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# FINANCIAL STATEMENTS 2019

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



**CONSOLIDATED FINANCIAL STATEMENTS**

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**FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD** **214****THE SWATCH GROUP LTD SECURITIES** **229****1. Key figures Group**

[CHF million]	2019	2018	Change in %		Total
			at constant rates	currency effect	
<b>Net sales</b>	<b>8 243</b>	8 475	-1.8%	-0.9%	<b>-2.7%</b>
<b>Operating result</b>	<b>1 023</b>	1 154			<b>-11.4%</b>
- in % of net sales	12.4%	13.6%			
<b>Net income</b>	<b>748</b>	867			<b>-13.7%</b>
- in % of net sales	9.1%	10.2%			
<b>Equity</b>	<b>11 493</b>	11 274			<b>1.9%</b>
- as a % of balance sheet total	83.9%	82.5%			
<b>Dividend in CHF 1)</b>	<b>2019</b>	2018			
- per bearer share	<b>8.00</b>	8.00			
- per registered share	<b>1.60</b>	1.60			

1) For the year under review: Board of Directors' proposal

With its 18 brands, the Swatch Group is present in all segments, and is a fully verticalized company, from production to distribution. The Group has an ideal set-up 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 and in worldwide distribution. As a result, the Group occupies an unparalleled position in the Swiss as well as the worldwide watch industry.

## 2. Environment / Financial year

### Development net sales and operating result

2019 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
<b>Net sales</b>	<b>7 966</b>	<b>289</b>	<b>10</b>	<b>-22</b>	<b>8 243</b>
<b>Operating result</b>	<b>1 145</b>	<b>7</b>	<b>-129</b>	<b>0</b>	<b>1 023</b>
- in % of net sales	14.4%	2.4%			12.4%
2018 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Net sales	8 214	273	10	-22	8 475
Operating result	1 258	14	-118	0	1 154
- in % of net sales	15.3%	5.1%			13.6%

The Group performed very well in the financial year 2019, despite political uncertainties and an ongoing negative currency situation. The weakening of the US Dollar and the Euro, as well as other currencies, versus the Swiss Franc in recent months had a negative impact of CHF 76 million or 0.9% on sales.

Performance in the second half of the year – excluding Hong Kong SAR – was positive in all regions. Sales in the Group's own retail stores increased by approximately 2%, despite the negative impact of Hong Kong SAR and a worldwide retail network which was reduced by about 60 stores compared to the previous year.

In Hong Kong SAR, the drop in sales in the second half of 2019 alone was approximately CHF 200 million. The Swatch Group operates more than 90 own retail stores here.

Net sales in the Electronic Systems segment increased by 5.9% to CHF 289 million, with all companies performing positively.

### Development net income

(CHF million)	2019	2018
<b>Operating result</b>	<b>1 023</b>	1 154
Net financial result	-20	-22
<b>Ordinary result</b>	<b>1 003</b>	1 132
Non-operating result	1	1
<b>Profit before income taxes</b>	<b>1 004</b>	1 133
Income taxes	-256	-266
<b>Net income</b>	<b>748</b>	867
- in % of net sales	9.1%	10.2%
- Change from previous year in %	-13.7%	14.8%
<b>Basic earnings per share in CHF</b>	<b>2019</b>	2018
- Registered shares	<b>2.84</b>	3.23
- Bearer shares	<b>14.18</b>	16.14

The net financial result for the year under review closed with a loss of CHF 20 million (previous year: loss of CHF 22 million), primarily influenced by a strongly negative net currency result. Further details to the net financial result can be found in Note 18 of the consolidated financial statements.

Tax expense in proportion to profit before income taxes rose from 23.5% in the previous year to 25.5% in the year under review. The increase is due to, among other things, a change in the country mix in sales and profit, and, in particular, growth in customer demand in Asian markets. A detailed analysis of the income tax expense is set out in Note 27 of the consolidated financial statements.

Net income totaled CHF 748 million (-13.7% compared to previous year) or 9.1% of net sales (previous year: 10.2%).

In the current year, basic earnings per share amounted to CHF 2.84 (previous year: CHF 3.23) for registered shares and CHF 14.18 (previous year: CHF 16.14) for bearer shares. As in previous years, dilution of earnings was immaterial. Detailed information can be found in Note 15 of the consolidated financial statements.

At the Annual General Meeting on 14 May 2020, the Board of Directors of the Swatch Group will propose an unchanged dividend of CHF 8.00 per bearer share and CHF 1.60 per registered share.

## FINANCIAL REVIEW

## Development balance sheet structure

(CHF million)	2019	2018
<b>Current assets</b>	<b>9 555</b>	9 458
<b>Current liabilities</b>	<b>1 361</b>	1 549
<b>Equity</b>	<b>11 493</b>	11 274
– as a % of balance sheet total	83.9%	82.5%
<b>Average return on equity 1)</b>	<b>6.6%</b>	7.7%

1) Net income as a percentage of average equity (previous year plus year under review, divided by two)

Current liabilities were covered by current assets by a factor of 7.0 (previous year: 6.1). This factor indicates a very healthy structure of the short-term balance sheet positions.

In the year under review, despite the capital reduction of The Swatch Group Ltd after the conclusion of the share buyback program 2016-2019 at the beginning of 2019, the equity of the Group increased to CHF 11.5 billion (previous year: CHF 11.3 billion). The equity ratio was 83.9% of total assets (previous year: 82.5%).

## Development liquidity

(CHF million)	2019	2018
<b>Cash and cash equivalents at 1 January</b>	<b>902</b>	1 291
Cash flow from operating activities	1 224	943
Cash flow from investing activities	-344	-651
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	-634	-681
<b>Cash and cash equivalents at 31 December</b>	<b>1 148</b>	902

After-tax operating cash flow generated in 2019 was CHF 1 224 million, an increase of 30% over the previous year, mainly due to consistent management of the net working capital.

Across all segments, Swatch Group invested a total of CHF 459 million in non-current operating assets<sup>1)</sup> in 2019. 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. Free cash flow<sup>2)</sup> tripled from the previous year and amounted to CHF 880 million.

The dividend payment of CHF 413 million (previous year: CHF 394 million) and the decrease of the current financial debts were the main cash flows from financing activities. The net financial position<sup>3)</sup> at the end of the year was CHF 1 348 million.

## 3. Outlook

Group management expects healthy growth in 2020 in all markets in local currency, with the exception of Hong Kong SAR. The currency situation will remain challenging. A special highlight for the Group will be the Olympic Summer Games in Tokyo, where Omega can uniquely showcase itself in one of the largest luxury markets in the world.

1) Investments in property, plant and equipment, in intangible assets and in other non-current assets according to statement of cash flows

2) Cash flow from operating activities minus cash flow from investing activities

3) Cash and cash equivalents and marketable securities and derivative financial instruments minus current and non-current financial debts and derivative financial instruments

## CONSOLIDATED INCOME STATEMENT

	Notes	2019 CHF million	%	2018 CHF million	%
<b>Net sales</b>	(4, 5a)	<b>8 243</b>	<b>100.0</b>	8 475	100.0
Other operating income	(5b)	134	1.6	180	2.1
Changes in inventories		-16	-0.2	632	7.5
Material purchases		-1 600	-19.4	-2 226	-26.3
Personnel expense	(11)	-2 578	-31.3	-2 563	-30.3
Depreciation and impairment on property, plant and equipment	(8)	-437	-5.3	-451	-5.3
Amortization and impairment on intangible assets	(9)	-43	-0.5	-43	-0.5
Other operating expenses	(6a)	-2 680	-32.5	-2 850	-33.6
<b>Operating result</b>		<b>1 023</b>	<b>12.4</b>	1 154	13.6
Other financial income and expense	(18)	-3	-0.0	-19	-0.2
Interest expense	(18)	-8	-0.1	-5	0.0
Share of result from associates and joint ventures	(18, 34)	-9	-0.1	2	0.0
<b>Ordinary result</b>		<b>1 003</b>	<b>12.2</b>	1 132	13.4
Non-operating result	(5c)	1	0.0	1	0.0
<b>Profit before income taxes</b>		<b>1 004</b>	<b>12.2</b>	1 133	13.4
Income taxes	(27a)	-256	-3.1	-266	-3.2
<b>Net income</b>		<b>748</b>	<b>9.1</b>	867	10.2
Attributable to shareholders of The Swatch Group Ltd		730		845	
Attributable to non-controlling interests		18		22	
<b>Earnings per share in CHF</b>	(15)				
<b>Registered shares</b>					
Basic earnings per share		<b>2.84</b>		3.23	
Diluted earnings per share		<b>2.83</b>		3.23	
<b>Bearer shares</b>					
Basic earnings per share		<b>14.18</b>		16.14	
Diluted earnings per share		<b>14.17</b>		16.13	

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

## CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2019		31.12.2018	
		CHF million	%	CHF million	%
<b>Current assets</b>					
Cash and cash equivalents	(19)	1 239	9.0	944	6.9
Marketable securities and derivative financial instruments	(20)	230	1.7	296	2.2
Trade receivables	(5d)	838	6.1	893	6.5
Other current assets	(22)	132	1.0	159	1.2
Inventories	(7)	6 852	50.1	6 917	50.6
Prepayments and accrued income	(23)	264	1.9	249	1.8
<b>Total current assets</b>		<b>9 555</b>	<b>69.8</b>	9 458	69.2
<b>Non-current assets</b>					
Property, plant and equipment	(8)	3 189	23.3	3 245	23.8
Intangible assets	(9)	150	1.1	146	1.1
Investments in associates and joint ventures	(34)	45	0.3	59	0.4
Other non-current assets	(26)	325	2.4	336	2.5
Deferred tax assets	(27d)	428	3.1	417	3.0
<b>Total non-current assets</b>		<b>4 137</b>	<b>30.2</b>	4 203	30.8
<b>Total assets</b>		<b>13 692</b>	<b>100.0</b>	13 661	100.0

