

PRESS RELEASE

BIEL/BIENNE, 4 AUGUST 2010

HALF-YEAR REPORT 2010: SWATCH GROUP - RECORD HALF-YEAR RESULTS IN TERMS OF BOTH SALES AND PROFIT

- Sales in the Watches & Jewelry segment rose in local currency by a strong 32.9% (30.6% in CHF) compared with the first half 2009 and by 10.1% (9.3% in CHF) compared with the previous record half-year 2008.
- Performance substantially better than the export figures for the first six months of 2010 published by the Federation of the Swiss Watch Industry.
- The Group's gross sales of CHF 3 031 million exceeded the 3 billion mark for the first time in the first half-year, an increase of 22.2% versus 2009 and 2% compared with 2008.
- Significant increase of 81.4% in operating profit to CHF 626 million or 21.8% of net sales.
- Net income 54.5% higher at CHF 465 million or 16.2% of net sales.
- Continued strong growth in July for watches across all segments and regions (in local currencies).
- Positive outlook for the second half-year with the launch of numerous new products, such as, for example, the Breguet world exclusive chronograph "Type XXII 10Hz", which was personally initiated and introduced by the recently deceased Nicolas G. Hayek.

GROUP OVERVIEW

Group Key Figures

(CHF million)	1st half 2010	1st half 2009	Change in %		Total
			in local currency	currency effect	
Gross sales	3 031	2 480	+24.1%	-1.9%	+22.2%
Net sales	2 871	2 352			+22.1%
Operating profit	626	345			+81.4%
– in % of net sales	21.8%	14.7%			
Net income	465	301			+54.5%
– in % of net sales	16.2%	12.8%			
Investment in non-current assets	138	128			
Equity, 30 June	6 236	5 547			
Market capitalization, 30 June	16 337	9 537			
Annualized return on equity (ROE)	15.2%	10.9%			
Basic earnings per share (EPS) – expressed in CHF per share:					
– Registered shares	1.76	1.14			
– Bearer shares	8.80	5.70			

Unaudited figures.

The Swatch Group again confirmed its leadership position in the first half of 2010. Watches & Jewelry experienced extraordinarily strong growth across all segments and regions. The long-term orientation of the Group's successful strategy, with its presence in all segments, the integrated production in Switzerland and the distribution to the end customer, will be further expanded.

The improved economic environment allowed the Group to increase gross sales by 22.2% to CHF 3 031 million compared with the first half of 2009. This even exceeds sales for the first half of 2008 and represents a new record for the Swatch Group.

Exchange rates went through a very volatile period during the first six months of 2010, which had a slightly negative effect of -1.9% on Group sales.

Profitability rose strongly in the first half of 2010, despite the sharp increase in the price of gold and the Group's traditionally very cautious approach to consumer price increases. Operating profit increased by 81.4% to CHF 626 million. This represents an operating margin of 21.8% of net sales (14.7% in the first half of 2009). Net income rose by 54.5% to CHF 465 million (CHF 301 million in the first half of 2009). Operating cash flow, at CHF 633 million, was CHF 386 million higher than in the prior-year period (CHF 247 million).

Outlook

Growth has been solid in July, and we expect a strong result for the second half of 2010 in terms of both sales and profit. The Swatch Group will continue to expand its successful retail activities globally in the second half of 2010, for example with the opening of the Breguet boutique on the "Bahnhofstrasse" in Zurich. The major challenge will be to quickly overcome the capacity bottlenecks which already exist in some production areas.

Following the tragic event of the sudden death of its founder and Chairman of the Board of Directors Nicolas G. Hayek on 28 June, the Group, within 48 hours, unanimously elected Mrs Nayla Hayek as the new Chair of the Board of Directors. The executive positions at Breguet and Jaquet Droz which became vacant were also immediately filled with the appointment of Marc A. Hayek. This shows again that the Group, when faced with exceptional circumstances, acts with strong leadership - quick, calm and long term.

