

Swatch Group – Results for the first half of 2001

Biel, August 20, 2001 – Turnover and operating profit for the 1st half of 2001 slightly over the record levels achieved in the previous year

OVERVIEW OF THE GROUP AS A WHOLE

In million CHF	1 st half of 2001	1 st half of 2000	Progression	
Group turnover	2022	1977	+ 45	+ 2.3 % ^{*)}
EBITDA (earnings before interest, taxes, depreciation and abatements)	413	428	-15	- 3.5 %
- as % of turnover	20.4 %	21.7 %		
EBIT (earnings before interest and taxes)	315	310	+ 5	+ 1.6 %
- as % of turnover	15.6 %	15.7 %		
Group result	231	256 ^{**)}	- 25	- 9.8 %
- as % of turnover	11.4 %	12.9 %		
Sales in million units (watches, movements and stepping motors)	55.5	50.9	+ 4.6	+ 9.0 %

^{*)} excluding effect of foreign currency rates = + 4.0 %

^{**)} excluding extraordinary income on a convertible bond

COMMENTS ON THE FIRST HALF OF 2001 AND PROSPECTS

In the first half of 2001 the Swatch Group increased its turnover to CHF 2.022 billion. This is 2.3% higher than the already strong figure for the first half of 2000, when a record turnover growth rate was achieved. Excluding the effect of foreign exchange rates, growth reached 4%.

The excellent performance of the previous year was also exceeded with regard to operating income. The corresponding figure for the first half of the current year is CHF 315 million (CHF 310 million in the previous year) and demonstrates the continuing operational strength of the Group.

The financial result for the previous year included an extraordinary income of CHF 44 million from a convertible bond, which is not applicable this year. In addition, developments on the financial markets made it impossible to achieve an adequate level of profitability on invested funds. The structure of the Swatch Group's asset allocation is conservative and showed a performance of – 2.3% as per June 30, 2001, which, compared with the investment universe, is not a bad achievement. Furthermore, this is made up solely of unrealized losses which will lead to a positive re-evaluation when the financial markets improve.

Consequently the Group result of CHF 231 million for the first half of 2001 is 9.8% lower than that of the same period last year (CHF 256 million; excluding the extraordinary income item of CHF 44 million).

The balance sheet rose by a mere 5%, in particular in inventory, largely owing to the efforts made to improve availability. The equity as per June 30, 2001 shows a solid 73.4% and has changed only slightly since the capital repayment on August 10, 2001.

Thanks to the fact that certain capacity problems for the production of new products were overcome, the improvements already seen in June and part of July imply stronger growth in the second half of the current year, which will be influenced in particular by sales for the Christmas season. Despite a budget target of between 10% and 12% growth in turnover our present prognosis foresees a progression of between 5% and 8%, depending on the level of sales for the Christmas period. The group result for the whole year will depend on developments on the financial markets.

WATCH SECTOR

in million CHF	1 st half of 2001	1 st half of 2000	Progression	
Turnover	1428	1436	- 8	- 0.6 %*)
EBITDA (earnings before interest, taxes, depreciation and abatements)	257	252	+ 5	+ 2.0 %
- as % of turnover	18.0 %	17.6 %		
EBIT (earnings before interest and taxes)	235	224	+ 11	+ 4.9 %
- as % of turnover	16.5 %	15.6 %		

*) excluding effect of foreign currency rates: + 1.8%

It is important to note that the substantial investment in our production facilities permitted increased production of the recently-developed new special models which are in particularly strong demand towards the middle of the year only. The quantities of watches ordered from Omega (Co-Axial and others), Tissot (T-Touch), Swatch (Skin Chrono as well as jewellery), Blancpain and Rado could not be delivered in full owing to major shortage of production capacity. This problem has now been more or less overcome so that customers will receive ordered watches during the coming months. This led to a considerable surge in turnover in June and July compared with the same period last year. Breguet and other brands showed excellent progression during the first half of the year, however, while some other brands can claim only modest growth and the private label sector was once again sluggish. Nevertheless, it was possible to increase the operating profit margin (EBIT), although currencies had a negative effect on turnover to the tune of -2.4%. In the first three months of the year the US market was characterised by turbulences on the stock market and fears of a recession, which produced a reduction in sales. Japan rode the storm well, while in the Pacific basin, Hawaii and on the US West Coast a significant decline in duty-free sales was seen owing to the low number of Japanese tourists. In contrast, almost all European markets reported growth.