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

## CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2019		31.12.2018	
		CHF million	%	CHF million	%
<b>Current liabilities</b>					
Financial debts and derivative financial instruments	(21)	101	0.7	203	1.5
Trade payables		313	2.3	393	2.9
Other liabilities	(24)	185	1.4	222	1.6
Provisions	(10)	84	0.6	94	0.7
Accrued expenses	(25)	678	5.0	637	4.6
<b>Total current liabilities</b>		<b>1 361</b>	<b>10.0</b>	1 549	11.3
<b>Non-current liabilities</b>					
Financial debts	(21)	20	0.1	22	0.2
Deferred tax liabilities	(27d)	546	4.0	558	4.1
Retirement benefit obligations	(12)	46	0.3	43	0.3
Provisions	(10)	57	0.4	53	0.4
Accrued expenses	(25)	169	1.3	162	1.2
<b>Total non-current liabilities</b>		<b>838</b>	<b>6.1</b>	838	6.2
<b>Total liabilities</b>		<b>2 199</b>	<b>16.1</b>	2 387	17.5
<b>Equity</b>					
Share capital	(14a)	118		125	
Capital reserves	(14b)	-948		-961	
Treasury shares	(14d)	-195		-1 251	
Goodwill recognized		-1 372		-1 372	
Translation differences		-285		-210	
Retained earnings		14 087		14 854	
<b>Equity of The Swatch Group Ltd shareholders</b>		<b>11 405</b>	<b>83.3</b>	11 185	81.9
Non-controlling interests		88	0.6	89	0.6
<b>Total equity</b>		<b>11 493</b>	<b>83.9</b>	11 274	82.5
<b>Total equity and liabilities</b>		<b>13 692</b>	<b>100.0</b>	13 661	100.0

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

(CHF million)	Notes	2019	2018
<b>Operating activities</b>			
Net income		748	867
Share of result from associated companies and joint ventures	(34)	9	-2
Income tax	(27a)	256	266
Depreciation on non-current assets	(8, 9)	481	481
Impairment	(8, 9)	-1	13
Changes in provisions and retirement benefit obligations		-2	-10
Gains/losses on sale of non-current assets		-9	-5
Other non-cash items		3	29
Changes in net working capital:			
- Trade receivables		42	147
- Inventories		21	-633
- Other current assets, prepayments and accrued income		16	27
- Trade payables		-91	57
- Other liabilities and accrued expenses		-7	-11
Dividends received from associated companies and joint ventures	(34)	4	0
Income tax paid	(27c)	-246	-283
<b>Cash flow from operating activities</b>		<b>1 224</b>	<b>943</b>
<b>Investing activities</b>			
Investments in property, plant and equipment		-399	-437
Proceeds from sale of property, plant and equipment		26	5
Investments in intangible assets		-47	-44
Proceeds from sale of intangible assets		0	5
Investments in other non-current assets		-13	-222
Proceeds from sale of other non-current assets		11	14
Purchase of marketable securities		-60	-77
Sale of marketable securities		138	105
<b>Cash flow from investing activities</b>		<b>-344</b>	<b>-651</b>
<b>Financing activities</b>			
Dividends paid to shareholders	(16)	-413	-394
Dividends paid to non-controlling interests		-17	-19
Repurchase of treasury shares		-34	-389
Sale of treasury shares		1	1
Change in non-current financial debts		2	0
Change in current financial debts		-153	144
Repurchase of non-controlling interests	(31c)	-1	-2
<b>Cash flow from financing activities</b>		<b>-615</b>	<b>-659</b>
<b>Net impact of foreign exchange rate differences on cash</b>		<b>-19</b>	<b>-22</b>
<b>Change in cash and cash equivalents</b>		<b>246</b>	<b>-389</b>
<b>Change in cash and cash equivalents</b>			
- Balance at beginning of year		902	1 291
- Balance at end of year	(19)	<b>1 148</b>	902

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								
	Share capital (Note 14a)	Capital reserves (Note 14b)	Treasury shares (Note 14d)	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						845	<b>845</b>	22	<b>867</b>
Currency translation of foreign entities					-95		<b>-95</b>	0	<b>-95</b>
Dividends paid						-394	<b>-394</b>	-19	<b>-413</b>
Employee stock option plan (Note 13):									
- Value of employee services (net of tax)		16					<b>16</b>		<b>16</b>
- Proceeds from sale of shares		1					<b>1</b>		<b>1</b>
Repurchase of treasury shares		-1	-388				<b>-389</b>		<b>-389</b>
Transactions with non-controlling interests		0	0				<b>0</b>	-2	<b>-2</b>
<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						730	<b>730</b>	18	<b>748</b>
Currency translation of foreign entities					-75		<b>-75</b>	-2	<b>-77</b>
Dividends paid						-413	<b>-413</b>	-17	<b>-430</b>
Employee stock option plan (Note 13):									
- Value of employee services (net of tax)		12					<b>12</b>		<b>12</b>
- Proceeds from sale of shares		1					<b>1</b>		<b>1</b>
Share capital reduction	-7		1 091			-1 084	<b>0</b>		<b>0</b>
Repurchase of treasury shares		1	-35				<b>-34</b>		<b>-34</b>
Transactions with non-controlling interests		-1					<b>-1</b>	0	<b>-1</b>
<b>Balance at 31 December 2019</b>	<b>118</b>	<b>-948</b>	<b>-195</b>	<b>-1 372</b>	<b>-285</b>	<b>14 087</b>	<b>11 405</b>	<b>88</b>	<b>11 493</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### GENERAL INFORMATION

#### About this report

The content and structure of the consolidated financial statements 2019 have been revised in comparison to the previous year. These revisions contain the following:

- Integration of accounting principles in the corresponding notes
- Adjustment to the structure of the notes

#### 1. General information

The Swatch Group Ltd 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, Seedorfstrasse 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 26 February 2020 and will be submitted to the Annual General Meeting of Shareholders for approval on 14 May 2020.

#### 2. Basis of preparation

##### a. Basic accounting policies

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. Changes in accounting policies

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

##### c. 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 7.

**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 27.

#### 3. Events after the balance sheet date

There were no significant events after the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### IMPORTANT OPERATING POSITIONS

#### 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 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 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.

2019 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	7 965	273	5		8 243
– Group	1	16	5	–22	0
<b>Net sales</b>	<b>7 966</b>	<b>289</b>	<b>10</b>	<b>–22</b>	<b>8 243</b>
<b>Operating result</b>	<b>1 145</b>	<b>7</b>	<b>–129</b>	<b>0</b>	<b>1 023</b>
– in % of net sales	14.4%	2.4%			12.4%
2018 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
– Third parties	8 213	257	5		8 475
– Group	1	16	5	–22	0
<b>Net sales</b>	<b>8 214</b>	<b>273</b>	<b>10</b>	<b>–22</b>	<b>8 475</b>
<b>Operating result</b>	<b>1 258</b>	<b>14</b>	<b>–118</b>	<b>0</b>	<b>1 154</b>
– in % of net sales	15.3%	5.1%			13.6%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

**b. Net sales by geographical region**

(CHF million)	2019	2018
Switzerland	753	748
Other Europe	1 564	1 623
<b>Total Europe</b>	<b>2 317</b>	2 371
Greater China	2 962	3 093
Other Asia	2 108	2 127
<b>Total Asia</b>	<b>5 070</b>	5 220
<b>Total America</b>	<b>707</b>	733
<b>Total Oceania</b>	<b>94</b>	87
<b>Total Africa</b>	<b>55</b>	64
<b>Total</b>	<b>8 243</b>	8 475

For the geographical presentation, sales are reported according to the destinations that appear on the invoices.

**5. Revenues and trade receivables**

**a. Net sales**

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.

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.

(CHF million)	2019	2018
Sale of goods	8 222	8 454
Rendering of services	21	21
<b>Total net sales</b>	<b>8 243</b>	8 475

**b. Other operating income**

In the year under review, other operating income amounted to CHF 134 million (previous year: CHF 180 million). The decrease is mainly due to the timekeeping services rendered in the previous year for the Olympic Games.

**c. Non-operating result**

Only net income from investment property was included in the non-operating result position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

**d. 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. Since no independent rating is available for most customers, their creditworthiness is assessed by the local credit control departments. In doing so, their asset and financial positions, previous experience and other factors are taken into consideration.

Bad debts are definitely 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.

(CHF million)	31.12.2019	31.12.2018
Trade receivables – gross	856	908
Allowance for impaired receivables	-18	-15
<b>Total trade receivables – net</b>	<b>838</b>	893

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

(CHF million)	2019	2018
<b>Balance at 1 January</b>	<b>-15</b>	-13
Translation differences	0	0
Utilization	1	2
Reversal	1	1
Creation	-5	-5
<b>Balance at 31 December</b>	<b>-18</b>	-15

**6. Expenses**

**a. Other operating expenses**

(CHF million)	2019	2018
Marketing, sales and administration	-1 245	-1 358
Subcontracting and other direct costs of sales	-284	-315
Maintenance, rents and energy	-1 096	-1 080
Other operating expenses	-55	-97
<b>Total other operating expenses</b>	<b>-2 680</b>	-2 850

**b. Research and development costs**

Costs for research and development activities amounted to CHF 251 million in the year under review, representing 3.0% of net sales (previous year: CHF 225 million or 2.7% of net sales).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

### 7. 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.

(CHF million)	31.12.2019	31.12.2018
Raw materials, auxiliary material and supplies	519	666
Goods in progress	446	534
Semi-finished goods	1 910	1 896
Finished goods	3 625	3 476
Spare parts for customer service	352	345
<b>Total inventories</b>	<b>6 852</b>	<b>6 917</b>

Inventories with risk of obsolescence have been adjusted to their net realizable value as follows:

(CHF million)	2019	2018
Additional write-downs	-44	-48
Reversal of write-downs	3	3
<b>Net impact in the income statement</b>	<b>-41</b>	<b>-45</b>

### 8. 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

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.

