

LETTER TO SHAREHOLDERS

BIEL/BIENNE, 16 JULY 2015

HALF-YEAR REPORT 2015: SWATCH GROUP – GROWTH DESPITE MASSIVELY OVERVALUED SWISS FRANC

- The Group's net sales were up 3.6% to CHF 4 248 million at constant exchange rates or 2.2% to CHF 4 192 million at current rates. Calculated in euros, the Group grew by 18.7%.
- In the Watches & Jewelry segment, including Production, the Swatch Group grew by 3.4% at constant exchange rates in comparison with the declining export of wrist watches of the Swiss Watch Industry of -1.1% at the end of May.
- Accelerated growth in May and June 2015.
- Operating profit of CHF 761 million, 8.3% under the first half of the previous year, due to significant currency shifts in the recent past. Nevertheless, operating margin reached 18.2% for the Group.
- In the Watches & Jewelry segment, including Production, the operating margin reached 20.0%.
- Swiss franc shock and negative interest rates result in a lower net income of CHF 548 million, 19.4% below the first half of 2014.
- Positive outlook for the second half of the year, with the launch of new products such as Omega's new James Bond Edition, the introduction of the Omega Master Co-Axial with METAS certification, the Swatch Touch Zero One and the Swatch NFC (Near Field Communication) as a contact-free means of payment; as well as with the additional increase in capacity at Tissot for its very successful T-Touch Expert Solar.

GROUP OVERVIEW

Group Key Figures

(CHF million)	1st half 2015	1st half 2014	Change in %		Total
			at constant rates	currency effect	
Net sales	4 192	4 102	+ 3.6%	- 1.4%	+ 2.2%
Operating profit	761	830			- 8.3%
- in % of net sales	18.2%	20.2%			
Net income	548	680			- 19.4%
- in % of net sales	13.1%	16.6%			
Investments in non-current assets	355	396			
Equity, 30 June	10 617	9 832			
Market capitalization, 30 June	19 937	28 733			
Annualized return on equity (ROE)	10.3%	14.0%			
Basic earnings per share – expressed in CHF per share:					
- Registered shares	1.94	2.43			
- Bearer shares	9.70	12.14			

Unaudited figures.

Strategy

The long-term Group strategy remains unchanged:

1. Manufacturing base Switzerland for all segments; 2. Priority on gaining market share; 3. Further expansion of its own retail network.

Group overview

In the first half of 2015, the Swatch Group generated net sales of CHF 4 248 million at constant exchange rates, and thereby grew by 3.6%. With the further worsening of the exchange rate situation against the massively overvalued Swiss franc, Group sales were reduced by an additional CHF 56 million or 1.4 percentage points. The financial and currency shock of 15 January 2015 caused by the Swiss National Bank (SNB) created an imbalance in sales prices compared to Switzerland, particularly in euro countries. Calculated in euros, Group net sales grew by 18.7%. Despite this extraordinary situation, the Group will maintain its long-term strategy of defensive price adjustment policy over short-term profit.

Highlights of the first half 2015

Growth abroad

In the Watches & Jewelry segment, including Production, the Swatch Group achieved net sales growth of 3.4% at constant rates and 2.0% at current rates compared to the previous year. In comparison, exports of wrist watches for the entire Swiss watch industry fell 1.1% up to and including end of May.

In euro countries, the Swatch Group achieved double-digit growth rates in local currency. In most other countries as well, sales increases in local currency were achieved. The exceptions are South Korea, due to the slowdown in tourism caused by the MERS (Middle East Respiratory Syndrome), and Hong Kong, due to the acknowledged general downturn in tourists. On the other hand, the mainland China market continues to grow, particularly for the brands in the high and middle range – and at the top of the growth list is the Swatch brand in the basic range.

The new regional mix caused by shifting exchange rates and the changed travel patterns of Asians is the decisive factor of bringing the operating margin in this segment at 20.0% of net sales. Production, integrated in the Watches & Jewelry segment, reported very good capacity utilization, driven mainly by the Group's own brands.

The Group's retail business reported very good growth, thus validating its successful strategy of winning market share. Not only in Europe, high double-digit growth was achieved in own stores. Also the successful retail business in Japan and other Asian countries, as well as in the Middle East, achieved more than 10% growth. Retail business grew in the USA as well, particularly the Swatch brand, which quintupled sales of its mechanical watches in the American market.

