

LETTER TO SHAREHOLDERS

BIEL/BIENNE, 14 AUGUST 2009

HALF-YEAR REPORT 2009: SWATCH GROUP - A STRONG OUTPERFORMER IN THE CURRENT CHALLENGING ECONOMIC ENVIRONMENT

- Strong outperformance compared to Swiss Watch Federation export sales, with gross sales reaching CHF 2 480 million in the first six months of 2009 (-15.3% compared to an absolute record first half-year 2008, adjusted by divestments).
- Further expansion of market shares in all watch segments and regions, due to consistent distribution and product strategy, strong innovation, new product development and highly motivated personnel.
- Despite very strong ongoing marketing activities and high R&D investments as well as the clear commitment to preserve jobs for its employees, still high operating profit margin of 14.7% of net sales or CHF 345 million (21% or CHF 593 million in the record first half-year 2008, representing a decrease in operating profit of 41.8%) in a challenging economic environment.
- Consolidated net income of CHF 301 million or 12.8% of net sales (CHF 418 million and 14.8% in the first half of 2008, a decrease in net income of 28%) thanks also to a positive financial result.
- Substantial improvements in accounts receivable days outstanding confirm strong demand for Swatch Group products.
- Ongoing selective and strong expansion of retail and distribution activities, taking advantage of opportunities in the current challenging economic environment.
- Sales and operating margin achieved in May and June compared to the first four months of the current year show a very positive trend, which is confirmed in July and will continue in the months to come despite order cancellations for components from third-party watchmakers.

GROUP OVERVIEW

Group Key Figures

(CHF million)	1st half 2009	1st half 2008	1st half 2008 comparable basis *
		as reported	
Gross sales	2 480	2 973	2 927
			-15.3%
Net sales	2 352	2 824	
Operating profit	345	593	
– in % of net sales	14.7%	21.0%	
Net income	301	418	
– in % of net sales	12.8%	14.8%	
Investment in non-current assets	128	166	
Equity, 30 June	5 547	5 169	
Market capitalization, 30 June	9 537	14 204	
Annualized return on equity (ROE)	10.9%	15.9%	
Basic earnings per share (EPS) – expressed in CHF per share:			
– Registered shares	1.14	1.56	
– Bearer shares	5.70	7.82	

* comparable basis excluding divestments in previous period

Unaudited figures.

The first half of 2009 was marked by a very challenging economic environment with a drop in demand and a declining consumer confidence worldwide. The Swatch Group was much more resistant to this negative development than most of the industry, with gross sales decreasing on a comparable basis (excluding the two divestments made in 2008) by only 15.3% to CHF 2 480 million. This result is by far better than the export figures for the first half-year 2009 published by the Swiss Watch Federation. The Swatch Group is benefitting from its worldwide presence and the excellent positioning of its 19 internationally known brands in all price categories. This success factor has enabled the Group once more to increase market shares in all watch segments and regions.

Unlike in the previous period, the global effects of the volatility of foreign currencies did not have a material impact on Group sales (-0.1%). In the current economic environment, the Group is continuing to take advantage of interesting opportunities in the retail and distribution activities in order to consolidate brand presence over the long term.

Operating profit declined by 41.8% to CHF 345 million. This represents an operating profit margin of 14.7% of net sales, compared to 21% in the first half-year 2008, despite very strong ongoing marketing activities and high R&D investments as well as the clear commitment to preserve jobs for its employees.

Net income realized is CHF 301 million, compared to CHF 418 million in the first half of 2008. The decrease was less important than on operating profit level, thanks to the positive correction on the financial markets mainly in the second quarter. With CHF 247 million, the operating cash flow was almost at the same level as in the first semester 2008 (CHF 268 million).

Outlook

The Group's unique brand portfolio and worldwide presence in distribution, combined with its solid equity and liquidity base, will enable the Group to largely overcome the difficult economic conditions and to emerge from them even stronger. A main growth driver in the coming months will continue to be the improving sales in most of the countries where demand should pick up with the anticipated weakening of the recession. The sales development in the last two to three months as well as current order entries show signs of recovery.

