

PRESS RELEASE

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## SWATCH GROUP: KEY FIGURES 2018

- Group net sales increased by 6.1% to CHF 8 475 million at current exchange rates (+5.7% at constant rates).
- Operating result increased by 15.2% to CHF 1 154 million. Operating margin increased from 12.5% in the previous year to 13.6%.
- Net income increased by 14.8% to CHF 867 million, with a net margin of 10.2% (previous year: 9.5%).
- Dividend proposal: increase of 6.7% to CHF 8.00 per bearer share and CHF 1.60 per registered share.
- Business slowed in the last three months of the year under review. The month of December in particular was slow, due in part to the very high comparison basis.
- Production companies in the Habillage sector (cases, dials, watch hands, etc.) worked at or even above capacity limits, which led to significant delivery delays, mainly for products for Omega and Longines.
- Record number of 212 new patent applications in 2018.
- Creation of over 1 700 new jobs, mainly in Switzerland.
- January 2019 started with solid growth, even in comparison with the very strong January in the previous year. The Swatch Group expects a positive trend in 2019, both in demand and in elimination of capacity bottlenecks.

## Group Key Figures

(CHF million)	2018	2017 <sup>1)</sup>	Change in %		Total
			at constant rates	currency effect	
<b>Net sales</b>	<b>8 475</b>	7 989	+ 5.7%	+ 0.4%	+ 6.1%
<b>Operating result</b>	<b>1 154</b>	1 002			+ 15.2%
– in % of net sales	<b>13.6%</b>	12.5%			
<b>Net income</b>	<b>867</b>	755			+ 14.8%
– in % of net sales	<b>10.2%</b>	9.5%			
<b>Equity</b>	<b>11 274</b>	11 289			– 0.1%
– as a % of balance sheet total	<b>82.5%</b>	83.8%			
<b>Average return on equity (ROE)</b>	<b>7.7%</b>	6.8%			

Unaudited figures

<sup>1)</sup> As of 2018, sales-related transaction costs such as credit card fees are recognized as Other operating expenses. The previous period was restated to allow comparison with the presentation of the year under review. As a result, Net sales and Other operating expenses in the year 2017 increased by CHF 29 million compared with the published figures. Operating result and Net income remained unchanged.

## Strategy and Group Overview

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

## Highlights of the financial year 2018

### Development in the segments and countries

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

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

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

### Marketing

Marketing expenses intentionally remained and will remain at a high level, despite weakened sales in the 4th quarter of 2018. The year was marked by three major events: the Olympic Winter Games in PyeongChang, South Korea with Omega, the Commonwealth Games in Australia with Longines, and the Asian Games in Indonesia with Tissot.

### Personnel

In the year under review, the Group created over 1 700 new jobs. The largest build up was made in the production sector in Switzerland, with over 1 300 new jobs. The worldwide workforce at the end of December 2018 was approximately 37 100 employees, of which more than 18 000 in Switzerland.

### Training

The Swatch Group promotes vocational training at all levels. At the end of the year under review, more than 700 persons were in training in Switzerland and abroad, either as apprentices learning watchmaker or related technical professions, or as students in the Group's six international customer service watchmaking schools in Miami, Kuala Lumpur, Shanghai, Hong Kong, Pforzheim and Manchester.

### Operating result and net income

Driven by growth in the Watches & Jewelry segment, capacity utilization in production improved significantly. Due to major capacity bottlenecks, particularly in the Habillage sector, the Group benefitted too little from its verticalized structure in the second half of the year. Nevertheless, the Group increased its operating result by 15.2% to CHF 1 154 million, corresponding to an operating margin of 13.6%. Net income amounted to CHF 867 million, or 10.2% of net sales.

### Investments

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

### Research and development

In the year under review, 212 patent applications were filed versus 183 in the previous year, i.e., one patent per working day.

