

LETTER TO SHAREHOLDERS

BIEL/BIENNE, 24 JULY 2012

HALF-YEAR REPORT 2012:  
SWATCH GROUP – DOUBLE-DIGIT GROWTH  
ONCE AGAIN IN BOTH SALES AND PROFIT

- Sales in the Watches & Jewelry segment grew once again by a strong +16.7% to CHF 3 400 million.
- The Group's gross sales were up +14.4% to CHF 3 847 million, surpassing the record 2011 half-year figure.
- Operating profit increased by +19.4% to CHF 903 million, corresponding to an operating margin of 24.5% (23.7% in 2011).
- Net income of CHF 724 million up +25.0% on the first half of 2011, 19.7% on net sales (18.2% in 2011).
- Positive outlook for the second half of the year. Dynamic growth in all segments and regions, notably also outside Asia.

**Evolution of gross sales**

(CHF million)	1st half 2012	1st half 2011	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
Watches & Jewelry	3 400	2 913	+ 14.8%	+ 1.9%	+ 16.7%
Production	1 188	964	+ 23.4%	- 0.2%	+ 23.2%
Electronic Systems	160	186	- 14.4%	+ 0.4%	- 14.0%
Corporate and elimination	- 901	- 701			
<b>Total gross sales</b>	<b>3 847</b>	<b>3 362</b>	<b>+ 12.8%</b>	<b>+ 1.6%</b>	<b>+ 14.4%</b>

Unaudited figures.

## GROUP OVERVIEW

### Group Key Figures

(CHF million)	1st half	1st half	Change in %		Total
	2012	2011	at constant rates	currency effect	
<b>Gross sales</b>	<b>3 847</b>	3 362	+ 12.8%	+ 1.6%	+ 14.4%
<b>Net sales</b>	<b>3 680</b>	3 187			+ 15.5%
<b>Operating profit</b>	<b>903</b>	756			+ 19.4%
– in % of net sales	<b>24.5%</b>	23.7%			
<b>Net income</b>	<b>724</b>	579			+ 25.0%
– in % of net sales	<b>19.7%</b>	18.2%			
Investments in non-current assets	<b>213</b>	174			
Equity, 30 June	<b>8 509</b>	7 303			
Market capitalization, 30 June	<b>19 675</b>	22 435			
Annualized return on equity (ROE)	<b>17.5%</b>	16.1%			
Basic earnings per share (EPS) – expressed in CHF per share:					
– Registered shares	<b>2.67</b>	2.13			
– Bearer shares	<b>13.35</b>	10.64			

Unaudited figures.

The Swatch Group, with its 19 brands, grew by +14.4%, generating gross sales of CHF 3 847 million in the first half of 2012. Again, this very positive, continued growth spanned all major regions and price segments. Key contributory factors included a combination of strong brands and expansion of the distribution and retail network, as well as the good performance of the Production segment, which posted a +23.2% jump in gross sales. In addition to the expansion of its very diversified distribution network and innovative marketing, the Group continues to invest very heavily in production. Approximately 40% of the investments in this segment go toward the expansion of capacities, approximately 50% toward new production technologies and new products, and approximately 10% toward the replacement of existing capacities. These figures underscore the Group's innovative strength and long-term strategy, which are also reflected in a record number of new patents.

Exchange rates stabilized at a very low level during the first six months of 2012, which had a slightly positive effect of +1.6% on Group sales. However, the ongoing overvaluation of the Swiss franc and the high prices of gold and diamonds are continuing to put pressure on the margins for our brands, which traditionally have been very restrained with price increases. The Group nevertheless succeeded in further increasing profitability in the first half of 2012, supported by its motivated workforce and the Swatch Group's culture of cost consciousness.

Operating profit grew by +19.4% to CHF 903 million, and net income increased by +25.0% to CHF 724 million. Despite higher taxes paid and strategic increases in inventory levels, the Group generated total operating cash flow of CHF 256 million in the first half of 2012.

## Outlook

The Group's prospects for the second half-year are promising. Several key brand events will highlight the second half of the year: Omega will be the official timekeeper of the Olympic Games for the 25th time in London as well as partner to PGA of America at the Ryder Cup team golf tournament, and will also feature in the new James Bond movie this coming fall. The Breguet brand will launch the *Breguet Classique Chronométrie*, and Blancpain will launch the new *Calendrier Chinois Traditionnel*. In addition, Swatch launched the Swatch Plastic Chrono very successfully this July.