#### Impairment

The recoverable value and the remaining useful life of non-current assets are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

(CHF million)	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
<b>Historical cost, 31 December 2018</b>	<b>2 456</b>	<b>4 109</b>	<b>757</b>	<b>198</b>	<b>7 520</b>
Translation differences	-8	-9	-7	0	-24
Additions	65	214	104	26	409
Disposals	-24	-87	-50	0	-161
Transfers	161	-3	11	-169	0
<b>Historical cost, 31 December 2019</b>	<b>2 650</b>	<b>4 224</b>	<b>815</b>	<b>55</b>	<b>7 744</b>
<b>Accumulated depreciation, 31 December 2018</b>	<b>-873</b>	<b>-2 930</b>	<b>-472</b>	<b>0</b>	<b>-4 275</b>
Translation differences	2	5	5	0	12
Annual depreciation	-75	-258	-105	0	-438
Impairment	0	1	0	0	1
Depreciation on disposals	15	83	47	0	145
Transfers	0	0	0	0	0
<b>Accumulated depreciation, 31 December 2019</b>	<b>-931</b>	<b>-3 099</b>	<b>-525</b>	<b>0</b>	<b>-4 555</b>
<b>Net book values</b>					
Balance at 31 December 2018	1 583	1 179	285	198	3 245
<b>Balance at 31 December 2019</b>	<b>1 719</b>	<b>1 125</b>	<b>290</b>	<b>55</b>	<b>3 189</b>
<i>of which investment properties at 31.12.2019</i>	<i>435</i>				
<i>of which undeveloped properties at 31.12.2019</i>	<i>30</i>				

(CHF million)	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
<b>Historical cost, 31 December 2017</b>	<b>2 390</b>	<b>4 006</b>	<b>712</b>	<b>180</b>	<b>7 288</b>
Translation differences	0	-16	-13	0	-29
Additions	45	244	98	45	432
Disposals	-4	-128	-39	0	-171
Transfers	25	3	-1	-27	0
<b>Historical cost, 31 December 2018</b>	<b>2 456</b>	<b>4 109</b>	<b>757</b>	<b>198</b>	<b>7 520</b>
<b>Accumulated depreciation, 31 December 2017</b>	<b>-806</b>	<b>-2 790</b>	<b>-411</b>	<b>0</b>	<b>-4 007</b>
Translation differences	0	10	7	0	17
Annual depreciation	-70	-265	-103	0	-438
Impairment	0	-8	-5	0	-13
Depreciation on disposals	3	126	37	0	166
Transfers	0	-3	3	0	0
<b>Accumulated depreciation, 31 December 2018</b>	<b>-873</b>	<b>-2 930</b>	<b>-472</b>	<b>0</b>	<b>-4 275</b>
<b>Net book values</b>					
Balance at 31 December 2017	1 584	1 216	301	180	3 281
<b>Balance at 31 December 2018</b>	<b>1 583</b>	<b>1 179</b>	<b>285</b>	<b>198</b>	<b>3 245</b>
<i>of which investment properties at 31.12.2018</i>	<i>435</i>				
<i>of which undeveloped properties at 31.12.2018</i>	<i>27</i>				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

## 9. Intangible assets

### 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).

### 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 26).
- Patents and rights of use
- Development and software projects in progress. These are transferred into their respective categories after project completion.

### Goodwill

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 33).

### Impairment

The principle for recognition of impairment on non-current assets is described in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**IMPORTANT OPERATING POSITIONS**

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
<b>Historical cost, 31 December 2018</b>	<b>179</b>	<b>189</b>	<b>106</b>	<b>474</b>
Translation differences	0	-1	-2	-3
Additions	6	14	28	48
Disposals	-1	-2	0	-3
Transfers	5	8	-13	0
<b>Historical cost, 31 December 2019</b>	<b>189</b>	<b>208</b>	<b>119</b>	<b>516</b>
<b>Accumulated amortization, 31 December 2018</b>	<b>-134</b>	<b>-148</b>	<b>-46</b>	<b>-328</b>
Translation differences	0	1	1	2
Annual amortization	-20	-20	-3	-43
Impairment	0	0	0	0
Amortization on disposals	1	2	0	3
Transfers	0	-6	6	0
<b>Accumulated amortization, 31 December 2019</b>	<b>-153</b>	<b>-171</b>	<b>-42</b>	<b>-366</b>
<b>Net book values</b>				
Balance at 31 December 2018	45	41	60	146
<b>Balance at 31 December 2019</b>	<b>36</b>	<b>37</b>	<b>77</b>	<b>150</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### IMPORTANT OPERATING POSITIONS

#### 10. 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.

(CHF million)	Warranty	Legal risks	Dismantling	Other	Total
<b>Balance at 31 December 2017</b>	<b>110</b>	<b>8</b>	<b>27</b>	<b>17</b>	<b>162</b>
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
<b>Balance at 31 December 2018</b>	<b>93</b>	<b>8</b>	<b>30</b>	<b>16</b>	<b>147</b>
<i>thereof current provisions</i>	<i>74</i>	<i>3</i>	<i>4</i>	<i>13</i>	<i>94</i>
<i>thereof non-current provisions</i>	<i>19</i>	<i>5</i>	<i>26</i>	<i>3</i>	<i>53</i>
Translation differences	-1	0	0	0	-1
Additional provisions	82	1	1	7	91
Reversal of provisions	-5	0	-1	-7	-13
Provisions used during the year	-78	-1	-2	-2	-83
<b>Balance at 31 December 2019</b>	<b>91</b>	<b>8</b>	<b>28</b>	<b>14</b>	<b>141</b>
<i>thereof current provisions</i>	<i>70</i>	<i>3</i>	<i>3</i>	<i>8</i>	<i>84</i>
<i>thereof non-current provisions</i>	<i>21</i>	<i>5</i>	<i>25</i>	<i>6</i>	<i>57</i>

##### 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

Various 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. This category contains also restructuring provisions in the amount of CHF 2 million (previous year: CHF 2 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### PERSONNEL

#### 11. Personnel expense

(CHF million)	2019	2018
Wages and salaries	-2 080	-2 066
Social security costs	-353	-354
Employee stock option plan (Note 13)	-12	-16
Pension costs (Note 12)	-133	-127
<b>Total personnel expense</b>	<b>-2 578</b>	<b>-2 563</b>

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

(unaudited)	2019	2018
<b>Average annual headcount</b>	<b>36 596</b>	36 074
<b>Total headcount at 31 December</b>	<b>36 089</b>	37 123
<i>Men</i>	<i>17 654</i>	17 904
<i>Women</i>	<i>18 435</i>	19 219
<i>Swiss contracts</i>	<i>17 562</i>	18 055
<i>Non-Swiss contracts</i>	<i>18 527</i>	19 068

Headcount is expressed as the number of employment contracts. The number of employees includes home workers, trainees and auxiliary staff.

#### 12. Retirement benefit obligations

##### 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  
**PERSONNEL**

**a. Economic benefit / obligation and pension costs**

2019	Surplus / deficit	Group's economic share	Change from previous year		Contributions concerning the business period	Total pension costs
			no income statement impact 1)	income statement impact		
(CHF million)						
Patronage funds / patronage pension plans	399	0	0	0	12	12
Pension plans without surplus / deficit	0	0	0	0	-7	-7
Pension plans with surplus	0	0	0	0	-2	-2
Pension plans with deficit	-307	-2	2	-2	-126	-128
Pension plans without own assets	0	-44	5	-8	0	-8
<b>Total</b>	<b>92</b>	<b>-46</b>	<b>7</b>	<b>-10</b>	<b>-123</b>	<b>-133</b>

  

2018	Surplus / deficit	Group's economic share	Change from previous year		Contributions concerning the business period	Total pension costs
			no income statement impact 1)	income statement impact		
(CHF million)						
Patronage funds / patronage pension plans	383	0	0	0	8	8
Pension plans without surplus / deficit	0	0	0	0	-8	-8
Pension plans with surplus	0	0	0	0	-2	-2
Pension plans with deficit	-372	-2	1	0	-119	-119
Pension plans without own assets	0	-41	5	-6	0	-6
<b>Total</b>	<b>11</b>	<b>-43</b>	<b>6</b>	<b>-6</b>	<b>-121</b>	<b>-127</b>

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

**b. Summary of pension costs**

	2019			2018		
	Switzerland	Abroad	Total	Switzerland	Abroad	Total
(CHF million)						
Contributions to pension plans charged to Group companies	-109	-14	-123	-102	-14	-116
Contributions to pension plans paid from employer contributions reserve	0	0	0	0	0	0
<b>Total contributions</b>	<b>-109</b>	<b>-14</b>	<b>-123</b>	<b>-102</b>	<b>-14</b>	<b>-116</b>
Change of employer contributions reserve from evolution of fortune, impairments, discounting, etc.	0	0	0	-5	0	-5
<b>Contributions and change in employer contributions reserve</b>	<b>-109</b>	<b>-14</b>	<b>-123</b>	<b>-107</b>	<b>-14</b>	<b>-121</b>
Increase / decrease of Group's economic benefits from surpluses	0	0	0	0	0	0
Decrease / increase of economic obligations from deficits	0	-10	-10	0	-6	-6
<b>Total changes of economic effects from surpluses / deficits</b>	<b>0</b>	<b>-10</b>	<b>-10</b>	<b>0</b>	<b>-6</b>	<b>-6</b>
<b>Total pension costs</b>	<b>-109</b>	<b>-24</b>	<b>-133</b>	<b>-107</b>	<b>-20</b>	<b>-127</b>

**c. Shares held by pension institutions**

	31.12.2019	31.12.2018
<b>Number of shares of The Swatch Group Ltd</b>		
Registered shares	3 703 796	3 693 987
Bearer shares	12 165	11 165

**d. Employer contributions reserve**

At the end of the year under review, and at the end of the previous year, there was no employer contributions reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**PERSONNEL**

**13. 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. 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.

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 (day 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 were issued for the employee stock option plan. The proceeds received are recognized in Group equity when the options are exercised.

The dilutive effect of outstanding options on earnings per registered share is disclosed in Note 15b.

	2019	2018
<b>Balance of registered shares in the employee stock option plan</b>		
Balance at 1 January	2 954 449	449 319
Transfer from treasury shares	0	2 715 000
Exercised shares	-212 114	-209 870
<b>Balance at 31 December</b>	<b>2 742 335</b>	<b>2 954 449</b>

	2019	2018
<b>Options outstanding</b>		
Options outstanding at 1 January	212 327	207 287
Granted	201 503	215 296
Forfeited or lapsed	-1 510	-386
Exercised	-212 114	-209 870
<b>Options outstanding at 31 December</b>	<b>200 206</b>	<b>212 327</b>

	31.12.2019	31.12.2018
<b>Expiry date of outstanding options</b>		
2019		140 519
2020	132 958	71 808
2021	67 248	
<b>Total</b>	<b>200 206</b>	<b>212 327</b>

The personnel expense recorded in the income statement of the year under review amounted to CHF 12 million (previous year: CHF 16 million).

