

PRESS RELEASE

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SWATCH GROUP: KEY FIGURES 2016

- Net sales of CHF 7 553 million for the Group, at current exchange rates, a decrease of 10.6%, or CHF 7 534 million, a minus of 10.8% at constant exchange rates.
- The Watches & Jewelry segment, including Production, generated net sales of CHF 7 305 million, minus 10.7% at current exchange rates.
- Operating result of CHF 805 million, equivalent to an operating margin of 10.7% (minus 44.5% compared to previous year).
- The Watches & Jewelry segment, including Production, generated an operating margin of 12.2% (previous year 18.8%). Compared to the first half year, operating margin improved by 2 percentage points in the second half, despite massive shortfalls in purchase and order volumes of watch movements and components from third-party customers, and maintaining of capacities and workforce in production facilities.
- Net income of CHF 593 million, equivalent to a net margin of 7.9% (minus 47.0% compared to the previous year).
- Equity practically unchanged at CHF 11.1 billion, due to the share buyback of CHF 332 million, equivalent to an equity ratio of 84.5% (previous year 84.7%).
- Dividend proposal: CHF 6.75 per bearer share and CHF 1.35 per registered share (previous year CHF 7.50 per bearer share, CHF 1.50 per registered share).
- The months of November, December and January showed, particularly in Mainland China, very good growth in the Watches & Jewelry segment, with a substantial improvement in operating margin.
- Based on the positive development of the last three months, healthy growth is expected for the year 2017.

This advance information will be followed by the distribution and discussion of the detailed annual report at the press conference scheduled for 16 March 2017.

Group Key Figures

| (CHF million) | 2016 | 2015 | Change in % | | Total |
|---------------------------------------|---------------|--------|-------------------|-----------------|---------|
| | | | at constant rates | currency effect | |
| Net sales | 7 553 | 8 451 | - 10.8% | + 0.2% | - 10.6% |
| Operating result | 805 | 1 451 | | | - 44.5% |
| - in % of net sales | 10.7% | 17.2% | | | |
| Net income | 593 | 1 119 | | | - 47.0% |
| - in % of net sales | 7.9% | 13.2% | | | |
| Equity | 11 073 | 11 242 | | | - 1.5% |
| - as a % of balance sheet total | 84.5% | 84.7% | | | |
| Average return on equity (ROE) | 5.3% | 10.2% | | | |

Unaudited figures.

Strategy

The long-term industrial Group strategy remains unchanged:

1. Continued strengthening of the manufacturing base Switzerland for all segments, despite the very negative exchange rate situation. Calculated at 2010 exchange rates, the Swatch Group **lost cumulatively CHF 5 billion in revenues** from 2011 up to and including 2016.
2. Unchanged investment in innovation, in both product development and production.
3. Selective expansion of its own retail network.

The Group continues to follow its strategy of preserving the workplace of its employees over the long term, even in a difficult economic environment. This allows the Swatch Group to react quickly and flexibly to the again increasing demand.

Group Overview

The past financial year was marked by worldwide turbulence in a very challenging economic environment. The decline in consumption, already evident since the end of 2015, intensified particularly in the first half of 2016. As in the previous year, the tragic terrorist attacks in France, Belgium, Germany and Turkey, as well as new legal regulations in various countries, led to rapid regional shifts.

The slightly positive currency trend for the US Dollar, Japanese Yen and Euro was almost completely neutralized by the weakening of the British Pound as a result of the Brexit decision on 24 June and the devalued Chinese Renminbi. The Swiss Franc remains strongly overvalued, reason why the long-term strategy of favoring a defensive price adjustment policy over short-term profit thinking is maintained.

Highlights of the financial year 2016

Development abroad

In the Watches & Jewelry segment, including Production, net sales decreased 10.7% compared to the previous year at current exchange rates to CHF 7 305 million. The currency impact of 0.2% was slightly positive. The segment achieved an operating margin of 12.2% (previous year: 18.8%). Compared to the first half year, operating margin improved by 2 percentage points in the second half.

Sales performance in Europe presented a very mixed picture. Due to the terrorist attacks in France and Belgium, tourists were largely absent, which led to declining figures, the same was also partially the case in Germany and Switzerland with its ongoing high Swiss Franc. Sales in Italy and Spain were relatively stable. In general, Europe reported significantly lower tourist numbers, particularly from China, due to the new statutory entry requirements for biometric visas. Sanctions by Europe and the USA against Russia led also to a massive reduction in tourists from this region. The Brexit decision of 24 June however led to double-digit sales growth in local currency in Great Britain, but also to a lower margin, due to sales prices in the devalued British Pound and purchase prices in the expensive Swiss Franc.

