

LETTER TO SHAREHOLDERS

Biel/Bienne, 21 July 2016

SWATCH GROUP: HALF-YEAR REPORT 2016

- Group net sales of CHF 3 716 million at current exchange rates, a decrease of 11.4%, or CHF 3 666 million, a decrease of 12.5% at constant rates.
- In the Watches & Jewelry segment, including Production, Swatch Group recorded a decrease of 11.3% at current exchange rates.
- Double-digit growth in retail sales in Mainland China and Southeast Asia.
- Hong Kong: retail sales downturn has bottomed out, wholesale remains difficult.
- Operating result of CHF 353 million, 53.6% below the first half of the previous year, due to additional currency shifts, lower production utilization and the long-term industrial strategy of continued investment in the employees, new products and marketing. The operating margin reached 9.5%.
- The Watches & Jewelry segment, including Production, achieved an operating margin of 11.2%.
- Net income of CHF 263 million, 52.0% below the first half 2015. Net margin was 7.1%.

- 60% Swiss made in the watch industry as of 2017 is a clear advantage for Swatch Group, with its verticalized local production base. Inventories have already been increased accordingly in order to meet future demand for Swiss made products.
- Harry Winston with a strong half-year and a record month in June.
- Clear improvement in Mainland China. The first three weeks of July show a very positive development compared to last year, especially in the Luxury and Prestige segment, very strong for Breguet, Blancpain, Glashütte Original, Omega and Longines.
- United Kingdom with a strong July start in the Group's retail stores, due to the favorable pound sterling. Clear signs of tourism revival in parts of Europe, mainly in Spain and Italy. Additionally, Omega's engagement in the Olympics in Rio de Janeiro will generate further positive stimulus. Overall clearly a stronger second half-year will be expected.

Group Key Figures

| (CHF million) | 1st half | 1st half | Change in % | | |
|---|---------------|----------|-------------------|-----------------|---------|
| | 2016 | 2015 | at constant rates | currency effect | Total |
| Net sales | 3 716 | 4 192 | - 12.5% | + 1.1% | - 11.4% |
| Operating result | 353 | 761 | | | - 53.6% |
| - in % of net sales | 9.5% | 18.2% | | | |
| Net income | 263 | 548 | | | - 52.0% |
| - in % of net sales | 7.1% | 13.1% | | | |
| Investments in non-current assets | 285 | 355 | | | |
| Equity, 30 June | 10 853 | 10 617 | | | |
| Market capitalization, 30 June | 15 631 | 19 937 | | | |
| Annualized return on equity (ROE) | 4.8% | 10.3% | | | |
| Basic earnings per share – expressed in CHF per share: | | | | | |
| - Registered shares | 0.93 | 1.94 | | | |
| - Bearer shares | 4.65 | 9.70 | | | |

Unaudited figures.

Strategy

The long-term Group strategy remains unchanged:

1. Manufacturing base Switzerland for all segments; 2. Selective expansion of its own retail network.

The long-term Group strategy and philosophy to keep the personnel employed despite lower sales and also to further invest in the production base Switzerland remain deliberately unchanged. When consumption increases, as we already notice in July, this strategy will allow to react much more quickly to meet additional demand. This will have an immediate positive impact on the margin.

Group overview

Unfortunately, worldwide turbulence did not decrease in the first half of 2016, characterized to no small extent by the unexpected Brexit decision on 24 June. However, Swatch Group, with its 20 strong brands and its own retail network, is very well represented and positioned worldwide, and was therefore able to generate net sales of CHF 3 716 million in the first half of the year. Although this is a decrease of 11.4%, it is still a respectable result in the given environment. Among the brands, Harry Winston increased net sales in the area of high jewelry, thanks to its wider retail network, which now totals 36 salons, and to its extensive range of the most beautiful diamond jewelry and noble watches.

The exchange rate situation as well as the volatility of the strongly overvalued Swiss franc has not really improved since the euro minimum rate was abolished on 15 January 2015, despite the considerable efforts and interventions of the Swiss National Bank (SNB); this is the reason why the Group will maintain its long-term strategy of defensive price adjustment policy over short-term profit.