	2019		2018	
	Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
<b>Valuation of options</b>				
Grant date	31.05.2019	31.05.2019	31.05.2018	31.05.2018
Expiry date	31.05.2020	31.05.2021	31.05.2019	31.05.2020
Share price on grant date	CHF 48.36	CHF 48.36	87.55	87.55
Exercise price	CHF 4.00	CHF 4.00	4.00	4.00
Day value on grant date	CHF 44.36	CHF 44.36	83.55	83.55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CAPITAL AND TREASURY**

#### 14. Share capital and reserves

Shares issued by The Swatch Group Ltd 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.

Treasury shares that are reacquired are deducted from equity at historical cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of treasury shares. 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.

##### 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
	at CHF 0.45		at CHF 2.25		
31.12.2017	124 045 000		30 840 000		125 210 250.00
31.12.2018	124 045 000		30 840 000		125 210 250.00
Cancelled shares	-7 125 500		-1 904 000		-7 490 475.00
<b>31.12.2019</b>	<b>116 919 500</b>		<b>28 936 000</b>		<b>117 719 775.00</b>

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, were cancelled.

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.

##### 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 219 million (previous year: CHF 1 276 million). This amount consisted of CHF 195 million related to treasury shares held (previous year: CHF 1 251 million) and non-distributable legal reserves of CHF 24 million (previous year: CHF 25 million).

##### d. Treasury shares

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

	Registered shares		Bearer shares		Total CHF million
	Quantity	CHF million	Quantity	CHF million	
<b>Balance at 31 December 2017</b>	<b>7 766 415</b>	<b>441</b>	<b>1 389 650</b>	<b>422</b>	<b>863</b>
Acquisitions 1)	2 653 800	192	522 900	196	388
Disposals 2)	-218 618	0	0	0	0
<b>Balance at 31 December 2018</b>	<b>10 201 597</b>	<b>633</b>	<b>1 912 550</b>	<b>618</b>	<b>1 251</b>
Acquisitions 1)	314 433	18	56 450	17	35
Disposals 2)	-212 114	0	0	0	0
Cancellations 3)	-7 125 500	-478	-1 904 000	-613	-1 091
<b>Balance at 31 December 2019</b>	<b>3 178 416</b>	<b>173</b>	<b>65 000</b>	<b>22</b>	<b>195</b>

1) In the year under review, the Group acquired 314 433 registered shares (previous year: 2 653 800) at an average price of CHF 58.55 (previous year: CHF 72.22). In addition 56 450 bearer shares (previous year: 522 900) at an average price of CHF 295.67 (previous year: CHF 376.02) were acquired.

2) In the year under review, disposals of 212 114 registered shares (previous year: 209 870) relate to the employee stock option plan (see Note 13). In the previous year, 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 (year under review: none). Details of the transaction are disclosed in Note 31.

3) The cancellations are related to a capital reduction in accordance with the resolution passed at the Annual General Meeting of 23 May 2019.

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**CAPITAL AND TREASURY**

#### 15. Earnings per share

##### a. Basic

	2019	2018
<b>Net income attributable to shareholders of The Swatch Group Ltd (CHF million)</b>	<b>730</b>	845
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.0%	44.1%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	56.0%	55.9%

##### Registered shares

	2019	2018
Net income attributable to registered shareholders (CHF million)	322	373
Average number of shares outstanding	113 428 394	115 449 571
<b>Basic earnings per share (CHF)</b>	<b>2.84</b>	3.23

##### Bearer shares

	2019	2018
Net income attributable to bearer shareholders (CHF million)	408	472
Average number of shares outstanding	28 814 317	29 268 442
<b>Basic earnings per share (CHF)</b>	<b>14.18</b>	16.14

##### b. Diluted

##### Registered shares

	2019	2018
Net income attributable to registered shareholders (CHF million)	322	373
Average number of shares outstanding – basic (as above)	113 428 394	115 449 571
Potential number of shares from options outstanding	185 285	201 235
Average potential number of shares outstanding – diluted	113 613 679	115 650 805
<b>Diluted earnings per share (CHF)</b>	<b>2.83</b>	3.23

##### Bearer shares

	2019	2018
Net income attributable to bearer shareholders (CHF million)	408	472
Average potential number of shares outstanding	28 814 317	29 268 442
<b>Diluted earnings per share (CHF)</b>	<b>14.17</b>	16.13

#### 16. Dividends paid and proposed

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.

On 23 May 2019, the Annual General Meeting approved the distribution of the following dividend:

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

At the Annual General Meeting on 14 May 2020, the payment of the following dividend for the year under review will be proposed and treated as an appropriation of available earnings during the financial year 2020:

	Dividend per share CHF	Total dividend CHF million
<b>Proposed dividend</b>		
Registered shares	1.60	187
Bearer shares	8.00	231
<b>Total dividend</b>		<b>418</b>

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## 17. 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.

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. 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. 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)	31.12.2019	31.12.2018
Cash and cash equivalents (Note 19)	1 239	944
Marketable securities and derivative financial instruments (Note 20)	230	296
<b>Short-term accessible liquidity reserves</b>	<b>1 469</b>	1 240
Committed credit facilities	809	824
/ Utilized credit facilities	-118	-222
<b>Total short-term accessible liquidity reserves and undrawn credit facilities</b>	<b>2 160</b>	1 842

### 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. 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  
**CAPITAL AND TREASURY**

## 18. Net financial result

(CHF million)	2019	2018
Interest income	21	14
Result from marketable securities at fair value	19	-4
Net currency result	-39	-25
Other financial expense	-4	-4
<b>Other financial income and expense</b>	<b>-3</b>	-19
<b>Interest expense</b>	<b>-8</b>	-5
<b>Share of result from associates and joint ventures</b>	<b>-9</b>	2
<b>Net financial result</b>	<b>-20</b>	-22

## 19. 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. 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. In the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, less current account overdrafts (funds "net cash").

(CHF million)	31.12.2019	31.12.2018
Current accounts and liquid assets	929	799
Short-term deposits with financial institutions	310	145
<b>Total cash and cash equivalents - balance sheet</b>	<b>1 239</b>	944

(CHF million)	31.12.2019	31.12.2018
Cash and cash equivalents	1 239	944
Current account overdrafts (Note 21)	-91	-42
<b>Total funds net cash - statement of cash flows</b>	<b>1 148</b>	902

## 20. Marketable securities and derivative financial instruments

### 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. In general, issuer risk is minimized by only buying securities which are investment grade rated.

### Derivative financial instruments

The Group did not designate derivative financial instruments as cash flows hedges, either in the year under review or in the previous year. All such instruments are booked at fair value. Fair value changes are recognized immediately in the financial result. 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.

(CHF million)	31.12.2019	31.12.2018
Equity securities	32	57
Bond securities	183	224
Investment funds and other investments	9	10
<b>Total marketable securities at fair value</b>	<b>224</b>	291
<b>Derivative financial instruments</b>	<b>6</b>	5
<b>Total marketable securities and derivative financial instruments</b>	<b>230</b>	296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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At the end of the year under review, there was no option contract outstanding (none in the previous year). The table below gives an overview of the contract values and fair values of open forward contracts.

(CHF million)	31.12.2019			31.12.2018		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
<b>Forward contracts in</b>						
EUR	350	1	0	431	1	0
GBP	76	0	0	80	0	-1
USD	437	5	0	1 063	3	0
Other currencies	126	0	0	104	1	0
<b>Total</b>	<b>989</b>	<b>6</b>	<b>0</b>	<b>1 678</b>	<b>5</b>	<b>-1</b>

## 21. Financial debts and derivative financial instruments

### Financial debts

Financial debts are recognized as nominal values. Any transaction costs incurred are posted 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. The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates.

### Derivative financial instruments

The accounting principles for derivative financial instruments are explained in Note 20.

(CHF million)	31.12.2019	31.12.2018
Current account overdrafts	91	42
Short-term bank debts	10	160
Derivative financial instruments	0	1
<b>Total current financial debts and derivative financial instruments</b>	<b>101</b>	<b>203</b>
<b>Total non-current financial debts</b>	<b>20</b>	<b>22</b>
<b>Total financial debts</b>	<b>121</b>	<b>225</b>

The contractual repricing dates at the balance sheet date are as follows:

(CHF million)	< 1 year	1-5 years	> 5 years	Total
<b>At 31 December 2019</b>	<b>101</b>	<b>18</b>	<b>2</b>	<b>121</b>
At 31 December 2018	203	20	2	225

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

(CHF million)	31.12.2019	31.12.2018
CHF	94	43
JPY	20	25
USD	0	148
Other currencies	7	9
<b>Total</b>	<b>121</b>	<b>225</b>

At the end of the year under review, no short term bank loans in USD were open (previous year: USD 150 million or CHF 148 million at 2.9 %). The long-term financial debts at the end of the year under review included a mortgage of JPY 1 750 million or CHF 16 million (previous year: JPY 2 250 million or CHF 20 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.

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## 22. Other current assets

(CHF million)	31.12.2019	31.12.2018
VAT to be refunded	86	117
Other receivables	46	42
<b>Total other current assets</b>	<b>132</b>	<b>159</b>

## 23. Prepayments and accrued income

(CHF million)	31.12.2019	31.12.2018
Prepaid sales, marketing and administration costs	102	68
Income tax assets	18	23
Prepaid leasing costs	32	49
Other prepayments and accrued income	112	109
<b>Total prepayments and accrued income</b>	<b>264</b>	<b>249</b>

## 24. Other liabilities

(CHF million)	31.12.2019	31.12.2018
Advance payments received	53	39
Income tax liabilities	10	9
VAT liabilities	37	71
Other tax liabilities	11	26
Social benefits liabilities	36	39
Other liabilities	38	38
<b>Total other liabilities</b>	<b>185</b>	<b>222</b>

## 25. Accrued expenses

(CHF million)	31.12.2019	31.12.2018
Accrued salaries and social benefits	168	177
Accrued sales, marketing and administration costs	160	162
Accrued income taxes	144	113
Accrued sales reductions	74	73
Accrued leasing costs	183	175
Other accrued expenses	118	99
<b>Total accrued expenses</b>	<b>847</b>	<b>799</b>
<i>thereof current</i>	<i>678</i>	<i>637</i>
<i>thereof non-current</i>	<i>169</i>	<i>162</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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## 26. Other non-current assets

### Non-current accruals

This position contains the non-current portion of prepayments and accrued income, particularly prepaid marketing and leasing cost. Key money paid when renting stores in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain, and booked to rent expense on a straight-line basis over the contract period. The current portion is transferred to Prepayments and accrued income.

