

FINANCIAL STATEMENTS 2018
CONSOLIDATED FINANCIAL STATEMENTS
FINANCIAL STATEMENTS
OF THE SWATCH GROUP LTD



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FINANCIAL REVIEW

Key financial developments in 2018

– Net sales:	Group net sales increased by 6.1% to CHF 8 475 million at current exchange rates (+ 5.7% at constant rates).
– Operating result:	Operating result increased by 15.2% to CHF 1 154 million. Operating margin increased from 12.5% in the previous year to 13.6%.
– Net income:	Net income increased by 14.8% to CHF 867 million, with a net margin of 10.2% (previous year: 9.5%).
– Dividend:	Dividend proposal: increase of 6.7% to CHF 8.00 per bearer share and CHF 1.60 per registered share.

Financial review

1. Key figures Group

(CHF million)	2018	2017 ¹⁾	Change in %		
			at constant rates	currency effect	Total
Net sales	8 475	7 989	+5.7%	+0.4%	+6.1%
Operating result	1 154	1 002			+15.2%
– in % of net sales	13.6%	12.5%			
Net income	867	755			+14.8%
– in % of net sales	10.2%	9.5%			
Equity	11 274	11 289			-0.1%
– as a % of balance sheet total	82.5%	83.8%			

¹⁾The prior period has been restated due to the comparability of the presentation (Note 2e).

FINANCIAL REVIEW

2. Environment / Financial year

Development net sales and operating result

(CHF million)	2018			2017 ¹⁾		
	Third	Group	Total	Third	Group	Total
Net sales						
Watches & Jewelry	8 213	1	8 214	7 730	1	7 731
Electronic Systems	257	16	273	254	13	267
Corporate	5	5	10	5	5	10
Elimination		-22	-22		-19	-19
Total	8 475	-	8 475	7 989	-	7 989

(CHF million)	2018		2017 ¹⁾	
	Total	in % of net sales	Total	in % of net sales
Operating result				
Watches & Jewelry	1 258	15.3%	1 104	14.3%
Electronic Systems	14	5.1%	5	1.9%
Corporate	-118		-107	
Total	1 154	13.6%	1 002	12.5%

¹⁾ The prior period has been restated due to the comparability of the presentation (Note 2e).

With its 18 brands, the Swatch Group is present in all segments, and is a fully verticalized company, from production and distribution to its own worldwide retail network, including e-commerce. The Group is the largest industrial employer in Switzerland, and continuously makes long-term investments, not only in research and development of innovative products, but also in the close to 150 production facilities in Switzerland. The Group is unparalleled in the Swiss as well as the worldwide watch industry.

In 2018, the strongest sales growth was realized by the prestige and luxury range, particularly by the brands Blancpain, Omega and Longines, despite the high level of back orders caused by capacity bottlenecks in the Habillage sector. These amounted to a triple-digit million figure. The volume brands of the middle and basic price range performed well.

High growth rates were achieved again in Asia, both in wholesale and in the Group's own retail including e-commerce, although a downturn in demand occurred in the last three months of the year, particularly in wholesale. Further clear market share gains were achieved in Japan. Sales in North America developed very positively, including the last three months of the year. Conversely, Europe displayed a mixed picture. Countries such as Great Britain and Switzerland increased their sales, while other countries such as France were very weak, especially at the end of the year, for the known reasons. Russia showed a strong upward trend in local currency. E-commerce grew strongly in the middle and basic segment, but varied from region to region. Major opportunities exist in this distribution channel in 2019, particularly for Swatch and Tissot. The increase of almost 10% in the Group's retail sales, with the same number of stores, demonstrates the improvement in productivity.

The Electronic Systems segment generated net sales of CHF 273 million, corresponding to a growth of 2.2%. The operating result improved significantly in this segment and reached CHF 14 million (previous year: CHF 5 million).

Driven by growth in the Watches & Jewelry segment, capacity utilization in production improved significantly. Due to major capacity bottlenecks, particularly in the Habillage sector, the Group benefitted too little from its verticalized structure in the second half of the year. Nevertheless, the Group increased its operating result by 15.2% to CHF 1 154 million, corresponding to an operating margin of 13.6%.

FINANCIAL REVIEW

Development net income

(CHF million)	2018	2017
Operating result	1 154	1 002
Net financial result	- 22	2
Ordinary result	1 132	1 004
Non-operating result	1	3
Profit before income taxes	1 133	1 007
Income taxes	- 266	- 252
Net income	867	755
- in % of net sales	10.2%	9.5%
- Change from previous year in %	14.8%	27.3%

Basic earnings per share – expressed in CHF per share:

- Registered shares	3.23	2.77
- Bearer shares	16.14	13.86

The net financial result for the year under review closed with a loss of CHF 22 million (compared to a gain of CHF 2 million in the previous year), primarily influenced by a strongly negative net currency result of CHF 25 million. Further details to the net financial result can be found in Note 5f of the consolidated financial statements.

Income tax expense in relation to profit before income taxes decreased from 25.0% in the previous year to 23.5% in the year under review. The anticipated higher average tax rate for the Group could be more than offset by the sharp decrease in non-capitalized carryforward tax losses. A detailed analysis of the income tax expense is set out in Note 6 of the consolidated financial statements.

Net income increased by 14.8% to CHF 867 million, with a net margin of 10.2% (previous year: 9.5%).

In the current year, basic earnings per share amounted to CHF 3.23 (previous year: CHF 2.77) for registered shares and CHF 16.14 (previous year: CHF 13.86) for bearer shares. As in previous years, dilution of earnings was immaterial. Detailed information can be found in Note 7 of the consolidated financial statements.

At the Annual General Meeting on 23 May 2019, the Board of Directors of the Swatch Group will propose a dividend increase of 6.7% to CHF 8.00 per bearer share and CHF 1.60 per registered share (previous year CHF 7.50 per bearer share and CHF 1.50 per registered share).

FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2018	2017
Current assets	9 458	9 458
Current liabilities	1 549	1 373
Equity	11 274	11 289
– as % of total assets	82.5%	83.8%
Average return on equity (ROE)	7.7%	6.8%

Current liabilities were covered by current assets by a factor of 6.1 (previous year: 6.9). This factor indicates a very healthy structure of the short-term balance sheet positions.

In the year under review, equity remained practically unchanged at CHF 11.3 billion, despite further share buybacks. The equity ratio was a solid 82.5% of total assets (previous year: 83.8%).

Development liquidity

(CHF million)	2018	2017
Cash and cash equivalents at 1.1.	1 291	1 136
Cash flow from operating activities	943	1 264
Cash flow from investing activities	– 651	– 435
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	– 681	– 674
Cash and cash equivalents at 31.12.	902	1 291

Operating cash flow amounted to CHF 943 million. The reduction of 25% versus the previous year is primarily due to substantial investments in gold and diamonds, as well as to higher tax payments. Within the scope of the share buyback program 2016-2019, treasury shares with a market value of CHF 388 million were repurchased in the year under review. The volume purchased from the beginning of the program until the end of 2018 amounted to a total of CHF 924 million. The net financial position at the end of the year amounted to CHF 1.0 billion.

The buyback program concluded on 24 January 2019. It is intended to propose to the shareholders at the upcoming Annual General Meeting on 23 May 2019 that the bearer shares and registered shares repurchased during this program, as well as the remaining bearer shares from the buyback program 2008, be used to reduce share capital.

In the year under review, the Swatch Group invested a total of CHF 504 million in non-current operating assets, including further massive investments in the production sector in Switzerland.

The dividend payment of CHF 394 million (previous year: CHF 357 million) and the share buyback were the main cash flows from financing activities.

FINANCIAL REVIEW

3. Outlook

The Swatch Group anticipates healthy growth in 2019, despite the strong comparison basis in the first half of 2018. Demand is good and production problems and bottlenecks, particularly in the Habillage sector, will be resolved in the first semester. Further expansion of e-commerce, mainly in the middle and basic range, will open additional possibilities. The leadership position of the Swatch Group in China will become a major opportunity for the Group in 2019, even if ongoing market turbulence remains disruptive. Additional gains in market share are expected in Japan and the USA in 2019.

Harry Winston will continue its dynamic growth trend in 2019, accelerated as well by the confirmation of the top position of the brand by the purchase of the Pink Legacy diamond.

Blancpain ended 2018 with record sales. The product Fifty Fathoms is one of the drivers of this success. The brand appeals ideally to the millennium generation, and strong growth is also expected in 2019.

Omega is celebrating the 50-year anniversary of the moon landing with various additional product launches on this theme. Additionally, in the second half of 2019, the special editions „minus 1“ for the Olympic Games 2020 in Tokyo will be launched in Japan.

The high demand for the Longines V.H.P. (Very High Precision) collection could not be adequately served in the last quarter of 2018 due to production bottlenecks. Elimination of these bottlenecks will have a very positive impact on the development of the brand in 2019.

Tissot will introduce its smart T-Touch with its own operating system during the course of 2019.

In January 2019, Swatch introduced Swatch Pay in Switzerland with great success, and further countries will follow during the course of the year. In February 2019, Swatch will launch the first Sistem51 products with the patented Nivachron balance spring with antimagnetic properties.

In future, all mechanical watches for Swatch Group brands will feature antimagnetic properties, either with the silicon balance spring or the Nivachron balance spring, both patented inventions. This means a substantial quality improvement in terms of precision and reliability. As a result, Swatch Group brands gain a clear advantage over many well-known brands in the Swiss and international watch industry which do not have similar antimagnetic quality characteristics. This improvement, which will be backed up by a longer guarantee period, will translate into clear market share gains in 2019 and beyond.



CONSOLIDATED INCOME STATEMENT

	Notes	2018		2017 ¹⁾	
		CHF million	%	CHF million	%
Net sales	(4, 5a)	8 475	100.0	7 989	100.0
Other operating income	(5b)	180	2.1	116	1.4
Changes in inventories		632	7.5	83	1.0
Material purchases		- 2 226	- 26.3	- 1 735	- 21.7
Personnel expense	(5c)	- 2 563	- 30.3	- 2 339	- 29.3
Depreciation and impairment on property, plant and equipment	(15)	- 451	- 5.3	- 433	- 5.4
Amortization and impairment on intangible assets	(16)	- 43	- 0.5	- 43	- 0.5
Other operating expenses	(5d)	- 2 850	- 33.6	- 2 636	- 33.0
Operating result		1 154	13.6	1 002	12.5
Other financial income and expense	(5f)	- 19	- 0.2	- 16	- 0.2
Interest expense	(5f)	- 5	0.0	- 3	- 0.0
Share of result from associates and joint ventures	(5f, 17)	2	0.0	21	0.3
Ordinary result		1 132	13.4	1 004	12.6
Non-operating result	(5g)	1	0.0	3	0.0
Profit before income taxes		1 133	13.4	1 007	12.6
Income taxes	(6a)	- 266	- 3.2	- 252	- 3.1
Net income		867	10.2	755	9.5
Attributable to shareholders of The Swatch Group Ltd		845		733	
Attributable to non-controlling interests		22		22	
Earnings per share (EPS) – expressed in CHF per share:	(7)				
Registered shares					
Basic earnings per share		3.23		2.77	
Diluted earnings per share		3.23		2.77	
Bearer shares					
Basic earnings per share		16.14		13.86	
Diluted earnings per share		16.13		13.85	

¹⁾ The prior period has been restated due to the comparability of the presentation (Note 2e).