Highlights of the first half 2016

Development abroad

In the Watches & Jewelry segment, including Production, Swatch Group generated net sales of CHF 3 586 million. Compared to the previous year, this is a decrease of 11.3% at current and 12.4% at constant exchange rates.

Sales performance in local currency varied strongly, depending on the region. In China, the sales situation normalized in the first half of the year, particularly for the Breguet, Blancpain, Glashütte Original, Omega and Longines brands, despite a partially very strong comparison basis with the previous half-year. Demand is generally very positive. The downturn in Hong Kong, particularly in retail, seems to have bottomed out, although wholesale still remains at a low level as local distributors are very uneasy and do not reorder, hence reducing the product range and therefore setting a too heavy restriction on customers choice; this also explains why our retail performance is so much better than our wholesale performance.

In Europe and Switzerland, basic conditions remained very difficult, since Chinese and Russian tourism was practically non-existent as a result of delays in the issue of biometric visas to Chinese tourists and sanctions against Russia. In addition, France and Belgium were affected by attacks, which had an even further negative impact on remaining tourism. On the other hand, Spain and Italy held up well. Further improvement is anticipated in Europe. The positive sales performance in Southeast Asia, India and the Middle East was not able to compensate for the situation in Hong Kong and particularly in Europe. The country mix and consequently the operating margin realized shifted accordingly, resulting in a direct impact on operating result.

Production, which is integrated into the Watches & Jewelry segment, recorded lower capacity utilization than in the prior-year comparative period. Particularly third-parties placed far fewer orders or even cancelled orders and therefore purchased much fewer watch movements and components. On the other hand, our own brands were able to partially compensate for jobs and production utilization through numerous new product launches as well as by increasing inventories in anticipation of the higher demand for Swiss made as of 2017.

The retail business recorded generally very positive sales. Double-digit growth rates in local currency were achieved in Greater China and Southeast Asia. Hong Kong is back on the path to previous-year values in June. Overall, the share of Group retail business was further expanded.

The Electronic Systems segment generated net sales of CHF 136 million in the first half of this year, corresponding to a decrease of 12.8%. The strength of the franc versus the USD and JPY had a further negative impact on sales. However, this did not apply to sales for Renata, the market leader in environmentally friendly batteries with high-energy density, which closed with additional sales growth. The operating profit in the Electronic Systems segment achieved CHF 3 million.

Olympic Games in Rio de Janeiro

Preparations for the Olympic Games in Rio de Janeiro, which will take place from 5 to 21 August 2016, proved to be extremely difficult and costly, due not only to the total of 42 sporting disciplines involved but also to the very difficult local conditions and situation in Brazil. In order to guarantee a perfect performance at the Summer Games in the area of timekeeping, results display and data processing, many more corresponding resources such as more work and security forces, additional material and far more stringent functionality tests were necessary, compared with previous Games. The double-digit millions in additional expenses were already incurred and booked in the first half-year.

Personnel

In the first half of 2016, no structural changes were undertaken, which means that jobs were deliberately maintained, particularly in Production, where the capacity utilization was less than in the previous year, as well as in the brand companies' plants; which was at the cost of a temporarily lower operating margin. Currently, only individual regular employee departures are not replaced. As a result, the number of employees remained at approximately 36 000 at the end of June 2016.

Training

Swatch Group promotes vocational training at all levels, particularly for young people who wish to graduate as professional watchmakers or in related technical professions. By end of June 2016, more than 180 graduates received a professional diploma; in Switzerland, 140 graduates, who completed a regular apprenticeship and 20 graduated from the adult training program, and in Germany, approximately 20 graduates. In Switzerland, roughly 150 apprentices were newly hired this year, so that the number of trainees in Switzerland will be more than 490. Abroad, there are currently over 210 trainees, of which 80 apprentices will receive their training at Glashütte Original in Germany. Further, the Swatch Group has approximately 130 students in training in its own six watchmaking schools, Secaucus (USA), Kuala Lumpur (Malaysia), Shanghai and Hong Kong (China), Pforzheim (Germany) and Manchester (UK). Almost all graduates have accepted positions within the Group.