South Korea practically offset the drop in sales in the previous year caused by MERS, thanks to double-digit growth. The situation in Hong Kong normalized in recent months, not only in Retail, which in total stands at the previous year's level, but also in Wholesale. In Mainland China, increased demand in recent months was very positive with growth of over 20%, it was even higher in the Group's own retail network. Also the markets in Indonesia and Malaysia performed well, and sales in Japan are as well on an upward trend in recent months. Markets in the Middle East recorded double-digit growth. The Indian market remained stable, despite the chaotic situation caused by the exchange operation for banknotes.

Business in North America was slightly below the previous year, while sales in Middle America performed positively. The sales share for the Group's own retail rose to approximately 30%, within the scope of the further retail expansion strategy with over 100 additional points of sale in the best locations.

Production integrated into the Watches & Jewelry segment recorded significantly lower capacity utilization than in the previous year. Many third-party brands reacted in panic to decreasing demand by massively reducing orders of watch movements and components. The Group's own brands could not compensate for this decline. Unchanged fixed costs for unused production capacities resulted in a temporary decline in the operating result for this area. Cost optimization programs have always been a tradition at the Swatch Group, regardless of increasing or decreasing sales. The positive emerging performance signs in the markets will very quickly result in increased demand for watch movements and components in Production. Thanks to the maintaining of production capacities, as well as a highly motivated workforce, we can immediately respond to this increased demand, which will also lead to an improved situation in this area in 2017.

The Electronic Systems segment generated net sales of CHF 260 million in 2016, 11.0% lower than the previous year, due to continuing price pressure on products. Despite this, the operating result could be increased to CHF 10 million (previous year: CHF 9 million). With the very strong innovation power in this segment, the market leader position in the area of integrated circuits with lowest energy consumption was expanded, and new sensors (pressure sensors) and applications (dual RFID with NFC and UHF technology) were developed. In December, EM Microelectronic-Marin was awarded the innovation prize Connect+Event in Paris for the best technological innovation in connected smart and mobile devices. Renata further expanded its position as market leader in the area of environmentally friendly batteries with highest energy density. Micro Crystal launched additional high-precision real time clock (RTC) modules, based on miniature quartz crystals and the smallest CMOS circuits, into the market. The new watch modules from Micro Crystal, an integration of quartz and circuits from EM Microelectronic-Marin, will make it possible to produce ETA quartz movements with a previously unequalled precision.

Personnel

The number of employees decreased by approximately 600 persons to 35 700 in 2016. This was solely due to normal fluctuations.

Training

The Swatch Group promotes vocational training at all levels, and in particular, for apprentices who wish to graduate as watchmakers or in related technical professions. Currently, more than 600 persons are again being trained in Switzerland and abroad, including students in the six Group's own watchmaking schools in Miami, Kuala Lumpur, Shanghai, Hong Kong, Pforzheim and Manchester.

Operating result and net income

Low capacity utilization in Production with a practically unchanged workforce, as well as shifts in the country mix, impacted the operating result in 2016. Marketing investments were held at the same level, also due to the presence of Omega as official timekeeper at the Olympic Games in Rio de Janeiro.

The operating result amounted to CHF 805 million (minus 44.5% compared to the previous year), equivalent to an operating margin of 10.7%. In November and December, the operating margin increased due to the positive sales performance. Net income closed at CHF 593 million, 47.0% lower than the previous year. This is equivalent to a net margin of 7.9% compared to 13.2% in the previous year. Benchmarked to the first half year, the operating margin improved from 9.5% to 11.8% and the net margin from 7.1% to 8.6% in the second half year.

Product highlights

Especially the antimagnetic Omega Co-Axial Globemaster collection (METAS certified), the launch of the Swatch NFC Bellamy as a contactless payment device in China, Switzerland and Brazil, as well as the new Swatch POP and Swatch Sistem51 Irony collections generated good sales. Also, the new Omega Seamaster Planet Ocean Deep Black became a bestseller. Rado was on the road to success with its new Ceramica and HyperChrome 1616 collections, as well as Longines with the Dolce Vita, Conquest Roland Garros and Longines Master Collection, and Tissot with the new T-Touch Expert Solar NBA (North American professional basketball league) model. Furthermore, Tissot successfully accompanied the Tour de France 2016. In the luxury segment, Harry Winston continued its very good growth path, with its high jewelry collection Lotus Cluster, Art Deco and Precious Butterfly.