The Electronic Systems segment generated growth of 7.6% in the first half of this year at current exchange rates and closed the period with net sales of CHF 156 million, despite the continued strength of the franc against the USD and JPY. The increase in sales was driven by the delivery of energy-efficient integrated circuits for electronic consumer goods such as fitness bands, mobile phones, smart watches and other smart objects. In addition, Renata, market leader in environmentally friendly batteries with the highest energy density, recorded very satisfactory growth rates and contributed significantly to this result. Operating profit in the Electronic Systems segment reached CHF 6 million.

Personnel

Again in the first half of 2015 over 400 new jobs were created, of which 100 in Switzerland. The latter were mainly created in brand companies. Abroad, chiefly retail personnel for new stores were hired. As a result, the number of employees increased to over 36 000 at the end of June 2015.

Training

The Swatch Group promotes vocational training at all levels, particularly for young people who wish to graduate as professional watchmaker or in related technical professions. In Switzerland, roughly 180 apprenticeships were again awarded, so that the number of trainees in Switzerland rose to approximately 450. Abroad, there are currently 140 trainees, of which 80 apprentices will receive their training at Glashütte Original in Germany. In addition, approximately 50 adults will be trained and supervised until graduation as professional watchmaker. Further, the Swatch Group has 150 students in training in its own six watchmaking schools – Secaucus (USA), Kuala Lumpur (Malaysia), Shanghai and Hong Kong (China), Pforzheim (Germany) and Manchester (UK).

Operating profit and net income

Due to this year's shifts in exchange rates and the new country mix, an operating profit totaling CHF 761 million was generated, corresponding to an operating margin of 18.2%. Despite additional pressure resulting from the overvalued Swiss franc against most other currencies, as well as the low or even negative interest rate situation in some currencies and the marked-to-market valuation of the important Euro portfolio held as at mid of January, net income reached nevertheless CHF 548 million or 13.1% of net sales.

Product Highlights

The antimagnetic Omega Co-Axial Globemaster Collection (METAS certified), the Speedmaster 57 Vintage Dial and the Swatch brand mechanical watches, particularly the best seller Swatch Sistem51, made a significant contribution to the good sales results. The explosive demand for the Tissot T-Touch Expert Solar resulted in significant supply bottlenecks for the brand. The necessary adjustments in production have been made in order to shorten significantly waiting times in the second half of the year.

Investments

Across all segments, the Group invested a total of CHF 355 million in non-current assets in the first half of 2015. The Group's retail network was increased with the opening of numerous new boutiques in the best locations, and Production was expanded with the latest equipment. Significant investment was made in the area of customer service, both in Switzerland and in the foreign subsidiaries.

Cash Flow

Operating cash flow amounted to CHF 821 million in the period under review, after tax payments of CHF 191 million. The decline compared to the previous year can be attributed mainly to payments from a legal case received at the beginning of 2014.

Inventories

Inventories increased only slightly in value since the beginning of the year and amount to CHF 6 billion at the end of June. The increase is exclusively attributable to the opening of new retail stores and to the further investment in diamonds. The major portion of inventories consists of finished and semi-finished products for current and newly launched collections such as the Omega Co-Axial Globemaster Chronograph collection, the Swatch Touch Zero One and Swatch NFC. Also, Harry Winston opened additional large retail stores – in Dubai, Miami and Macao – in the first half of the year, as well as expanding existing retail stores such as those in Hong Kong and at Harrod's in London. Finished products in inventories are clearly a prime sales generator.

Outlook

The outlook for the Group in all regions and segments remains very good. Despite the Swiss franc dilemma, Group Management expects a strong second half 2015.

Tourism in South Korea will stabilize again after MERS and sales in Greater China and other regions will further increase in local currency. For all brands, this growth will be supported by a high level of marketing investment, an expanded retail network and also by the many new product launches in all segments.

The high consumer demand worldwide for Swiss watches continues very dynamically across all segments, particularly also in the area of mechanical watches.

Under these circumstances, and also remaining focussed on the successful long-term strategy to increase market share, further very positive growth in local currency is expected.