Operating result and net income

Lower capacity utilization in Production with an unchanged workforce and production structure, further shifts in the country mix, as well as expenses in the double-digit millions already incurred in preparation for the Olympic Games in Rio de Janeiro negatively impacted the half-year financial statements. Accordingly, the operating result amounted to CHF 353 million, which corresponds to an operating margin of 9.5%. Net income reached CHF 263 million or 7.1% of net sales.

Product Highlights

Especially the antimagnetic Omega Co-Axial Globemaster collection (METAS certified), the launch of the Swatch NFC Bellamy as a contactless payment method in China, Switzerland and Brazil, as well as the new Swatch POP collection achieved good sales in the first half of the year, whereby all orders could be filled. In the luxury segment, Harry Winston, with its high jewelry Lotus Cluster, Art Deco and Precious Butterfly collection was on a very good growth path. Continued large volumes were achieved by the Longines bestsellers Master and Grande Classique as well the Tissot T-Touch Expert Solar.

Investments

Across all segments, Swatch Group invested a total of CHF 285 million in non-current assets in the first half of 2016. The Group's retail network was selectively broadened with the opening of new boutiques in the best locations in growth regions and Production was expanded with the latest equipment, allowing to manufacture even more cost-effectively. Significant investment was also made in the area of customer service, both in Switzerland and in the own foreign subsidiaries.

Cash Flow

Operating cash flow amounted to CHF 381 million in the period under review, after tax payments of CHF 202 million. To keep the cash balance low, particularly in order to avoid negative interest and to counter short sales, a three-year share buyback program with a repurchase volume of maximum CHF 1 billion commenced on 5 February 2016. At the end of June 2016, a volume totaling CHF 197 million had been repurchased.

Inventories

Inventories increased slightly since the beginning of the year and amounted to approximately CHF 6.3 billion at the end of June. The increase is attributable mainly to further investment in diamonds for Harry Winston and to targeted opening of new retail stores. The major portion of inventories consists of finished and semi-finished products for current and newly launched collections such as the Omega Seamaster Planet Ocean Deep Black models or the Swatch Touch Zero Two. Finished products in inventories were clearly a prime sales generator in the Group's retail stores. As already mentioned, inventories were also built up in anticipation of increased demand for Swiss made watches, watch movements and components as of 2017.

Inventory valuation follows strict Group-internal guidelines. Products replaced as a result of collection changes are sold primarily in the Group's outlet shops, which number over 40, respecting brand specific criteria. These sales are very successful. Products which can no longer be sold out, together with their related component inventories, are written down and disposed of. This ensures that only inventories which are qualitatively in perfect condition and up to date are valued in the balance sheet. Write-downs in the first half of 2016 amounted to a figure in the double-digit millions.

Outlook second half-year 2016

Swatch Group anticipates clear growth in local currency in the second half of the year compared with the weaker second half of 2015, and thus an annual result closer or equivalent to the previous year. The outlook for the Group, with its unique brand portfolio and its global retail and distribution network, remain good in all regions and segments in local currency. In the mid to long term, there are many more opportunities than risks. In the first three weeks of July, very good growth was achieved in Mainland China compared with the previous year, especially by the luxury and prestige brands Breguet, Blancpain, Glashütte Original, Omega and Longines. Positive developments can be seen in Southeast Asia, too. Also, markets will continue to develop positively in parts of Europe, particularly in Italy, Spain and Great Britain. The situation in France and Belgium will remain difficult. Decisive growth factors in the coming months will be the normalization of tourism in parts of Europe as well as the further positive developments in China. On the other hand, third-party distributors in Hong Kong are still very uneasy, which will cause further delays in reorders. In North America and Japan, growth in local currency will be achievable.