WATCHES & JEWELRY

(CHF million)	1st half 2010	1st half 2009 restated *	Change in %	1st half 2009 as reported
Gross sales				
– Third parties	2 570	1 968		1 959
– Group	2	1		1
– Total	2 572	1 969	+ 30.6%	1 960
Net sales				
– Third parties	2 425	1 860		1 851
– Group	2	1		1
– Total	2 427	1 861	+ 30.4%	1 852
Operating profit				
– in % of net sales	22.5%	15.4%	+ 90.6%	15.4%

* restated following integration of Piguet activities into Manufacture Blancpain (refer to Note 3)

Unaudited figures.

Gross sales in the Watch segment increased by 30.6% in the first half of 2010 to CHF 2 572 million. In local currency, the increase was even greater, at 32.9%. This accelerated growth was geographically broad-based and realized across all price categories.

Compared with the export statistics for the first six months of 2010 published by the Federation of the Swiss Watch Industry, showing an increase in value of 19.7%, the Swatch Group, with its 19 brands in all price segments, has performed better than the industry as a whole, which means a significant increase of market share.

The segment's operating margin increased to 22.5% of net sales (15.4% in the first half of 2009). The Group continued to engage in multiple marketing activities and to expand its retail business during the period. Boutiques were opened at important strategic locations, like in the Swatch Art Peace Hotel in the absolutely best location in Shanghai, for the Breguet, Blancpain, Omega and Swatch brands.

PRODUCTION

(CHF million)	1st half 2010	1st half 2009 restated *	Change in %	1st half 2009 as reported
Gross sales				
– Third parties	259	333		342
– Group	502	469		496
– Total	761	802	–5.1%	838
Net sales				
– Third parties	247	315		324
– Group	488	452		479
– Total	735	767	–4.2%	803
Operating profit	65	74	–12.2%	76
– in % of net sales	8.8%	9.6%		9.5%

* restated following integration of Piguet activities into Manufacture Blancpain (refer to Note 3)

Unaudited figures.

The Production segment achieved gross sales of CHF 761 million (-5.1% compared with the first half of 2009). This decrease in sales is due to the fact that demand for watch movements and components lags behind demand for finished watches, mainly in regard to new order placement by third parties. However, in the meantime, order book has reached, and in several companies exceeded, prior-year levels. Sales in the Production segment will also continue to grow for the remainder of the year.

As a result of the deliberate commitment to preserving jobs despite lower capacity utilization, it was not yet possible to increase operative performance significantly during the reporting period, although a positive trend began to appear in this segment from May 2010 onwards. Given the current situation regarding orders and utilization in the production plants, the Group anticipates that the Production segment will have a better second half of the year with higher operating margins.

The Group is continuing to invest heavily in production, not only to allow it to cope with increasing demand, but also in view of our brands' many new launches in the second half of the year and the increased use of innovative production processes and new materials.

ELECTRONIC SYSTEMS

(CHF million)	1st half 2010	1st half 2009	Change in %
Gross sales			
– Third parties	198	176	
– Group	9	8	
– Total	207	184	+ 12.5%
Net sales			
– Third parties	196	174	
– Group	9	8	
– Total	205	182	+ 12.6%
Operating profit			
– in % of net sales	9.8%	1.1%	

Unaudited figures.

There were also marked signs of a recovery in the cyclical Electronic Systems segment. The economic environment has clearly improved. Gross sales rose in the first half of the year to CHF 207 million, representing an increase of 12.5% over the prior-year period. This growth is due to progress in all operating areas of the segment.

The positive development in sales led to an increase in the segment's profitability. Operating profit increased to CHF 20 million, a clear improvement on the first half of 2009.

The signs for the second half-year are also positive. Normalization will continue in this segment, resulting in a further utilization of capacities. The past high levels of volatility in this segment may decrease somewhat in the near future. With the sale of the stepping motor manufacturing unit of Microcomponents at the end of March 2010, the Group has abandoned the last remaining activity in the traditionally low-tech automotive area.

