC-910

In 2001, Frederique Constant began the development of its first manufacture caliber in co-operation with the *École d'Horlogerie de Genève*, *École d'Ingenieurs de Genève* and the *Horloge Vakschool Zadkine*. The Heart Beat Manufacture has the characteristic bridge for the balance wheel on the front side of the caliber. Having the bridge for the balance wheel on the front side of the caliber made it possible to have the spiral and fine regulation on the front side as well, creating a much more appealing Heart Beat design. This construction was new - allowing Frederique Constant to obtain a patent.

Frederique Constant Manufacture Calibers - Continued



FC-980EGF4H9



Cal FC-980

In 2008, Frederique Constant introduced its first Tourbillon Manufacture movement with Silicon (Silicon) Escapement Wheel. There are three main advantages compared to a regular escapement wheel:

- No oiling necessary
- Surface ultra smooth
- Weight 1/5 of steel

As a result, the Frederique Constant Tourbillon has an amplitude of over 300 degrees in dial-up and dial-down positions. Even in the crown-down position, the amplitude is over 275 degrees, which is substantially better than the performance of other high-end tourbillons.



FC-700MS5M6



Cal FC-700

In 2009, Frederique Constant launched its second base manufacture caliber. Component rationalization and assembly efficiency were the top priorities for the development of this caliber. Result was an overall 35% cost saving compared with the earlier Heart Beat Manufacture caliber. Various new technologies were incorporated. For the first time, a Swiss watch manufacturer introduced a watch with a manufacture caliber below Euro 2000 retail.

Frederique Constant Factory

The Frederique Constant production facility in Geneva measures 3'200 square meters, divided over four floors, offering an attractive working environment in the sectors of caliber component production, calibre assembly, watch assembly, and extensive quality control. Numerically controlled machines of the latest generation are located in a large atelier in the basement, where all component manufacturing is concentrated. Caliber and watch assembly, as well as state-of-the-art quality control is primarily organized on the first floor of the Frederique Constant building. The building also serves as the brand's international headquarters.

It's about timing

Frederique Constant is aiming to have two suppliers for all its components by 2015, thereby assuring its full independence. All key components are in development, including a new watch oscillating system. The company plans to continue close collaboration with its specialist component suppliers.

Communication Swatch

“In no other industry do you have one company supply all critical parts to the people who then compete directly with it”, Nick Hayek, Swatch’s chief executive said in an interview last March. Apart that such internal component deliveries are common practice in the car industry, the watch industry has always been a horizontally organized industry. Also the Swatch Group purchases many parts, caliber anti-shock systems, rubies in calibers, dials, cases, etc from specialized manufacturers. Many factories that produce these components are shared by multiple brands, including Frederique Constant and Swatch Group brands. The horizontal organization of the Swiss watch industry has been one of the key drivers for the comeback after the nearly fatal Quartz Crisis in the 1970-1980's.

Awaiting Court Decision

While some independent brands are accelerating development and production plans, the short-term future is in the hands of the court (Tribunal Administratif). Indeed, nine companies are challenging the approval by the Comco to allow Swatch to reduce supply. The decision of the court is expected by end of December 2011.

Peter Stas
Co-Founder and CEO
Frederique Constant SA
Geneva, December 2011

Please feel free to send questions to pcstas@frederique-constant.com. You will receive an answer in 2-3 days. Alternatively, we can setup a telephone interview. Kindly arrange through our Communications Director Yasmina Pedrini via pedrini@frederique-constant.com +41-22-860-0440.

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