The Olympic Games in Rio de Janeiro, Brazil, will give an additional worldwide boost to the Omega brand, since the brand is the official Games timekeeper and is underway with nine watch models dedicated to the Rio de Janeiro Games. Omega will also launch the new Seamaster Planet Ocean Deep Black models and the Speedmaster Moonphase Master Chronometer in the second half of the year.

The Tissot brand currently accompanies the Tour de France as official timekeeper and is naturally represented by the new model Tour de France T-Race. Through the NBA, the North American professional basketball league and the WNBA, the women's basketball league, Tissot will also achieve significantly greater international visibility, particularly with the new NBA collection and the Tissot Ballade Silicium Chronometer, the first wristwatch under one thousand francs with a silicium balance spring. Longines will further expand its position specifically in Asian markets with the new Equestrian and Symphonette collections. Swatch started selling its new Touch Zero Two with fan, fitness and timing functions on 7 July, and as of September, the new Sistem 51 Irony will be available as well as the Swatch Token launched in China.

Sales in all brands are supported through significant long-term marketing investment, the extensive retail network and also by the many new product launches in all segments. Since no structural changes were made to the production base and the entire workforce is highly motivated, the Group can rapidly meet increasing demand, also with regard to the new Swiss made. Thanks to the strong vertical integration of the manufacturing chain and the Swiss production base, the new Swissness rule of at least 60% domestic added value is a unique home advantage for the Swatch Group.

The technology companies, which regularly develop highly innovative electronic products and components, will continue to provide market innovations in the second half of the year. EM Microelectronic-Marin, worldwide leader in the development and manufacture of lowest power ICs, is, for example, working together with ABB on a smart sensor technology for self-monitoring and controlling ABB low-voltage motors used in the most diverse machines and production lines. Renata, in collaboration with Belenos, is already installing the production line for the new batteries, which will be used particularly in the area of electric mobility. Batteries with the new vanadium pentoxide compound for the cathodes and the new electrolyte composition not only have a much higher energy density than previous battery types, but also recharge faster. In addition, they have a longer life and are far safer than well-known lithium batteries. A letter of intent for collaboration with the Chinese automobile and motorcycle manufacturer Geely has already been signed.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Income Statement

| | 1st half 2016 | | 1st half 2015 | |
|--|------------------|--------------|------------------|--------|
| | CHF million | % | CHF million | % |
| Net sales | 3 716 | 100.0 | 4 192 | 100.0 |
| Other operating income | 48 | 1.3 | 44 | 1.0 |
| Changes in inventories | 158 | 4.3 | 233 | 5.6 |
| Material purchases | - 894 | - 24.1 | - 1 063 | - 25.4 |
| Personnel expense | - 1 214 | - 32.7 | - 1 217 | - 29.0 |
| Depreciation and impairment on property, plant and equipment | - 191 | - 5.1 | - 174 | - 4.1 |
| Amortization and impairment on intangible assets | - 21 | - 0.6 | - 18 | - 0.4 |
| Other operating expenses | - 1 249 | - 33.6 | - 1 236 | - 29.5 |
| Operating result | 353 | 9.5 | 761 | 18.2 |
| Other financial income and expense | - 10 | - 0.3 | - 54 | - 1.3 |
| Interest expense | - 1 | - 0.0 | - 1 | - 0.0 |
| Share of result from associates and joint ventures | 1 | 0.0 | 2 | 0.0 |
| Ordinary result | 343 | 9.2 | 708 | 16.9 |
| Non-operating result | 5 | 0.2 | 1 | 0.0 |
| Profit before income taxes | 348 | 9.4 | 709 | 16.9 |
| Income taxes | - 85 | - 2.3 | - 161 | - 3.8 |
| Net income | 263 | 7.1 | 548 | 13.1 |
| Attributable to shareholders of The Swatch Group Ltd | 251 | | 526 | |
| Attributable to non-controlling interests | 12 | | 22 | |

Earnings per share (EPS) – expressed in CHF per share:

Registered shares

| | | |
|----------------------------|------|------|
| Basic earnings per share | 0.93 | 1.94 |
| Diluted earnings per share | 0.93 | 1.94 |

