

PRESS RELEASE

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SWATCH GROUP: KEY FIGURES 2014

- Gross sales for the Group exceed CHF 9 billion for the first time, a plus of 4.6% over the previous year, despite negative exchange rate impact.
- Growth of 3.0% to CHF 8 709 million in net sales.
- In the Watch & Jewelry segment, without Production, gross sales increase by 5.6%, and net sales by 3.9%.
- Creation of over 2 100 new jobs, of which 770 in Switzerland.
- Operating profit of CHF 1 752 million and operating margin of 20.1% (previous year 27.4% including the one-time special effect of the compensation of over CHF 400 million related to the Tiffany case).
- In the second half of 2014, deliberate increase in marketing investments in growth markets USA, Japan and Mainland China, with an impact of over 3 percentage points on the operating margin.
- Net income of CHF 1 416 million, with a return on net sales of 16.3% (previous year 22.8% also including the special effect of Tiffany).
- Equity increases to CHF 10.7 billion, equivalent to an increase in the previous year's equity ratio of 82.3% to 83.7% in 2014.
- Despite the currency turbulence, an unchanged dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share will be proposed.
- After a strong December 2014 in CHF, 2015 has started very auspiciously with a strong January, of course computed in local currency.
- The strategically unique positioning of the Swatch Group, with its brands in all segments and a worldwide branch network with its own chains of stores, will allow the Group to generate high single-digit growth in local currency despite the highly overvalued Swiss franc, and at the same time earn continued healthy profits. The Swatch Group will continue to maintain its long-term strategy of investments in innovation, machinery, distribution, as well as in employees, and will also further expand its manufacturing base Switzerland.

This advance information will be followed by the distribution and discussion of the detailed annual report at the press conference scheduled for 12 March 2015.

Group Key Figures

(CHF million)	2014	2013	Change in %		Total
			at constant rates	currency effect	
Gross sales	9 219	8 817	+ 6.1%	- 1.5%	+ 4.6%
Net sales	8 709	8 456	+ 4.5%	- 1.5%	+ 3.0%
Operating profit	1 752	2 314			- 24.3%
- in % of net sales	20.1%	27.4%			
Net income	1 416	1 928			- 26.6%
- in % of net sales	16.3%	22.8%			
Equity	10 674	9 574			+ 11.5%
- as % of total assets	83.7%	82.3%			
Average return on equity (ROE)	14.0%	21.2%			

Unaudited figures.

The Swatch Group, with its 20 brands, generated gross sales of CHF 9 219 million in 2014, growing a further 4.6%, and net sales increased 3.0% to CHF 8 709 million, despite the ongoing and extremely difficult currency situation which impacted gross sales with a negative exchange rate effect of CHF 138 million over the entire year. In addition, the fire at ETA already negatively affected sales in the first half year of 2014 by approximately CHF 200 million.

In Watches & Jewelry, without Production, growth in gross sales of 5.6% and in net sales of 3.9% was generated, despite an ongoing long-term defensive price adjustment policy. In comparison, exports of wristwatches for the entire Swiss watch industry to the end of December 2014 increased by 1.7%, which in turn indicates a clear gain again in market share by the Swatch Group. This underscores the long-term strategy followed by the Group, which is characterized by a defensive price adjustment policy and a high level of investment, in contrast to short-term profit thinking. Therefore, all brands deliberately undertook more marketing investment, not only in the first half 2014 during the Olympic Winter Games in Sochi, but also in the second half of the year, by investing in the growth markets of the USA, Japan and Mainland China. In particular, Omega signed a renewal contract until 2022 for the US PGA Golf tour, and Longines massively increased its presence in equestrianism, mainly in Japan and the USA.

In the year under review, production ramped up in the new plants in Boncourt, Grenchen and Villeret. Also, the new Universo plant in La Chaux-de-Fonds started production. In connection with the fire at ETA, the production flow was newly defined and reorganized in order to rule out, as far as possible, any such interruption in future, particularly in the electroplating department. As expected, there were far fewer adverse effects resulting from the fire in the production at ETA in the second half of the year than there were in the first half. As a result, production could again be stabilized as of November, however, lost production and additional costs due to the fire could not be recovered.

