

## SWATCH GROUP: Half-Year Report 2019

- Group net sales of CHF 4 078 million, -3.7% at constant exchange rates compared to a very strong previous year, and -4.4% at current rates.
- Operating result of CHF 547 million, -13.0% to the previous year. Operating margin amounted to 13.4% versus 14.7% in the previous year.
- Net income of CHF 415 million, -11.3% to the previous year, with a net margin of 10.2%, compared to 11.0% in the previous year.
- Further growth in the major markets of Mainland China, Japan and the USA, in all price segments.
- Uncompromising action against grey market dealers, especially in Europe, the Middle East, Eastern Europe and South America, at the expense of a short-term negative impact on sales in the first half year in the triple-digit millions. In the long term, this will lead to positive effects, especially in the major markets.
- Strong organic sales growth in the Group's own retail.
- Marked increase in e-commerce, especially in the middle and basic segment.
- Positive overall annual growth for the Group expected.

## HALF-YEAR REPORT

## Group Key Figures

(CHF million)	1st half 2019	1st half 2018	Change in %		Total
			at constant rates	currency effect	
<b>Net sales</b>	<b>4 078</b>	4 266	-3.7%	-0.7%	<b>-4.4%</b>
<b>Operating result</b>	<b>547</b>	629			<b>-13.0%</b>
– in % of net sales	13.4%	14.7%			
<b>Net income</b>	<b>415</b>	468			<b>-11.3%</b>
– in % of net sales	10.2%	11.0%			
Investments in non-current assets	<b>235</b>	242			
Equity, 30 June	<b>11 191</b>	11 254			
Market capitalization, 30 June	<b>15 176</b>	25 178			
<b>Annualized return on equity (ROE) 1)</b>	<b>7.4%</b>	8.3%			
<b>Basic earnings per share in CHF</b>					
– Registered shares	<b>1.56</b>	1.74			
– Bearer shares	<b>7.82</b>	8.71			

1) Annualized return on equity (ROE) = net income end of June doubled, as a percentage of average equity (previous year December + year under review June, divided by two).

Unaudited figures

## Strategy

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

## HALF-YEAR REPORT

**Highlights of the first half 2019****Development in the segments and countries**

After the slowdown in the fourth quarter of 2018, sales in the first half of 2019 achieved very good levels, despite negative currency effects of CHF 29 million. In Mainland China, Japan and the USA, growth was very positive in all price segments. The strong position of the Group's brands, especially in Mainland China, made them a preferred target for grey market activities. In the first half of 2019, uncompromising action was taken against grey market dealers, especially in Europe, the Middle East, Eastern Europe and South America, even though this resulted in a short-term negative impact on sales in the triple-digit millions. In the long term, this will lead to positive effects in the major markets. Sales in Hong Kong, an important sales market with attractive margins, suffered from political turbulence. This resulted in a double-digit decline in sales. Sales in the Group's own retail and e-commerce recorded positive growth.

Delivery bottlenecks in the Habillage area (cases, dials, watch hands, etc.) were reduced in the first half of 2019, but have not yet been completely eliminated. Further improvement is expected in the second half of the year.

Net sales in the Electronic Systems segment increased by 11.0% to CHF 151 million. This segment continues to be characterized by its outstanding innovativeness, which was decisive in achieving a positive operating result, despite price erosion in US dollars.

**Personnel**

The workforce decreased slightly by approximately 300 persons compared to December 2018, to 36 800 persons at the end of June.

**Training**

The Swatch Group promotes vocational education at all levels. At the end of June 2019, approximately 170 persons successfully completed their vocational training, of which approximately 150 in Switzerland. In all, more than 700 persons in Switzerland and abroad are in training during the course of the year, either as apprentices learning the watchmaker and related technical trades, or as students in the Group's six international customer service watchmaker schools in Miami, Kuala Lumpur, Shanghai, Hong Kong, Pforzheim and Manchester.

**Operating result and net income**

Operating result decreased by -13.0% to CHF 547 million compared to the previous year. Operating margin was 13.4% (previous year: 14.7%). Net income totaled CHF 415 million (-11.3% compared to the previous year) or 10.2% of net sales (previous year: 11.0%).