**Cash flow and net financial position**

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

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

**Inventories**

Inventories increased by CHF 0.6 billion since the beginning of the year and amounted to approximately CHF 6.9 billion at year end. By far the largest increase was related to strategic raw materials, mainly for safety stocks of gold and diamonds such as the Harry Winston Pink Legacy, which was purchased for approximately CHF 50 million. In the semi-finished products, the increase was mainly attributable to Longines and Omega.

**Dividend proposal**

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

## Outlook for 2019

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

**Growth drivers**

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

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

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

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

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

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

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

## **Next publications / events:**

<b>14.03.2019</b>	Publication of the annual report 2018 Press conference
<b>23.05.2019</b>	Annual General Meeting, Grenchen
<b>31.07.2019</b>	Publication of 2019 half-year results

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## Consolidated Income Statement

	2018		2017 <sup>1)</sup>	
	CHF million	%	CHF million	%
<b>Net sales</b>	<b>8 475</b>	<b>100.0</b>	7 989	100.0
Other operating income	180	2.1	116	1.4
Changes in inventories	632	7.5	83	1.0
Material purchases	- 2 226	- 26.3	- 1 735	- 21.7
Personnel expense	- 2 563	- 30.3	- 2 339	- 29.3
Depreciation and impairment on property, plant and equipment	- 451	- 5.3	- 433	- 5.4
Amortization and impairment on intangible assets	- 43	- 0.5	- 43	- 0.5
Other operating expenses	- 2 850	- 33.6	- 2 636	- 33.0
<b>Operating result</b>	<b>1 154</b>	<b>13.6</b>	1 002	12.5
Other financial income and expense	- 19	- 0.2	- 16	- 0.2
Interest expense	- 5	0.0	- 3	- 0.0
Share of result from associates and joint ventures	2	0.0	21	0.3
<b>Ordinary result</b>	<b>1 132</b>	<b>13.4</b>	1 004	12.6
Non-operating result	1	0.0	3	0.0
<b>Profit before income taxes</b>	<b>1 133</b>	<b>13.4</b>	1 007	12.6
Income taxes	- 266	- 3.2	- 252	- 3.1
<b>Net income</b>	<b>867</b>	<b>10.2</b>	755	9.5
Attributable to shareholders of The Swatch Group Ltd	845		733	
Attributable to non-controlling interests	22		22	

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

<b>Registered shares</b>		
Basic earnings per share	3.23	2.77
Diluted earnings per share	3.23	2.77
<b>Bearer shares</b>		
Basic earnings per share	16.14	13.86
Diluted earnings per share	16.13	13.85

Unaudited figures

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## Consolidated Balance Sheet

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

Unaudited figures

## Consolidated Balance Sheet

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

Unaudited figures



## Consolidated Statement of Cash Flows

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

Unaudited figures

## Segment Information

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

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

Unaudited figures

<sup>1)</sup> As of 2018, sales-related transaction costs such as credit card fees are recognized as Other operating expenses. The previous period was restated to allow comparison with the presentation of the year under review. As a result, Net sales and Other operating expenses in the year 2017 increased by CHF 29 million compared with the published figures. Operating result and Net income remained unchanged.

## Statistical Information

	2018	2017
	Basic	Basic
<b>Average number of registered shares outstanding</b>	<b>115 449 571</b>	116 755 450
<b>Average number of bearer shares outstanding</b>	<b>29 268 442</b>	29 567 412
<b>Key data per registered share (nom. CHF 0.45) in CHF</b>		
Consolidated net income attributable to shareholders	3.23	2.77
Cash flow from operating activities	3.60	4.78
Consolidated equity	43.07	42.67
Dividend	1.60 <sup>1)</sup>	1.50
Price/earnings ratio	17.6	26.9
<b>Key data per bearer share (nom. CHF 2.25) in CHF</b>		
Consolidated net income attributable to shareholders	16.14	13.86
Cash flow from operating activities	18.01	23.89
Consolidated equity	215.33	213.33
Dividend	8.00 <sup>1)</sup>	7.50
Price/earnings ratio	17.8	28.7
<b>Share capital in CHF</b>	<b>125 210 250</b>	125 210 250

<sup>1)</sup> Board of Directors' proposal

Unaudited figures