Projects involving the specific expansion of individual retail outlets have been launched. In France, for example, the birthplace of luxury goods, a further Breguet store, Blancpain and an Omega mono-brand outlet were inaugurated on La Croisette and in the Rue d'Antibes in Cannes. Further projects, involving Breguet, Blancpain, Glashütte, Omega and Swatch, for mono-brand stores in various European countries and the new Tourbillon store concept are underway and in some cases on the point of being completed. The first Tourbillon store will be opened in the next few weeks. The successful concepts will be gradually introduced in the USA and the Far East. After the first successful marketing tests in the jewellery sector, work will continue on the specific and gradual expansion under the brand names Breguet, Léon Hatot, Omega and Swatch.

In addition, distribution structures will also be completed at a wholesale level in major markets. In the second half of the year for example, the Group will make first steps with its own distribution company in Mexico and Greece. In view of the fact that the Olympic Games will be held in Athens in 2004, this step is of strategic importance to the Group, as some interesting events are planned for Athens and for the subsequent Olympic Games in China (2008). It is general knowledge that the Swatch Group will be official timekeeper for the Olympic Games until 2010.

The measures adopted should encourage progression during the second half of the year, although the developments in the currency markets and the mood among consumers are difficult to predict.

THE PRODUCTION OF WATCHES, WATCH COMPONENTS AND MOVEMENTS

in million CHF	1 st half of 2001	1 st half of 2000	Progression	
Turnover				
- Third parties (incl. non-watch components)	395	339	+ 56	+ 16.5 %
- Group (watch components only)	323	367	- 44	- 12.0 %
- Total	718	706	+ 12	+ 1.7 %
EBITDA (earnings before interest, taxes, depreciation and abatements)	101	106	- 5	- 4.7 %
- as % of turnover	14.1 %	15.0 %		
EBIT (earnings before interest and taxes)	43	38	+ 5	+ 13.2 %
as % of turnover	6 %	5.4 %		

Growth in turnover from sales to third parties was marked considerably by deliveries of components outside the watch sector. As far as movements are concerned, the volume of Swiss-made products for third parties fell slightly while more personalized movements, including products with a chronometer certificate, were sold at considerably higher average prices. The new models and new developments mentioned above, such as the Co-Axial movements for Omega, the T-Touch watches for Tissot and the Skin Chrono models for Swatch have suffered because of production capacity problems. This factor also led to temporary increases in stocks. The high level of demand for special products, above all in the sector of mechanical movements, persists.

Efforts to expand and modernize the production of watches and components will be continued as part of our ambitious development program, although a certain amount of time is needed until plans are fully implemented. For this reason short-term quantum leaps cannot be expected in this connection. This also applies to the measures introduced with the aim of setting the watch-hand manufacturer Universo on a new industrial and profitable course.

ELECTRONIC SYSTEMS

in million CHF	1 st half of 2001	1 st half of 2000	Progression	
Turnover				
- Third parties	197	200	- 3	- 1.5 %
- Group	28	27	+ 1	+ 3.7 %
- Total	225	227	- 2	- 0.9 %
EBITDA (earnings before interest, taxes, depreciation and abatements)	63	83	- 20	- 24.1%
- as % of turnover	28.0 %	36.6 %		
EBIT (earnings before interest and taxes)	48	70	- 22	- 31.4%
- as % of turnover	21.3 %	30.8 %		

Turnover in this sector was maintained at more or less the same level as in the previous year. In this connection the critical situation with regard to the mobile telephone industry, which has affected Microcrystal, Oscilloquartz and Renata, played a major role. Reductions in turnover were, therefore, unavoidable here. On the other hand, a rise in turnover at EM Marin and Lasag more or less compensated for this effect on the sales level.

As far as the operating result is concerned, the additional turnover mentioned above was not able to compensate for the loss on sales of the more profitable products, which led to an overall drop in operating margin to 21.3%.

In this sector a clear improvement in the situation should not be expected until the last months of the year, although a rise in the orders for August, September and October in the mobile telephony sector implies that the situation is becoming less critical. Our investment program has been adapted to present expectations.