Interim Consolidated Financial Statements

INCOME STATEMENT

	1st half 2015		1st half 2014	
	CHF million	%	CHF million	%
Net sales	4 192	100.0	4 102	100.0
Other operating income	44	1.0	214	5.2
Changes in inventories	233	5.6	312	7.6
Material purchases	- 1 063	- 25.4	- 1 159	- 28.3
Personnel expense	- 1 217	- 29.0	- 1 175	- 28.6
Depreciation on tangible assets	- 174	- 4.1	- 155	- 3.8
Amortization on intangible assets	- 18	- 0.4	- 17	- 0.4
Other operating expenses	- 1 236	- 29.5	- 1 292	- 31.5
Operating profit	761	18.2	830	20.2
Other financial income and expense	- 54	- 1.3	13	0.3
Interest expense	- 1	- 0.0	- 1	0.0
Share of result from associates and joint ventures	2	0.0	3	0.1
Ordinary result	708	16.9	845	20.6
Non-operating result	1	0.0	0	0.0
Extraordinary result	-	0.0	-	0.0
Profit before taxes	709	16.9	845	20.6
Income taxes	- 161	- 3.8	- 165	- 4.0
Net income	548	13.1	680	16.6
Attributable to equity holders of The Swatch Group Ltd	526		659	
Attributable to non-controlling interests	22		21	
Earnings per share (EPS) – expressed in CHF per share:				
Registered shares				
Basic earnings per share	1.94		2.43	
Diluted earnings per share	1.94		2.43	
Bearer shares				
Basic earnings per share	9.70		12.14	
Diluted earnings per share	9.69		12.13	

Unaudited figures.

Interim Consolidated Financial Statements

BALANCE SHEET

Assets	30.06.2015		31.12.2014	
	CHF million	%	CHF million	%
Current assets				
Cash and cash equivalents	1 104	8.6	1 202	9.4
Marketable securities and derivative financial instruments	339	2.7	263	2.1
Trade receivables	1 037	8.1	1 108	8.7
Other current assets	124	1.0	135	1.1
Inventories	6 044	47.3	5 943	46.6
Prepayments and accrued income	309	2.4	295	2.3
Total current assets	8 957	70.1	8 946	70.2
Non-current assets				
Property, plant and equipment	3 028	23.7	3 010	23.6
Intangible assets	144	1.1	150	1.2
Investments in associates and joint ventures	67	0.5	70	0.5
Other non-current assets	197	1.6	201	1.6
Deferred tax assets	377	3.0	370	2.9
Total non-current assets	3 813	29.9	3 801	29.8
Total assets	12 770	100.0	12 747	100.0

Unaudited figures.

Interim Consolidated Financial Statements

BALANCE SHEET

Equity and liabilities	30.06.2015		31.12.2014	
	CHF million	%	CHF million	%
Current liabilities				
Financial debts and derivative financial instruments	16	0.1	35	0.3
Trade payables	338	2.6	371	2.9
Other liabilities	301	2.4	158	1.2
Provisions	81	0.6	83	0.7
Accrued expenses	620	4.9	661	5.2
Total current liabilities	1 356	10.6	1 308	10.3
Non-current liabilities				
Financial debts	34	0.3	38	0.3
Deferred tax liabilities	623	4.9	604	4.7
Retirement benefit obligations	34	0.3	38	0.3
Provisions	50	0.4	47	0.4
Accrued expenses	56	0.4	38	0.3
Total non-current liabilities	797	6.3	765	6.0
Total liabilities	2 153	16.9	2 073	16.3
Equity				
Share capital	125		125	
Capital reserves	- 1 017		- 1 037	
Treasury shares	- 315		- 301	
Goodwill recognized	- 1 372		- 1 372	
Translation differences	- 188		- 6	
Retained earnings	13 293		13 174	
Equity of The Swatch Group Ltd shareholders	10 526	82.4	10 583	83.0
Non-controlling interests	91	0.7	91	0.7
Total equity	10 617	83.1	10 674	83.7
Total equity and liabilities	12 770	100.0	12 747	100.0

Unaudited figures.