This positive trend has been clearly confirmed in July 2009. Retailer destocking is about to slow down, and they start again to re-order at a normal level. New product launches from Breguet, Tiffany, Omega's new Constellation line, the new mechanical movements for Tissot and Swatch as well as new product development in practically all brands will further improve Group sales. Overall this should enable the Group to realize sales in the second half-year 2009 comparable to or for several important brands even better than the last six months of 2008.

Stronger cost reduction measures have been applied where necessary, without harming the Group's long-term strategy of continued growth. Marketing activities will remain at a similar level as last year. Foreign currencies are expected to remain stable, with a slight negative impact on sales until the end of 2009. With the strong balance sheet as well as the healthy cash position, the Group certainly is in a favorable situation to seize opportunities when available.

WATCHES & JEWELRY

(CHF million)	1st half 2009	1st half 2008
Gross sales		
– Third parties	1 959	2 344
– Group	1	1
– Total	1 960	2 345
Net sales		
– Third parties	1 851	2 216
– Group	1	1
– Total	1 852	2 217
Operating profit	285	416
– in % of net sales	15.4%	18.8%

Unaudited figures.

In the first half of 2009 gross sales for the Watch segment decreased by 16.4% to CHF 1 960 million. Compared to the export figures for the first six months of 2009 published by the Swiss Watch Federation, showing a drop of 26.4% in value, this indicates that the Swatch Group with its 19 brands in all price categories has been able to strongly outperform the industry and to gain market shares.

While the development in many countries remains at a sound and solid level, markets such as the United States, Japan and Spain suffered from the difficult economic environment. The Group's presence in all price segments, the favorable geographical mix and the strong distribution network proved to be key advantages. Unlike in the previous year, foreign currencies overall did not have any substantial impact on sales.

The segment realized an operating margin of 15.4% of net sales (compared to 18.8% in the first half of 2008). Given the challenging circumstances, this achievement demonstrates a strong out-performance. Generally, marketing activities were kept at a high level. The Group is more than ever very cost conscious and will take the necessary measures to increase its profitability in the second half of the year. Furthermore, the figures for the months of June and July 2009, with several important brands at about the same level of the comparative months in 2008, confirm the positive trend recorded since May 2009, and the steady improvement in sales will permit even higher performances.

PRODUCTION

(CHF million)	1st half 2009	1st half 2008
Gross sales		
– Third parties	342	346
– Group	496	609
– Total	838	955
Net sales		
– Third parties	324	328
– Group	479	593
– Total	803	921
Operating profit		
– in % of net sales	9.5%	16.3%

Unaudited figures.

The Production segment achieved gross sales of CHF 838 million (-12.3% compared to the first half-year 2008), as a consequence of the general decrease in demand for watch movements and components. While sales of mechanical movements were still strong, demand for quartz movements in the last six months has decreased.

The Group maintained its production capacities, even though in some companies the utilization was lower than in the past. As one of the measures, some third party activities were shifted internally. Also, new products such as the mechanical movements for Swatch and Tissot offer high quality which will boost sales and orders in the segment. Product innovation through research and development is an ongoing mission for the Group and clearly demonstrates its know how and strength in this field.

The lower capacity utilization, in combination with the decrease in volumes, had a negative impact on the segment's operating performance. The Group, with its clear long-term growth strategy, did not respond with major job cuts. In only a few companies, reduced working hours have already been announced that are planned for the second half of this year.

Based on current order books, the Group expects to maintain the current level of performance in the Production segment in the second half-year.

ELECTRONIC SYSTEMS

(CHF million)	1st half 2009	1st half 2008	1st half 2008
		as reported	comparable basis *
Gross sales			
– Third parties	176	279	233
– Group	8	15	12
– Total	184	294	245
			–24.9%
Net sales			
– Third parties	174	277	
– Group	8	15	
– Total	182	292	
Operating profit	2	33	
– in % of net sales	1.1%	11.3%	

* comparable basis excluding divestments in previous period

Unaudited figures.

Gross sales in the Electronic Systems segment decreased in the first half-year to CHF 184 million. On a comparable basis, adjusted by last year's divestment of Group companies Sokymat GmbH and Michel Präzisionstechnik AG, gross sales declined by 24.9%.