Bearer shares

| | | |
|----------------------------|------|------|
| Basic earnings per share | 4.65 | 9.70 |
| Diluted earnings per share | 4.65 | 9.69 |

Unaudited figures.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Balance Sheet

| Assets | 30.06.2016 | | 31.12.2015 | |
|--|---------------|--------------|---------------|--------------|
| | CHF million | % | CHF million | % |
| Current assets | | | | |
| Cash and cash equivalents | 1 024 | 7.7 | 1 280 | 9.6 |
| Marketable securities and derivative financial instruments | 334 | 2.5 | 388 | 2.9 |
| Trade receivables | 1 000 | 7.5 | 991 | 7.4 |
| Other current assets | 140 | 1.0 | 143 | 1.1 |
| Inventories | 6 291 | 47.2 | 6 151 | 46.4 |
| Prepayments and accrued income | 464 | 3.5 | 316 | 2.4 |
| Total current assets | 9 253 | 69.4 | 9 269 | 69.8 |
| Non-current assets | | | | |
| Property, plant and equipment | 3 242 | 24.3 | 3 173 | 23.9 |
| Intangible assets | 145 | 1.1 | 151 | 1.1 |
| Investments in associates and joint ventures | 62 | 0.5 | 62 | 0.5 |
| Other non-current assets | 197 | 1.5 | 217 | 1.7 |
| Deferred tax assets | 425 | 3.2 | 398 | 3.0 |
| Total non-current assets | 4 071 | 30.6 | 4 001 | 30.2 |
| Total assets | 13 324 | 100.0 | 13 270 | 100.0 |

Unaudited figures.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Balance Sheet

| Equity and liabilities | 30.06.2016 | | 31.12.2015 | |
|--|---------------|--------------|-------------|-------|
| | CHF million | % | CHF million | % |
| Current liabilities | | | | |
| Financial debts and derivative financial instruments | 264 | 2.0 | 13 | 0.1 |
| Trade payables | 439 | 3.3 | 367 | 2.8 |
| Other liabilities | 146 | 1.1 | 152 | 1.1 |
| Provisions | 81 | 0.6 | 86 | 0.6 |
| Accrued expenses | 708 | 5.3 | 604 | 4.6 |
| Total current liabilities | 1 638 | 12.3 | 1 222 | 9.2 |
| Non-current liabilities | | | | |
| Financial debts | 36 | 0.3 | 34 | 0.2 |
| Deferred tax liabilities | 593 | 4.4 | 606 | 4.6 |
| Retirement benefit obligations | 37 | 0.3 | 36 | 0.3 |
| Provisions | 54 | 0.4 | 53 | 0.4 |
| Accrued expenses | 113 | 0.8 | 77 | 0.6 |
| Total non-current liabilities | 833 | 6.2 | 806 | 6.1 |
| Total liabilities | 2 471 | 18.5 | 2 028 | 15.3 |
| Equity | | | | |
| Share capital | 125 | | 125 | |
| Capital reserves | - 1 000 | | - 1 006 | |
| Treasury shares | - 525 | | - 329 | |
| Goodwill recognized | - 1 372 | | - 1 372 | |
| Translation differences | - 156 | | - 134 | |
| Retained earnings | 13 704 | | 13 856 | |
| Equity of The Swatch Group Ltd shareholders | 10 776 | 80.9 | 11 140 | 83.9 |
| Non-controlling interests | 77 | 0.6 | 102 | 0.8 |
| Total equity | 10 853 | 81.5 | 11 242 | 84.7 |
| Total equity and liabilities | 13 324 | 100.0 | 13 270 | 100.0 |