Interim Consolidated Financial Statements

CONDENSED INCOME STATEMENT

	1st half 2010		1st half 2009	
	CHF million	%	CHF million	%
Gross sales	3 031	105.6	2 480	105.4
Sales reductions	-160	-5.6	-128	-5.4
Net sales	2 871	100.0	2 352	100.0
Other operating income	94	3.3	43	1.8
Changes in inventories	112	3.9	165	7.0
Operating expenses	-2 340	-81.5	-2 107	-89.5
Depreciation, amortization and impairment charges	-111	-3.9	-108	-4.6
Operating profit	626	21.8	345	14.7
Net financial result	-24	-0.8	27	1.1
Profit before taxes	602	21.0	372	15.8
Income taxes	-137	-4.8	-71	-3.0
Net income	465	16.2	301	12.8
Attributable to equity holders of The Swatch Group Ltd	462		299	
Attributable to non-controlling interests	3		2	
Earnings per share (EPS) – expressed in CHF per share:				
Registered shares				
Basic earnings per share	1.76		1.14	
Diluted earnings per share	1.73		1.13	
Bearer shares				
Basic earnings per share	8.80		5.70	
Diluted earnings per share	8.65		5.65	

Unaudited figures.

Interim Consolidated Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

	1st half 2010 CHF million	1st half 2009 CHF million
Net income	465	301
Other comprehensive income		
Currency translation of foreign operations	-6	18
Income tax relating to currency translation	0	0
Cash flow hedges	0	0
Income tax relating to cash flow hedges	0	0
Other comprehensive income, net of tax	-6	18
Total comprehensive income, net of tax	459	319
Attributable to:		
Equity holders of The Swatch Group Ltd	456	317
Non-controlling interests	3	2

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED BALANCE SHEET

Assets	30.06.2010		31.12.2009	
	CHF million	%	CHF million	%
Property, plant and equipment	1 515	18.8	1 499	19.4
Intangible assets	315	3.9	320	4.2
Other non-current assets	514	6.4	473	6.1
Total non-current assets	2 344	29.1	2 292	29.7
Inventories	2 848	35.3	2 743	35.6
Trade receivables	693	8.6	761	9.9
Other current assets	837	10.4	812	10.5
Cash and cash equivalents	1 334	16.6	1 098	14.3
Total current assets	5 712	70.9	5 414	70.3
Total assets	8 056	100.0	7 706	100.0
Equity and liabilities				
Equity	6 236	77.4	5 981	77.6
Provisions	40	0.5	40	0.5
Financial debts	85	1.1	80	1.0
Other non-current liabilities	366	4.5	364	4.8
Total non-current liabilities	491	6.1	484	6.3
Provisions	61	0.8	60	0.8
Financial debts and derivative financial instruments	433	5.4	438	5.7
Other current liabilities	835	10.3	743	9.6
Total current liabilities	1 329	16.5	1 241	16.1
Total liabilities	1 820	22.6	1 725	22.4
Total equity and liabilities	8 056	100.0	7 706	100.0

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED STATEMENT OF CASH FLOWS

	1st half 2010 CHF million	1st half 2009 CHF million
Operating activities		
Net income	465	301
Depreciation and impairment charge	111	108
Fair value result / interests	35	-8
Changes in working capital	6	-87
Taxes	7	-59
Pensions, provisions and other items	9	-8
Cash flow from operating activities	633	247
Investing activities		
Investments in non-current assets	-138	-128
Proceeds from sale of non-current assets	6	1
Purchase / sale of marketable securities	-35	20
Investments in subsidiaries, associates and joint ventures	-14	-2
Divestment of businesses	4	0
Cash flow from investing activities	-177	-109
Financing activities		
Dividends paid	-210	-226
Purchase / sale of treasury shares	0	0
Change in non-current borrowings	-4	-6
Change in current borrowings	-4	0
Repurchase of convertible bonds	0	-2
Cash flow from financing activities	-218	-234
Net impact of foreign exchange rate differences on cash	-2	1
Change in cash and cash equivalents	236	-95
Change in cash and cash equivalents		
– at beginning of year	1 098	680
– at 30 June	1 334	585
	236	-95

Unaudited figures.