Problems in the electronic integrated circuit chip market, difficult market conditions in the automotive and mobile phone industries and continuing price pressure as a result of surplus capacities have also negatively impacted the segment's profitability. The decrease in sales and operating margin was twofold: a substantial decrease in volumes and further pressure on prices.

The first signs of the second half of the year are already encouraging. Some companies within this segment abandoned reduced working hours, in the light of stronger demand resulting in higher capacity utilization. Another very positive development is the launching of new products, for example by EM Marin in the field of integrated circuits.

Interim Consolidated Financial Statements

CONDENSED INCOME STATEMENT

	1st half 2009		1st half 2008	
	CHF million	%	CHF million	%
Gross sales	2 480	105.4	2 973	105.3
Sales reductions	-128	-5.4	-149	-5.3
Net sales	2 352	100.0	2 824	100.0
Other operating income	43	1.8	51	1.8
Changes in inventories	165	7.0	289	10.2
Operating expenses	-2 107	-89.5	-2 464	-87.2
Depreciation, amortization and impairment charges	-108	-4.6	-107	-3.8
Operating profit	345	14.7	593	21.0
Net financial result	27	1.1	-120	-4.3
Profit before taxes	372	15.8	473	16.7
Income taxes	-71	-3.0	-55	-1.9
Net income	301	12.8	418	14.8
Attributable to equity holders of The Swatch Group Ltd	299		416	
Attributable to non-controlling interests	2		2	
Earnings per share (EPS) – expressed in CHF per share:				
Registered shares				
Basic earnings per share	1.14		1.56	
Diluted earnings per share	1.13		1.54	
Bearer shares				
Basic earnings per share	5.70		7.82	
Diluted earnings per share	5.65		7.70	

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED BALANCE SHEET

Assets	30.06.2009		31.12.2008	
	CHF million	%	CHF million	%
Property, plant and equipment	1 503	20.8	1 504	20.7
Intangible assets	316	4.4	308	4.3
Other non-current assets	452	6.2	436	6.1
Total non-current assets	2 271	31.4	2 248	31.1
Inventories	2 917	40.3	2 738	37.8
Trade receivables	654	9.1	733	10.1
Other current assets	803	11.1	836	11.6
Cash and cash equivalents	585	8.1	680	9.4
Total current assets	4 959	68.6	4 987	68.9
Total assets	7 230	100.0	7 235	100.0
Equity and liabilities				
Equity	5 547	76.7	5 451	75.3
Provisions	44	0.6	45	0.6
Financial debts	469	6.5	476	6.6
Other non-current liabilities	364	5.0	361	5.0
Total non-current liabilities	877	12.1	882	12.2
Provisions	61	0.8	63	0.9
Financial debts and derivative financial instruments	56	0.8	53	0.7
Other current liabilities	689	9.6	786	10.9
Total current liabilities	806	11.2	902	12.5
Total liabilities	1 683	23.3	1 784	24.7
Total equity and liabilities	7 230	100.0	7 235	100.0

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED STATEMENT OF CASH FLOWS

	1st half 2009		1st half 2008
	CHF million		CHF million
Operating activities			
Net income	301		418
Depreciation and impairment charge	108		107
Fair value result/interests	-8		119
Changes in working capital	-87		-230
Taxes	-59		-148
Pensions, provisions and other items	-8		2
Cash flow from operating activities	247		268
Investing activities			
Investments in non-current assets	-128		-166
Proceeds from sale of non-current assets	1		1
Purchase/sale of marketable securities	20		52
Investments in subsidiaries	-2		-14
Divestment of businesses and deconsolidations	0		-17
Cash flow from investing activities	-109		-144
Financing activities			
Dividends paid	-226		-225
Purchase/sale of treasury shares	0		-266
Change in non-current borrowings	-6		-4
Change in current borrowings	0		4
Repurchase of convertible bonds	-2		0
Cash flow from financing activities	-234		-491
Net impact of foreign exchange rate differences on cash	1		-12
Change in cash and cash equivalents	-95		-379
Change in cash and cash equivalents			
- at beginning of year	680		1 284
- at 30 June	585	-95	905
		-379	

Unaudited figures.