Investments

Across all segments, the Swatch Group invested a total of CHF 563 million in non-current operating assets in 2016. In addition to the further broadening of its own retail network, heavy investment was also made in new production buildings (Omega, Swatch and Boncourt) and in state-of-the-art production and assembly facilities, with particular investment in the expansion of Industry 4.0. Significant investment was also made in the area of customer service, both in Switzerland and in the foreign distribution companies.

Cash flow

Operating cash flow amounted to CHF 1 010 million in the period under review, after income tax payments of CHF 277 million. To keep the cash balance low, particularly in order to avoid negative interest, treasury shares with a market value of CHF 332 million were repurchased in 2016 within the scope of a three-year share buyback program.

Inventories

At year end, inventories were practically unchanged at CHF 6.3 billion (previous year CHF 6.2 billion). While further investment in diamonds for Harry Winston and targeted expansion of retail stores was made, the remaining inventories declined.

Dividend proposal

At the Annual General Meeting on 23 May 2017, the Board of Directors of the Swatch Group will propose reducing dividends by only 10% to CHF 6.75 per bearer share and CHF 1.35 per registered share (previous year CHF 7.50 per bearer share and CHF 1.50 per registered share), despite the significantly lower result.

Outlook for 2017

Consumer interest and the potential for Swiss watches remains strong. Particularly Asia and the Middle East are showing again increasing sales in recent months, including brands in the luxury segment, so that healthy growth in local currency can again be expected for the year 2017, even more this expectation also applies to the USA and Europe.

With its global distribution network and the successful introduction of E-Commerce already in 2001, the Group is in an excellent position to serve its customers, wherever they are in the world, at any time. Our very motivated employees in retail, in distribution, and over the entire production chain make this possible.

The number of patent applications in the year under review again exceeded 180 patents, in the areas of electronic smart and mobile device products, mechanical watches and watch movements, as well as in "habillage" and for innovative production methods (Industry 4.0).

In the Electronic Systems segment, the newest developments in the area of dual frequency RFID technology (NFC and UHF), an innovative Bluetooth module, integrated circuits with lowest energy consumption and the most innovative sensor technology (particularly pressure sensors), as well as the real time clock (RTC) module will ensure growth. In addition, Belenos will put its pilot production line for the new batteries into operation. Also, Swiss Timing will show up with many technological innovations in timekeeping for sporting events.

The year 2017 will be marked by many new product launches by our brands. The 60th anniversary of the Omega Speedmaster will provide a strong stimulus. The creative and very successful use of Omega's E-Commerce, with Speedy Tuesday on Instagram, demonstrates the great potential and enormous demand. Swatch will launch the unique new very slim Skin collection, as well as the second generation of the Swatch Bellamy as a contactless payment device. This is just to name a few examples.

Based on the positive sales figures in all segments in recent months, including January, Swatch Group anticipates healthy growth in 2017.

Next publications/events:

| | |
|-------------------|---|
| 16.03.2017 | Publication of the annual report 2016 Press conference |
| 23.05.2017 | Annual General Meeting, Grenchen |
| 03.08.2017 | Publication of 2017 half-year results |

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|---------------|-----------------------------|
| Original: | German |
| Translations: | English, French and Italian |

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Consolidated Income Statement

| | 2016 | | 2015 | |
|--|--------------|--------------|-------------|--------|
| | CHF million | % | CHF million | % |
| Net sales | 7 553 | 100.0 | 8 451 | 100.0 |
| Other operating income | 249 | 3.3 | 103 | 1.2 |
| Changes in inventories | 77 | 1.0 | 255 | 3.0 |
| Material purchases | - 1 642 | - 21.7 | - 2 001 | - 23.7 |
| Personnel expense | - 2 342 | - 31.0 | - 2 384 | - 28.2 |
| Depreciation and impairment on property, plant and equipment | - 394 | - 5.2 | - 366 | - 4.3 |
| Amortization and impairment on intangible assets | - 43 | - 0.6 | - 38 | - 0.4 |
| Other operating expenses | - 2 653 | - 35.1 | - 2 569 | - 30.4 |
| Operating result | 805 | 10.7 | 1 451 | 17.2 |
| Other financial income and expense | - 25 | - 0.3 | - 46 | - 0.6 |
| Interest expense | - 3 | - 0.1 | - 1 | - 0.0 |
| Share of result from associates and joint ventures | - 4 | - 0.1 | 0 | 0.0 |
| Ordinary result | 773 | 10.2 | 1 404 | 16.6 |
| Non-operating result | 4 | 0.1 | 0 | 0.0 |
| Profit before income taxes | 777 | 10.3 | 1 404 | 16.6 |
| Income taxes | - 184 | - 2.4 | - 285 | - 3.4 |
| Net income | 593 | 7.9 | 1 119 | 13.2 |
| Attributable to shareholders of The Swatch Group Ltd | 574 | | 1 089 | |
| Attributable to non-controlling interests | 19 | | 30 | |

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

| | | |
|----------------------------|-------|-------|
| Registered shares | | |
| Basic earnings per share | 2.14 | 4.01 |
| Diluted earnings per share | 2.14 | 4.01 |
| Bearer shares | | |
| Basic earnings per share | 10.69 | 20.07 |
| Diluted earnings per share | 10.68 | 20.05 |

Unaudited figures.