The focus also remains on the further education and training of our employees at the various training centers in Switzerland and abroad.

The Group clearly sees more opportunities than risks for the future, despite some negative trends such as in the exchange rate and euro situation and a certain weakening in the high-end segment in parts of Greater China. Its goal remains to achieve a record CHF 8 billion in sales for this year.

## WATCHES & JEWELRY

(CHF million)	1st half 2012	1st half 2011	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	3 398	2 912			
– Group	2	1			
– Total	3 400	2 913	+ 14.8%	+ 1.9%	+ 16.7%
<b>Net sales</b>					
– Third parties	3 233	2 748			
– Group	2	1			
– Total	3 235	2 749			+ 17.7%
<b>Operating profit</b>					
	718	621			+ 15.6%
– in % of net sales	22.2%	22.6%			

Unaudited figures.

Gross sales in the Watches & Jewelry segment rose in the first half-year to a total of CHF 3 400 million, which represents an increase of +16.7% on the already high comparison basis of 2011. This substantial year-on-year growth was once again generated across all brands and regions, and was supported by the extended distribution network and retail activity.

Despite strong rises in material costs, for example gold and diamonds, and despite the defensive policy on short-term price increases, operating profit increased by +15.6% to CHF 718 million.

## PRODUCTION

(CHF million)	1st half 2012	1st half 2011	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	300	275			
– Group	888	689			
– Total	1 188	964	+ 23.4%	– 0.2%	+ 23.2%
<b>Net sales</b>					
– Third parties	300	265			
– Group	887	676			
– Total	1 187	941			+ 26.1%
<b>Operating profit</b>					
– in % of net sales	19.2%	16.3%			+ 49.0%

Unaudited figures.

Gross sales in the Production segment for watches, watch movements and components rose by +23.2% to CHF 1 188 million. Watch movements, hands and dials in particular continue to be affected by delivery backlogs, which are being partially eased by the ongoing investments in capacity expansion.

The segment's operating profit increased by +49.0% to CHF 228 million, corresponding to an operating margin of 19.2% (versus 16.3% in first-half 2011). This impressive performance was largely due to the surge in volume, to the high capacity utilization, and to efficiency and quality improvements. In addition, production capacity for high-quality watch cases was increased through the complete takeover of Simon Et Membrez SA and partial takeover of Termiboîtes SA.

With full order books, the segment also expects a good second half to the year.

On 15 May 2012, the Competition Commission (WEKO) confirmed the supplies defined in 2011 for mechanical watch movements and assortments to third parties for 2013. WEKO is expected to issue a final decision sometime this year.

## ELECTRONIC SYSTEMS

(CHF million)	1st half 2012	1st half 2011	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	145	171			
– Group	15	15			
– Total	160	186	– 14.4%	+ 0.4%	– 14.0%
<b>Net sales</b>					
– Third parties	143	170			
– Group	15	15			
– Total	158	185			– 14.6%
<b>Operating profit</b>					
– in % of net sales	0.6%	8.1%			

Unaudited figures.

Sales in the Electronic Systems segment declined by -14.0%. This segment is heavily exposed to cyclical fluctuations and exchange rate risks. With price pressure increasing in the areas of telecommunications, consumer electronics and computer peripherals (including their suppliers), and with little improvement in the exchange rate situation versus the US dollar, which is the base currency in this market, sales in this segment could not be sustained at the same level as in previous years. However, the market leader in watch batteries, Renata, featuring an environmentally friendly mercury-free watch battery, is continuing on its growth course.

Despite monitoring the product mix, strict cost controls and new production innovations, profitability suffered under these difficult external conditions. This resulted in an operating profit of CHF 1 million in the first half of 2012. In view of the current market and exchange rate situation, gross sales and operating results in the second half of 2012 are not expected to differ significantly from the first half-year.