Interim Consolidated Financial Statements

STATEMENT OF COMPREHENSIVE INCOME

	1st half 2009	1st half 2008
	CHF million	CHF million
Net income	301	418
Other comprehensive income		
Exchange differences on translating foreign operations	18	-83
Income tax relating to exchange differences	0	0
Cash flow hedges	0	1
Income tax relating to cash flow hedges	0	0
Other comprehensive income, net of tax	18	-82
Total comprehensive income, net of tax	319	336
Attributable to:		
Equity holders of The Swatch Group Ltd	317	334
Non-controlling interests	2	2

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 31.12.2007	129	213	-821	-23	5 812	5 310	19	5 329
Total comprehensive income 1st half 2008				-82	416	334	2	336
Dividends paid					-225	-225		-225
Share based compensation:								
– Value of employee services (net of tax)					3	3		3
– Proceeds from shares						0		0
Changes in non-controlling interests						0	-8	-8
Share buyback			-266			-266		-266
Balance at 30.06.2008	129	213	-1 087	-105	6 006	5 156	13	5 169
Total comprehensive income 2nd half 2008				-12	418	406	2	408
Dividends paid						0	-1	-1
Share based compensation:								
– Value of employee services (net of tax)					7	7		7
– Proceeds from shares					1	1		1
Impact of reclassification to associates					-39	-39		-39
Changes in non-controlling interests						0	1	1
Share buyback			-95			-95		-95
Share capital reduction	-4		553		-549	0		0
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
Share buyback						0		0
Balance at 30.06.2009	125	213	-629	-99	5 923	5 533	14	5 547

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 2009 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 2008. 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 2008, except for the adoption of the following new or revised standards and interpretations mandatory for annual periods beginning on or after 1 January 2009:

- IFRS 8 Operating Segments: IFRS 8 replaces IAS 14 Segment Reporting. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any changes in reportable operating segments for the Group, as the segment view is consistent with internal reporting provided to the Management Board. The segment disclosures are shown in Note 4.
- IAS 1 (revised) Presentation of Financial Statements: The revised standard separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces a statement of comprehensive income, presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has decided to present two statements.
- IAS 23 (amendment) Borrowing Costs: The revised standard requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. The Group has amended its accounting policies accordingly and applied the new requirements as of 1 January 2009. There was no impact in the first half-year 2009.

The following new amendments and interpretations are mandatory for the first time for the financial year beginning on or after 1 January 2009, but have no material impact or are currently not relevant for the Group:

- IFRS 2 (amendment) Share based payments
- IAS 32 (amendment) Financial Instruments: Presentation - Puttable financial instruments and obligations arising on liquidation.
- IAS 39 (amendment) Financial Instruments: Recognition and Measurement - Eligible hedged items
- IFRIC 13 Customer loyalty programmes
- IFRIC 15 Agreement for the Construction of Real Estate
- IFRIC 16 Hedges of a net Investment in a Foreign Operation
- Improvements to IFRSs

3. Group structure changes

The consolidation structure comprises 163 legal entities at 30 June 2009, compared to 161 at 31 December 2008. This increase is due to a newly acquired entity (refer to note 7) and the creation of a new Group company. These changes to the consolidation structure have no significant impact on the half-year figures.

4. Segment information

1st half 2009 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	1 959	342	176	3		2 480
– Group	1	496	8	1	–506	0
Gross sales	1 960	838	184	4	–506	2 480
– Third parties	1 851	324	174	3		2 352
– Group	1	479	8	1	–489	0
Net sales	1 852	803	182	4	–489	2 352
Operating profit	285	76	2	–18		345
– As a % of net sales	15.4%	9.5%	1.1%			14.7%
– As a % of total	82.6%	22.0%	0.6%	–5.2%		100.0%
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1st half 2008 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	2 344	346	279	4		2 973
– Group	1	609	15	2	–627	0
Gross sales	2 345	955	294	6	–627	2 973
– Third parties	2 216	328	277	3		2 824
– Group	1	593	15	2	–611	0
Net sales	2 217	921	292	5	–611	2 824
Operating profit	416	150	33	–6		593
– As a % of net sales	18.8%	16.3%	11.3%			21.0%
– As a % of total	70.1%	25.3%	5.6%	–1.0%		100.0%
<hr/>						
Total assets at 30.06.2009	4 265	1 753	704	2 416	–1 908	7 230
Total assets at 31.12.2008	4 208	1 720	721	2 393	–1 807	7 235

(CHF million)	30.06.2009	30.06.2008
Operating profit	345	593
Interest income	2	14
Interest expense	–9	–11
Other financial income and expense	30	–123
Share of result from associates and joint ventures	4	0
Profit before taxes	372	473

Unaudited figures.