**Investments**

Across all segments, the Swatch Group invested a total of CHF 235 million in non-current operating assets in the first half of 2019, practically unchanged from the previous year. In addition to further investments in optimization and flexibilization of production capacities, investment was also made in the Group's own retail network and customer service.

**Cash Flow and net financial position**

After-tax operating cash flow generated in the first half of 2019 was CHF 376 million, slightly less than in the previous year. The repurchase of treasury shares with a market value of CHF 35 million in the first half of 2019 completed the share buyback program 2016-2019, with a total volume of CHF 959 million. The net financial position at the end of June was approximately CHF 700 million.

**Inventories**

Inventories increased slightly from the beginning of the year by 2.6% to approximately CHF 7.1 billion. The increase occurred in finished products and can be attributed to suspension of deliveries to grey market dealers.

## HALF-YEAR REPORT

### **Outlook second half-year 2019**

The Swatch Group anticipates strong growth in the second half of 2019, on the one hand, due to continuing solid demand in the most important markets, and on the other hand, due to the fact that the second half of 2018 was characterized by a poor fourth quarter.

The launch of numerous innovative new products by the brands in all price segments will further stimulate sales. The successfully implemented e-commerce, especially in the middle and basic segment, will generate dynamic growth in the second half of the year.

The Group expects positive sales growth for the entire year in comparison to the previous year.

## HALF-YEAR FINANCIAL STATEMENTS

### Consolidated Income Statement

	1st half 2019		1st half 2018	
	CHF million	%	CHF million	%
<b>Net sales</b>	<b>4 078</b>	<b>100.0</b>	4 266	100.0
Other operating income	61	1.5	124	2.9
Changes in inventories	198	4.8	358	8.4
Material purchases	-899	-22.0	-1 165	-27.3
Personnel expense	-1 330	-32.6	-1 287	-30.2
Depreciation and impairment on property, plant and equipment	-218	-5.4	-217	-5.1
Amortization and impairment on intangible assets	-22	-0.5	-21	-0.5
Other operating expenses	-1 321	-32.4	-1 429	-33.5
<b>Operating result</b>	<b>547</b>	<b>13.4</b>	629	14.7
Other financial income and expense	-2	-0.0	-11	-0.2
Interest expense	-5	-0.2	-1	-0.0
Share of result from associates and joint ventures	-1	-0.0	0	0.0
<b>Ordinary result</b>	<b>539</b>	<b>13.2</b>	617	14.5
Non-operating result	1	0.0	0	0.0
<b>Profit before income taxes</b>	<b>540</b>	<b>13.2</b>	617	14.5
Income taxes	-125	-3.0	-149	-3.5
<b>Net income</b>	<b>415</b>	<b>10.2</b>	468	11.0
<i>Attributable to shareholders of The Swatch Group Ltd</i>	<i>404</i>		<i>458</i>	
<i>Attributable to non-controlling interests</i>	<i>11</i>		<i>10</i>	
<b>Earnings per share in CHF</b>				
<b>Registered shares</b>				
Basic earnings per share	<b>1.56</b>		1.74	
Diluted earnings per share	<b>1.56</b>		1.74	
<b>Bearer shares</b>				
Basic earnings per share	<b>7.82</b>		8.71	
Diluted earnings per share	<b>7.81</b>		8.70	

Unaudited figures

## HALF-YEAR FINANCIAL STATEMENTS

**Consolidated Balance Sheet**

Assets	30.06.2019		31.12.2018	
	CHF million	%	CHF million	%
<b>Current assets</b>				
Cash and cash equivalents	931	6.8	944	6.9
Marketable securities and derivative financial instruments	265	1.9	296	2.2
Trade receivables	836	6.1	893	6.5
Other current assets	151	1.1	159	1.2
Inventories	7 096	51.9	6 917	50.6
Prepayments and accrued income	238	1.7	249	1.8
<b>Total current assets</b>	<b>9 517</b>	<b>69.5</b>	<b>9 458</b>	<b>69.2</b>
<b>Non-current assets</b>				
Property, plant and equipment	3 224	23.6	3 245	23.8
Intangible assets	140	1.0	146	1.1
Investments in associates and joint ventures	57	0.4	59	0.4
Other non-current assets	331	2.4	336	2.5
Deferred tax assets	418	3.1	417	3.0
<b>Total non-current assets</b>	<b>4 170</b>	<b>30.5</b>	<b>4 203</b>	<b>30.8</b>
<b>Total assets</b>	<b>13 687</b>	<b>100.0</b>	<b>13 661</b>	<b>100.0</b>