The Electronic Systems segment generated gross sales growth of 9.0% in the second half of 2014, adjusted for the disposal of Oscilloquartz SA, which is an extremely positive result in view of strong price pressure and unfavorable exchange rates. This was achieved through significant innovations in batteries and integrated circuits. The latter also recorded higher sales volumes, driven by electronic consumer goods such as fitness bands, for example, which brought sales in this segment to CHF 299 million. The companies of the Swatch Group belong to the most innovative players worldwide in the Smart Objects sector, and the list of well-known smart and mobile device producers which these Swatch Group companies supply with components is long.

In 2014, the Group's operating profit reached CHF 1 752 million, reflecting an operating margin of 20.1%, which, after consideration of financial and non-operating elements and taxes, brought the net income to CHF 1 416 million. This corresponds to a 16.3% net return on sales. As a result, equity increased to CHF 10.7 billion by the end of 2014, an extremely solid capitalization, with an equity ratio of 83.7%.

Operating cash flow of CHF 1 848 million was very high due to the very good incoming payments over the course of the entire year, although there was still consistent investment in inventories. The latter went mainly to expansion of the Harry Winston brand, the launch of the new Omega Master Co-Axial with anti-magnetic movement, the preparation for the worldwide launch of the new AluSwatch XLite and the opening of new monobrand stores.

In addition, approximately 10% more was invested in facilities, production and retail stores than in the previous year. Including the acquisition of the Peterhof commercial building on the Bahnhofstrasse in Zurich made at the end of the year, total investments reached CHF 1 203 million. This represents approximately 70% more than the previous year, of which CHF 867 million in Switzerland.

Group wide, over 2 100 new jobs were created. Switzerland alone accounted for 770 new jobs, mainly in the production area and to a lesser extent in the retail business. This underscores the Group's commitment to its manufacturing base Switzerland as well as the further strengthening of "Swiss Made". In total, Swatch Group employed more than 35 500 employees at the end of December 2014.

The 2014 result and the current outlook for 2015 have prompted the Board of Directors of the Swatch Group to propose an unchanged high dividend of CHF 7.50 per bearer share and CHF 1.50 per registered share at the Annual General Meeting on 28 May 2015.

Outlook for 2015

After a strong December 2014 in Swiss francs, 2015 started very auspiciously with a strong January, of course computed in local currency. With the decision of the Swiss National Bank on 15 January 2015 to abandon the Euro minimum exchange rate after three years and to introduce higher negative interest on current accounts, the negative exchange rate impact for 2015 was already anticipated; within a day the Swiss franc rose to parity with or even slightly higher than the Euro.

With its 20 brands, its own production and its worldwide distribution network, the Group is in a very strong position. Marketing investments and selling expenses in foreign currencies, or companies such as Harry Winston in the USA or Rivoli in the Middle East, whose costs are also recorded in local currency, absorb part of the negative effect of the overvalued Swiss franc. In addition, several Group brands are reacting with price adjustments of between 5% and 7% in select markets, which will also compensate for the very unfavorable currency situation.

The number of Swatch Group patent applications reached a new record again in 2014; this will be reflected in the numerous innovative product launches in all segments in 2015.

Publication of the annual report is planned for the media and analyst conference on 12 March 2015.