5. Seasonality of operations

In prior periods, slightly higher revenues and operating profits were usually expected in the second half of the year, due to the somewhat seasonal nature of the segments “Watches & Jewelry” and “Production”. This was mainly due to strong sales in the months of September to December relating to the above-average Christmas season. With the turmoil in the financial markets, this pattern was impacted in 2008 and to some extent already in 2007.

6. Treasury shares / share buyback

In the period under review, no own shares were repurchased by the Swatch Group. However, in February 2009 the Group repurchased 400 of its convertible bonds with a total nominal value of CHF 2 million.

7. Business combinations

At the end of March 2009, the Group 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.

In January 2008, the Group had acquired the business activities of the company H. Moebius & Sohn, Allschwil, a supplier of classic and synthetic oils, lubricants and epilam coatings. In March 2008, another small transaction involved the acquisition of 100% of the issued capital of Vica Sàrl, Lausanne. In June 2008, the Group had acquired the remaining 65% of François Golay SA, Le Brassus, a developer of high-quality wheels and other watch components.

The acquisitions have been accounted for using the purchase method of accounting. The identifiable assets and liabilities acquired in the transactions as well as the goodwill and cash outflow arising from the acquisitions are as follows:

(CHF million)	1st half 2009		1st half 2008	
	Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount
Property, plant and equipment	0	0	16	9
Intangible assets	0	0	6	0
Current assets	5	5	4	4
Cash and cash equivalents	2	2	0	0
Provisions	0	0	-1	-1
Non-current liabilities	-3	-3	-6	-3
Current liabilities	-2	-2	-1	-1
Previously held interests	0	0	-5	0
Net assets acquired	2	2	13	8
Goodwill (capitalized)	2	0	5	0
Negative Goodwill (recognized in P&L)	0	0	-3	0
Total purchase consideration	4	0	15	0
Cash acquired	-2	0	0	0
Remaining payments outstanding	0	0	-1	0
Cash outflow from acquisitions	2	0	14	0

The total acquisition cost basically represents the cash payments made to the vendors. The costs directly attributable to the acquisitions were below CHF 1 million.

The goodwill arising from these acquisitions is mainly attributable to the acquired know-how and the expected operating synergies from the combinations. In the case of François Golay SA, the fair values of net assets acquired were in excess of the consideration paid. The resulting negative goodwill of CHF 3 million was recognized in the income statement 2008 within other operating income.

The initial accounting for these business combinations has been determined provisionally. In accordance with IFRS 3, adjustments to the fair value assigned to the identifiable assets acquired and liabilities assumed can be made during twelve months from the date of acquisition.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date were less than CHF 1 million (same in 2008). Also, if the acquisitions had taken place at the beginning of the year, the Group's revenue would not have increased by more than CHF 2 million (previous year: CHF 8 million), and Group profit would not have changed by more than CHF 1 million (previous year: CHF 1 million).

8. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2008, the dividend agreed at the Annual General Meeting on 15 May 2009, with a value date of 20 May 2009, was distributed as follows:

Dividend per registered share	CHF	0.85
Dividend per bearer share	CHF	4.25
Total dividend paid	CHF million	223

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 2008.

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 2009.

11. Key exchange rates

	Average rates		Prevailing rates		Prevailing rates	
	01.01.-30.06.2009	30.06.2009	01.01.-30.06.2008	31.12.2008	30.06.2008	
	CHF	CHF	CHF	CHF	CHF	
1 CNY	0.1661	0.1594	0.1485	0.1574	0.1490	
1 EUR	1.5098	1.5270	1.6074	1.4940	1.6090	
1 HKD	0.1464	0.1405	0.1337	0.1386	0.1310	
100 JPY	1.1863	1.1340	0.9990	1.1850	0.9660	
1 USD	1.1341	1.0880	1.0419	1.0730	1.0210	

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