Unaudited figures

## HALF-YEAR FINANCIAL STATEMENTS

### Consolidated Balance Sheet

Equity and liabilities	30.06.2019		31.12.2018	
	CHF million	%	CHF million	%
<b>Current liabilities</b>				
Financial debts and derivative financial instruments	465	3.4	203	1.5
Trade payables	289	2.1	393	2.9
Other liabilities	163	1.2	222	1.6
Provisions	86	0.6	94	0.7
Accrued expenses	656	4.8	637	4.6
<b>Total current liabilities</b>	<b>1 659</b>	<b>12.1</b>	1 549	11.3
<b>Non-current liabilities</b>				
Financial debts	22	0.2	22	0.2
Deferred tax liabilities	551	4.0	558	4.1
Retirement benefit obligations	43	0.3	43	0.3
Provisions	55	0.4	53	0.4
Accrued expenses	166	1.2	162	1.2
<b>Total non-current liabilities</b>	<b>837</b>	<b>6.1</b>	838	6.2
<b>Total liabilities</b>	<b>2 496</b>	<b>18.2</b>	2 387	17.5
<b>Equity</b>				
Share capital	125		125	
Capital reserves	-954		-961	
Treasury shares	-1 286		-1 251	
Goodwill recognized	-1 372		-1 372	
Translation differences	-252		-210	
Retained earnings	14 845		14 854	
<b>Equity of The Swatch Group Ltd shareholders</b>	<b>11 106</b>	<b>81.2</b>	11 185	81.9
Non-controlling interests	85	0.6	89	0.6
<b>Total equity</b>	<b>11 191</b>	<b>81.8</b>	11 274	82.5
<b>Total equity and liabilities</b>	<b>13 687</b>	<b>100.0</b>	13 661	100.0

Unaudited figures

## HALF-YEAR FINANCIAL STATEMENTS

**Consolidated Statement of Cash Flows**

(CHF million)	1st half 2019	1st half 2018
<b>Operating activities</b>		
Net income	415	468
Share of result from associated companies and joint ventures	1	0
Income tax	125	149
Depreciation on non-current assets	240	238
Impairment on non-current assets	0	0
Changes in provisions and retirement benefit obligations	-5	9
Gains/losses on sale of non-current assets	1	0
Other non-cash items	-13	8
Changes in net current assets:		
– Trade receivables	54	116
– Inventories	-200	-357
– Other current assets, prepayments and accrued income	22	23
– Trade payables	-95	-6
– Other liabilities and accrued expenses	-19	-47
Dividends received from associated companies and joint ventures	1	0
Income tax paid	-151	-178
<b>Cash flow from operating activities</b>	<b>376</b>	<b>423</b>
<b>Investing activities</b>		
Investments in property, plant and equipment	-212	-200
Proceeds from sale of property, plant and equipment	4	2
Investments in intangible assets	-16	-21
Proceeds from sale of intangible assets	0	1
Investments in other non-current assets	-7	-21
Proceeds from sale of other non-current assets	6	9
Purchase of marketable securities	-40	-42
Sale of marketable securities	79	30
<b>Cash flow from investing activities</b>	<b>-186</b>	<b>-242</b>
<b>Financing activities</b>		
Dividends paid to shareholders	-413	-394
Dividends paid to non-controlling interests	-14	-17
Repurchase of treasury shares	-35	-92
Sale of treasury shares	0	1
Change in non-current financial debts	2	0
Change in current financial debts	230	241
Repurchase of non-controlling interests	0	-2
<b>Cash flow from financing activities</b>	<b>-230</b>	<b>-263</b>
<b>Net impact of foreign exchange rate differences on cash</b>	<b>-9</b>	<b>-2</b>
<b>Change in cash and cash equivalents</b>	<b>-49</b>	<b>-84</b>
<b>Change in cash and cash equivalents</b>		
– Balance at beginning of year	902	1 291
– Balance at 30 June	<b>853</b>	<b>1 207</b>