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Enclosures:

- I Income statement for the first half of 2001
- II Balance sheet for the first half of 2001
- III Results by segment for the first half of 2001
- IV Statistics for the first half of 2001

Interim Consolidated Financial Statements

INCOME STATEMENT	1st semester 2001		1st semester 2000		Variance	
Total sales in units : watches, movements & stepping motors (in million units)	55.5		50.9		9.0 %	
	million CHF	%	million CHF	%	million CHF	%
Gross sales	2,022	100.0	1,977	100.0	45	2.3%
Sales reductions	- 64	- 3.2	- 64	- 3.2	0	
Net sales	1,958	96.8	1,913	96.8	45	2.4%
Other operating income	220	10.9	181	9.1	39	
Group performance	2,178	107.7	2,094	105.9	84	4.0%
Operating expenses (without depreciation)	- 1,765	- 87.3	- 1,666	- 84.2	-99	
EBITDA	413	20.4	428	21.7	-15	-3.5%
Depreciation of current and fixed assets	- 98	- 4.8	- 118	- 6.0	20	
EBIT (Operating income)	315	15.6	310	15.7	5	1.6%
Net financial income						
- Without extraordinary item	- 25	- 1.2	18	0.9	-43	
- Extraordinary element	0	0.0	44	2.2	-44	
Extraordinary result and taxes	- 56	- 2.8	- 68	- 3.4	12	
Net income of consolidated companies	234	11.6	304	15.4	-70	-23.0%
Minority interests	- 3	- 0.1	- 4	- 0.2	1	
Net consolidated income	231	11.4	300 ¹⁾	15.2	-69	-23.0%
1) Without extraordinary item			256	12.9	- 25	-9.8%

The Interim Consolidated Financial Statements are unaudited.

Interim Consolidated Financial Statements

BALANCE SHEET	30.06.2001		31.12.00	
	million CHF	%	million CHF	%
Assets				
Fixed assets	1,123	23.0	1,092	23.4
- Inventories	1,498	30.7	1,299	27.9
- Trade receivables	649	13.3	703	15.1
- Other current assets	1,608	33.0	1,568	33.6
Current assets	3,755	77.0	3,570	76.6
Total assets	4,878	100.0	4,662	100.0
Liabilities and Equity				
Shareholders' equity	3,581	73.4	3,320	71.2
Minority interests	15	0.3	18	0.4
Provisions	392	8.0	402	8.6
Long-term debts	73	1.5	76	1.6
Short-term debts	817	16.8	846	18.2
Total Liabilities and Equity	4,878	100.0	4,662	100.0

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Interim Consolidated Financial Statements
SEGMENT INFORMATION
Gross sales

(In million CHF)	1st semester 2001			1st semester 2000		
	Third	Group	Total	Third	Group	Total
Watches	1,428	0	1,428	1,436	0	1,436
Horological production	395	323	718	339	367	706
Electronic systems	197	28	225	200	27	227
General services	2	3	5	2	9	11
Adjustments	0	-354	-354	0	-403	-403
Total	2,022	0	2,022	1,977	0	1,977

EBITDA

	1st semester 2001			1st semester 2000		
	million CHF	% of		million CHF	% of	
		sales	total		sales	total
Watches	257	18.0%	62.2%	252	17.6%	58.9%
Horological production	101	14.1%	24.4%	106	15.0%	24.8%
Electronic systems	63	28.0%	15.3%	83	36.6%	19.4%
General services	-8		-1.9%	-13		-3.1%
Total	413	20.4%	100.0%	428	21.7%	100.0%

EBIT (Operating income)

	1st semester 2001			1st semester 2000		
	million CHF	% of		million CHF	% of	
		sales	total		sales	total
Watches	235	16.5%	74.6%	224	15.6%	72.3%
Horological production	43	6.0%	13.7%	38	5.4%	12.3%
Electronic systems	48	21.3%	15.2%	70	30.8%	22.5%
General services	-11		-3.5%	-22		-7.1%
Total	315	15.6%	100.0%	310	15.7%	100.0%

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Interim Consolidated Financial Statements

THE SWATCH GROUP LTD SECURITIES	1st semester 2001	1st semester 2000	Variance	
	CHF	CHF	CHF	%
Registered share				
- Number of shares	14,081,000	14,081,000		
- Share capital	140,810,000	140,810,000		
- Total share capital	312,132,500	312,132,500		
- Consolidated income per registered share	7.40	9.61	- 2.21	-23%
- Stock price per registered share at 30.06.	382.5	425.5	- 43.00	-10%
Bearer share				
- Number of shares	3,426,450	3,426,450		
- Share capital	171,322,500	171,322,500		
- Total share capital	312,132,500	312,132,500		
- Consolidated income per bearer share	37.00	48.06	- 11.06	-23%
- Stock price per bearer share at 30.06.	1,800	2,074	- 274.00	-13%
<p>After the partial repayment of the nominal share value and the share split (1:10), effective on <u>10. August 2001</u>, figures are as follows :</p>				
Registered share				
- Number of shares	140,810,000			
- Share capital	63,364,500			
Bearer share				
- Number of shares	34,264,500			
- Share capital	77,095,125			
Total share capital	140,459,625			