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2018		31.12.2017	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(9)	944	6.9	1 291	9.6
Marketable securities and derivative financial instruments	(10)	296	2.2	340	2.5
Trade receivables	(11)	893	6.5	1 076	8.0
Other current assets	(12)	159	1.2	178	1.3
Inventories	(13)	6 917	50.6	6 318	46.9
Prepayments and accrued income	(14)	249	1.8	255	1.9
Total current assets		9 458	69.2	9 458	70.2
Non-current assets					
Property, plant and equipment	(15)	3 245	23.8	3 281	24.3
Intangible assets	(16)	146	1.1	147	1.1
Investments in associates and joint ventures	(17)	59	0.4	57	0.4
Other non-current assets	(19)	336	2.5	144	1.1
Deferred tax assets	(6d)	417	3.0	392	2.9
Total non-current assets		4 203	30.8	4 021	29.8
Total assets		13 661	100.0	13 479	100.0

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2018 CHF million	%	31.12.2017 CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(20)	203	1.5	16	0.1
Trade payables		393	2.9	354	2.6
Other liabilities	(21)	222	1.6	209	1.5
Provisions	(23)	94	0.7	93	0.7
Accrued expenses	(22)	637	4.6	701	5.2
Total current liabilities		1 549	11.3	1 373	10.1
Non-current liabilities					
Financial debts	(20)	22	0.2	26	0.2
Deferred tax liabilities	(6d)	558	4.1	532	4.0
Retirement benefit obligations	(24)	43	0.3	43	0.3
Provisions	(23)	53	0.4	69	0.5
Accrued expenses	(22)	162	1.2	147	1.1
Total non-current liabilities		838	6.2	817	6.1
Total liabilities		2 387	17.5	2 190	16.2
Equity					
Share capital	(26a)	125		125	
Capital reserves	(26b)	- 961		- 977	
Treasury shares	(26d)	- 1 251		- 863	
Goodwill recognized		- 1 372		- 1 372	
Translation differences		- 210		- 115	
Retained earnings		14 854		14 403	
Equity of The Swatch Group Ltd shareholders		11 185	81.9	11 201	83.1
Non-controlling interests		89	0.6	88	0.7
Total equity		11 274	82.5	11 289	83.8
Total equity and liabilities		13 661	100.0	13 479	100.0

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	2018 CHF million	2017 CHF million
Operating activities			
Net income		867	755
Reversal of non-cash items	(28a)	762	692
Changes in working capital and other items included in operating cash flow	(28b)	- 412	- 22
Dividends received from associated companies	(17)	0	18
Interest received		14	9
Interest paid		- 5	- 3
Income tax paid	(6c)	- 283	- 185
Cash flow from operating activities		943	1 264
Investing activities			
Investments in property, plant and equipment	(15)	- 437	- 396
Proceeds from sale of property, plant and equipment		5	6
Investments in intangible assets	(16)	- 44	- 46
Proceeds from sale of intangible assets		5	0
Investments in other non-current assets	(19)	- 222	- 22
Proceeds from sale of other non-current assets		14	12
Acquisition of subsidiaries – net of cash	(18a)	-	-
Divestments of businesses	(18b)	-	3
Purchase of marketable securities		- 77	- 112
Sale of marketable securities		105	120
Cash flow from investing activities		- 651	- 435
Financing activities			
Dividends paid to shareholders	(8)	- 394	- 357
Dividends paid to non-controlling interests		- 19	- 17
Repurchase of treasury shares	(26d)	- 389	- 204
Sale of treasury shares		1	1
Change in non-current financial debts		0	0
Change in current financial debts		144	- 100
Repurchase of non-controlling interests	(18c)	- 2	-
Cash flow from financing activities		- 659	- 677
Net impact of foreign exchange rate differences on cash		- 22	3
Change in cash and cash equivalents		- 389	155
Change in cash and cash equivalents			
– At beginning of year		1 291	1 136
– At end of year	(9)	902	1 291

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Total	Non-con- trolling interests	Total equity
	Share capital (Note 26)	Capital reserves (Note 26)	Treasury shares (Note 26)	Goodwill recognized	Translation differences	Retained earnings			
Balance at 31 December 2016	125	- 991	- 660	- 1 372	- 142	14 027	10 987	86	11 073
Net income						733	733	22	755
Currency translation of foreign entities					27		27	- 3	24
Dividends paid						- 357	- 357	- 17	- 374
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		14					14		14
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		- 1	- 204				- 205		- 205
Transactions with non-controlling interests			1				1		1
Balance at 31 December 2017	125	- 977	- 863	- 1 372	- 115	14 403	11 201	88	11 289
Net income						845	845	22	867
Currency translation of foreign entities					- 95		- 95	0	- 95
Dividends paid						- 394	- 394	- 19	- 413
Share-based compensation (Note 29):									
– Value of employee services (net of tax)		16					16		16
– Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		- 1	- 388				- 389		- 389
Transactions with non-controlling interests		0	0				0	- 2	- 2
Balance at 31 December 2018	125	- 961	- 1 251	- 1 372	- 210	14 854	11 185	89	11 274

The accompanying notes form an integral part of the consolidated financial statements.

NOTES TO 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 18 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 Swatch Group Ltd is a limited company incorporated and domiciled in Switzerland. Its registered office is located in Neuchâtel, Faubourg de l'Hôpital 3. The administrative headquarters are in Biel, Seedorf 6.

The shares of The Swatch Group Ltd are listed in Switzerland in the Swiss Reporting Standard 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 27 February 2019 and will be submitted to the Annual General Meeting of Shareholders for approval on 23 May 2019.

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 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 Ltd. 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. Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. In the case of acquisitions, potentially existing non-capitalized intangible assets such as brands, user rights or client lists are not recognized separately, but remain in goodwill. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

c. Scope of consolidation

At the end of the year under review, the Group's consolidation structure comprised 158 legal entities (previous year: 162) including two joint ventures (previous year: two) and five associated companies (previous year: five). Three legal entities have been merged with other Group companies and one legal entity has been dissolved. 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 which have an impact on the assets and liabilities, income and expenses reported, as well as the disclosure of contingent liabilities. These estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations and assessments 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.

Significant estimates, judgements and assumptions are made mainly in the following areas:

Inventories

The Group recognizes impairments on inventories subject to market risk or with risk of obsolescence. In doing so, historical experience, anticipated future requirements, and the life cycle of the individual products are taken into account. Impairments are regularly evaluated by the individual subsidiaries, based on Group guidelines, and adjusted when necessary. Details to adjustments made in the year under review are disclosed in Note 13.

Taxes

The Group operates worldwide and is subject to taxation in over 40 countries. The Group is fully compliant with tax laws without exception and pays taxes where economic value is generated. Group-internal transactions are conducted on an arm's length basis. The Group discloses the amount of tax paid and key tax figures annually in the "Country-by-Country Reporting". Calculation of current and deferred tax positions is based on the applicable tax laws. New circumstances such as changes in tax rates, tax systems, offsetting of carryforward tax losses, or estimates of the effect of ongoing tax audits can have a significant impact on the existing tax obligations or tax claims of Group companies. The Group proactively and systematically clarifies tax positions with tax experts to prevent tax eventualities. The Group is obligated to cooperate transparently with tax authorities. Details to income taxes and tax positions are disclosed in Note 6.

e. Changes in accounting policies

No changes to the Swiss GAAP FER standards were published or announced in the year under review.

As of 2018, the Swatch Group recognizes sales-related transaction costs such as credit card fees as other operating expenses. Previously, these costs were deducted directly from net sales. This adjustment was made in order to increase the transparency of net sales and to enable comparison with normal international practice. To allow comparison with the presentation of figures for the year under review, prior-year figures were restated accordingly. The following table presents the impact in figures:

(CHF million)	31.12.2017 Restated	31.12.2017 Published	Change
Net sales	7 989	7 960	29
Other operating expenses	- 2 636	- 2 607	- 29
Operating result	1 002	1 002	0
Net income	755	755	0

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 consolidated 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:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2018	31.12.2018	2017	31.12.2017
		CHF	CHF	CHF	CHF
CNY	1	0.1478	0.1435	0.1461	0.1503
EUR	1	1.1540	1.1285	1.1186	1.1720
HKD	1	0.1250	0.1261	0.1263	0.1252
JPY	100	0.8892	0.8985	0.8800	0.8685
USD	1	0.9799	0.9875	0.9849	0.9790

g. Sales and revenue recognition

Net sales include the inflow of economic benefits from the sale of goods and services within the scope of ordinary business during the period under review. Sales reductions such as discounts, rebates and other concessions as well as payments to third parties such as commissions and any value added tax are deducted from net sales reported. All intercompany sales are eliminated during consolidation.

As of 2018, sales-related transaction costs such as credit card fees, for example, are recognized as other operating expenses and no longer directly in net sales (see Note 2e).

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. Revenue from services is recognized in the accounting period in which the service is rendered. 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. In the case of agency transactions, only the value of own services is recognized. In the event of business transactions involving identifiable multiple elements, these are to be recognized and valued separately. This type of transaction occurs only rarely within the Group.

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").

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

j. Trade receivables

Trade receivables are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables. Impairment is charged on receivables which are either more than 12 months overdue or for which 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. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.

k. Inventories

Inventories are valued at the lower of acquisition or production cost and fair value less cost to sell. 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 own produced 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. The maximum depreciation periods are as follows:

– Land	no depreciation
– Production plants	30 years
– Administrative buildings	40 years
– Investment properties	50 years
– Technical equipment and machinery	15 years
– Other equipment and fixtures	8 years

The residual values and the remaining useful life of property, plant and equipment are reviewed yearly and adjusted where necessary. Investment property mainly comprises commercial premises and residential buildings rented to third parties. The position advances and construction in progress 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

Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill from acquisitions is recognized in Group equity at the time of acquisition. The notes to the consolidated financial statements disclose the effects of a theoretical capitalization and amortization of goodwill (see Note 27).

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 (maximum five years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Software

This heading includes in particular the following positions:

- Licenses purchased granting rights to use new technologies and software. They are amortized over their useful life (maximum five years).
- Internally developed software. 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 (maximum five years).

Other intangible assets

This heading includes in particular the following positions:

- Key money for strategically located retail stores. If it 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 maximum 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).
- Patents and rights of use
- Development and software projects in progress. These are transferred into their respective categories after project completion.

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.

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. No discounting effects are taken into account on non-current provisions, as these are considered to be immaterial.

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

The Group may use derivative financial instruments such as forward exchange contracts or currency options to hedge against exchange risks. The Group did not designate such instruments as cash flows hedges, either in the year under review or in the previous year. All derivative financial instruments are booked at fair value. Fair value changes are recognized immediately in the financial result.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

r. Income taxes

The tax expense for the period comprises current income taxes and deferred taxes. 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 at 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.

s. Pensions and other post-employment benefits

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 liability are met. An economic benefit is capitalized provided that it is permitted and intended to be used for future Group pension contributions. 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 financed by contributions from both employers and employees. Surpluses or deficits are calculated based on the preliminary 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.