Unaudited figures



## HALF-YEAR FINANCIAL STATEMENTS

### Consolidated Statement of Changes in Equity

Attributable to The Swatch Group Ltd shareholders

(CHF million)	Share capital	Capital reserves	Treasury shares	Goodwill recognized	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
<b>Balance at 31 December 2017</b>	<b>125</b>	<b>-977</b>	<b>-863</b>	<b>-1 372</b>	<b>-115</b>	<b>14 403</b>	<b>11 201</b>	<b>88</b>	<b>11 289</b>
Net income						458	458	10	468
Currency translation of foreign entities					-8		-8	2	-6
Dividends paid						-394	-394	-17	-411
Employee stock option plan:									
- Value of employee services (net of tax)		7					7		7
- Proceeds from sale of shares		1					1		1
Repurchase of treasury shares		0	-92				-92		-92
Transactions with non-controlling interests			0				0	-2	-2
<b>Balance at 30 June 2018</b>	<b>125</b>	<b>-969</b>	<b>-955</b>	<b>-1 372</b>	<b>-123</b>	<b>14 467</b>	<b>11 173</b>	<b>81</b>	<b>11 254</b>
Net income						387	387	12	399
Currency translation of foreign entities					-87		-87	-2	-89
Dividends paid							0	-2	-2
Employee stock option plan:									
- Value of employee services (net of tax)		9					9		9
- Proceeds from sale of shares		0							
Repurchase of treasury shares		-1	-296				-297		-297
<b>Balance at 31 December 2018</b>	<b>125</b>	<b>-961</b>	<b>-1 251</b>	<b>-1 372</b>	<b>-210</b>	<b>14 854</b>	<b>11 185</b>	<b>89</b>	<b>11 274</b>
Net income						404	404	11	415
Currency translation of foreign entities					-42		-42	-1	-43
Dividends paid						-413	-413	-14	-427
Employee stock option plan:									
- Value of employee services (net of tax)		7					7		7
- Proceeds from sale of shares		0					0		0
Repurchase of treasury shares		0	-35				-35		-35
<b>Balance at 30 June 2019</b>	<b>125</b>	<b>-954</b>	<b>-1 286</b>	<b>-1 372</b>	<b>-252</b>	<b>14 845</b>	<b>11 106</b>	<b>85</b>	<b>11 191</b>

Unaudited figures

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

**1. Basis of preparation and significant accounting policies**

These consolidated financial statements cover the unaudited half-year results for the six months ending 30 June 2019. They have been prepared in accordance with Swiss GAAP FER (Accounting and Reporting Recommendations). The consolidated interim financial statements for 2019 have been prepared in accordance with FER 31 "Supplementary Recommendation for Listed Companies".

These interim financial statements do not contain all the information and disclosures required in the annual consolidated financial statements. They should therefore be read in conjunction with the consolidated financial statements at 31 December 2018. In this interim report, Management has not made any significant changes to the estimates and assumptions compared to the previous period.

**2. Segment information**

<b>1st half 2019</b> (CHF million)	<b>Watches &amp; Jewelry</b>	<b>Electronic Systems</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
- Third parties	3 932	143	3		4 078
- Group	1	8	2	-11	0
<b>Net sales</b>	<b>3 933</b>	<b>151</b>	<b>5</b>	<b>-11</b>	<b>4 078</b>
<b>Operating result</b>	<b>608</b>	<b>3</b>	<b>-64</b>	<b>0</b>	<b>547</b>
- In % of net sales	15.5%	2.0%			13.4%
<b>1st half 2018</b> (CHF million)	<b>Watches &amp; Jewelry</b>	<b>Electronic Systems</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Total</b>
- Third parties	4 136	127	3		4 266
- Group	0	9	2	-11	0
Net sales	4 136	136	5	-11	4 266
Operating result	685	3	-59	0	629
- In % of net sales	16.6%	2.2%			14.7%

**3. Group structure**

At 30 June 2019 the Group consolidation structure comprised 156 legal entities (year end 2018: 158). The decrease was due to two intragroup mergers.