Consolidated Balance Sheet

| Assets | 31.12.2016 | | 31.12.2015 | |
|--|---------------|--------------|---------------|--------------|
| | CHF million | % | CHF million | % |
| Current assets | | | | |
| Cash and cash equivalents | 1 136 | 8.7 | 1 280 | 9.6 |
| Marketable securities and derivative financial instruments | 326 | 2.5 | 388 | 2.9 |
| Trade receivables | 903 | 6.9 | 991 | 7.4 |
| Other current assets | 141 | 1.1 | 143 | 1.1 |
| Inventories | 6 259 | 47.7 | 6 151 | 46.4 |
| Prepayments and accrued income | 280 | 2.1 | 316 | 2.4 |
| Total current assets | 9 045 | 69.0 | 9 269 | 69.8 |
| Non-current assets | | | | |
| Property, plant and equipment | 3 276 | 25.0 | 3 173 | 23.9 |
| Intangible assets | 142 | 1.1 | 151 | 1.1 |
| Investments in associates and joint ventures | 59 | 0.5 | 62 | 0.5 |
| Other non-current assets | 174 | 1.3 | 217 | 1.7 |
| Deferred tax assets | 410 | 3.1 | 398 | 3.0 |
| Total non-current assets | 4 061 | 31.0 | 4 001 | 30.2 |
| Total assets | 13 106 | 100.0 | 13 270 | 100.0 |

Unaudited figures.

Consolidated Balance Sheet

| Equity and liabilities | 31.12.2016 | | 31.12.2015 | |
|--|---------------|--------------|-------------|-------|
| | CHF million | % | CHF million | % |
| Current liabilities | | | | |
| Financial debts and derivative financial instruments | 124 | 0.9 | 13 | 0.1 |
| Trade payables | 316 | 2.4 | 367 | 2.8 |
| Other liabilities | 166 | 1.3 | 152 | 1.1 |
| Provisions | 83 | 0.6 | 86 | 0.6 |
| Accrued expenses | 518 | 4.0 | 604 | 4.6 |
| Total current liabilities | 1 207 | 9.2 | 1 222 | 9.2 |
| Non-current liabilities | | | | |
| Financial debts | 31 | 0.2 | 34 | 0.2 |
| Deferred tax liabilities | 569 | 4.4 | 606 | 4.6 |
| Retirement benefit obligations | 39 | 0.3 | 36 | 0.3 |
| Provisions | 55 | 0.4 | 53 | 0.4 |
| Accrued expenses | 132 | 1.0 | 77 | 0.6 |
| Total non-current liabilities | 826 | 6.3 | 806 | 6.1 |
| Total liabilities | 2 033 | 15.5 | 2 028 | 15.3 |
| Equity | | | | |
| Share capital | 125 | | 125 | |
| Capital reserves | - 991 | | - 1 006 | |
| Treasury shares | - 660 | | - 329 | |
| Goodwill recognized | - 1 372 | | - 1 372 | |
| Translation differences | - 142 | | - 134 | |
| Retained earnings | 14 027 | | 13 856 | |
| Equity of The Swatch Group Ltd shareholders | 10 987 | | 11 140 | 83.9 |
| Non-controlling interests | 86 | | 102 | 0.8 |
| Total equity | 11 073 | 84.5 | 11 242 | 84.7 |
| Total equity and liabilities | 13 106 | 100.0 | 13 270 | 100.0 |

Unaudited figures.