Some foreign 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 for a 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. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value.

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 Swatch Group Ltd has given its approval.

v. Employee stock option plan

The Group operates a share-based employee stock option plan. Under the terms of this plan, a specified number of options to purchase registered shares are granted to managers and employees who have distinguished themselves by a particularly strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the granting 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 calculation of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original calculations, if any, in the income statement, with a corresponding adjustment to equity. Registered shares from existing treasury stock have been specifically reserved for this plan. No new shares are issued for the employee stock option plan. The proceeds received, net of any directly attributable transaction costs, are recognized in Group equity when the options are exercised.

The dilutive effect of outstanding options on earnings per share is disclosed in Note 7b.

w. Leases

Finance leases

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.

Property, plant and equipment are only leased in exceptional circumstances. At the end of the year under review, the net book value of property, plant and equipment under finance lease contracts amounted to less than CHF 1 million (previous year: less than CHF 1 million).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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. At year-end no cash flow hedges existed (previous year: none).

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 investment grade. Exposure to this type of risk is closely monitored by Group management and is contained within strict and predetermined 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:

(CHF million)	31.12.2018	31.12.2017
Cash and cash equivalents (Note 9)	944	1 291
Marketable securities and derivative financial instruments (Note 10)	296	340
Short-term accessible liquidity reserves	1 240	1 631
Committed credit facilities	824	772
./ Utilized credit facilities	- 222	- 35
Total short-term accessible liquidity reserves and undrawn credit facilities	1 842	2 368

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. At the end of the year under review, equity represented 82.5% of total assets (previous year: 83.8%).

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

a. Operating 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	Design, production and commercialization 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 elimination column.

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

2018 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 213	257	5		8 475
– Group	1	16	5	– 22	–
Net sales	8 214	273	10	– 22	8 475
Operating result	1 258	14	– 118	–	1 154
– In % of net sales	15.3	5.1			13.6

2017 ¹⁾ (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 730	254	5		7 989
– Group	1	13	5	– 19	–
Net sales	7 731	267	10	– 19	7 989
Operating result	1 104	5	– 107	–	1 002
– In % of net sales	14.3	1.9			12.5

¹⁾ The prior period has been restated due to the comparability of the presentation (Note 2e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Balance sheet and other information

2018 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	12 344	279	5 556	– 4 577	13 602
– Investments in associated companies and joint ventures	6		53		59
Total assets	12 350	279	5 609	– 4 577	13 661
Total liabilities	– 5 945	– 98	– 921	4 577	– 2 387
Net assets	6 405	181	4 688	–	11 274

Other information

Investments in property, plant and equipment	403	19	10		432
Investments in intangible assets	38	3	4		45
Investments in other non-current assets	23	–	199		222
Depreciation on property, plant and equipment	– 401	– 18	– 19		– 438
Amortization on intangible assets	– 38	– 2	– 3		– 43
Impairment	– 13	–	0		– 13

2017 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Balance sheet					
– Segment assets	12 261	301	5 138	– 4 278	13 422
– Investments in associated companies and joint ventures	5		52		57
Total assets	12 266	301	5 190	– 4 278	13 479
Total liabilities	– 5 682	– 125	– 661	4 278	– 2 190
Net assets	6 584	176	4 529	–	11 289

Other information

Investments in property, plant and equipment	400	19	8		427
Investments in intangible assets	37	7	2		46
Investments in other non-current assets	22	0	0		22
Depreciation on property, plant and equipment	– 395	– 19	– 19		– 433
Amortization on intangible assets	– 38	– 2	– 3		– 43
Impairment	0	–	–		0

b. Information on geographical regions

(CHF million)	2018		2017 ¹⁾	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	748	2 626	748	2 619
Other Europe	1 623	326	1 683	338
Total Europe	2 371	2 952	2 431	2 957
Greater China	3 093	407	2 798	207
Other Asia	2 127	271	1 937	279
Total Asia	5 220	678	4 735	486
Total America	733	148	687	173
Total Oceania	87	7	82	7
Total Africa	64	1	54	1
Total	8 475	3 786	7 989	3 624

¹⁾ The prior period has been restated due to the comparability of the presentation (Note 2e).

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 net sales	(CHF million)	2018	2017
	Sale of goods	8 454	7 960
	Rendering of services	21	29
	Total net sales	8 475	7 989

b. Other operating income In the year under review, other operating income amounted to CHF 180 million (previous year: CHF 116 million). The increase is mainly due to the timekeeping services rendered in the year under review for the Olympic Games.

c. Personnel expense	(CHF million)	2018	2017
	Wages and salaries	2 066	1 889
	Social security costs	354	327
	Share-based compensation (Note 29)	16	14
	Pension costs (Note 24)	127	109
	Total personnel expense	2 563	2 339

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

(unaudited)	2018	2017
Average annual headcount	36 074	35 057
Total headcount at 31 December	37 123	35 360
Men	17 904	17 089
Women	19 219	18 271
Swiss contracts	18 055	16 709
Non-Swiss contracts	19 068	18 651

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)	2018	2017
	Marketing, sales and administration	1 358	1 267
	Subcontracting and other direct costs of sales	315	265
	Maintenance, rents and energy	1 080	1 044
	Other operating expenses	97	60
	Total other operating expenses	2 850	2 636

e. Research and development costs Costs for research and development activities amounted to CHF 225 million in the year under review, representing 2.7% of net sales (previous year: CHF 221 million or 2.8%).

f. Net financial result	(CHF million)	2018	2017
	Interest income	14	10
	Result from marketable securities at fair value	- 4	15
	Net currency result	- 25	- 37
	Other financial expense	- 4	- 4
	Other financial income and expense	- 19	- 16
	Interest expense	- 5	- 3
	Share of result from associates and joint ventures	2	21
	Net financial result	- 22	2

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	(CHF million)	2018	2017
Current income taxes		- 266	- 273
Income tax of prior periods		- 5	4
Deferred taxes		5	17
Total income taxes		- 266	- 252

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.

	2018	2017
	%	%
Group's average expected tax rate	22.3	20.4
Effect of:		
- Tax rate changes on deferred taxes	- 0.2	1.1
- Recognition and offset of tax loss carry-forwards not recognized in prior years	- 0.3	- 0.1
- Non-recognition of tax loss carry-forwards	1.0	4.1
- Non-taxable income	- 0.4	- 0.6
- Non-tax-deductible expenses	0.6	0.7
- Items taxable at reduced rates	- 0.1	0.0
- Income tax of prior periods	0.4	- 0.4
- Other items	0.2	- 0.2
Group's effective tax rate	23.5	25.0

The effective tax rate based on the ordinary result in the year under review was 23.5% (previous year: 25.1%).

c. Current income tax	(CHF million)	2018	2017
Net current income tax liability			
Balance at 1 January		- 113	- 26
Recognized in income statement		- 271	- 269
Recognized in equity		0	0
Income taxes paid		283	185
Translation differences		2	- 3
Balance at 31 December		- 99	- 113
thereof current income tax assets		23	22
thereof current income tax liabilities		- 122	- 135

d. Deferred tax Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current income tax assets against current income 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:

(CHF million)	31.12.2018			31.12.2017		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	293	- 341	- 48	272	- 332	- 60
Trade and other receivables	2	- 15	- 13	2	- 15	- 13
Property, plant and equipment	16	- 135	- 119	15	- 142	- 127
Intangible assets	11	- 7	4	10	- 8	2
Provisions	15	- 49	- 34	18	- 45	- 27
Retirement benefit obligations	6	0	6	6	- 1	5
Accrued expenses	63	- 36	27	66	- 33	33
Tax losses	25	-	25	40	-	40
Other	15	- 4	11	12	- 5	7
Total deferred tax assets (liabilities)	446	- 587	- 141	441	- 581	- 140
Deferred tax assets			417			392
Deferred tax liabilities			- 558			- 532

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

(CHF million)	Not recognized	Recognized	Total 2018
One year	4	–	4
Two years	11	–	11
Three years	11	–	11
Four years	25	1	26
Five years	24	24	48
Six years	112	16	128
More than six years	71	45	116
No expiry date	147	25	172
Total at 31.12.2018	405	111	516

(CHF million)	Not recognized	Recognized	Total 2017
One year	2	5	7
Two years	4	0	4
Three years	14	0	14
Four years	12	2	14
Five years	19	10	29
Six years	20	41	61
More than six years	162	101	263
No expiry date	161	20	181
Total at 31.12.2017	394	179	573

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 97 million in the year under review (previous year: CHF 95 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Earnings per share

a. Basic

	2018	2017
Net income attributable to shareholders of The Swatch Group Ltd (CHF million)	845	733
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.1%	44.1%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.9%	55.9%
Registered shares		
Net income attributable to registered shareholders (CHF million)	373	323
Average number of shares outstanding	115 449 571	116 755 450
Basic earnings per share (in CHF)	3.23	2.77
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	472	410
Average number of shares outstanding	29 268 442	29 567 412
Basic earnings per share (in CHF)	16.14	13.86

b. Diluted

	2018	2017
Registered shares		
Net income attributable to registered shareholders (CHF million)	373	324
Average number of shares outstanding – basic (as above)	115 449 571	116 755 450
Potential number of shares from options outstanding	201 235	195 736
Average potential number of shares outstanding – diluted	115 650 805	116 951 186
Diluted earnings per share (in CHF)	3.23	2.77
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	472	409
Average potential number of shares outstanding	29 268 442	29 567 412
Diluted earnings per share (in CHF)	16.13	13.85

8. Dividends paid and proposed

On 24 May 2018, 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 shareholders in the year under review totaled CHF 394 million (previous year: CHF 357 million). The dividend is recognized in retained earnings in the year under review. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount would have totaled CHF 23 million.