	Non-current accruals	Security deposits	Other financial assets	Total
(CHF million)				
<b>Balance at 31 December 2018</b>	<b>32</b>	<b>96</b>	<b>208</b>	<b>336</b>
Translation differences	-1	-1	-2	-4
Additions	4	11	4	19
Disposals	0	-6	-1	-7
Balance sheet transfer	0	-7	-12	-19
<b>Balance at 31 December 2019</b>	<b>35</b>	<b>93</b>	<b>197</b>	<b>325</b>

	Non-current accruals	Security deposits	Other financial assets	Total
(CHF million)				
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

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## 27. 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.

### a. Income tax expenses

(CHF million)	2019	2018
Current income taxes	-290	-266
Income tax of prior periods	6	-5
Deferred taxes	28	5
<b>Total income taxes</b>	<b>-256</b>	<b>-266</b>

### 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.

	2019	2018
Group's average expected tax rate	24.4%	22.3%
Effect of:		
- Tax rate changes on deferred taxes	-2.1%	-0.2%
- Recognition and offset of tax loss carry-forwards not recognized in prior years	-0.4%	-0.3%
- Non-recognition of tax loss carry-forwards	3.8%	1.0%
- Non-taxable income	-0.2%	-0.4%
- Non-tax-deductible expenses	0.8%	0.6%
- Items taxable at reduced rates	-0.1%	-0.1%
- Income tax of prior periods	-0.6%	0.4%
- Other items	-0.1%	0.2%
<b>Group's effective tax rate</b>	<b>25.5%</b>	<b>23.5%</b>

The effective tax rate based on the ordinary result in the year under review was 25.5 % (previous year: 23.5 %).

Legislative amendments in the home cantons of the Group resulting from Swiss tax reforms will have an immaterial positive impact on the Group tax rate. However, this will mainly affect current taxes as of 2020.



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c. Current income tax

Net current income tax liability (CHF million)	2019	2018
<b>Balance at 1 January</b>	<b>-99</b>	-113
Recognized in income statement	-284	-271
Recognized in equity	-1	0
Income taxes paid	246	283
Translation differences	2	2
<b>Balance at 31 December</b>	<b>-136</b>	-99
Current income tax assets	18	23
Current income tax liabilities	-154	-122

d. Deferred tax

The deferred tax assets and liabilities relate to the following balance sheet items:

(CHF million)	31.12.2019			31.12.2018		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	310	-337	-27	293	-341	-48
Trade and other receivables	2	-14	-12	2	-15	-13
Property, plant and equipment	18	-122	-104	16	-135	-119
Intangible assets	9	-7	2	11	-7	4
Provisions	15	-42	-27	15	-49	-34
Retirement benefit obligations	6	0	6	6	0	6
Accrued expenses	69	-34	35	63	-36	27
Tax losses	16	0	16	25	0	25
Other	10	-17	-7	15	-4	11
<b>Total deferred tax assets / liabilities</b>	<b>455</b>	<b>-573</b>	<b>-118</b>	446	-587	-141
Deferred tax assets			428			417
Deferred tax liabilities			-546			-558

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)	2019			2018		
	Not recognized	Recognized	Total	Not recognized	Recognized	Total
Up to five years	192	15	207	75	25	100
More than five years	207	32	239	183	61	244
No expiry date	118	22	140	147	25	172
<b>Total at 31 December</b>	<b>517</b>	<b>69</b>	<b>586</b>	405	111	516

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 113 million in the year under review (previous year: CHF 97 million).

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28. Commitments and contingencies

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.

Finance leases

A finance lease is where the lessor transfers to the lessee the significant 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 exceptionally. 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).

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 32 million (previous year: CHF 37 million).

Total assets pledged by Group companies to guarantee their commitments amounted to CHF 128 million at the end of the year under review (previous year: CHF 132 million), of which CHF 22 million served to secure financial debts (previous year: CHF 25 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)	31.12.2019	31.12.2018
Less than 1 year	460	465
Between 1 and 5 years	1 243	1 284
Over 5 years	861	1 048
<b>Total</b>	<b>2 564</b>	2 797

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 695 million were recognized in the income statement of the year under review, compared to CHF 683 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 720 million (previous year: CHF 749 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 10b).

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.

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## 29. 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 61 721 546 registered shares and 12 855 bearer shares, equivalent to 42.3% of all voting rights (previous year: 39.8%) 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 41.8% of all voting rights (previous year: 39.3%).

### 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. Total compensation for key management personnel was as follows:

(CHF million)	2019	2018
Short-term employee benefits	23.8	24.7
– of which in salaries	7.9	8.0
– of which in bonus	15.4	16.2
– of which in expense allowances	0.5	0.5
– of which in other benefits	0.0	0.0
Share-based compensation	6.3	12.8
Contributions to pension plans	0.6	1.2
Other social benefits	2.5	4.0
<b>Total</b>	<b>33.2</b>	<b>42.7</b>

In the year under review and in the previous year, no termination benefits were paid to members of the Board of Directors, the Management Board or the Extended Management Board. The employment contracts of members of management bodies do not provide for this type of benefit. In the year under review and in the previous year, no payments were made to former members of the Group's governing bodies for their past functions.

### 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 56 920 490 registered shares and 770 bearer shares, representing 39.0% of all voting rights (previous year: 36.7%). 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% of all voting rights (previous year: 0%).

### d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swiss Pension Fund of the Swatch Group for the construction or acquisition of property in Switzerland. The conditions for these mortgage loans are set by the Foundation Board of the Swiss Pension Fund of the Swatch Group. These conditions are applied in the same manner to all Swatch Group 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 following table summarizes transactions, receivables and payables with associated companies, joint ventures (see Note 35b) and other related parties. Consulting services invoiced by the Hayek Group are recognized in Other related parties. At the end of the year under review and the previous year, there were no other balances outstanding with other related parties.

(CHF million)	2019		2018	
	Associates and joint ventures	Other related parties	Associates and joint ventures	Other related parties
Purchases	76	10	68	8
Sales	38	0	46	0
Receivables	2	0	4	0
Payables	3	1	4	0
Guarantees received	0	0	0	0
Loans granted	7	0	9	0
Interest rate on loans granted	4.2%	0	4.5%	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
CONSOLIDATION AND GROUP STRUCTURE

## 30. Consolidation

### 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 until 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 acquisitions is recognized in Group equity at acquisition date. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the acquired goodwill would have (see Note 33). 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 the voting rights on share capital of an entity. 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.

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATION AND GROUP STRUCTURE

#### a. Consolidated companies

	2019	2018
Number of companies at 1 January	158	162
Group internal mergers	-3	-3
Liquidations	-2	-1
<b>Number of companies at 31 December</b>	<b>153</b>	<b>158</b>
<i>of which associates</i>	5	5
<i>of which joint ventures</i>	2	2

#### b. Exchange rates

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2019	31.12.2019	2018	31.12.2018
CNY	1	0.1443	0.1392	0.1478	0.1435
EUR	1	1.1134	1.0880	1.1540	1.1285
HKD	1	0.1271	0.1245	0.1250	0.1261
JPY	100	0.9133	0.8925	0.8892	0.8985
USD	1	0.9955	0.9700	0.9799	0.9875

### 31. 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 August 2019, the Swatch Group acquired the remaining 40% of shares of Termiboîtes S.A., a watch case polishing company. The Swatch Group already had control over the company. The transaction amounted to CHF 1 million. The difference between the purchase price and the proportional equity of the company amounted to CHF 1 million and was recorded in the capital reserves.

In the previous year, 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 ASI Centrum 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.

### 32. Discontinued operations

Swatch Group announced on 22 October 2019 with a press release that the licensing agreement with Calvin Klein will end at its date of expiration (in the near future) after more than 22 years of exclusive licensing collaboration. This operation, organized as Profit Center, with its representations in the worldwide distribution network of the Swatch Group subsidiaries, realized the following key figures:

(CHF million)	2019	2018
Net sales	117	173
Operating result	-33	-12

The net sales were realized mainly in Asia (over 50%) and Europe (over 30%).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATION AND GROUP STRUCTURE

### 33. Acquired 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. 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 translated into CHF with the exchange rate applicable on the respective transaction date, and is recognized directly in Group equity. As a result, no currency adjustments are necessary in the statement of changes in goodwill. The estimated useful life of goodwill is between 5 and 10 years.

A goodwill impairment test is carried out at every balance sheet date. A goodwill impairment would not result in a charge being recorded in the income statement, but would lead 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.

#### a. Theoretical statement of changes in goodwill

The theoretical capitalization of goodwill would have the following impact on the consolidated balance sheet:

(CHF million)	2019			2018		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
<b>Historical cost 1 January</b>	<b>1 389</b>	<b>48</b>	<b>1 437</b>	1 389	48	1 437
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
<b>Historical cost 31 December</b>	<b>1 389</b>	<b>48</b>	<b>1 437</b>	1 389	48	1 437
<b>Theoretical accumulated amortization 1 January</b>	<b>-980</b>	<b>-42</b>	<b>-1 022</b>	-875	-39	-914
Theoretical annual amortization	-102	-3	-105	-105	-3	-108
Theoretical impairment	0	0	0	0	0	0
Theoretical amortization on disposals	0	0	0	0	0	0
<b>Theoretical accumulated amortization 31 December</b>	<b>-1 082</b>	<b>-45</b>	<b>-1 127</b>	-980	-42	-1 022
<b>Theoretical net book value 31 December</b>	<b>307</b>	<b>3</b>	<b>310</b>	409	6	415

#### b. Theoretical impact on equity and net income

Had goodwill been capitalized and amortized, the theoretical effect on equity and net income would have been as follows:

(CHF million)	31.12.2019	31.12.2018
Equity per balance sheet	11 493	11 274
Theoretical capitalization of net book value of goodwill	310	415
<b>Theoretical equity including net book value of goodwill</b>	<b>11 803</b>	<b>11 689</b>

(CHF million)	2019	2018
Net income per income statement	748	867
Theoretical amortization of goodwill	-105	-108
<b>Theoretical net income after goodwill amortization</b>	<b>643</b>	<b>759</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATION AND GROUP STRUCTURE**

### 34. Investments in associates and joint ventures

All associates and joint ventures (see Note 35b) are recognized using the equity method.