## Interim Consolidated Financial Statements

### CONDENSED INCOME STATEMENT

	1st half 2012		1st half 2011	
	CHF million	%	CHF million	%
Gross sales	3 847	104.5	3 362	105.5
Sales reductions	- 167	- 4.5	- 175	- 5.5
<b>Net sales</b>	<b>3 680</b>	<b>100.0</b>	<b>3 187</b>	<b>100.0</b>
Other operating income	51	1.4	35	1.1
Changes in inventories	512	13.9	349	10.9
Operating expenses	- 3 215	- 87.4	- 2 704	- 84.8
Depreciation, amortization and impairment charges	- 125	- 3.4	- 111	- 3.5
<b>Operating profit</b>	<b>903</b>	<b>24.5</b>	<b>756</b>	<b>23.7</b>
Net financial result	22	0.6	- 17	- 0.5
<b>Profit before taxes</b>	<b>925</b>	<b>25.1</b>	<b>739</b>	<b>23.2</b>
Income taxes	- 201	- 5.4	- 160	- 5.0
<b>Net income</b>	<b>724</b>	<b>19.7</b>	<b>579</b>	<b>18.2</b>
Attributable to equity holders of The Swatch Group Ltd	720		575	
Attributable to non-controlling interests	4		4	
<b>Earnings per share (EPS) – expressed in CHF per share:</b>				
<b>Registered shares</b>				
Basic earnings per share	2.67		2.13	
Diluted earnings per share	2.67		2.13	
<b>Bearer shares</b>				
Basic earnings per share	13.35		10.64	
Diluted earnings per share	13.34		10.64	

Unaudited figures.

## Interim Consolidated Financial Statements

### STATEMENT OF COMPREHENSIVE INCOME

	1st half 2012	1st half 2011
	CHF million	CHF million
<b>Net income</b>	<b>724</b>	<b>579</b>
<b>Other comprehensive income</b>		
Currency translation of foreign operations	17	- 99
Income tax relating to currency translation	-	-
<b>Other comprehensive income, net of tax</b>	<b>17</b>	<b>- 99</b>
<b>Total comprehensive income, net of tax</b>	<b>741</b>	<b>480</b>
<b>Attributable to:</b>		
Equity holders of The Swatch Group Ltd	737	477
Non-controlling interests	4	3

Unaudited figures.



## Interim Consolidated Financial Statements

### CONDENSED BALANCE SHEET

Assets	30.06.2012		31.12.2011	
	CHF million	%	CHF million	%
Property, plant and equipment	1 813	17.6	1 696	17.3
Intangible assets	611	5.9	328	3.3
Other non-current assets	709	6.9	685	7.0
<b>Total non-current assets</b>	<b>3 133</b>	<b>30.4</b>	<b>2 709</b>	<b>27.6</b>
Inventories	4 218	40.9	3 671	37.4
Trade receivables	926	9.0	894	9.1
Other current assets	902	8.7	915	9.4
Cash and cash equivalents	1 131	11.0	1 616	16.5
<b>Total current assets</b>	<b>7 177</b>	<b>69.6</b>	<b>7 096</b>	<b>72.4</b>
<b>Total assets</b>	<b>10 310</b>	<b>100.0</b>	<b>9 805</b>	<b>100.0</b>
<b>Equity and liabilities</b>				
<b>Equity</b>	<b>8 509</b>	<b>82.5</b>	<b>8 071</b>	<b>82.3</b>
Provisions	38	0.4	37	0.4
Financial debts	71	0.7	73	0.8
Other non-current liabilities	538	5.2	473	4.8
<b>Total non-current liabilities</b>	<b>647</b>	<b>6.3</b>	<b>583</b>	<b>6.0</b>
Provisions	68	0.7	66	0.7
Financial debts and derivative financial instruments	33	0.3	18	0.2
Other current liabilities	1 053	10.2	1 067	10.8
<b>Total current liabilities</b>	<b>1 154</b>	<b>11.2</b>	<b>1 151</b>	<b>11.7</b>
<b>Total liabilities</b>	<b>1 801</b>	<b>17.5</b>	<b>1 734</b>	<b>17.7</b>
<b>Total equity and liabilities</b>	<b>10 310</b>	<b>100.0</b>	<b>9 805</b>	<b>100.0</b>

Unaudited figures.

## Interim Consolidated Financial Statements

### CONDENSED STATEMENT OF CASH FLOWS

	1st half 2012 CHF million	1st half 2011 CHF million
<b>Operating activities</b>		
Net income	724	579
Reversal of non-cash items	321	267
Changes in working capital and other items included in operating cash flow	- 630	- 330
Dividends received from associated companies	4	2
Net interest received / (paid)	6	3
Income tax paid	- 169	- 159
<b>Cash flow from operating activities</b>	<b>256</b>	<b>362</b>
<b>Investing activities</b>		
Investments in non-current assets	- 213	- 174
Proceeds from sale of non-current assets	8	3
Purchase / sale of marketable securities	99	- 32
Investments in subsidiaries, associates and joint ventures	- 336	- 31
<b>Cash flow from investing activities</b>	<b>- 442</b>	<b>- 234</b>
<b>Financing activities</b>		
Dividends paid	- 316	- 270
Sale of treasury shares	7	-
Purchase of treasury shares	- 2	- 13
Change in non-current borrowings	- 3	- 4
Change in current borrowings	14	- 12
<b>Cash flow from financing activities</b>	<b>- 300</b>	<b>- 299</b>
<b>Net impact of foreign exchange rate differences on cash</b>	<b>1</b>	<b>- 18</b>
<b>Change in cash and cash equivalents</b>	<b>- 485</b>	<b>- 189</b>
<b>Change in cash and cash equivalents</b>		
- at beginning of year	1 616	1 825
- at 30 June	1 131	1 636
	- 485	- 189

Unaudited figures.