At the Annual General Meeting on 23 May 2019, the payment of the following dividends for the year under review will be proposed:

		Registered	Bearer
Dividend per share	CHF	1.60	8.00
Total dividend	CHF million	198	247

The financial statements ending 31 December 2018 do not take into account this proposed dividend. Dividends will be treated as an appropriation of available earnings during the financial year 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Cash and cash equivalents

(CHF million)	31.12.2018	31.12.2017
Current accounts and liquid assets	799	1 105
Short-term deposits with financial institutions	145	186
Total cash and cash equivalents	944	1 291

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:

(CHF million)	31.12.2018	31.12.2017
Cash and cash equivalents	944	1 291
Current account overdrafts (Note 20)	- 42	0
Total funds net cash	902	1 291

10. Marketable securities and derivative financial instruments

(CHF million)	31.12.2018	31.12.2017
Equity securities	57	96
Bond securities	224	224
Investment funds and other investments	10	12
Total marketable securities at fair value	291	332
Derivative financial instruments	5	8
Total marketable securities and derivative financial instruments	296	340

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

Type	31.12.2018			31.12.2017		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
AUD	16	0	-	13	-	0
CAD	15	0	-	14	-	0
CNY	-	-	-	50	-	0
EUR	431	1	0	509	-	- 4
GBP	80	-	- 1	53	-	0
HKD	-	-	-	7	0	-
JPY	18	-	0	6	0	0
RUB	11	1	-	13	0	0
SGD	19	-	0	14	0	0
USD	1 063	3	0	1 171	8	-
Other currencies	25	0	0	26	0	- 1
Total	1 678	5	- 1	1 876	8	- 5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Trade receivables

(CHF million)	31.12.2018	31.12.2017
Trade receivables – gross	908	1 089
Allowance for impaired receivables	– 15	– 13
Total trade receivables – net	893	1 076

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

(CHF million)	2018	2017
Balance at 1 January	– 13	– 11
Translation differences	0	0
Utilization	2	1
Reversal	1	1
Creation	– 5	– 4
Balance at 31 December	– 15	– 13

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:

(CHF million)	31.12.2018	31.12.2017
CHF	169	160
AED	15	19
CNY	234	341
EUR	132	171
HKD	30	34
JPY	44	36
KRW	19	22
USD	91	104
Other currencies	159	189
Total trade receivables – net	893	1 076

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

12. Other current assets

(CHF million)	31.12.2018	31.12.2017
VAT to be refunded	117	118
Other receivables	42	60
Total other current assets	159	178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Inventories

(CHF million)	31.12.2018	31.12.2017
Raw materials, auxiliary material and supplies	666	427
Goods in progress	534	527
Semi-finished goods	1 896	1 745
Finished goods	3 476	3 260
Spare parts for customer service	345	359
Total inventories	6 917	6 318

Inventories with risk of obsolescence have been adjusted to their net realizable value. In the year under review, the Group recognized write-downs of CHF 48 million (previous year: CHF 48 million). In addition, an amount of CHF 3 million was reversed (previous year: CHF 9 million). The net impact of these adjustments was a charge to the income statement of CHF 45 million (previous year: CHF 39 million).

14. Prepayments and accrued income

(CHF million)	31.12.2018	31.12.2017
Prepaid sales, marketing and administration costs	68	78
Income tax assets	23	22
Prepaid leasing costs	49	60
Other prepayments and accrued income	109	95
Total prepayments and accrued income	249	255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. Property, plant and equipment

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2017	2 390	4 006	712	180	7 288
Translation differences	0	-16	-13	0	-29
Additions	45	244	98	45	432
Disposals	-4	-128	-39	0	-171
Transfers	25	3	-1	-27	-
Historical cost, 31 December 2018	2 456	4 109	757	198	7 520
Accumulated depreciation, 31 December 2017	- 806	- 2 790	- 411	-	- 4 007
Translation differences	0	10	7	-	17
Annual depreciation	-70	-265	-103	-	-438
Impairment	0	-8	-5	-	-13
Depreciation on disposals	3	126	37	-	166
Transfers	0	-3	3	-	-
Accumulated depreciation, 31 December 2018	- 873	- 2 930	- 472	-	- 4 275
Net book values:					
Balance at 31 December 2017	1 584	1 216	301	180	3 281
Balance at 31 December 2018	1 583	1 179	285	198	3 245

¹⁾ The category land, buildings and properties includes investment properties with a carrying amount of CHF 435 million (previous year: CHF 443 million) and undeveloped properties with a carrying amount of CHF 27 million (previous year: CHF 27 million).

(CHF million)	Land, buildings and properties ¹⁾	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2016	2 230	3 873	623	210	6 936
Translation differences	9	18	8	-1	34
Additions	47	205	90	85	427
Disposals	-4	-78	-27	0	-109
Transfers	108	-12	18	-114	-
Historical cost, 31 December 2017	2 390	4 006	712	180	7 288
Accumulated depreciation, 31 December 2016	-735	-2 587	-338	-	-3 660
Translation differences	-2	-13	-5	-	-20
Annual depreciation	-67	-273	-93	-	-433
Impairment	-	0	-	-	0
Depreciation on disposals	3	76	27	-	106
Transfers	-5	7	-2	-	-
Accumulated depreciation, 31 December 2017	-806	-2 790	-411	-	-4 007
Net book values:					
Balance at 31 December 2016	1 495	1 286	285	210	3 276
Balance at 31 December 2017	1 584	1 216	301	180	3 281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Intangible assets

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2017	159	172	111	442
Translation differences	0	-2	-3	-5
Additions	7	18	20	45
Disposals	-3	-2	-3	-8
Transfers	16	3	-19	-
Historical cost, 31 December 2018	179	189	106	474
Accumulated amortization, 31 December 2017	-116	-133	-46	-295
Translation differences	0	1	1	2
Annual amortization	-21	-18	-4	-43
Impairment	-	-	-	-
Amortization on disposals	3	2	3	8
Transfers	0	0	0	-
Accumulated amortization, 31 December 2018	-134	-148	-46	-328
Net book values:				
Balance at 31 December 2017	43	39	65	147
Balance at 31 December 2018	45	41	60	146

(CHF million)	Capitalized development costs	Software	Other intangible assets	Total
Historical cost, 31 December 2016	139	153	103	395
Translation differences	0	1	5	6
Additions	10	16	20	46
Disposals	-	-4	-1	-5
Transfers	10	6	-16	-
Historical cost, 31 December 2017	159	172	111	442
Accumulated amortization, 31 December 2016	-95	-118	-40	-253
Translation differences	0	-1	-2	-3
Annual amortization	-21	-18	-4	-43
Impairment	-	-	-	-
Amortization on disposals	-	4	0	4
Transfers	-	0	0	-
Accumulated amortization, 31 December 2017	-116	-133	-46	-295
Net book values:				
Balance at 31 December 2016	44	35	63	142
Balance at 31 December 2017	43	39	65	147

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. Investments in associates and joint ventures

(CHF million)	2018	2017
Balance at 1 January	57	59
Share of result from associates and joint ventures	2	21
Dividends received	0	-18
Investments	-	0
Translation differences	0	-5
Balance at 31 December	59	57

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 the year under review and the previous year, there were no significant changes in investments in associates and joint ventures.

Sales to and purchases from associates and joint ventures amounted to CHF 46 million (previous year: CHF 481 million) and CHF 68 million (previous year: CHF 43 million) respectively.

At balance sheet date, associated companies and joint ventures had no contingent liabilities (previous year: none).

18. Business combinations

a. Acquisition of subsidiaries

There were no significant acquisitions in the year under review and the previous year.

b. Divestments of businesses

No companies were sold in the year under review and the previous year.

c. Changes in non-controlling interests

In the year under review, the Group acquired for CHF 2 million the remaining 50% of the shares in a Chinese retail company which it had already controlled and fully consolidated.

In December 2015, the remaining minority interest of 49% in the company ASICentrum spol.s.r.o. was acquired. The Swatch Group already had control over the company. The transaction was settled in three annual instalments of treasury shares in 2016, 2017 and 2018, valued at a total of CHF 2 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Other non-current assets

(CHF million)	Prepaid marketing and leasing cost	Security deposits	Other financial assets	Total
Balance at 31 December 2017	41	90	13	144
Translation differences	-2	0	2	0
Additions	7	15	200	222
Disposals	0	-10	-7	-17
Balance sheet transfer	-14	1	0	-13
Balance at 31 December 2018	32	96	208	336

(CHF million)	Prepaid marketing and leasing cost	Security deposits	Other financial assets	Total
Balance at 31 December 2016	56	106	12	174
Translation differences	2	-2	0	0
Additions	8	11	3	22
Disposals	0	-10	-1	-11
Balance sheet transfer	-25	-15	-1	-41
Balance at 31 December 2017	41	90	13	144

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Financial debts and derivative financial instruments

(CHF million)	31.12.2018	31.12.2017
Current account overdrafts	42	0
Short-term bank debt	160	11
Derivative financial instruments	1	5
Total current financial debts and derivative financial instruments	203	16
Total non-current financial debts	22	26
Total financial debts	225	42

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:

(CHF million)	less than 1 year	1–5 years	over 5 years	Total
At 31 December 2018	203	20	2	225
At 31 December 2017	16	24	2	42

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

(CHF million)	31.12.2018	31.12.2017
CHF	43	5
JPY	25	28
USD	148	0
Other currencies	9	9
Total	225	42

At the end of the year under review, short term bank loans of USD 150 million or CHF 148 million at an average interest rate of 2.9% were open (previous year: none). The long-term financial debts at the end of the year under review included a mortgage of JPY 2 250 million or CHF 20 million (previous year: JPY 2 750 million or CHF 24 million) at a fixed interest rate of 2.4% with a term until March 2021 (without a termination clause). The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review.

21. Other liabilities

(CHF million)	31.12.2018	31.12.2017
Advance payments received	39	37
Income tax liabilities	9	15
VAT liabilities	71	52
Other tax liabilities	26	14
Social benefits liabilities	39	36
Other liabilities	38	55
Total other liabilities	222	209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. Accrued expenses

(CHF million)	31.12.2018	31.12.2017
Accrued salaries and social benefits	177	165
Accrued sales, marketing and administration costs	162	202
Accrued income taxes	113	120
Accrued sales reductions	73	78
Accrued leasing costs	175	158
Other accrued expenses	99	125
Total accrued expenses	799	848
thereof current	637	701
thereof non-current	162	147

23. Provisions

(CHF million)	Warranties	Litigation	Dismantling	Other	Total
Balance at 31 December 2016	98	5	18	17	138
Translation differences	1	0	0	1	2
Additional provisions	97	3	11	3	114
Reversal of provisions	-9	0	0	-2	-11
Provisions used during the year	-77	0	-2	-2	-81
Balance at 31 December 2017	110	8	27	17	162
thereof current provisions	74	3	5	11	93
thereof non-current provisions	36	5	22	6	69
Translation differences	-1	0	-1	-1	-3
Additional provisions	66	1	5	4	76
Reversal of provisions	-6	0	0	-2	-8
Provisions used during the year	-76	-1	-1	-2	-80
Balance at 31 December 2018	93	8	30	16	147
thereof current provisions	74	3	4	13	94
thereof non-current provisions	19	5	26	3	53

a. Warranty

Products that do not perform to customers' satisfaction are repaired or replaced by the Group under warranties of one or more years. 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 behavior and opinion that may cause a significant outflow of economic benefits.

c. Dismantling / restoration

Some Group companies have contractual or legal obligations to return objects to their original state at the end of the term of the contract. At the beginning of the contract term, dismantling and restoration costs are estimated on the basis of contractual elements and/or empirical values and provisions are recorded. These obligations arise primarily from contracts for rental premises.

d. Other

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Retirement benefit obligations

Employer contributions reserve / Shares held by pension institutions

In the previous year, the Group had an employer contributions reserve in the Swiss pension fund of the Swatch Group, which amounted to CHF 5 million. This reserve was capitalized in Other non-current assets. In the year under review, the Group decided to waive its claim on this employer contributions reserve in full. The asset was written off in personnel expense and at the end of the year under review, there is no longer an employer contributions reserve.