Unaudited figures.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

| | 1st half 2016 CHF million | 1st half 2015 CHF million |
|---|---------------------------------|---------------------------------|
| Operating activities | | |
| Net income | 263 | 548 |
| Reversal of non-cash items | 309 | 353 |
| Changes in working capital and other items included in operating cash flow | 6 | 106 |
| Dividends received from associated companies | 1 | 2 |
| Interest received | 5 | 4 |
| Interest paid | -1 | -1 |
| Income tax paid | -202 | -191 |
| Cash flow from operating activities | 381 | 821 |
| Investing activities | | |
| Investments in property, plant and equipment | -252 | -289 |
| Proceeds from sale of property, plant and equipment | 7 | 1 |
| Investments in intangible assets | -16 | -20 |
| Proceeds from sale of intangible assets | 1 | 0 |
| Investments in other non-current assets | -17 | -46 |
| Proceeds from sale of other non-current assets | 2 | 2 |
| Acquisition of subsidiaries – net of cash | 0 | - |
| Purchase of marketable securities | -47 | -164 |
| Sale of marketable securities | 91 | 77 |
| Cash flow from investing activities | -231 | -439 |
| Financing activities | | |
| Dividends paid to shareholders | -403 | -407 |
| Dividends paid to non-controlling interests | -36 | -17 |
| Repurchase of treasury shares | -197 | -14 |
| Sale of treasury shares | 1 | 1 |
| Change in non-current financial debts | -2 | -2 |
| Change in current financial debts | 244 | 2 |
| Sale of non-controlling interests | 1 | 11 |
| Cash flow from financing activities | -392 | -426 |
| Net impact of foreign exchange rate differences on cash | -14 | -54 |
| Change in cash and cash equivalents | -256 | -98 |
| Change in cash and cash equivalents | | |
| – Balance at beginning of year | 1 280 | 1 202 |
| – Balance at 30 June | 1 024 | 1 104 |

Unaudited figures.

HALF-YEAR FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

| (CHF million) | Attributable to The Swatch Group Ltd shareholders | | | | | | Non-controlling interests | Total equity | |
|---|---|------------------|-----------------|---------------------|------------------------------------|-------------------|---------------------------|--------------|---------------|
| | Share capital | Capital reserves | Treasury shares | Goodwill recognized | Cumulative Translation differences | Retained earnings | | | |
| Balance at 31.12.2014 | 125 | - 1 037 | - 301 | - 1 372 | - 6 | 13 174 | 10 583 | 91 | 10 674 |
| Net income 1st half-year 2015 | | | | | | 526 | 526 | 22 | 548 |
| Currency translation of foreign entities | | | | | - 182 | | - 182 | - 5 | - 187 |
| Dividends paid | | | | | | - 407 | - 407 | - 17 | - 424 |
| Share-based compensation: | | | | | | | | | |
| – Value of employee services (net of tax) | | 7 | | | | | 7 | | 7 |
| – Proceeds from sale of shares | | 1 | | | | | 1 | | 1 |
| Repurchase of treasury shares | | 0 | - 14 | | | | - 14 | | - 14 |
| Changes in non-controlling interests | | 12 | | | | | 12 | | 12 |
| Balance at 30.06.2015 | 125 | - 1 017 | - 315 | - 1 372 | - 188 | 13 293 | 10 526 | 91 | 10 617 |
| Net income 2nd half-year 2015 | | | | | | 563 | 563 | 8 | 571 |
| Currency translation of foreign entities | | | | | 54 | | 54 | 5 | 59 |
| Dividends paid | | | | | | | | - 7 | - 7 |
| Share-based compensation: | | | | | | | | | |
| – Value of employee services (net of tax) | | 12 | | | | | 12 | | 12 |
| – Proceeds from sale of shares | | 0 | | | | | 0 | | 0 |
| Repurchase of treasury shares | | 0 | - 14 | | | | - 14 | | - 14 |
| Changes in non-controlling interests | | - 1 | | | | | - 1 | 5 | 4 |
| Balance at 31.12.2015 | 125 | - 1 006 | - 329 | - 1 372 | - 134 | 13 856 | 11 140 | 102 | 11 242 |
| Net income 1st half-year 2016 | | | | | | 251 | 251 | 12 | 263 |
| Currency translation of foreign entities | | | | | - 22 | | - 22 | - 1 | - 23 |
| Dividends paid | | | | | | - 403 | - 403 | - 36 | - 439 |
| Share-based compensation: | | | | | | | | | |
| – Value of employee services (net of tax) | | 5 | | | | | 5 | | 5 |
| – Proceeds from sale of shares | | 1 | | | | | 1 | | 1 |
| Repurchase of treasury shares | | 0 | - 197 | | | | - 197 | | - 197 |
| Transactions with non-controlling interests | | | 1 | | | | 1 | | 1 |
| Balance at 30.06.2016 | 125 | - 1 000 | - 525 | - 1 372 | - 156 | 13 704 | 10 776 | 77 | 10 853 |