## Interim Consolidated Financial Statements

### STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders				Total	Non-controlling interests	Total equity
	Share capital	Treasury shares	Other reserves	Retained earnings			
<b>Balance at 31.12.2010</b>	125	- 293	- 286	7 541	7 087	14	7 101
<b>Total comprehensive income 1st half 2011</b>			- 98	575	477	3	480
Dividend paid				- 270	- 270		- 270
Share based compensation:							
– Value of employee services (net of tax)				5	5		5
– Proceeds from shares					0		0
Share buyback		- 13			- 13		- 13
<b>Balance at 30.06.2011</b>	125	- 306	- 384	7 851	7 286	17	7 303
<b>Total comprehensive income 2nd half 2011</b>			104	694	798	4	802
Dividend paid					0	- 4	- 4
Share based compensation:							
– Value of employee services (net of tax)				10	10		10
– Proceeds from shares				1	1		1
Share buyback		- 41			- 41		- 41
<b>Balance at 31.12.2011</b>	125	- 347	- 280	8 556	8 054	17	8 071
<b>Total comprehensive income 1st half 2012</b>			17	720	737	4	741
Dividend paid				- 310	- 310	- 6	- 316
Share based compensation:							
– Value of employee services (net of tax)				7	7		7
– Proceeds from shares					0		0
Changes in non-controlling interests					0	1	1
Sale of treasury shares		6		1	7		7
Purchase of treasury shares		- 2			- 2		- 2
<b>Balance at 30.06.2012</b>	125	- 343	- 263	8 974	8 493	16	8 509

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 2012 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 2011. 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 2011.

The following amendments and new interpretations are mandatory for the first time for the financial year beginning on or after 1 January 2012, but have no material impact or are currently not relevant for the Group:

- IFRS 7 (amendment) Financial Instruments: Disclosures - Transfer of financial assets
- IAS 12 (amendment) Income Taxes - Deferred tax: recovery of underlying assets

### 3. Group structure changes

The consolidation structure comprises 158 legal entities at 30 June 2012 (31 December 2011: 155). The increase is due to newly acquired companies (Note 8).

### 4. Segment information

1st half 2012 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
- Third parties	3 398	300	145	4		3 847
- Group	2	888	15	2	- 907	0
<b>Gross sales</b>	<b>3 400</b>	<b>1 188</b>	<b>160</b>	<b>6</b>	<b>- 907</b>	<b>3 847</b>
- Third parties	3 233	300	143	4		3 680
- Group	2	887	15	2	- 906	0
<b>Net sales</b>	<b>3 235</b>	<b>1 187</b>	<b>158</b>	<b>6</b>	<b>- 906</b>	<b>3 680</b>
<b>Operating profit</b>	<b>718</b>	<b>228</b>	<b>1</b>	<b>- 44</b>		<b>903</b>
- As a % of net sales	22.2%	19.2%	0.6%			24.5%
- As a % of total	79.5%	25.3%	0.1%	- 4.9%		100.0%
1st half 2011 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
- Third parties	2 912	275	171	4		3 362
- Group	1	689	15	2	- 707	0
<b>Gross sales</b>	<b>2 913</b>	<b>964</b>	<b>186</b>	<b>6</b>	<b>- 707</b>	<b>3 362</b>
- Third parties	2 748	265	170	4		3 187
- Group	1	676	15	2	- 694	0
<b>Net sales</b>	<b>2 749</b>	<b>941</b>	<b>185</b>	<b>6</b>	<b>- 694</b>	<b>3 187</b>
<b>Operating profit</b>	<b>621</b>	<b>153</b>	<b>15</b>	<b>- 33</b>		<b>756</b>
- As a % of net sales	22.6%	16.3%	8.1%			23.7%
- As a % of total	82.1%	20.2%	2.0%	- 4.3%		100.0%
<b>Total assets at 30.06.2012</b>	<b>6 428</b>	<b>2 242</b>	<b>549</b>	<b>3 420</b>	<b>- 2 329</b>	<b>10 310</b>
Total assets at 31.12.2011	5 780	1 920	582	3 398	- 1 875	9 805

(CHF million)	30.06.2012	30.06.2011
<b>Operating profit</b>	<b>903</b>	756
Interest income	5	2
Interest expense	-1	-1
Other financial income and expense	13	-23
Share of result from associates and joint ventures	5	5
<b>Profit before taxes</b>	<b>925</b>	739

Unaudited figures.