Pension fund assets included 3 693 987 registered shares at the end of the year under review (previous year: 4 064 964 shares) and 11 165 bearer shares (previous year: 5 440 shares) of The Swatch Group Ltd.

Economic benefit / economic obligation and pension benefit expenses

2018

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact ¹⁾	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	383	–	–	–	8	8
Pension plans without surplus / deficit	–	–	–	–	–8	–8
Pension plans with surplus	0	–	–	–	–2	–2
Pension plans with deficit	–372	–2	1	0	–119	–119
Pension plans without own assets	–	–41	5	–6	–	–6
Total	11	–43	6	–6	–121	–127

¹⁾The amounts without an income statement impact refer to exchange rate differences and disbursements.

2017

(CHF million)	Surplus / deficit	Group's economic share	Change from previous year no income statement impact ¹⁾	income statement impact	Contributions concerning the business period	Pension costs within personnel expense
Patronage funds / patronage pension plans	404	–	–	–	–	–
Pension plans without surplus / deficit	–	–	–	–	–6	–6
Pension plans with surplus	–	–	–	–	–	–
Pension plans with deficit	–85	–3	0	0	–97	–97
Pension plans without own assets	–	–40	2	–6	–	–6
Total	319	–43	2	–6	–103	–109

Summary of pension benefit expenses

(CHF million)	2018			2017		
	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Contributions to pension plans charged to Group companies	–102	–14	–116	–92	–11	–103
Contributions to pension plans paid from employer contributions reserve	–	–	–	–	–	–
Total contributions	–102	–14	–116	–92	–11	–103
Change of employer contributions reserve from evolution of fortune, impairments, discounting, etc.	–5	–	–5	0	–	0
Contributions and change in employer contributions reserve	–107	–14	–121	–92	–11	–103
Increase / decrease of Group's economic benefits from surpluses	–	–	–	–	–	–
Decrease / increase of economic obligations from deficits	–	–6	–6	–	–6	–6
Total changes of economic effects from surpluses / deficits	–	–6	–6	–	–6	–6
Pension benefit expenses within personnel expenses of the period	–107	–20	–127	–92	–17	–109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. Commitments and contingencies

a. Guarantees and sureties

At the end of the year under review, guarantees to third parties as security for commitments of Group companies amounted to CHF 37 million (previous year: CHF 40 million).

Total assets pledged by Group companies to guarantee their commitments amounted to CHF 132 million at the end of the year under review (previous year: CHF 137 million), of which CHF 25 million served to secure financial debts (previous year: CHF 28 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 (non-discounted):

(CHF million)	31.12.2018	31.12.2017
Less than 1 year	465	443
Between 1 and 5 years	1 284	1 238
Over 5 years	1 048	1 185
Total	2 797	2 866

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 rental contracts existing at the end of the year under review. Leasing costs amounting to CHF 683 million were recognized in the income statement of the year under review, compared to CHF 697 million in the previous year. At the end of the year under review, other open long-term and irrevocable payment obligations entered into by the Group, which cannot be cancelled within 12 months, had a non-discounted value of CHF 749 million (previous year: CHF 885 million). They mainly relate to marketing and sponsoring commitments, as well as investments in tangible fixed assets.

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:

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2017	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2018	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

At the end of the year under review, as well as at the end of the previous year, there was no authorized or conditional capital. All issued shares are fully paid. No benefit or participation 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 the result from the sale of treasury shares and transactions with non-controlling interests as well as effects of capital reductions in prior years.

c. Non-distributable reserves

At the end of the year under review, the reserves of the holding company, The Swatch Group Ltd, included a non-distributable amount of CHF 1 276 million (previous year: CHF 888 million). This amount consisted of CHF 1 251 million related to treasury shares held (previous year: CHF 863 million) and non-distributable legal reserves of CHF 25 million (previous year: CHF 25 million).

d. Treasury shares

In the context of the share buyback program 2016-2019, treasury shares with a market value of CHF 388 million were repurchased in the year under review. The total volume repurchased since the beginning of the program amounted to CHF 924 million. At year end, there were no disclosable repurchase obligations from this program.

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

	Registered shares		Bearer shares		Total
	Quantity	Value	Quantity	Value	
		CHF million		CHF million	CHF million
Balance at 31 December 2016	6 541 436	339	1 108 850	321	660
Acquisitions ¹⁾	1 467 500	103	280 800	101	204
Disposals ²⁾	- 242 521	- 1	-	-	- 1
Balance at 31 December 2017	7 766 415	441	1 389 650	422	863
Acquisitions ¹⁾	2 653 800	192	522 900	196	388
Disposals ²⁾	- 218 618	0	-	-	0
Balance at 31 December 2018	10 201 597	633	1 912 550	618	1 251

¹⁾ In the year under review, the Group acquired 2 653 800 registered shares (previous year: 1 467 500) at an average price of CHF 72.22 (previous year: CHF 70.11). In addition, 522 900 bearer shares (previous year: 280 800) at an average price of CHF 376.02 (previous year: CHF 360.45) were acquired.

²⁾ In the year under review, disposals of 209 870 registered shares relate to the employee stock option plan (previous year: 231 325 registered shares). Details of stock options issued in connection with the employee stock option plan are disclosed in Note 29 of the consolidated financial statements. In the year under review, in connection with the acquisition of the remaining minority interest in ASICentrum spol. s.r.o., 8 748 registered shares were granted to the former shareholders (previous year: 11 196 registered shares). Details of the transaction are disclosed in Note 18 of the consolidated financial statements.

In the year under review and the previous year, no bearer shares were sold.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	2018			2017		
	Goodwill Group associated companies	Goodwill associated companies	Total	Goodwill Group associated companies	Goodwill associated companies	Total
(CHF million)						
Historical cost 1 January	1 389	48	1 437	1 389	48	1 437
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Historical cost 31 December	1 389	48	1 437	1 389	48	1 437
Theoretical accumulated amortization						
1 January	– 875	– 39	– 914	– 764	– 36	– 800
Theoretical annual amortization	– 105	– 3	– 108	– 111	– 3	– 114
Theoretical impairment	–	–	–	–	–	–
Theoretical amortization on disposals	–	–	–	–	–	–
Transfers	–	–	–	–	–	–
Theoretical accumulated amortization 31 December	– 980	– 42	– 1 022	– 875	– 39	– 914
Theoretical net book value 31 December	409	6	415	514	9	523

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:

b. Theoretical impact on equity

(CHF million)	2018	2017
Equity, per balance sheet	11 274	11 289
Theoretical capitalization of net book value of goodwill	415	523
Theoretical equity including net book value of goodwill	11 689	11 812

c. Theoretical impact on net income

(CHF million)	2018	2017
Net income, per income statement	867	755
Theoretical amortization of goodwill	– 108	– 114
Theoretical net income after goodwill amortization	759	641

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. Details to the consolidated statement of cash flows

a. Non-cash items	(CHF million)	Notes	2018	2017
Reversal of non-cash items				
	Share of result from associates and joint ventures	(17)	– 2	– 21
	Income taxes	(6a)	266	252
	Depreciation on property, plant and equipment	(15)	438	433
	Amortization on intangible assets	(16)	43	43
	Impairment		13	0
	Gains on sale of non-current assets		– 7	– 4
	Losses on sale of non-current assets		2	2
	Fair value gains on marketable securities		– 7	– 38
	Fair value losses on marketable securities		19	4
	Interest income	(5f)	– 14	– 10
	Interest expense	(5f)	5	3
	Expenses for equity-settled compensation plan	(29)	16	14
	Changes in provisions		– 16	11
	Changes in retirement benefit obligations		6	3
	Total		762	692

b. Changes in working capital	(CHF million)	2018	2017
Changes in working capital and other items included in cash flow from operating activities			
	Inventories	– 633	– 83
	Trade receivables	147	– 151
	Other receivables and accrued income	27	2
	Trade payables	57	15
	Other liabilities and accrued expenses	– 11	179
	Other items included in cash flow from operating activities	1	16
	Total	– 412	– 22

29. Employee stock option plan

Under the terms of the employee stock option plan, options to purchase registered shares are granted to managers and employees who distinguished themselves by a particularly 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. Options are conditional on the employee being employed by the company on the date of exercise. Options are not transferable and only exercisable by the employee. The exercised options can optionally be subject to a blocking period of either 5 or 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. Registered shares from existing treasury stock have been specifically reserved for this plan. No new shares are issued for the employee stock option 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.

The number of registered shares in the employee stock option plan portfolio changed as follows:

	2018	2017
	Shares	Shares
Balance at 1 January	449 319	680 644
Transfer from treasury shares	2 715 000	0
Exercised shares	– 209 870	– 231 325
Balance at 31 December	2 954 449	449 319

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All options have an exercise price of CHF 4.00. The number of outstanding share options changed as follows:

	2018	2017
	Options	Options
Options outstanding at 1 January	207 287	230 671
Granted	215 296	208 930
Forfeited or lapsed	- 386	- 989
Exercised	- 209 870	- 231 325
Options outstanding at 31 December	212 327	207 287

Share options outstanding at the end of the year have the following expiry date:

Expiry date	31.12.2018	31.12.2017
2018		137 609
2019	140 519	69 678
2020	71 808	
Total	212 327	207 287

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 the year under review and in the previous year was based:

	2018		2017	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date	31 May 2018	31 May 2018	31 May 2017	31 May 2017
Expiration date	31 May 2019	31 May 2020	31 May 2018	31 May 2019
Closing share price on grant date	CHF 87.55	CHF 87.55	CHF 73.90	CHF 73.90
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Market value of option at grant date	CHF 83.55	CHF 83.55	CHF 69.90	CHF 69.90

The first portion was immediately exercisable and was subject to the exercise conditions listed above.

The personnel expense recorded in the income statement of the year under review amounted to CHF 16 million (previous year: CHF 14 million).

30. Related party transactions

a. Principal shareholders

At the end of the year under review, the Hayek Pool and its related companies, institutions and individuals held 61 662 277 registered shares and 11 715 bearer shares, equivalent to 39.8% of all voting rights (previous year: 40.0%) 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 39.3% of all voting rights (previous year: 39.6%).

In the year under review, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 8.3 million to the Swatch Group (previous year: CHF 8.8 million). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2018	2017
Audit, feasibility studies and process optimization	2.1	1.8
Executive functions	1.0	1.0
Project management in the construction sector	2.8	3.6
Support for projects in the materials and surface treatment technology sector	0.7	0.8
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.4	0.4
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.3	1.2
Total	8.3	8.8

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:

(CHF million)	2018	2017
Short-term employee benefits	24.7	24.8
– of which in salaries	8.0	8.1
– of which in bonus	16.2	16.1
– of which in expense allowances	0.5	0.5
– of which in other benefits	0.0	0.1
Share-based compensation	12.8	10.1
Contributions to pension plans	1.2	0.6
Other social benefits	4.0	3.2
Total	42.7	38.7

Long-term service awards are now recognized under “other benefits” and no longer under “salaries”, as they are non-recurring. Prior-year figures were restated accordingly. 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. In the year under review, no payments were made to former members of the Group’s governing bodies for their past functions (previous year: CHF 0.9 million).

c. Share ownership

At the end of the year under review, 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 56 815 240 registered shares and 590 bearer shares, representing 36.7% of all voting rights (previous year: 36.6%).