Unaudited figures.

Notes to the half-year financial statements 2016

1. Basis of preparation and significant accounting policies

These consolidated financial statements cover the unaudited half-year results for the six months ending 30 June 2016. They have been prepared in accordance with Swiss GAAP FER (Accounting and Reporting Recommendations). The consolidated interim financial statements for 2016 have been prepared in accordance with FER 31 "Supplementary Recommendation for Listed Companies".

As of 1 January 2015, the Group adopted early implementation of the new revenue recognition rule (changes in Swiss GAAP FER Framework, FER 3 and FER 6), which is applicable to consolidated financial statements as of 1 January 2016.

These interim financial statements do not contain all the information and disclosures required in the annual consolidated financial statements. They should therefore be read in conjunction with the consolidated financial statements as at 31 December 2015. In this interim report, Management has not made any significant changes to the estimates and assumptions compared to the previous period.

2. Changes to Group structure

At 30 June 2016 the Group consolidation structure comprised 169 legal entities (31 December 2015: 168). The increase is due to a creation of a new company in Switzerland. Information on business combinations can be found in Note 5.

3. Key exchange rates

| Currency | Unit | Average rates | Prevailing rates | Average rates | Prevailing rates | Prevailing rates |
|----------|------|-------------------|------------------|-------------------|------------------|------------------|
| | | 01.01.-30.06.2016 | 30.06.2016 | 01.01.-30.06.2015 | 31.12.2015 | 30.06.2015 |
| | | CHF | CHF | CHF | CHF | CHF |
| CNY | 1 | 0.1511 | 0.1477 | 0.1524 | 0.1538 | 0.1513 |
| EUR | 1 | 1.0998 | 1.0900 | 1.0506 | 1.0870 | 1.0450 |
| HKD | 1 | 0.1275 | 0.1266 | 0.1223 | 0.1289 | 0.1210 |
| JPY | 100 | 0.8915 | 0.9550 | 0.7881 | 0.8300 | 0.7670 |
| USD | 1 | 0.9898 | 0.9815 | 0.9478 | 0.9990 | 0.9380 |

4. Segment information

| 1st half-year 2016 (CHF million) | Watches & Jewelry | Electronic Systems | Corporate | Elimination | Total |
|-------------------------------------|----------------------|-----------------------|--------------|----------------|---------------|
| – Third parties | 3 586 | 127 | 3 | | 3 716 |
| – Group | 0 | 9 | 3 | – 12 | 0 |
| Net sales | 3 586 | 136 | 6 | – 12 | 3 716 |
| Operating result | 402 | 3 | – 52 | | 353 |
| – As a % of net sales | 11.2% | 2.2% | | | 9.5% |
| 1st half-year 2015 (CHF million) | Watches & Jewelry | Electronic Systems | Corporate | Elimination | Total |
| – Third parties | 4 044 | 145 | 3 | | 4 192 |
| – Group | 1 | 11 | 3 | – 15 | 0 |
| Net sales | 4 045 | 156 | 6 | – 15 | 4 192 |
| Operating result | 807 | 6 | – 52 | | 761 |
| – As a % of net sales | 20.0% | 3.8% | | | 18.2% |
| Total assets at 30.06.2016 | 11 901 | 538 | 5 184 | – 4 299 | 13 324 |
| Total assets at 31.12.2015 | 11 790 | 375 | 4 912 | – 3 807 | 13 270 |

Unaudited figures.