Next publications/events:

12.03.2015	Publication of the annual report 2014 Press and analyst conference
28.05.2015	Annual General Meeting, Grenchen
06.08.2015	Publication of 2015 half-year results

Original: German
Translations: English, French and Italian

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Consolidated Income Statement

	2014		2013	
	CHF million	%	CHF million	%
Gross sales	9 219	105.9	8 817	104.3
Sales reductions	- 510	- 5.9	- 361	- 4.3
Net sales	8 709	100.0	8 456	100.0
Other operating income	231	2.6	518	6.1
Changes in inventories	397	4.6	586	6.9
Material purchases	- 2 240	- 25.7	- 2 456	- 29.0
Personnel expense	- 2 343	- 26.9	- 2 144	- 25.3
Depreciation on tangible assets	- 324	- 3.7	- 276	- 3.3
Amortization on intangible assets	- 34	- 0.4	- 28	- 0.3
Other operating expenses	- 2 644	- 30.4	- 2 342	- 27.7
Operating profit	1 752	20.1	2 314	27.4
Other financial income and expense	13	0.2	25	0.3
Interest expense	- 2	- 0.0	- 2	- 0.0
Share of result from associates and joint ventures	3	0.0	13	0.1
Ordinary result	1 766	20.3	2 350	27.8
Non-operating result	- 1	- 0.0	6	0.1
Extraordinary result	-	0.0	-	0.0
Profit before taxes	1 765	20.3	2 356	27.9
Income taxes	- 349	- 4.0	- 428	- 5.1
Net income	1 416	16.3	1 928	22.8
Attributable to equity holders of The Swatch Group Ltd	1 384		1 921	
Attributable to non-controlling interests	32		7	
Earnings per share (EPS) – expressed in CHF per share:				
Registered shares				
Basic earnings per share	5.10		7.08	
Diluted earnings per share	5.09		7.08	
Bearer shares				
Basic earnings per share	25.49		35.41	
Diluted earnings per share	25.47		35.38	

Unaudited figures.

Consolidated Balance Sheet

Assets	31.12.2014		31.12.2013	
	CHF million	%	CHF million	%
Current assets				
Cash and cash equivalents	1 202	9.4	908	7.8
Marketable securities and derivative financial instruments	263	2.1	325	2.8
Trade receivables	1 108	8.7	1 073	9.2
Other current assets	135	1.1	256	2.2
Inventories	5 943	46.6	5 426	46.6
Prepayments and accrued income	295	2.3	685	5.9
Total current assets	8 946	70.2	8 673	74.5
Non-current assets				
Property, plant and equipment	3 010	23.6	2 272	19.5
Intangible assets	150	1.2	136	1.2
Investments in associates and joint ventures	70	0.5	65	0.6
Other non-current assets	201	1.6	156	1.3
Deferred tax assets	370	2.9	337	2.9
Total non-current assets	3 801	29.8	2 966	25.5
Total assets	12 747	100.0	11 639	100.0

Unaudited figures.

Consolidated Balance Sheet

Liabilities and equity	31.12.2014		31.12.2013	
	CHF million	%	CHF million	%
Current liabilities				
Financial debts and derivative financial instruments	35	0.3	15	0.1
Trade payables	371	2.9	383	3.3
Other liabilities	158	1.2	164	1.4
Provisions	83	0.7	74	0.6
Accrued expenses	661	5.2	702	6.1
Total current liabilities	1 308	10.3	1 338	11.5
Non-current liabilities				
Financial debts	38	0.3	44	0.4
Deferred tax liabilities	604	4.7	576	4.9
Retirement benefit obligations	38	0.3	33	0.3
Provisions	47	0.4	45	0.4
Accrued expenses	38	0.3	29	0.2
Total non-current liabilities	765	6.0	727	6.2
Total liabilities	2 073	16.3	2 065	17.7
Equity				
Share capital	125		125	
Capital reserves	- 1 037		- 1 062	
Treasury shares	- 301		- 268	
Goodwill recognized	- 1 372		- 1 369	
Translation differences	- 6		- 115	
Retained earnings	13 174		12 197	
Equity of The Swatch Group Ltd shareholders	10 583	83.0	9 508	81.7
Non-controlling interests	91	0.7	66	0.6
Total equity	10 674	83.7	9 574	82.3
Total liabilities and equity	12 747	100.0	11 639	100.0

Unaudited figures.