Interim Consolidated Financial Statements

STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders					Total	Non-con- trolling interests	Total equity
	Share capital	Capital reserves	Treasury shares	Other reserves	Retained earnings			
Balance at 31.12.2008	125	213	-629	-117	5 844	5 436	15	5 451
Total comprehensive income 1st half 2009				18	299	317	2	319
Dividends paid					-223	-223	-3	-226
Share based compensation:								
– Value of employee services (net of tax)					3	3		3
– Proceeds from shares						0		0
Changes in non-controlling interests						0		0
Balance at 30.06.2009	125	213	-629	-99	5 923	5 533	14	5 547
Total comprehensive income 2nd half 2009				-34	460	426	2	428
Dividends paid						0		0
Share based compensation:								
– Value of employee services (net of tax)					5	5		5
– Proceeds from shares					1	1		1
Changes in non-controlling interests						0		0
Balance at 31.12.2009	125	213	-629	-133	6 389	5 965	16	5 981
Total comprehensive income 1st half 2010				-6	462	456	3	459
Dividends paid					-210	-210		-210
Share based compensation:								
– Value of employee services (net of tax)					2	2		2
– Proceeds from shares						0		0
Conversion of convertible bonds			4			4		4
Changes in non-controlling interests						0		0
Balance at 30.06.2010	125	213	-625	-139	6 643	6 217	19	6 236

Unaudited figures.

Notes to the Interim Consolidated Financial Statements

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with IAS 34 “Interim Financial Reporting”. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2009. In this interim report, Management has not made any significant changes to the estimates and assumptions compared to the previous period.

2. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of the following new or revised standards and interpretations mandatory for annual periods beginning on or after 1 January 2010:

- **IFRS 3 (revised) Business combinations and IAS 27 (revised) Consolidated and separate financial statements**

The revised standards are applicable to business combinations of the Group for which the acquisition date is on or after 1 January 2010. IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period of acquisition and future reported results. IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. As there were no transactions in the first six months of 2010, the changes did not affect the half-year figures 2010.

The following amendments and new interpretations are mandatory for the first time for the financial year beginning on or after 1 January 2010, but have no material impact or are currently not relevant for the Group:

- IAS 39 (amendment) Financial instruments: Recognition and measurement - Eligible hedged items
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRSs 2009

3. Group structure changes / restatement

The consolidation structure comprises 162 legal entities at 30 June 2010, compared to 162 at 31 December 2009.

In the context of a particular consolidation of company structures, the merger between Blancpain SA and Frédéric Piguet SA leads to a transfer of the activities of Frédéric Piguet SA from the Production segment into the Watches & Jewelry segment. This change in the consolidation structure has been applied retrospectively, and the segment information has been restated accordingly. The consolidated Group figures are not affected by this restatement.

Overall, the changes to the consolidation structure have no significant impact on the half-year figures 2010.

4. Segment information

1st half 2010 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	2 570	259	198	4		3 031
– Group	2	502	9	1	–514	0
Gross sales	2 572	761	207	5	–514	3 031
– Third parties	2 425	247	196	3		2 871
– Group	2	488	9	1	–500	0
Net sales	2 427	735	205	4	–500	2 871
Operating profit	547	65	20	–6		626
– As a % of net sales	22.5%	8.8%	9.8%			21.8%
– As a % of total	87.4%	10.4%	3.2%	–1.0%		100.0%