(CHF million)	2019	2018
<b>Balance at 1 January</b>	<b>59</b>	57
Share of result from associates and joint ventures	-9	2
Dividends received	-4	0
Investments	0	0
Translation differences	-1	0
<b>Balance at 31 December</b>	<b>45</b>	59

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATION AND GROUP STRUCTURE**

### 35. The Swatch Group Companies

As at 31.12.2019

#### a. Fully consolidated

Company name, Registered offices	Field of Activity	Capital in millions	Group participation
<b>EUROPE</b>			
<b>Switzerland</b>			
The Swatch Group AG, Neuchâtel	Holding	CHF 117.72	
Assemti SA, Locarno	Assembly	CHF 0.10	100%
Belenos Clean Power Engineering AG, Biel/Bienne	Research and development	CHF 0.25	60%
Belenos Clean Power Holding AG, Biel/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%
CHH Microtechnique SA, Le Chenit	Watch components	CHF 0.10	100%
Cité du Temps SA, Biel/Bienne	Communication	CHF 6.00	100%
CK Watch & Jewelry Co., Ltd., Biel/Bienne	Watches	CHF 5.00	90%
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100%
Compagnie des Montres Longines, Francillon S.A., Saint-Imier	Watches	CHF 10.00	100%
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100%
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100%
Distico SA, Biel/Bienne	Distribution	CHF 3.00	100%
Dress your body AG, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100%
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100%
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100%
Evaco AG, Möhlin	Watches	CHF 0.50	58%
Hamilton International AG, Biel/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 S.A., 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 S.A., Le Locle	Watch components and thin wires	CHF 4.00	100%
Novi SA, Les Genevez	Assembly	CHF 0.14	100%
Omega SA, Biel/Bienne	Watches	CHF 50.00	100%
Rado Uhren AG, Lengnau BE	Watches	CHF 2.00	100%
Record Watch Co. SA, Saint-Imier	Administration	CHF 0.10	100%
Renata AG, Itingen	Miniature batteries	CHF 0.50	100%
Rubattel et Weyerermann S.A., La Chaux-de-Fonds	Watch dials	CHF 0.15	100%
Simon et Membrez S.A., Delémont	Watch cases	CHF 0.10	100%
SSIH Management Services AG, Biel/Bienne	Services	CHF 0.05	100%
Swatch AG, Biel/Bienne	Watches	CHF 2.00	100%
Swatch Retail AG, Biel/Bienne	Retail	CHF 2.00	100%
Swiss Timing LTD, Corgémont	Sports timing technology & equipment	CHF 2.00	100%
Technocorp Holding S.A., Le Locle	Holding	CHF 6.00	100%
Termiboîtes S.A., Basse-Allaine	Watch case polishing	CHF 0.10	100%
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100%
The Swatch Group Europa AG, Biel/Bienne	Distribution	CHF 29.65	100%
The Swatch Group Export SA, Neuchâtel	Distribution	CHF 1.00	100%
The Swatch Group Far East Distribution Ltd, Biel/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 AG, Biel/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 AG, Biel/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 S.A., La Chaux-de-Fonds	Watch hands	CHF 0.67	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATION AND GROUP STRUCTURE**

Company name, Registered offices	Field of Activity	Capital in millions	Group participation
<b>Belgium</b>			
The Swatch Group (Belgium) SA/NV, Anderlecht	Distribution	EUR 1.75	100%
RETAIL SERVICES BELGIUM SA, Bruxelles	Services	EUR 2.09	100%
<b>Germany</b>			
Förderungsgesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR 0.03	100%
Glashütter Uhrenbetrieb GmbH-Glashütte/Sa., 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/Sa., Glashütte	Watches	EUR 0.10	100%
<b>France</b>			
BREGUET SAS, Paris	Administration	EUR 0.04	100%
FABRIQUE DE FOURNITURE DE BONNETAGE-F.F.B.-SAS, Villers-le-Lac	Precision parts	EUR 4.56	100%
Frésard Composants SAS, Charquemont	Precision parts	EUR 1.80	100%
Harry Winston SAS, Paris	Retail	EUR 10.09	100%
HOOR PASSION SAS, Paris	Retail	EUR 10.00	100%
The Swatch Group (France) SAS, Paris	Distribution	EUR 15.00	100%
<b>Greece</b>			
The Swatch Group (Greece) S.A., Athens	Distribution	EUR 0.32	100%
<b>Great Britain</b>			
Harry Winston (UK) Limited, London	Retail	GBP 0.00	100%
The Swatch Group (UK) Limited, London	Distribution	GBP 2.00	100%
<b>Italy</b>			
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%
<b>Luxembourg</b>			
The Swatch Group Financial Services (Luxembourg) S.A., Alzingen	Finance company	EUR 5.00	100%
The Swatch Group RE (Luxembourg) S.A., Alzingen	Reinsurance	EUR 1.80	100%
The Swatch Group SICAF-SIF, Alzingen	Finance company	CHF 463.41	100%
<b>Monaco</b>			
The Swatch Group (Monaco) Les Boutiques S.A.M.	Distribution	EUR 2.00	100%
<b>Netherlands</b>			
The Swatch Group (Netherlands) B.V., Eindhoven	Distribution	EUR 3.45	100%
<b>Austria</b>			
The Swatch Group (Österreich) GmbH, Wien	Distribution	EUR 0.04	100%
<b>Poland</b>			
The Swatch Group (Polska) Sp.z o.o., Warszawa	Distribution	PLN 10.00	100%
<b>Russia</b>			
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB 8 544.12	100%
<b>Sweden</b>			
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK 0.50	100%
<b>Spain</b>			
THE SWATCH GROUP ESPAÑA SA, Alcobendas	Distribution	EUR 0.45	100%
<b>Czech Republic</b>			
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%
<b>Turkey</b>			
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY 251.00	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATION AND GROUP STRUCTURE**

Company name, Registered offices	Field of Activity	Capital in millions	Group participation
<b>ASIA</b>			
<b>Bahrain</b>			
Hour Choice W.L.L., Manama	Retail	BHD 0.02	58%
<b>Greater China</b>			
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY 78.96	100%
Harry Winston (Hong Kong) Limited, Hong Kong SAR	Retail	HKD 0.01	100%
Lanco Watches Limited, Hong Kong SAR	Administration	USD 0.95	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 Ruijing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100%
Shanghai Ruiwan 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) Limited, Hong Kong SAR	Distribution	HKD 5.00	100%
<b>India</b>			
Swatch Group (India) Private Limited, New Delhi	Distribution	INR 5 368.89	100%
Swatch Group (India) Retail Private Limited, New Delhi	Retail	INR 180.10	100%
<b>Indonesia</b>			
PT Swatch Group Indonesia, Jakarta	Distribution	IDR 189 295.90	100%
<b>Japan</b>			
Harry Winston Japan K.K., Tokyo	Retail	JPY 10.00	100%
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 100.00	100%
<b>Qatar</b>			
Hour Choice W.L.L., Doha	Retail	QAR 0.20	29%
Rivoli Enterprises W.L.L., Doha	Retail	QAR 0.20	29%
Rivoli Watches W.L.L., Doha	Retail	QAR 0.40	29%
<b>Malaysia</b>			
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%
<b>Oman</b>			
RIVOLI & CO LLC, Muscat	Retail	OMR 0.30	58%
<b>Singapore</b>			
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%
<b>South Korea</b>			
The Swatch Group (Korea) Ltd., Seoul	Distribution	KRW 6 300.00	100%
<b>Thailand</b>			
ETA (Thailand) Company Limited, Samut Prakan	Assembly electronic components	THB 504.50	100%
The Swatch Group Trading (Thailand) Limited, Bangkok	Distribution	THB 600.00	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
**CONSOLIDATION AND GROUP STRUCTURE**

Company name, Registered offices	Field of Activity	Capital in millions	Group participation
<b>United Arab Emirates</b>			
Al Khaleej Watches LLC, Abu Dhabi	Retail	AED 0.15	58%
Blue Sky Trading Company LLC, Abu Dhabi	Retail	AED 0.30	58%
Excel Enterprises LLC, Dubai	Retail	AED 1.70	58%
Golden Watch Company LLC, Abu Dhabi	Retail	AED 0.50	58%
Hour Choice LLC, Dubai	Retail	AED 3.00	58%
Rivoli Arcade LLC, Dubai	Retail	AED 0.30	58%
Rivoli Enterprises LLC, Dubai	Retail	AED 3.00	58%
RIVOLI GROUP LLC, Dubai	Retail	AED 24.02	58%
Rivoli Investments LLC, Dubai	Holding	AED 0.30	58%
Rivoli Textiles LLC, Dubai	Retail	AED 0.30	58%
Swatch Group Retail Middle East LLC, Dubai	Retail	AED 0.30	100%
Vision 2000 LLC, Dubai	Retail	AED 1.00	58%
<b>AMERICA</b>			
<b>Brazil</b>			
SGB Importação e Varejo de Artigos de Luxo Ltda, São Paulo	Retail	BRL 82.50	100%
<b>Canada</b>			
H.W. Protection Inc., Toronto	Services	CAD 1.94	100%
The Swatch Group (Canada) Ltd., Toronto	Distribution	CAD 4.50	100%
<b>Mexico</b>			
Operadora y Comercializadora de Relojes y Joyería S.A. de C.V., Mexico	Services	MXN 1.50	100%
The Swatch Group Mexico S.A. de C.V., Mexico DF	Distribution	MXN 200.00	100%
<b>Panama</b>			
The Swatch Group Panama S.A., Panama City	Administration	USD 0.01	100%
<b>United States</b>			
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100%
Harry Winston, Inc., New York	High jewelry	USD 0.00	100%
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 1.01	100%
<b>OCEANIA</b>			
<b>Australia</b>			
THE SWATCH GROUP (AUSTRALIA) PTY. LTD., Glen Iris	Distribution	AUD 0.40	100%
<b>AFRICA</b>			
<b>South Africa</b>			
The Swatch Group (South Africa) (Proprietary) Limited, Sandton	Distribution	ZAR 225.00	100%

**b. Equity method**

Company name, Registered offices	Field of Activity	Capital in millions	Group participation
<b>EUROPE</b>			
<b>Switzerland</b>			
Danyack S.A., La Chaux-de-Fonds	Real estate	CHF 0.06	29%
S.I. Les Corbes SA, Val-de-Ruz	Real estate	CHF 0.10	34%
<b>ASIA</b>			
<b>Greater China</b>			
Beijing Xinyu Hengrui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50%
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9%
<b>Saudi Arabia</b>			
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33%
<b>United Arab Emirates</b>			
Marcolin Middle East FZCO, Dubai	Distribution	AED 0.10	29%
New Horizons General Trading LLC, Dubai	Retail	AED 0.30	29%

# 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 income statement for the year ended 31 December 2019, the consolidated balance sheet as at 31 December 2019, the consolidated statement of cash flows and the 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 208) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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 101 Group companies in 30 countries. These 101 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



# Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

## 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.

<b>Overall Group materiality for the audit of the consolidated financial statements</b>	CHF 50,000,000
---	----------------

<b>How we determined it</b>	5% of profit before income taxes
-----------------------------	----------------------------------

<b>Rationale for the materiality benchmark applied</b>	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.
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We agreed with the Board of Directors 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.