Interim Consolidated Financial Statements

STATEMENT OF CASH FLOWS

	1st half 2015 CHF million	1st half 2014 CHF million
Operating activities		
Net income	548	680
Reversal of non-cash items	353	322
Changes in working capital and other items included in operating cash flow	106	194
Dividends received from associated companies	2	2
Interest received	4	26
Interest paid	-1	-1
Income tax paid	-191	-210
Cash flow from operating activities	821	1 013
Investing activities		
Investments in property, plant and equipment	-289	-329
Proceeds from sale of property, plant and equipment	1	3
Investments in intangible assets	-20	-20
Proceeds from sale of intangible assets	0	0
Investments in other non-current assets	-46	-47
Proceeds from sale of other non-current assets	2	1
Acquisition of subsidiaries – net of cash	-	-4
Divestment of subsidiaries	-	3
Investments in associated companies and joint ventures	-	-
Divestments of associated companies and joint ventures	-	-
Purchase of marketable securities	-164	-126
Sale of marketable securities	77	173
Cash flow from investing activities	-439	-346
Financing activities		
Dividends paid to shareholders	-407	-407
Dividends paid to non-controlling interests	-17	-6
Purchase of treasury shares	-14	-
Sale of treasury shares	1	-
Change in non-current financial debts	-2	-2
Change in current financial debts	2	0
Sale of non-controlling interests	11	-
Cash flow from financing activities	-426	-415
Net impact of foreign exchange rate differences on cash	-54	-3
Change in cash and cash equivalents	-98	249
Change in cash and cash equivalents		
– At beginning of year	1 202	908
– At 30 June	1 104	1 157

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	Capital reserves	Treasury shares	Goodwill recognized	Translation differences	Retained earnings			
Balance at 31.12.2013	125	- 1 062	- 268	- 1 369	- 115	12 197	9 508	66	9 574
Net income 1st half 2014						659	659	21	680
Currency translation of foreign entities					- 12		- 12	0	- 12
Compensation of goodwill Group companies				- 3			- 3		- 3
Dividends paid						- 407	- 407	- 6	- 413
Share-based compensation:									
– Value of employee services (net of tax)		6					6		6
– Proceeds from sale of shares									
Sale of treasury shares									
Purchase of treasury shares									
Balance at 30.06.2014	125	- 1 056	- 268	- 1 372	- 127	12 449	9 751	81	9 832
Net income 2nd half 2014						725	725	11	736
Currency translation of foreign entities					121		121	7	128
Compensation of goodwill Group companies									
Dividends paid								- 8	- 8
Share-based compensation:									
– Value of employee services (net of tax)		15					15		15
– Proceeds from sale of shares		1					1		1
Sale of treasury shares		3	74				77		77
Purchase of treasury shares			- 107				- 107		- 107
Balance at 31.12.2014	125	- 1 037	- 301	- 1 372	- 6	13 174	10 583	91	10 674
Net income 1st half 2015						526	526	22	548
Currency translation of foreign entities					- 182		- 182	- 5	- 187
Compensation of goodwill Group companies									
Dividends paid						- 407	- 407	- 17	- 424
Share-based compensation:									
– Value of employee services (net of tax)		7					7		7
– Proceeds from sale of shares		1					1		1
Sale of treasury shares									
Purchase of treasury shares			- 14				- 14		- 14
Changes in non-controlling interests		12					12		12
Balance at 30.06.2015	125	- 1 017	- 315	- 1 372	- 188	13 293	10 526	91	10 617

Unaudited figures.

Notes to the Interim Consolidated Financial Statements

1. Basis of preparation and significant accounting policies

These consolidated financial statements cover the unaudited interim results for the six months ending 30 June 2015. They have been prepared in accordance with Swiss GAAP FER (Accounting and Reporting Recommendations). The consolidated interim financial statements for 2015 have been prepared in accordance with FER 31 "Supplementary Recommendation for Listed Companies".

As of 1 January 2015, the Group adopted early implementation of the new revenue recognition rule (changes in Swiss GAAP FER Framework, FER 3 and FER 6), which is applicable to consolidated financial statements as of 1 January 2016. The new rule specifies how revenue is to be recognized, valued and disclosed. The long-standing accounting and reporting principles of the Swatch Group already comply with the new revenue recognition rule according to Swiss GAAP FER. As a result, the changes have no impact on revenue recognition for the Group and it was not necessary to restate the previous year figures.

These interim financial statements do not contain all the information and disclosures required in the annual consolidated financial statements. They should therefore be read in conjunction with the consolidated financial statements as at 31 December 2014. In this interim report, Management has not made any significant changes to the estimates and assumptions compared to the previous period.

2. Changes to Group structure

At 30 June 2015 the Group consolidation structure comprised 168 legal entities (31 December 2014: 172). The decrease was due to mergers within the Group. Information on business combinations can be found in Note 5.