In addition, at the end of the year under review, all the non-executive members of the Board of Directors as well as the persons close to them held 100 registered shares and 2 010 bearer shares, representing 0.0% of all voting rights (previous year: 0.0%).

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. 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 the year under review and the previous year, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, in the year under review and the previous year, 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).

(CHF million)	2018		2017	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	68	46	43	481
Other related parties	0	0	0	0

At the end of the year under review, receivables from associates amounted to CHF 4 million (previous year: CHF 9 million), and payables to associates were CHF 4 million (previous year: CHF 2 million). At the end of the year under review, the Group held no guarantees from associated companies (previous year: none). At the end of the year under review, loans granted by the Group to associated companies amounted to CHF 9 million at an interest rate of 4.5% (previous year: CHF 4 million at 4.0%).

At the end of the year under review and the previous year, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2018

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Europe					
Switzerland					
The Swatch Group AG, Neuchâtel	Holding	CHF 125.21			
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▼
Belenos Clean Power Engineering SA, Bienne	Research and development	CHF 0.25	60	●	▼
Belenos Clean Power Holding SA, Bienne	Holding	CHF 63.00	51	●	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	▼
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	▼
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	▼
Certina AG, Le Locle	Watches	CHF 3.50	100	●	▼
Cité du Temps SA, Genève	Communication	CHF 6.00	100	●	▼
CHH Microtechnique SA, Le Chenit	Watch components	CHF 0.10	100	●	▼
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	▼
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▼
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	▼
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▼
Distisco SA, Bienne	Distribution	CHF 3.00	100	●	▼
Dress your body SA, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100	●	▼
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100	●	▼
Evaco SA, Möhlin	Watches	CHF 0.50	58	●	▼
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	▼
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	▼
Harry Winston SA, Plan-les-Ouates	Watches	CHF 0.40	100	●	▼
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Manufacture Ruedin SA, Haute-Sorne	Watch cases	CHF 2.40	100	●	▼
Meco SA, Grenchen	Watch crowns	CHF 4.50	100	●	▼
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	▼
Mido AG, Le Locle	Watches	CHF 1.20	100	●	▼
MOM le Prélet SA, Val-de-Ruz	Watch dials	CHF 0.30	100	●	▼
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	▼
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	▼
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▼
Novi SA, Les Genevez	Assembly	CHF 0.14	100	●	▼
Omega SA, Bienne	Watches	CHF 50.00	100	●	▼
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	▼
Record Watch Co. SA, St-Imier	Administration	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	▼
René Clémence SA, La Chaux-de-Fonds	Watch-glasses	CHF 0.06	100	●	▼
Rubattel et Weyerhann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▼
Simon et Membrez SA, Delémont	Watch cases	CHF 0.10	100	●	▼
S.I. Les Corbes SA, Val-de-Ruz	Real estate	CHF 0.10	34	○	▼
SSIH Management Services AG, Bienne	Services	CHF 0.05	100	●	▼
Swatch AG, Bienne	Watches	CHF 2.00	100	●	▼
Swatch Retail AG, Bienne	Retail	CHF 2.00	100	●	▼
Swiss Timing AG, Corgémont	Sports timing technology & equipment	CHF 2.00	100	●	▼
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
Terriboîtes SA, Basse-Allaine	Watch case polishing	CHF 0.10	60	●	▼
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100	●	▼
The Swatch Group Europa AG, Bienne	Distribution	CHF 29.65	100	●	▼
The Swatch Group Export SA, Neuchâtel	Distribution	CHF 1.00	100	●	▼
The Swatch Group Far East Distribution Ltd, Bienne	Distribution	CHF 0.10	100	●	▼
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80	●	▼
The Swatch Group Lab AG, Zürich	Services	CHF 0.60	100	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	▼
The Swatch Group Management Services SA, Bienne	Services	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	100	●	▼
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	▼
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	▼
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▼

Legend: ● Fully consolidated ○ Equity method ◀ Watches & Jewelry ▶ Electronic Systems ▼ Corporate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2018

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Belgium					
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR 1.75	100	●	◀
Retail Services Belgium SA, Bruxelles	Services	EUR 2.09	100	●	◀
Germany					
Fördergesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR 0.03	100	●	◀
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	◀
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	▶
Swiss Prestige Uhren Handel GmbH, Eschborn	Retail	EUR 0.08	100	●	◀
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution	EUR 1.28	100	●	◀
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR 0.10	100	●	◀
France					
Breguet SAS, Paris	Administration	EUR 0.04	100	●	◀
Fabrique de Fournitures de Bonnétage SAS, Villers-le-Lac	Precision parts	EUR 4.56	100	●	◀
Frésard Composants SAS, Charquemont	Precision parts	EUR 1.80	100	●	◀
Centre Européen de Service Horloger SAS, Besançon	Customer service	EUR 0.70	100	●	◀
Harry Winston SAS, Paris	Retail	EUR 10.09	100	●	◀
Hour Passion SAS, Paris	Retail	EUR 10.00	100	●	◀
The Swatch Group (France) SAS, Paris	Distribution	EUR 15.00	100	●	◀
Greece					
The Swatch Group (Greece) SA, Athens	Distribution	EUR 0.36	100	●	◀
Great Britain					
Harry Winston (UK) Ltd, London	Retail	GBP 0.00	100	●	◀
The Swatch Group (UK) Ltd, London	Distribution	GBP 2.00	100	●	◀
Italy					
Lascor S.p.A., Sesto Calende	Watch cases and bracelets	EUR 1.00	100	●	◀
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR 0.01	100	●	◀
The Swatch Group (Italia) S.p.A., Milano	Distribution	EUR 23.00	100	●	◀
Luxembourg					
The Swatch Group SICAF-SIF, Alzingen	Finance company	CHF 463.41	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.80	100	●	▼
Monaco					
The Swatch Group (Monaco) Les Boutiques SAM	Distribution	EUR 2.00	100	●	◀
Netherlands					
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR 3.45	100	●	◀
Austria					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR 0.04	100	●	◀
Poland					
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN 10.00	100	●	◀
Russia					
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB 8 544.12	100	●	◀
Sweden					
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK 0.50	100	●	◀
Spain					
The Swatch Group (España) SA, Alcobendas	Distribution	EUR 0.45	100	●	◀
Czech Republic					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK 0.30	100	●	▶
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK 0.10	80	●	▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK 9.00	100	●	◀
Turkey					
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY 251.00	100	●	◀

Legend: ● Fully consolidated ○ Equity method ◀ Watches & Jewelry ▶ Electronic Systems ▼ Corporate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2018

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
Asia					
Bahrain					
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58	●	◀
Greater China					
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50	○	◀
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY 78.96	100	●	◀
Harry Winston (Hong Kong) Limited, Hong Kong	Retail	HKD 0.01	100	●	◀
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9	○	◀
Lanco Watches Ltd, Hong Kong	Administration	USD 0.07	100	●	◀
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	◀
Shanghai Qi Heng Trading Co., Ltd., Shanghai	Retail	CNY 30.00	100	●	◀
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	◀
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	◀
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 48.37	100	●	◀
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Art center	CNY 148.41	90	●	◀
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 99.69	100	●	◀
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution	CNY 7.12	90	●	◀
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Services	CNY 10.45	100	●	◀
The Swatch Group (China) Ltd, Shanghai	Distribution	CNY 14.88	100	●	◀
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution	HKD 5.00	100	●	◀
India					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 5 280.00	100	●	◀
Swatch Group (India) Retail Private Ltd, New Delhi	Retail	INR 180.10	100	●	◀
Indonesia					
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 189 295.90	100	●	◀
Japan					
Harry Winston Japan KK, Tokyo	Retail	JPY 10.00	100	●	◀
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 100.00	100	●	◀
Qatar					
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29	●	◀
Rivoli Enterprises W.L.L., Doha	Retail	QAR 0.20	29	●	◀
Malaysia					
Micromechanics (M) Sdn Bhd, Ipoh	Assembly electronic components	MYR 35.00	100	●	◀
Swiss Luxury Watch & Jewelry Sdn Bhd, Kuala Lumpur	Retail	MYR 7.00	51	●	◀
The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur	Distribution	MYR 1.00	100	●	◀
Oman					
Rivoli & Co. L.L.C., Muscat	Retail	OMR 0.30	58	●	◀
Saudi Arabia					
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33	○	◀
Singapore					
Harry Winston N.A. Pte Ltd, Singapore	Retail	SGD 0.00	100	●	◀
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution	SGD 4.00	100	●	◀
South Korea					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 6 300.00	100	●	◀
Thailand					
ETA (Thailand) Co. Ltd, Samut Prakan	Assembly electronic components	THB 504.50	100	●	◀
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 600.00	100	●	◀
United Arab Emirates					
Al Khaleej Watches L.L.C., Abu Dhabi	Retail	AED 0.15	58	●	◀
Blue Sky Trading Company L.L.C., Abu Dhabi	Retail	AED 0.30	58	●	◀
Excel Enterprises L.L.C., Dubai	Retail	AED 1.70	58	●	◀
Golden Watch Company L.L.C., Abu Dhabi	Retail	AED 0.50	58	●	◀
Hour Choice L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Marcolin Middle East FZCO	Distribution	AED 0.10	29	○	◀
New Horizons General Trading L.L.C., Dubai	Retail	AED 0.30	29	○	◀
Rivoli Arcade L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Rivoli Enterprises L.L.C., Dubai	Retail	AED 3.00	58	●	◀
Rivoli Group L.L.C., Dubai	Retail	AED 24.02	58	●	◀
Rivoli Investments L.L.C., Dubai	Holding	AED 0.30	58	●	◀
Rivoli Textiles L.L.C., Dubai	Retail	AED 0.30	58	●	◀
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	100	●	◀
Vision 2000 L.L.C., Dubai	Retail	AED 1.00	58	●	◀

Legend: ● Fully consolidated ○ Equity method ◀ Watches & Jewelry ▶ Electronic Systems ▼ Corporate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. The Swatch Group Companies – as at 31.12.2018

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
America					
Brazil					
SGA Administração de Imóveis SA, Manaus	Administration	BRL 4.92	100	●	◀
SGB Importação e Varejo de Artigos de Luxo Ltda., São Paulo	Retail	BRL 82.50	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 45.26	100	●	◀
Canada					
H.W. Protection Inc., Toronto	Services	CAD 1.94	100	●	◀
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD 4.50	100	●	◀
Mexico					
Operadora y Comercializadora de Relojes y Joyeria SA de CV, Mexico	Services	MXN 1.50	100	●	◀
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 200.00	100	●	◀
Panama					
The Swatch Group Panama SA, Panama City	Administration	USD 0.01	100	●	◀
United States					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	▶
Harry Winston, Inc., New York	High jewelry	USD 0.60	100	●	◀
HW Holdings Inc., Wilmington, Delaware	Holding	USD 0.00	100	●	◀
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 1.01	100	●	◀
Oceania					
Australia					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	◀
Africa					
South Africa					
The Swatch Group (South Africa) (Proprietary) Ltd, Edenvale	Distribution	ZAR 125.00	100	●	◀

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 on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of The Swatch Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018 and the consolidated income statement, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 173 to 211) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 50 000 000



We concluded full scope audit work at 114 Group companies in 31 countries. The audit scope of these 114 Group companies addressed more than 95% of the Group's total assets, net sales and net income.