## 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 2019 consolidated financial statements, we participated in the audit closing meetings of three 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 China, Germany and the United Kingdom.

## 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.



# Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

## Valuation of inventories

### Key audit matter

We consider the valuation of inventories to be a key audit matter because they amounted to CHF 6,852 million on the balance sheet as at 31 December 2019 and they represent a significant share of total assets (about 50%).

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 178 (Basis of preparation, c. Accounting estimates and judgments) and page 182 (Notes to the consolidated financial statements, Note 7 Inventories) in the 2019 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.

We consider Management's approach to value inventories and assess write-downs as reasonable.

## 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERT-suisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

## 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, 26 February 2020





## FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD

**FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD**

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## INCOME STATEMENT OF THE SWATCH GROUP LTD

	Notes	2019 CHF million	2018 CHF million
Income from investments in subsidiaries	(1)	969	1 064
Other income		5	6
Personnel expense		-45	-46
Other expenses		-17	-19
Depreciation and impairment	(2)	-20	-19
Financial expenses	(3)	-36	-43
Financial income	(4)	59	57
<b>Ordinary result</b>		<b>915</b>	1 000
Non-operating result		0	0
Extraordinary result		0	0
<b>Profit before income taxes</b>		<b>915</b>	1 000
Income taxes		-4	-5
<b>Net income</b>		<b>911</b>	995

## BALANCE SHEET OF THE SWATCH GROUP LTD

Assets	Notes	31.12.2019		31.12.2018	
		CHF million	%	CHF million	%
<b>Current assets</b>					
Cash and cash equivalents		109	1.4	25	0.3
Assets with an observable market price	(5, 8)	74	0.9	81	1.1
Other current receivables					
– from Group companies	(6)	2 707	33.4	3 667	47.2
– from third parties		36	0.5	33	0.4
Prepayments and accrued income		3	0.0	3	0.0
<b>Total current assets</b>		<b>2 929</b>	<b>36.2</b>	3 809	49.0
<b>Non-current assets</b>					
Loans to Group companies	(6)	789	9.7	422	5.4
Investments in subsidiaries and associates	(7)	4 375	54.0	3 530	45.5
Property, plant and equipment		6	0.1	7	0.1
Intangible assets		1	0.0	0	0.0
<b>Total non-current assets</b>		<b>5 171</b>	<b>63.8</b>	3 959	51.0
<b>Total assets</b>		<b>8 100</b>	<b>100.0</b>	7 768	100.0

## BALANCE SHEET OF THE SWATCH GROUP LTD

Equity and liabilities	Notes	31.12.2019		31.12.2018	
		CHF million	%	CHF million	%
<b>Current liabilities</b>					
Financial debts and derivative financial instruments	(8)	95	1.2	195	2.5
Other current liabilities					
– to Group companies		95	1.2	127	1.6
– to third parties		4	0.0	15	0.2
Accrued expenses		15	0.2	15	0.2
<b>Non-current liabilities</b>					
Non-current provisions		90	1.1	90	1.2
<b>Total liabilities</b>		<b>299</b>	<b>3.7</b>	442	5.7
<b>Equity</b>					
Share capital		118	1.5	125	1.6
Statutory capital reserve		148	1.8	136	1.8
Statutory reserve		10	0.1	10	0.1
Reserve for treasury shares		0	0.0	0	0.0
Voluntary reserve		6 759	83.4	7 263	93.5
– Profit brought forward		50		48	
– Net income for the year		911		995	
Available earnings		961	11.9	1 043	13.4
Treasury shares		-195	-2.4	-1 251	-16.1
<b>Total equity</b>	(9)	<b>7 801</b>	<b>96.3</b>	7 326	94.3
<b>Total equity and liabilities</b>		<b>8 100</b>	<b>100.0</b>	7 768	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)	2019	2018
Dividends	909	1 004
Other income from investments in subsidiaries	60	60
<b>Total</b>	<b>969</b>	<b>1 064</b>

This item includes dividends from Group companies and other income from investments in subsidiaries as well as management fees from Group companies.

**2. Depreciation and impairment**

Depreciation and impairment is calculated on receivables, property, plant and equipment, intangible assets, loans and investments in subsidiaries and associates. In the year under review, this amounted to CHF 20 million (previous year: CHF 19 million).

**3. Financial expenses**

(CHF million)	2019	2018
Interest expense	-7	-4
Result from marketable securities at fair value	0	-12
Net currency result	-27	-25
Other financial expense	-2	-2
<b>Total</b>	<b>-36</b>	<b>-43</b>

## NOTES TO THE FINANCIAL STATEMENTS

**4. Financial income**

(CHF million)	2019	2018
Interest income	42	48
Income and gains on securities	17	9
<b>Total</b>	<b>59</b>	<b>57</b>

**5. Assets with an observable market price**

(CHF million)	31.12.2019	31.12.2018
Marketable securities	42	66
Precious metals	24	8
Derivative financial instruments (see Note 8)	8	7
<b>Total</b>	<b>74</b>	<b>81</b>

**6. 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.

**7. Investments in subsidiaries and associates**

The list of 152 legal entities, including minority investments, held directly or indirectly by The Swatch Group Ltd and consolidated at Swatch Group level, is published in Note 35 of the consolidated financial statements in this report.

Investments in subsidiaries amounted to CHF 4 375 million or 54.0% of total assets at the end of the year under review (previous year: CHF 3 530 million or 45.5% of total assets).

**8. Financial debts and derivative financial instruments**

At the end of the year under review, short term bank loans and current account overdrafts of CHF 91 million were open (previous year: CHF 191 million).

At the end of the year under review, as in the previous year, there was no option contract outstanding. The table below gives an overview of the contract values and fair values of open forward contracts.

(CHF million)	31.12.2019			31.12.2018		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
<b>Forward contracts</b>						
- Third parties	989	6	0	1 672	5	-1
- Group	345	2	-4	403	2	-3
<b>Total</b>	<b>1 334</b>	<b>8</b>	<b>-4</b>	<b>2 075</b>	<b>7</b>	<b>-4</b>

Derivative financial instruments are recognized at fair value. Forward contracts outstanding at the end of the year under review served to hedge operations relating to exchange rate risk and market volatility. Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions.

## NOTES TO THE FINANCIAL STATEMENTS

**9. Equity**

Compared to the end of the previous year, equity increased by CHF 475 million to CHF 7 801 million in the year under review. At the end of the year under review, the equity ratio amounted to 96.3% of total assets (previous year: 94.3%).

The table below shows the changes in equity:

(CHF million)	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
<b>Balance at 31.12.2017</b>	<b>125</b>	<b>122</b>	<b>10</b>	<b>1</b>	<b>6 813</b>	<b>892</b>	<b>-863</b>	<b>7 100</b>
Allocated in 2018					450	-450		0
Dividend paid out						-394		-394
Change in treasury shares		14					-388	-374
Creation / dissolution				-1				-1
Net income						995		995
<b>Balance at 31.12.2018</b>	<b>125</b>	<b>136</b>	<b>10</b>	<b>0</b>	<b>7 263</b>	<b>1 043</b>	<b>-1 251</b>	<b>7 326</b>
Allocated in 2019					580	-580		0
Dividend paid out						-413		-413
Capital reduction (cancellation of treasury shares)	-7				-1 084		1 091	0
Change in treasury shares		12					-35	-23
Net income						911		911
<b>Balance at 31.12.2019</b>	<b>118</b>	<b>148</b>	<b>10</b>	<b>0</b>	<b>6 759</b>	<b>961</b>	<b>-195</b>	<b>7 801</b>

**Share capital**

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, were cancelled. As a result, the share capital of The Swatch Group Ltd changed as follows:

Balance sheet date	Registered shares at CHF 0.45	Bearer shares at CHF 2.25	Share capital in CHF
31.12.2018	124 045 000	30 840 000	125 210 250.00
Cancelled shares	-7 125 500	-1 904 000	-7 490 475.00
<b>31.12.2019</b>	<b>116 919 500</b>	<b>28 936 000</b>	<b>117 719 775.00</b>

**Principal shareholders at 31 December 2019**

At the end of the year under review, the Hayek Pool, its related companies, institutions and individuals held 61 721 546 registered shares and 12 855 bearer shares, equivalent to 42.3% of all voting rights (previous year: 39.8%). 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	-

## NOTES TO THE FINANCIAL STATEMENTS

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 41.8% of all voting rights at end of the year under review (previous year: 39.3%).

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 580 million was appropriated from available earnings at 31 December 2018 (previous year: CHF 450 million). In the context of the capital reduction 2019 an amount of CHF 1 084 million was charged to the voluntary reserve. The amount is the difference between the historical acquisition value of the cancelled shares (CHF 1 091 million) and their nominal value (CHF 7 million).

**Reserve for treasury shares**

At the end of the year under review, there was no reserve for treasury shares. No shares of The Swatch Group Ltd were held by Group subsidiaries (previous year: none).