5. Business combinations

There were no business combinations in the first half-year 2016. In the first half of 2016, a transaction with former minority shareholders amounting to CHF 1 million in treasury shares took place in connection with the takeover of the remaining minority interests in the company ASI Centrum spol. s.r.o. in 2015.

In the first half-year 2015, minority shares of two companies in the Middle East were sold. These transactions resulted in a cash inflow of CHF 11 million in the first half-year 2015 and CHF 1 million in the first half-year 2016, but had no impact on the consolidation structure. The Swatch Group continues to maintain control over both companies.

6. Investments in associated companies and joint ventures

In the first half-year 2016 as well as 2015, there were no changes in investments in associated companies and joint ventures.

7. 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:

Theoretical impact on equity

| (CHF million) | 30.06.2016 | 31.12.2015 | 30.06.2015 |
|--|---------------|------------|------------|
| Equity, per balance sheet | 10 853 | 11 242 | 10 617 |
| Theoretical capitalization of net book value of goodwill | 696 | 756 | 816 |
| Theoretical equity including net book value of goodwill | 11 549 | 11 998 | 11 433 |

Theoretical impact on net income

| (CHF million) | 30.06.2016 | 31.12.2015 | 30.06.2015 |
|---|------------|------------|------------|
| Net income, per income statement | 263 | 1 119 | 548 |
| Theoretical amortization of goodwill | -60 | -121 | -61 |
| Theoretical net income after goodwill amortization | 203 | 998 | 487 |

8. Treasury shares / share buyback program

A new share repurchase program with a total value of CHF 1 billion started on 5 February 2016 and lasts until 4 February 2019 at the latest. Up to 30 June 2016, Swatch Group acquired through this buyback program 296 800 bearer shares and 1 489 250 registered shares representing a market value of CHF 197 million.

In the period under review, the Swatch Group sold treasury shares in the amount of CHF 1 million (related to the employee stock option plan) and transferred CHF 1 million to minority interests (see Note 5).

In the previous period, the Swatch Group purchased treasury shares in the amount of CHF 14 million and sold treasury shares in the amount of CHF 1 million (related to the employee stock option plan).

9. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2015, the dividend agreed at the Annual General Meeting on 11 May 2016, with a value date of 18 May 2016, was distributed as follows:

| | Dividend per share CHF | Total dividend CHF million |
|-------------------------------------|---------------------------|-------------------------------|
| Registered shares | 1.50 | 186 |
| Bearer shares | 7.50 | 231 |
| Total dividend | | 417 |
| Dividend not paid out on own shares | | - 14 |
| Total dividend paid | | 403 |

Based on the decision of the Annual General Meeting, the dividend due on treasury shares held by the Group was not paid out.

10. Seasonality of operations

Due to the somewhat seasonal pattern of the Watches & Jewelry segment, slightly higher revenues and operating profits are usually expected in the second half of the year in local currency. This is mainly due to stronger-than-average monthly sales from September to December related to the holiday and Christmas season.

11. Significant events and business transactions

During the period under review, no material events or business transactions occurred that might have an impact on the critical estimates, appraisals and assumptions to be found in the consolidated financial statements as at 31 December 2015. Also, there were no further material events or business transactions that might impact upon other positions in the consolidated financial statements (such as, for example, changes to contingent liabilities and receivables or business transactions involving associated enterprises and persons).

12. Events after the closing date

At the publish date of this press release, the company is not aware of any significant new event that would affect the half-year financial statements at 30 June 2016.

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CONTACTS

Investors

Felix Knecht, Investor Relations Officer
Phone: +41 32 343 68 11

The Swatch Group Ltd, Biel/Bienne (Switzerland)
E-mail: please use our «Contact Form»

Media

Bastien Buss, Corporate Communications
Phone: +41 32 343 66 80

The Swatch Group Ltd, Biel/Bienne (Switzerland)
E-mail: please use our «Contact Form»