3. Key exchange rates

	Average rates 01.01.-30.06.2015	Prevailing rates 30.06.2015	Average rates 01.01.-30.06.2014	Prevailing rates 31.12.2014	Prevailing rates 30.06.2014
	CHF	CHF	CHF	CHF	CHF
1 CNY	0.1524	0.1513	0.1445	0.1598	0.1437
1 EUR	1.0506	1.0450	1.2203	1.2030	1.2160
1 HKD	0.1223	0.1210	0.1152	0.1277	0.1150
100 JPY	0.7881	0.7670	0.8758	0.8300	0.8800
1 USD	0.9478	0.9380	0.8933	0.9905	0.8915

4. Segment information

1st half 2015 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	4 044	145	3		4 192
- Group	1	11	3	- 15	0
Net sales	4 045	156	6	- 15	4 192
Operating profit	807	6	- 52		761
- As a % of net sales	20.0%	3.8%			18.2%
- As a % of total	106.0%	0.8%	- 6.8%		100.0%
1st half 2014 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	3 965	133	4		4 102
- Group	1	12	2	- 15	0
Net sales	3 966	145	6	- 15	4 102
Operating profit	889	- 10	- 49		830
- As a % of net sales	22.4%	- 6.9%			20.2%
- As a % of total	107.1%	- 1.2%	- 5.9%		100.0%
Total assets at 30.06.2015	11 452	385	4 710	- 3 777	12 770
Total assets at 31.12.2014	11 446	397	4 289	- 3 385	12 747

Unaudited figures.

5. Business combinations

There were no business combinations in the first half-year 2015.

In the first half of 2015, minority shares of two companies in the Middle East were sold. These transactions resulted in a cash inflow of CHF 11 million, but had no impact on the consolidation structure. The Swatch Group continues to maintain control over both companies.

In the first half of 2014, Swatch Group acquired all the shares of René Clémence S.A. in La Chaux-de-Fonds (Switzerland). The company is a watch glass manufacturer.

The Group also acquired 100% of the shares of the Canadian company H.W. Protection Inc, Toronto, in the first half of 2014. This company provides services solely to other Group companies.

The net cash outflow from both acquisitions totalled CHF 4 million. The accumulated goodwill from both acquisitions which was recognized in equity amounted to CHF 3 million.

In the first half of 2014, Swatch Group sold its entire participation in Oscilloquartz AG, Neuenburg (Switzerland) to ADVA Optical Networking SE, Munich (Germany). The net assets sold amounted to CHF 12 million. The net cash inflow from the sale amounted to CHF 3 million.

6. Investments in associated companies and joint ventures

In the first half-year 2015 as well as 2014, there were no changes in investments in associated companies and joint ventures.

7. Goodwill

Goodwill is recognized directly in equity at the time of purchase of a subsidiary or an investment in an associated company. The theoretical capitalization of goodwill, applying a depreciation period of 5 to 10 years, would have the following impact on equity and net income:

Theoretical impact on equity

(CHF million)	30.06.2015	31.12.2014	30.06.2014
Equity, per balance sheet	10 617	10 674	9 832
Theoretical capitalization of net book value of goodwill	816	877	938
Theoretical equity including net book value of goodwill	11 433	11 551	10 770

Theoretical impact on net income

(CHF million)	30.06.2015	31.12.2014	30.06.2014
Net income, per income statement	548	1 416	680
Theoretical amortization of goodwill	-61	-122	-61
Theoretical net income after amortization of goodwill	487	1 294	619

8. Treasury shares

In the period under review, the Swatch Group purchased treasury shares in the amount of CHF 14 million and sold treasury shares in the amount of CHF 1 million (related to the employee stock option plan).

In the previous period, the Swatch Group neither purchased nor sold treasury shares.

9. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2014, the dividend agreed at the Annual General Meeting on 28 May 2015, with a value date of 3 June 2015, was distributed as follows:

Dividend per registered share	CHF	1.50
Dividend per bearer share	CHF	7.50
Total dividend paid	CHF million	407

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

10. Seasonality of operations

Due to the somewhat seasonal pattern 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.

11. Significant events and business transactions

During the period under review, no material events or business transactions occurred that might have an impact on the critical estimates, appraisals and assumptions to be found in the consolidated financial statements as at 31 December 2014. Also, there were no further material events or business transactions that might impact upon other positions in the consolidated financial statements (such as, for example, changes to contingent liabilities and receivables or business transactions involving associated enterprises and persons).

12. 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 at 30 June 2015.

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