**Available earnings**

In compliance with the resolution approved at the Annual General Meeting of 23 May 2019, a dividend of CHF 1.60 per registered share and of CHF 8.00 per bearer share was appropriated from available earnings as at 31 December 2018. The total dividend amount paid to shareholders in the year under review came to CHF 198 million on the registered shares and CHF 247 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 32 million, thus remains as an integral part of equity at the end of the year under review. Finally, CHF 580 million was appropriated from available earnings at 31 December 2018 and allocated to the voluntary reserve.

**Treasury shares / Share buyback program**

In the context of the share buyback program 2016-2019, treasury shares with a market value of CHF 35 million were repurchased in the year under review. The program concluded on 24 January 2019 with a total volume of CHF 959 million. The repurchased shares were cancelled in the form of a capital reduction.

Treasury shares held by The Swatch Group Ltd at the end of the year under review corresponded to 1.3% (previous year: 7.1%) 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.

## NOTES TO THE FINANCIAL STATEMENTS

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed as follows:

Shares held by	Registered shares 1)		Bearer shares	
	2019	2018	2019	2018
<b>The Swatch Group Ltd</b>				
<b>Balance at 1 January</b>	<b>10 201 597</b>	7 755 219	<b>1 912 550</b>	1 389 650
Acquisitions 2)	314 433	2 656 248	56 450	522 900
Disposals 3)	-212 114	-209 870	0	0
Cancellations 4)	-7 125 500	0	-1 904 000	0
<b>Balance at 31 December</b>	<b>3 178 416</b>	10 201 597	<b>65 000</b>	1 912 550
<b>Other consolidated companies</b>				
<b>Balance at 1 January</b>	<b>0</b>	11 196	<b>0</b>	0
Acquisitions	0	0	0	0
Disposals 5)	0	-11 196	0	0
<b>Balance at 31 December</b>	<b>0</b>	0	<b>0</b>	0
<b>Total balance at 31 December</b>	<b>3 178 416</b>	10 201 597	<b>65 000</b>	1 912 550

1) Of which, at the end of the year under review, a total of 2 742 335 registered shares were reserved for the employee stock option plan (previous year: 2 954 449 shares).

2) In the year under review, The Swatch Group Ltd acquired 314 433 registered shares at an average price of CHF 58.55. In addition, 56 450 bearer shares at an average price of CHF 295.67 were acquired. In the previous year, 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.

3) All disposals of registered shares in the year under review and the previous year relate to the employee stock option plan (see Note 13 of the consolidated financial statements for details). In the year under review and the previous year, no bearer shares were sold.

4) 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, were cancelled.

5) In the previous year, in connection with the acquisition of the remaining minority interest in ASI Centrum spol. s.r.o., 8 748 registered shares were granted to the former shareholders. Details of the transaction are disclosed in Note 31 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: 143).

### 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 were 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 employee stock option plan are disclosed in Note 13 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.

In the year under review, 4 600 registered shares and options valued at CHF 0.2 million (previous year: 6 105 registered shares and options valued at CHF 0.5 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		Bearer shares		Options	
		2019	2018	2019	2018	2019	2018
Community of heirs N. G. Hayek represented by Marianne Hayek		55 698 304	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	188 208	168 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Niccolier	BoD Member	100	100				
Dr. Jean-Pierre Roth	BoD Member			10	10		
Daniela Aeschlimann	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	152 691	129 891			24 000	24 000
Pierre-André Bühler	MB Member	19 466	30 966			8 002	8 002
Dr. Mougahed Darwish	MB Member	85 068	82 468	40		2 602	2 602
Marc A. Hayek	MB Member	155 898	143 398	140		12 502	12 502
Dr. Thierry Kenel	MB Member / CFO	80 253	70 919			10 001	9 335
Florence Ollivier-Lamarque	MB Member	71 166	59 500			3 334	12 000
Dr. Peter Steiger 1)	MB Member	110 999	101 333			10 001	9 667
François Thiébaud	MB Member	146 948	133 848			13 102	13 702
Lionel A Marca 2)	EMB Member	905				477	
Raynald Aeschlimann	EMB Member	26 867	23 867			7 001	6 001
Matthias Breschan	EMB Member	1 034	2 034			3 000	3 000
Jean-Claude Eggen 3)	EMB Member		4 816				2 501
Daniel Everts 2)	EMB Member	1 100				600	
Yann Gamard	EMB Member	3 500	2 500			5 501	5 501
Hans-Rudolf Gottier	EMB Member	32 700	31 700			5 002	5 002
Roger Juillet 2)	EMB Member	1 936				1 134	
Walter von Känel	EMB Member	55 500	49 500	40	40	6 000	6 000
Mireille Koenig 2)	EMB Member	2 132				600	
Calogero Polizzi	EMB Member	6 000	4 000			2 500	1 500
Kevin Rollenhagen	EMB Member	79 815	72 148			7 335	8 002
<b>Total</b>		<b>56 920 590</b>	56 815 340	<b>2 780</b>	2 600	<b>142 696</b>	149 319

1) Member of the MB since August 2019 (before EMB) 2) Member of the EMB since August 2019 3) Member of the EMB until January 2019

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 29 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 26 February 2020 and will be submitted to the Annual General Meeting of Shareholders for approval on 14 May 2020. 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:

(CHF million)	2019	2018
Net income	911	995
Profit brought forward	50	48
<b>Available earnings</b>	<b>961</b>	1 043
Allocation to voluntary reserve	-530	-580
<b>Payment of a 2018 dividend, i.e.:</b>		
- 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
<b>Payment of a 2019 dividend, i.e.: 1)</b>		
- CHF 1.60 per registered share with a par value of CHF 0.45	-187	
- CHF 8.00 per bearer share with a par value of CHF 2.25	-231	
Dividends not paid out on own shares held by the Group 2)		32
<b>Balance carried forward</b>	<b>13</b>	50

1) It is planned not to pay dividends on treasury shares held by the Group.

2) Based on the decision of the Annual General Meeting of 23 May 2019, 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 income statement for the year ended 31 December 2019, the balance sheet as at 31 December 2019 and notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 215 to 223 and pages 205 to 208) as at 31 December 2019 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

# Report of the Statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

## 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.

<b>Overall materiality for the audit of the financial statements</b>	CHF 35,000,000
<b>How we determined it</b>	0.45% of total equity
<b>Rationale for the materiality benchmark applied</b>	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 0.45% 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.

## 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.



# Report of the statutory auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

## Valuation of investments in subsidiaries and associates

Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2019, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 4,375 million (about 54% 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, manufactures, 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.</p> <p>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.</p> <p>Please refer to page 218 (Valuation principles) and page 218 and 219 (Details to specific items, note 2 Depreciation and Impairment and note 7 Investments in subsidiaries and associates) of the 2019 Annual Report.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>- We checked the grouping of the investments based on their similarity and their vertical integration in the Swatch Group.</li> <li>- We tested the valuation of each investment or group of investments based on its equity and results for the year.</li> </ul> <p>We consider Management's approach to group and value the investments as an acceptable and reasonable basis for the valuation of the investments.</p>

## 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.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



# 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 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, 26 February 2020

## THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding / Average share capital	2019 basic	2018 basic	2017 basic	2016 basic	2015 basic
Number of registered shares of CHF 0.45	113 428 394	115 449 571	116 755 450	118 672 611	119 847 161
Number of bearer shares of CHF 2.25	28 814 317	29 268 442	29 567 412	29 987 419	30 308 846
<b>Total average number of shares outstanding</b>	<b>142 242 711</b>	144 718 013	146 322 862	148 660 030	150 156 007
Share capital registered shares in CHF	51 042 777	51 952 307	52 539 953	53 402 675	53 931 222
Share capital bearer shares in CHF	64 832 213	65 853 995	66 526 677	67 471 693	68 194 904
<b>Total average share capital in CHF</b>	<b>115 874 991</b>	117 806 302	119 066 630	120 874 368	122 126 126

  

Key data per registered share (nom. CHF 0.45) in CHF	2019	2018	2017	2016	2015
Consolidated net income attributable to shareholders	2.84	3.23	2.77	2.14	4.01
Cash flow from operating activities 1)	4.75	3.60	4.78	3.76	5.17
Consolidated equity 1)	44.63	43.07	42.67	41.22	41.42
Dividend 2)	1.60	1.60	1.50	1.35	1.50

  

Key data per bearer share (nom. CHF 2.25) in CHF	2019	2018	2017	2016	2015
Consolidated net income attributable to shareholders	14.18	16.14	13.86	10.69	20.07
Cash flow from operating activities 1)	23.76	18.01	23.89	18.80	25.87
Consolidated equity 1)	223.17	215.33	213.33	206.12	207.12
Dividend 2)	8.00	8.00	7.50	6.75	7.50

  

Stock price (adjusted) in CHF	2019	2018	2017	2016	2015
Registered shares high	62.60	91.30	80.95	74.00	88.90
Registered shares low	46.62	54.05	60.60	48.25	61.25
Registered shares at year-end	51.15	56.80	74.50	62.25	68.00
Bearer shares high	322.00	499.10	414.60	373.00	462.50
Bearer shares low	247.70	275.60	307.50	246.20	324.10
Bearer shares at year-end	270.00	286.70	397.40	316.70	350.20

  

Key ratios (year-end)	2019	2018	2017	2016	2015
Average return on equity 3)	6.6%	7.7%	6.8%	5.3%	10.2%
Dividend yield registered shares 4)	3.1%	2.8%	2.0%	2.2%	2.2%
Dividend yield bearer shares 4)	3.0%	2.8%	1.9%	2.1%	2.1%
Price/earnings ratio – registered shares 5)	18.0	17.6	26.9	29.1	17.0
Price/earnings ratio – bearer shares 5)	19.0	17.8	28.7	29.6	17.4
Market capitalization in CHF million	13 793	15 887	21 497	17 489	19 235

1) Calculation based on average share capital per share category respectively average number of shares outstanding

2) For the year under review: Board of Directors' proposal

3) Net income as a percentage of average equity (previous year plus year under review, divided by two)

4) Dividend as a percentage of share price at year-end

5) Stock price at year-end divided by consolidated net income attributable to shareholders

Securities	ISIN-Number	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.