As key audit matter, the following area of focus has been identified:

- Valuation of inventories

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality for the audit of the consolidated financial statements	CHF 50 000 000
How we determined it	5% of profit before income taxes
Rationale for the materiality benchmark applied	We chose profit before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, profit before income taxes is a generally accepted benchmark for considerations of materiality. We chose 5% of profit before income taxes to determine materiality as this is a commonly used benchmark in practice.

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks in making operational decisions and for its financial reporting.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The main subsidiaries of the Group are audited by PwC exclusively and we remain in constant contact with the audit teams that perform the work. As the auditor of the consolidated financial statements, we ensure that we visit the local management and the local auditor of the most significant Group companies every three years according to a rotation plan. During these site visits, we discuss the risks of a material misstatement in the local entity's financial statements as well as the focus points of the audit and the audit scope. During the audit of the 2018 consolidated financial statements, we participated in the audit closing meetings of four of the main Group companies in Switzerland and made site visits to discuss the audit with the local auditors and the management of the main Group companies in the USA, South Korea and Japan.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of inventories

Key audit matter

We consider the valuation of inventories to be a key audit matter because they amounted to CHF 6 917 million on the balance sheet as at 31 December 2018 and they represent a significant share of total assets (about 51%).

Sales of watches and jewellery are subject to market fluctuations. These fluctuations along with the complex structure of inventories – raw materials, components, finished goods and spare parts – mean that there is significant scope for judgement in testing inventories for impairment and recoverability. In performing these tests, the different raw materials used and the durability of the value of each brand's products have to be considered in the light of the differing product life cycles.

Please refer to page 179 (Summary of significant accounting policies) and page 194 (Notes to the consolidated financial statements, Note 13 Inventories) in the 2018 Annual Report.

How our audit addressed the key audit matter

We performed the following audit procedures to assess the appropriateness of the valuation of the inventories:

- By reference to historical and expected inventory usage figures, we assessed at subsidiary level the process for identifying slow-moving inventories (raw materials, semi-finished goods and spare parts for customer service) and the appropriateness of the resulting write-downs.
- For finished goods subject to market risk, we tested at subsidiary level and at Group level Management's valuation estimates based on the lower of acquisition or manufacturing cost and net realisable value as well as the recoverability of the book value of finished goods. In doing so, we considered not only sales figures but also the marketability of the watch and jewellery collections.
- Further, at Group level, we checked the process to eliminate unrealised gains and losses from transactions between Group companies. In doing so, we checked that the valuation of the inventories on the consolidated financial statements did not include material unrealised gains.

In performing these audit procedures, we addressed the risk of error in the valuation of inventories. We have no findings to report.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING
OF THE SWATCH GROUP LTD, NEUCHÂTEL**

Report on other legal and regulatory requirements

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 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



Thomas Brüderlin
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 27 February 2019

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INCOME STATEMENT OF THE SWATCH GROUP LTD

	Notes	2018 CHF million	2017 CHF million
Income from investments in subsidiaries	(1)	1 064	903
Other income	(2)	6	5
Personnel expense		- 46	- 47
Other expenses		- 19	- 14
Depreciation and impairment	(3)	- 19	- 10
Financial expenses	(4)	- 43	- 50
Financial income	(5)	57	54
Ordinary result		1 000	841
Non-operating result	(6)	0	0
Extraordinary result	(6)	0	0
Profit before income taxes		1 000	841
Income taxes		- 5	- 1
Net income		995	840

BALANCE SHEET OF THE SWATCH GROUP LTD

Assets	Notes	31.12.2018		31.12.2017	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		25	0.3	136	1.9
Assets with an observable market price	(7, 10)	81	1.1	121	1.6
Other current receivables					
– from Group companies	(8)	3 667	47.2	3 145	42.8
– from third parties		33	0.4	41	0.6
Prepayments and accrued income		3	0.0	2	0.0
Total current assets		3 809	49.0	3 445	46.9
Non-current assets					
Loans to Group companies	(8)	422	5.4	415	5.7
Investments in subsidiaries and associates	(9)	3 530	45.5	3 475	47.3
Property, plant and equipment		7	0.1	7	0.1
Intangible assets		0	-	1	0.0
Total non-current assets		3 959	51.0	3 898	53.1
Total assets		7 768	100.00	7 343	100.0

BALANCE SHEET OF THE SWATCH GROUP LTD

Equity and liabilities	Notes	31.12.2018		31.12.2017	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(10)	195	2.5	6	0.1
Other current liabilities					
– to Group companies		127	1.6	122	1.7
– to third parties		15	0.2	9	0.1
Accrued expenses		15	0.2	16	0.2
Non-current liabilities					
Non-current provisions		90	1.2	90	1.2
Total liabilities		442	5.7	243	3.3
Equity					
Share capital		125	1.6	125	1.7
Statutory capital reserve		136	1.8	122	1.7
Statutory reserve		10	0.1	10	0.1
Reserve for treasury shares		0	-	1	0.0
Voluntary reserve		7 263	93.5	6 813	92.8
– Profit brought forward		48		52	
– Net income for the year		995		840	
Available earnings		1 043	13.4	892	12.2
Treasury shares		- 1 251	- 16.1	- 863	- 11.8
Total equity	(11)	7 326	94.3	7 100	96.7
Total equity and liabilities		7 768	100.0	7 343	100.0

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 Code of Obligations (OR). The financial statements for the year under review were prepared in accordance with Swiss Accounting Legislation (thirty-second title of the Swiss Code of Obligations).

Valuation principles

- a. Assets** Assets are valued at no more than their acquisition cost. Exceptions are current assets with an observable market price, which are valued at the stock price or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built.
- b. Investments** Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity are not usually combined as a group for valuation.
- c. Treasury shares** Treasury shares reserved for the employee stock option plan, as well as repurchased 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.
- d. Liabilities** Liabilities are valued at nominal value.
- e. Foreign currency translation** 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	(CHF million)	2018	2017
	Dividends	1 004	848
	Other income from investments in subsidiaries	60	55
	Total	1 064	903
	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 the year under review, other income was CHF 6 million (previous year: CHF 5 million).		
3. Depreciation and impairment	Depreciation and impairment was CHF 19 million (previous year: CHF 10 million).		
4. Financial expenses	(CHF million)	2018	2017
	Interest expense	- 4	- 2
	Result from marketable securities at fair value	- 12	- 2
	Net currency result	- 25	- 45
	Other financial expense	- 2	- 1
	Total	- 43	- 50
5. Financial income	(CHF million)	2018	2017
	Interest income	48	35
	Income and gains on securities	9	19
	Total	57	54

NOTES TO THE FINANCIAL STATEMENTS

6. Non-operating / extraordinary result The non-operating result was less than CHF 1 million in the year under review (previous year: less than CHF 1 million). The extraordinary result was a loss of less than CHF 1 million in the year under review (previous year: loss of less than CHF 1 million).

7. Assets with an observable market price	(CHF million)	31.12.2018	31.12.2017
Marketable securities		66	100
Precious metals		8	13
Derivative financial instruments (see Note 10)		7	8
Total		81	121

8. Receivables and loans These positions mainly include 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 157 legal entities, including minority investments, held directly or indirectly by The Swatch Group Ltd and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries amounted to CHF 3 530 million or 45.5% of total assets at the end of the year under review (previous year: CHF 3 475 million or 47.3% of total assets).

10. Financial debts and derivative financial instruments At the end of the year under review, short term bank loans and current account overdrafts of CHF 191 million were open (previous year: none).

The contract and fair values of derivative financial instruments at the end of the year under review and previous year are as follows:

Type	Contract value			Positive fair value			Negative fair value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 672	403	2 075	5	2	7	-1	-3	-4
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2018	1 672	403	2 075	5	2	7	-1	-3	-4

Type	Contract value			Positive fair value			Negative fair value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	1 818	271	2 089	7	1	8	-5	-1	-6
Options	-	-	-	-	-	-	-	-	-
Total at 31.12.2017	1 818	271	2 089	7	1	8	-5	-1	-6

Derivative financial instruments are recognized at fair value. Positions outstanding at the end of the year under review serve to hedge operations relating to exchange rate risk and market volatility. The 31 open positions (previous year: 33) relate to precious metals and foreign currency contracts. Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions. At the end of the year under review, there was no option contract outstanding (none in the previous year).

NOTES TO THE FINANCIAL STATEMENTS

11. Equity

Compared to the end of the previous year, equity increased by CHF 226 million to CHF 7 326 million in the year under review. At the end of the year under review, the equity ratio amounted to 94.3% of total assets (previous year: 96.7%).

The table below shows the changes in equity:

	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
(CHF million)								
Balance at 31.12.2016	125	109	10	1	6 193	1 029	- 659	6 808
Allocated in 2017					620	- 620		-
Dividend paid out						- 357		- 357
Change in treasury shares		13					- 204	- 191
Creation / dissolution								-
Net income for the year						840		840
Balance at 31.12.2017	125	122	10	1	6 813	892	- 863	7 100
Allocated in 2018					450	- 450		-
Dividend paid out						- 394		- 394
Change in treasury shares		14					- 388	- 374
Creation / dissolution				- 1				- 1
Net income for the year						995		995
Balance at 31.12.2018	125	136	10	0	7 263	1 043	- 1 251	7 326

Share capital

At the end of the year under review, 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).

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2017	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2018	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

NOTES TO THE FINANCIAL STATEMENTS

Principal shareholders at 31 December 2018

At the end of the year under review, the Hayek Pool, its related companies, institutions and individuals held 61 662 277 registered shares and 11 715 bearer shares, equivalent to 39.8% of all voting rights (previous year: 40.0%). The Hayek Pool comprises the following members:

Name / Company	Location	Beneficial owners
Community of heirs of N.G. Hayek represented by Marianne Hayek	Meisterschwanden	Community of heirs of N. G. Hayek
WAT Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Ammann Group Holding AG	c/o Walder Wyss AG, Bern	Descendants U. Ammann-Schellenberg sen.
Swatch Group Pension Fund	Neuchâtel	–

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

Name / Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	–
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	–
Various welfare foundations	various	–

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 39.3% of all voting rights at end of the year under review (previous year: 39.6%).

At the end of the year under review, the Swatch Group had no knowledge of any other group or individual shareholder controlling more than 5% of all voting rights.

Statutory capital reserve

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 the year under review, an amount of CHF 450 million was appropriated from available earnings at 31 December 2017 (previous year: CHF 620 million).

Reserve for treasury shares

At the end of the year under review, there was no longer a reserve for treasury shares. No shares of The Swatch Group Ltd were held by Group subsidiaries (previous year: CHF 1 million).