Consolidated Statement of Cash Flows

	2014		2013
	CHF million		CHF million
Operating activities			
Net income	1 416		1 928
Reversal of non-cash items	739		712
Changes in working capital and other items included in operating cash flow	92		- 965
Dividends received from associated companies	3		21
Interest received	28		9
Interest paid	- 2		- 4
Income tax paid	- 428		- 392
Cash flow from operating activities	1 848		1 309
Investing activities			
Investments in property, plant and equipment	- 1 040		- 574
Proceeds from sale of property, plant and equipment	4		19
Investments in intangible assets	- 48		- 48
Proceeds from sale of intangible assets	1		-
Investments in other non-current assets	- 115		- 84
Proceeds from sale of other non-current assets	2		10
Acquisition of subsidiaries – net of cash	- 4		- 759
Divestments of businesses	3		-
Investments in associated companies and joint ventures	-		- 14
Divestments of associated companies and joint ventures	-		0
Purchase of marketable securities	- 187		- 207
Sale of marketable securities	262		348
Cash flow from investing activities	- 1 122		- 1 309
Financing activities			
Dividends paid to shareholders	- 407		- 366
Dividends paid to non-controlling interests	- 14		- 5
Purchase of treasury shares	- 107		- 2
Sale of treasury shares	78		123
Change in non-current financial debts	- 5		- 260
Change in current financial debts	- 1		- 88
Cash flow from financing activities	- 456		- 598
Net impact of foreign exchange rate differences on cash	24		- 14
Change in cash and cash equivalents	294		- 612
Change in cash and cash equivalents			
– At beginning of year	908		1 520
– At end of year	1 202	294	908
			- 612

Unaudited figures.

Segment Information

(CHF million)	2014			2013		
	Third	Group	Total	Third	Group	Total
Gross sales						
Watches & Jewelry	8 935	1	8 936	8 531	1	8 532
Electronic Systems	277	22	299	279	20	299
Corporate and elimination	7	-23	-16	7	-21	-14
Total	9 219	-	9 219	8 817	-	8 817
Net sales						
Watches & Jewelry	8 428	1	8 429	8 172	1	8 173
Electronic Systems	274	22	296	277	20	297
Corporate and elimination	7	-23	-16	7	-21	-14
Total	8 709	-	8 709	8 456	-	8 456
Operating profit						
		% of sales	% of Total		% of sales	% of Total
Watches & Jewelry	1 860	22.1%	106.2%	2 424	29.7%	104.8%
Electronic Systems	-9	-3.0%	-0.5%	-12	-4.0%	-0.5%
Corporate and elimination	-99		-5.7%	-98		-4.3%
Total	1 752	20.1%	100.0%	2 314	27.4%	100.0%

Unaudited figures.

Statistical Information

	2014		2013	
	Basic	Diluted	Basic	Diluted
Average number of registered shares outstanding	119 894 096	120 124 683	119 514 584	119 747 295
Average number of bearer shares outstanding	30 320 769	30 320 769	30 335 000	30 335 000
Key data per registered share (nom. CHF 0.45) in CHF				
Consolidated net income	5.10	5.09	7.08	7.08
Cash flow from operating activities	6.81	6.80	4.83	4.82
Consolidated shareholders' equity	39.32	39.28	35.30	35.27
Dividend	1.50 ¹⁾	1.50 ¹⁾	1.50	1.50
Price / earnings ratio	16.9	16.9	14.2	14.2
Key data per bearer share (nom. CHF 2.25) in CHF				
Consolidated net income	25.49	25.47	35.41	35.38
Cash flow from operating activities	34.03	34.00	24.13	24.11
Consolidated shareholders' equity	196.58	196.41	176.52	176.33
Dividend	7.50 ¹⁾	7.50 ¹⁾	7.50	7.50
Price / earnings ratio	17.4	17.4	16.7	16.7
Share capital in CHF	125 210 250	125 210 250	125 210 250	125 210 250

¹⁾ Board of Directors' proposal.

Unaudited figures.