Consolidated Statement of Cash Flows

| | 2016 CHF million | 2015 CHF million |
|---|---------------------|---------------------|
| Operating activities | | |
| Net income | 593 | 1 119 |
| Reversal of non-cash items | 645 | 686 |
| Changes in working capital and other items included in operating cash flow | 41 | -70 |
| Dividends received from associated companies | 2 | 2 |
| Interest received | 9 | 7 |
| Interest paid | -3 | -1 |
| Income tax paid | -277 | -339 |
| Cash flow from operating activities | 1 010 | 1 404 |
| Investing activities | | |
| Investments in property, plant and equipment | -504 | -602 |
| Proceeds from sale of property, plant and equipment | 21 | 13 |
| Investments in intangible assets | -35 | -47 |
| Proceeds from sale of intangible assets | 1 | 0 |
| Investments in other non-current assets | -24 | -106 |
| Proceeds from sale of other non-current assets | 8 | 3 |
| Acquisition of subsidiaries – net of cash | 0 | - |
| Takeover of associated companies | - | 14 |
| Divestments of businesses | 3 | 4 |
| Purchase of marketable securities | -76 | -241 |
| Sale of marketable securities | 122 | 126 |
| Cash flow from investing activities | - 484 | - 836 |
| Financing activities | | |
| Dividends paid to shareholders | -403 | -407 |
| Dividends paid to non-controlling interests | -36 | -24 |
| Repurchase of treasury shares | -332 | -28 |
| Sale of treasury shares | 1 | 1 |
| Change in non-current financial debts | -5 | -4 |
| Change in current financial debts | 108 | 0 |
| Repurchase of non-controlling interests | - | -1 |
| Sale of non-controlling interests | 1 | 11 |
| Cash flow from financing activities | - 666 | - 452 |
| Net impact of foreign exchange rate differences on cash | - 4 | - 38 |
| Change in cash and cash equivalents | - 144 | 78 |
| Change in cash and cash equivalents | | |
| – At beginning of year | 1 280 | 1 202 |
| – At end of year | 1 136 | 1 280 |

Unaudited figures.

Segment Information

| (CHF million) | 2016 | | | 2015 | | |
|--------------------|---------------|----------|--------------|---------------|----------|--------------|
| | Third parties | Group | Total | Third parties | Group | Total |
| Net sales | | | | | | |
| Watches & Jewelry | 7 304 | 1 | 7 305 | 8 175 | 2 | 8 177 |
| Electronic Systems | 244 | 16 | 260 | 270 | 22 | 292 |
| Corporate | 5 | 6 | 11 | 6 | 6 | 12 |
| Elimination | 0 | - 23 | - 23 | | - 30 | - 30 |
| Total | 7 553 | - | 7 553 | 8 451 | - | 8 451 |

| (CHF million) | 2016 | | 2015 | |
|-------------------------|------------|----------------|--------------|----------------|
| | Total | % of net sales | Total | % of net sales |
| Operating result | | | | |
| Watches & Jewelry | 894 | 12.2% | 1 539 | 18.8% |
| Electronic Systems | 10 | 3.8% | 9 | 3.1% |
| Corporate | - 99 | | - 97 | |
| Total | 805 | 10.7% | 1 451 | 17.2% |

Unaudited figures.

Statistical Information

| | 2016 | | 2015 | |
|--|--------------------|--------------------|-------------|-------------|
| | Basic | Diluted | Basic | Diluted |
| Average number of registered shares outstanding | 118 672 611 | 118 887 741 | 119 847 161 | 120 069 686 |
| Average number of bearer shares outstanding | 29 987 419 | 29 987 419 | 30 308 846 | 30 308 846 |

Key data per registered share (nom. CHF 0.45) in CHF

| | | | | |
|--|--------------------|--------------------|-------|-------|
| Consolidated net income attributable to shareholders | 2.14 | 2.14 | 4.01 | 4.01 |
| Cash flow from operating activities | 3.76 | 3.76 | 5.17 | 5.17 |
| Consolidated equity | 41.22 | 41.19 | 41.42 | 41.39 |
| Dividend | 1.35 ¹⁾ | 1.35 ¹⁾ | 1.50 | 1.50 |
| Price/earnings ratio | 29.1 | 29.1 | 17.0 | 17.0 |

Key data per bearer share (nom. CHF 2.25) in CHF

| | | | | |
|--|--------------------|--------------------|--------|--------|
| Consolidated net income attributable to shareholders | 10.69 | 10.68 | 20.07 | 20.05 |
| Cash flow from operating activities | 18.80 | 18.79 | 25.87 | 25.85 |
| Consolidated equity | 206.12 | 205.95 | 207.12 | 206.95 |
| Dividend | 6.75 ¹⁾ | 6.75 ¹⁾ | 7.50 | 7.50 |
| Price/earnings ratio | 29.6 | 29.7 | 17.4 | 17.5 |

| | | | | |
|-----------------------------|--------------------|--------------------|-------------|-------------|
| Share capital in CHF | 125 210 250 | 125 210 250 | 125 210 250 | 125 210 250 |
|-----------------------------|--------------------|--------------------|-------------|-------------|

¹⁾ Board of Directors' proposal.

Unaudited figures.