In the first half of 2019, there were no company acquisitions. In the first half of 2018, the remaining 50% of the shares in a Chinese retail company, which had already been controlled and fully consolidated, were purchased for CHF 2 million. In connection with the acquisition of the remaining minority interest in the company ASICentrum spol. s.r.o. in 2015, transactions in treasury shares with the former minority holders of the company took place in the first half of 2016, 2017 and 2018. The total value of all transactions was CHF 2 million and the portion booked in 2018 was less than CHF 1 million. There were no company disposals in the first half of either 2019 or the first half of 2018.

In the first half year 2019 as well as 2018, there were no changes in investments in associated companies and joint ventures.

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

**4. Goodwill**

Goodwill is recognized directly in equity at the time of purchase of a subsidiary or an investment in an associated company. The theoretical capitalization of goodwill, based on a useful life of 5 to 10 years, would have the following impact on equity and net income:

**Theoretical impact on equity**

(CHF million)	<b>30.06.2019</b>	31.12.2018	30.06.2018
Equity, per balance sheet	11 191	11 274	11 254
Theoretical capitalization of net book value of goodwill	363	415	468
<b>Theoretical equity including net book value of goodwill</b>	<b>11 554</b>	11 689	11 722

**Theoretical impact on net income**

(CHF million)	<b>30.06.2019</b>	31.12.2018	30.06.2018
Net income, per income statement	415	867	468
Theoretical amortization of goodwill	-52	-108	-55
<b>Theoretical net income after goodwill amortization</b>	<b>363</b>	759	413

**5. Key exchange rates**

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates	Prevailing rates
		01.01.-30.06.2019	30.06.2019	01.01.-30.06.2018	31.12.2018	30.06.2018
CNY	1	0.1478	0.1423	0.1520	0.1435	0.1505
EUR	1	1.1300	1.1125	1.1686	1.1285	1.1600
HKD	1	0.1275	0.1251	0.1237	0.1261	0.1272
JPY	100	0.9115	0.9070	0.8946	0.8985	0.9030
USD	1	0.9999	0.9775	0.9698	0.9875	0.9980

**6. Treasury shares / share capital**

Within the scope of the share buyback program 2016-2019, the Swatch Group repurchased a total of 56 450 bearer shares (previous year: 107 300) and 314 433 registered shares (previous year: 577 000) with a market value of CHF 35 million (previous year: CHF 92 million) in the first half of 2019. The buyback program concluded on 24 January 2019 with a total volume of CHF 959 million.

In accordance with the resolution passed at the Annual General Meeting on 23 May 2019, all repurchased shares from the 2016-2019 program, as well as the remaining bearer shares from the 2008 program, will be cancelled. The reduction in share capital will be final in the second half of 2019, when the statutory waiting periods expire.

In the period under review, the Swatch Group sold treasury shares related to the employee stock option plan in the amount of less than CHF 1 million (previous year: CHF 1 million).

## NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

### 7. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2018, the dividend agreed at the Annual General Meeting on 23 May 2019, with a value date of 29 May 2019, was distributed as follows:

	Dividend per share CHF	Total dividend CHF million
Registered shares	1.60	198
Bearer shares	8.00	247
<b>Total dividend</b>		<b>445</b>
Dividend not paid out on treasury shares		-32
<b>Total dividend paid</b>		<b>413</b>

### 8. Seasonality of operations

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

### 9. Significant events and business transactions

During the period under review, no material events or business transactions occurred that might have an impact on the critical estimates, appraisals and assumptions to be found in the consolidated financial statements as at 31 December 2018. Also, there were no further material events or business transactions that might impact upon other positions in the consolidated financial statements (such as, for example, changes to contingent liabilities and receivables or business transactions involving associated enterprises and persons).

### 10. Events after the closing date

At the publish date of this press release, the Company is not aware of any significant new event that would affect the half-year financial statements at 30 June 2019.

Original: German  
Translations: English, French and Italian

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