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 24 May 2018, 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 2017. The total dividend amount paid to shareholders in the year under review 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 Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 23 million, thus remains as an integral part of equity at the end of the year under review. Finally, CHF 450 million was appropriated from available earnings at 31 December 2017 and allocated to the voluntary reserve.

NOTES TO THE FINANCIAL STATEMENTS

Treasury shares / Share buyback program

In the context of the share buyback program 2016-2019, treasury shares with a market value of CHF 388 million were repurchased in the year under review. The total volume repurchased since the beginning of the program amounted to CHF 924 million.

Treasury shares held by The Swatch Group Ltd and its subsidiaries at the end of the year under review corresponded to 7.1% (versus 5.3% at the end of the previous year) 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 as follows:

Shares held by:	Registered shares		Bearer shares	
	Quantity ¹⁾		Quantity	
	2018	2017	2018	2017
The Swatch Group Ltd				
Balance at 1 January	7 755 219	6 519 044	1 389 650	1 108 850
Acquisitions ²⁾	2 656 248	1 467 500	522 900	280 800
Disposals ³⁾	- 209 870	- 231 325	-	-
Balance at 31 December	10 201 597	7 755 219	1 912 550	1 389 650
Other consolidated companies				
Balance at 1 January	11 196	22 392	-	-
Acquisitions	-	-	-	-
Disposals ⁴⁾	- 11 196	- 11 196	-	-
Balance at 31 December	0	11 196	0	0
Total balance at 31 December	10 201 597	7 766 415	1 912 550	1 389 650

¹⁾ Of which, at the end of the year under review, a total of 2 954 449 registered shares were reserved for the employee stock option plan (previous year: 449 319 registered shares)

²⁾ In the year under review, The Swatch Group Ltd acquired 2 656 248 registered shares at an average price of CHF 72.23. In addition, 522 900 bearer shares at an average price of CHF 376.02 were acquired. In the previous year, The Swatch Group Ltd acquired 1 467 500 registered shares at an average price of CHF 70.11. In addition, 280 800 bearer shares at an average price of CHF 360.45 were acquired.

³⁾ All disposals of registered shares in the year under review and the previous year relate to the employee stock option plan (see Note 29 of the consolidated financial statements for details). In the year under review and the previous year, no bearer shares were sold.

⁴⁾ In the year under review, in connection with the acquisition of the remaining minority interest in ASICentrum spol. s r.o., 8 748 registered shares were granted to the former shareholders (previous year: 11 196 registered shares). Details of the transaction are disclosed in Note 18 of the consolidated financial statements. The remaining 2 448 registered shares were sold to The Swatch Group Ltd.

Off-balance-sheet items

Number of full-time equivalents

In the year under review, the annual average number of full-time equivalents was 143 (previous year: 147).

Leasing liabilities

The balance of liabilities arising from buy or purchase-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 the end of the year under review and previous year.

Liabilities to pension plans

The balance sheet at the end of the year under review contained no liabilities to pension plans (previous year: none).

Assets pledged

None of the company's assets are pledged.

Guarantees

At the end of the year under review and of the previous year, guarantees provided by The Swatch Group Ltd amounted to less than CHF 1 million. As in the previous year, this item relates to a guarantee to cover a lease commitment taken out by another Group company.

Contingent liabilities

At the end of the year under review, unchanged from the previous year, there were no contingent liabilities except the joint and several responsibility in favor of other Group companies in connection with the group taxation of value added tax.

NOTES TO THE FINANCIAL STATEMENTS

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 requires 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. Details of the entire plan are disclosed in Note 29 of the consolidated financial statements. Allocations to the Board of Directors and the Management Board are disclosed in the separate compensation report, in which all management remuneration information is disclosed as well.

In the year under review, 6 105 registered shares and options valued at CHF 0.5 million (previous year: 5 980 registered shares and options valued at CHF 0.4 million) were allocated to other employees of The Swatch Group Ltd.

In addition, Article 663c paragraph 3 of the Swiss Code of Obligations requires 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 the end of the year under review and of the previous year.

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2018	2017	2018	2017	2018	2017
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	168 208	148 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member	100	100				
Dr. Jean-Pierre Roth	BoD Member			10	10		
Daniela Aeschlimann	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	129 891	111 991			24 000	24 000
Pierre-André Bühler	MB Member	30 966	30 466			8 002	8 002
Dr. Mougahed Darwish	MB Member	82 468	78 868			2 602	2 602
Marc A. Hayek	MB Member	143 398	130 898			12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	70 919	62 252			9 335	8 002
Florence Ollivier-Lamarque	MB Member	59 500	56 000			12 000	12 000
François Thiébaud	MB Member	133 848	128 623			13 702	12 502
Raynald Aeschlimann	EMB Member	23 867	18 867			6 001	4 001
Matthias Breschan	EMB Member	2 034	2 034			3 000	3 000
Jean-Claude Eggen	EMB Member	4 816	4 816			2 501	2 501
Yann Gamard	EMB Member	2 500	2 750			5 501	5 501
Hans-Rudolf Gottier	EMB Member	31 700	34 698			5 002	5 002
Walter von Känel	EMB Member	49 500	60 879	40	40	6 000	6 000
Thomas Meier ¹⁾	EMB Member		6 000				1 200
Calogero Polizzi	EMB Member	4 000	4 000			1 500	1 500
Kevin Rollenhagen	EMB Member	72 148	64 148			8 002	8 002
Dr. Peter Steiger	EMB Member	101 333	93 000			9 667	9 000
Total		56 815 340	56 742 742	2 600	2 600	149 319	145 319

¹⁾ Member of the EMB until August 2018

Each option gives the right to draw 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 the end of the year under review, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of previous year: community of heirs of N. G. Hayek).

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 Ltd 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 27 February 2019 and will be submitted to the Annual General Meeting of Shareholders for approval on 23 May 2019.

Otherwise, 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:

	2018	2017
	CHF million	CHF million
Net income for the year	995	840
Profit brought forward from previous year	48	52
Available earnings	1 043	892
Allocation to special reserve	- 580	- 450
Payment of a 2017 dividend, i.e.:		
– CHF 1.50 per registered share with a par value of CHF 0.45		- 186
– CHF 7.50 per bearer share with a par value of CHF 2.25		- 231
Payment of a 2018 dividend, i.e.: ¹⁾		
– CHF 1.60 per registered share with a par value of CHF 0.45	- 198	
– CHF 8.00 per bearer share with a par value of CHF 2.25	- 247	
Dividends not paid out on own shares held by the Group ²⁾		23
Balance carried forward	18	48

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 24 May 2018, 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 on the audit of the financial statements

Opinion

We have audited the financial statements of The Swatch Group Ltd, which comprise the balance sheet as at 31 December 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 217 to 225 and pages 208 to 211) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 35 000 000



We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter, the following area of focus has been identified:

- Valuation of investments in subsidiaries and associates

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality for the audit of the financial statements	CHF 35 000 000
How we determined it	0.5% of total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because it is a relevant and generally accepted benchmark for materiality considerations relating to a holding company. We chose 0.5% of total equity to determine materiality as this is a commonly used benchmark in practice.

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2 500 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks to support its operational decisions and for its financial reporting.

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Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries and associates

Key audit matter

As at 31 December 2018, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 3 530 million (about 46% of total assets). They include the directly held subsidiaries, which hold the other Group companies. These include subsidiaries with different levels of vertical integration, in particular component producers, manufacturers, brand name parent companies, numerous sales organisations and other equity investments. Because of their vertical integration and their similarity, these investments are grouped together, in some cases, for valuation purposes.

Due to the significance of this asset category in the financial statements and because of the scope for judgement in grouping these investments, we consider the impairment assessment of the equity investments as complex and, therefore, as a key audit matter.

Please refer to page 220 (Valuation principles) and page 221 (Details to specific items, Note 9 Investments in subsidiaries and associates) of the 2018 Annual Report.

How our audit addressed the key audit matter

We performed the following audit procedures:

- Firstly, we checked the grouping of the investments based on their similarity and their vertical integration in the Swatch Group.
- Secondly, we tested the valuation of each investment or group of investments based on its equity and results for the year.

On the basis of the audit procedures performed, we have addressed the risk of investments being grouped together inappropriately with no economic justification and of investments being valued incorrectly. We have no findings to report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors and the Audit Committee or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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



Thomas Brüderlin
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 27 February 2019

THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding / Average share capital	2018 basic	2017 basic	2016 basic	2015 basic	2014 basic
Number of registered shares of CHF 0.45	115 449 571	116 755 450	118 672 611	119 847 161	119 894 096
Number of bearer shares of CHF 2.25	29 268 442	29 567 412	29 987 419	30 308 846	30 320 769
Total average number of shares outstanding	144 718 013	146 322 862	148 660 030	150 156 007	150 214 865
Share capital registered shares of CHF 0.45	51 952 307	52 539 953	53 402 675	53 931 222	53 952 343
Share capital bearer shares of CHF 2.25	65 853 995	66 526 677	67 471 693	68 194 904	68 221 730
Total average share capital	117 806 302	119 066 630	120 874 368	122 126 126	122 174 073
Key data per registered share (nom. CHF 0.45) in CHF					
Consolidated net income attributable to shareholders	3.23	2.77	2.14	4.01	5.10
Cash flow from operating activities	3.60	4.78	3.76	5.17	6.81
Consolidated equity	43.07	42.67	41.22	41.42	39.32
Dividend	1.60 ¹⁾	1.50	1.35	1.50	1.50
Key data per bearer share (nom. CHF 2.25) in CHF					
Consolidated net income attributable to shareholders	16.14	13.86	10.69	20.07	25.49
Cash flow from operating activities	18.01	23.89	18.80	25.87	34.03
Consolidated equity	215.33	213.33	206.12	207.12	196.58
Dividend	8.00 ¹⁾	7.50	6.75	7.50	7.50
Stock price of registered shares (adjusted)					
High	91.30	80.95	74.00	88.90	108.00
Low	54.05	60.60	48.25	61.25	75.35
31.12.	56.80	74.50	62.25	68.00	86.00
Stock price of bearer shares (adjusted)					
High	499.10	414.60	373.00	462.50	597.00
Low	275.60	307.50	246.20	324.10	417.10
31.12.	286.70	397.40	316.70	350.20	444.20
Market capitalization (CHF million)					
31.12.	15 887	21 497	17 489	19 235	24 367
Key ratios (year-end)					
Average return on equity	% 7.7	6.8	5.3	10.2	14.0
Dividend yield registered shares	% 2.8	2.0	2.2	2.2	1.7
Dividend yield bearer shares	% 2.8	1.9	2.1	2.1	1.7
Price/earnings ratio – registered shares	17.6	26.9	29.1	17.0	16.9
Price/earnings ratio – bearer shares	17.8	28.7	29.6	17.4	17.4

¹⁾ Board of Directors' proposal

Securities	ISIN no.	Reuters Symbol
The Swatch Group Ltd registered shares	CH0012255144	UHRN.S
The Swatch Group Ltd bearer shares	CH0012255151	UHR.VX

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

Evolution of The Swatch Group Ltd registered shares and the Swiss Market Index (1988–2018)