## 5. Seasonality of operations

Due to the somewhat seasonal nature of the Watches & Jewelry segment, slightly higher revenues and operating profits are usually expected in the second half of the year in local currency. This is mainly due to stronger-than-average monthly sales from September to December related to the holiday and Christmas season.

## 6. Treasury shares

In the period under review, the Group sold own shares in the amount of CHF 7 million. The gain of CHF 1 million from the sale of the shares was recorded in retained earnings.

In addition, in the period under review, the Group repurchased own shares in the amount of CHF 2 million.

## 7. Investments in associates and joint ventures

In the period under review, there were no investments in associates and joint ventures.

In the first half of 2011, the Group acquired a 33.3% stake in Alzouman General Trading Co. Ltd. in Jeddah, Saudi Arabia. The company sells Swatch and Flik Flak brands exclusively, through its own stores in prime retail locations in Saudi Arabia. The acquisition was considered as an associate.

## 8. Business combinations

On 11 April 2012, the Swatch Group acquired 100% of the shares of the companies Simon Et Membrez SA in Delémont and PhM Holding SA in Courtételle from the previous shareholders. In addition, the Swatch Group acquired the related 60% stake in the company Termiboîtes SA in Courtemaîche. The acquired companies produce high-quality watch cases for the top price segment from precious metals such as gold, titanium, platinum, palladium, and premium-grade steel.

The initial accounting for the acquired companies was determined on the basis of provisional values. According to IFRS, fair value adjustments to assets acquired and liabilities assumed may be made within 12 months of the acquisition date.

The cash outflow recognized in the cash flow statement includes acquired cash and cash equivalents of CHF 18 million. The goodwill arising from the acquisitions is primarily attributed to the extraordinary know-how of the acquired companies, the greatly extended production capacity in the Group's core business as well as to the expected operational synergies in the area of watch case production. At the end of June 2012, provisional goodwill was valued at CHF 259 million.

The acquired entities have contributed CHF 2 million to operating profit in the period between acquisition date and closing date. If the acquisitions had taken place at 1 January 2012, Group sales and net income would have been CHF 19 million and CHF 4 million higher, respectively. Minority interests are immaterial. The acquisition-related costs amount to less than CHF 1 million and were charged to the income statement (in operating expenses).

In the prior-year period, the Group acquired 100% of the shares of Novi SA, an assembler of watch movements, located in the canton of Jura (Switzerland).

There were no divestments in the first half of either 2012 or 2011.

## 9. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2011, the dividend agreed at the Annual General Meeting on 16 May 2012, with a value date of 24 May 2012, was distributed as follows:

Dividend per registered share	CHF	1.15
Dividend per bearer share	CHF	5.75
Total dividend paid	CHF million	310

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

## 10. Significant events and business transactions

In the period under review, there were no significant events or business transactions in connection with the critical accounting estimates, judgments and assumptions defined in the consolidated financial statements at 31 December 2011. Furthermore, there were no significant events or business transactions relating to other positions in the consolidated financial statements (such as, for example, classification of financial assets, changes in contingent liabilities and assets, or transactions with related parties).

## 11. Events after the closing date

At the publish date of this press release, the company is not aware of any significant new event that would affect the half-year figures as of 30 June 2012.

## 12. Key exchange rates

	Average rates	Prevailing rates	Average rates	Prevailing rates	Prevailing rates
	01.01.-30.06.2012	30.06.2012	01.01.-30.06.2011	31.12.2011	30.06.2011
	CHF	CHF	CHF	CHF	CHF
1 CNY	0.1471	0.1518	0.1372	0.1497	0.1310
1 EUR	1.2041	1.2038	1.2722	1.2190	1.2245
1 HKD	0.1199	0.1245	0.1150	0.1213	0.1087
100 JPY	1.1713	1.2175	1.0954	1.2160	1.0470
1 USD	0.9303	0.9650	0.8951	0.9425	0.8460

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