1st half 2009 (CHF million)	Watches & Jewelry *	Production*	Electronic Systems	Corporate	Elimination	Total
– Third parties	1 968	333	176	3		2 480
– Group	1	469	8	1	–479	0
Gross sales	1 969	802	184	4	–479	2 480
– Third parties	1 860	315	174	3		2 352
– Group	1	452	8	1	–462	0
Net sales	1 861	767	182	4	–462	2 352
Operating profit	287	74	2	–18		345
– As a % of net sales	15.4%	9.6%	1.1%			14.7%
– As a % of total	83.2%	21.4%	0.6%	–5.2%		100.0%

Total assets at 30.06.2010	4 664	1 634	651	2 935	–1 828	8 056
Total assets at 31.12.2009*	4 517	1 569	695	2 662	–1 737	7 706

(CHF million)	30.06.2010	30.06.2009
Operating profit	626	345
Interest income	1	2
Interest expense	–9	–9
Other financial income and expense	–20	30
Share of result from associates and joint ventures	4	4
Profit before taxes	602	372

* restated following integration of Piguet activities into Manufacture Blancpain (refer to Note 3)

Unaudited figures.

5. Seasonality of operations

Due to the somewhat seasonal nature of the segment “Watches & Jewelry”, slightly higher revenues and operating profits are usually expected in the second half of the year. This is mainly due to strong sales in the months of September to December relating to the above-average Christmas season.

6. Treasury shares / share buyback

In the period under review, the Group did not repurchase any own shares or own convertible bonds. From the convertible bond which expires on 15 October 2010 totalling CHF 411.6 million, bonds worth CHF 4.1 million were converted into registered shares up until now.

7. Business combinations

In the first half-year 2010, the Group did not enter into any business combinations. As a consequence, the revised standard IFRS 3 did not have any impact on the half-year figures 2010.

In March 2010, the Group sold the production activities of Microcomponents related to stepping motors for the automotive industry for a total consideration of CHF 4 million. No profit or loss was realized upon this disposal.

At the end of March 2009, the Group had acquired the remaining 90% of the issued capital of Swiss Precision Watches (Pty) Ltd, a watch distribution company in South Africa. The company was subsequently renamed The Swatch Group (South Africa) (Pty) Ltd.

8. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2009, the dividend agreed at the Annual General Meeting on 12 May 2010, with a value date of 20 May 2010, was distributed as follows:

Dividend per registered share	CHF	0.80
Dividend per bearer share	CHF	4.00
Total dividend paid	CHF million	210

Based on the decision of the Annual General Meeting, the dividend due on own shares held by the Group was not paid out.

9. Contingent assets and contingent liabilities

There have not been any significant changes to the Group's contingent assets or contingent liabilities since the approval of the consolidated financial statements for 2009.

10. Events after the closing date

The company is not aware of any significant new event after publishing this press release that would affect the half-year figures as of 30 June 2010.

11. Key exchange rates

	Average rates		Prevailing rates		Prevailing rates	
	01.01.-30.06.2010	30.06.2010	01.01.-30.06.2009	31.12.2009	30.06.2009	
	CHF	CHF	CHF	CHF	CHF	
1 CNY	0.1598	0.1598	0.1661	0.1521	0.1594	
1 EUR	1.4267	1.3285	1.5098	1.4880	1.5270	
1 HKD	0.1403	0.1394	0.1464	0.1339	0.1405	
100 JPY	1.1982	1.2245	1.1863	1.1215	1.1340	
1 USD	1.0900	1.0850	1.1341	1.0380	1.0880	

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CONTACTS

Investors

Thierry Kenel, CFO
The Swatch Group Ltd, Biel/Bienne
Tel. +41 32 343 68 11, fax +41 32 343 69 16
e-mail: investor.relations@swatchgroup.com

Media

Béatrice Howald, Spokesperson
The Swatch Group Ltd, Biel/Bienne
Tel. +41 32 343 68 33, fax +41 32 343 69 22
e-mail: press@swatchgroup.com