SWATCH GROUP

Press Release

Swatch Group: Sales exceed CHF 5 billion for the first time - Best Group results of all time and the outlook remains optimistic

Biel/Bienne, 22 January 2007

- *Gross sales up by + 12.3 % to a record CHF 5 050 million.*
- *Strong growth in all Group segments, especially in the Watches and Jewelry segment.*
- *Mildly positive currency effects in 2006 (+ 0.6 %).*
- *Strong cash flow, above-average increase in operating result and Group net income expected.*
- *Optimistic outlook for current year.*

Key Figures Sales

(CHF millions)

	2006	2005	**% change**		
			In local currency	**currency effect**	**Total**
Gross sales					
Watches & jewelry	**3 912**	3 437	+ 13.0 %	+ 0.8 %	+ 13.8 %
Production	**1 394**	1 304	+ 6.9 %	0.0 %	+ 6.9 %
Electronic systems	**593**	544 [1)]	+ 8.8 %	+ 0.2 %	+ 9.0 %
Corporate and elimination	**(849)**	(788) [1)]			
Total	**5 050**	4 497	+ 11.7 %	+ 0.6 %	+ 12.3 %
Sales of watches, movements and stepping motors (in million units)	**52.3**	107.5			- 51.3 %

[1)] restated due to the integration of Swiss Timing into the segment Electronic systems

Group Overview

All Group segments reported record sales last year. As in previous years, the most substantial sales growth was in the luxury watches segment, which once again enjoyed strong demand last year.

The Production segment benefited directly from the strong demand in the Watch segment. The favorable product mix towards more complex mechanical watch movements enabled it to achieve strong growth.

Sales in the Electronic Systems segment recorded a marked increase due to continuing high demand for components produced by the Group companies. Sales increased by +9.0% compared to the previous year.

There was a slightly positive currency effect in 2006 (+0.6%). The positive effect of the first half of the year was almost entirely eliminated in the second half of the year due to the weak performance of the USD and the Yen.

A further decrease in unit sales of watches, movements and stepping motors by approximately 55 million units can be attributed mainly to the strong reduction in watch movements in the lowest price category manufactured and sold in the Far East. Production in Malaysia has now come to a halt.

Watches and Jewelry

(CHF millions)	**2006**	2005	**% change**		
			In local currency	**currency effect**	**Total**
Gross sales	**3 912**	3 437	+ 13.0 %	+ 0.8 %	+ 13.8 %

The Watch segment once again achieved the strongest sales growth last year. Headed by the Group's luxury brands, all price segments and brands achieved high to very high growth. The Breguet, Blancpain, Glashütte Original and Omega brands deserve special mention. These luxury segment brands have achieved growth well into double figures. Jaquet Droz suffered from production bottlenecks but accomplished nevertheless a good development. The difficulties in the Jaquet Droz capacity area should be compensated by the extension of the *manufacture*.

The strong position of the Group's watch brands was further enhanced last year. Strength of innovation in the development of new products coupled with targeted marketing is helping to ensure long-term growth in all brands and solidify their presence within the market.

Strong growth was also achieved by the brands in the premium and mid-price segments, with additional market share being won in a fiercely contested market. This applies in particular to the Longines, Rado, Tissot and Calvin Klein brands. In the mid-price segment, the Certina, Mido and Hamilton brands all made excellent progress. The efforts being made to establish these brands in niche segments continues to pay off, and the growth potential in many markets is a long way from being exhausted. In the low-price segment, the Swatch brand has continued to develop very successfully in 2006. The brand is enjoying significant growth and posting very pleasing results.

The jewelry division achieved solid growth rates and contributed to the increase in sales.

Expansion of retail activities once again made good progress last year thanks to new shops in targeted locations. The contribution to sales from retail business continues to grow and sales figures are developing positively. The experiences gained in the retail sector are of great benefit for the Group's brands and can be applied in many markets.

Regional markets all showed positive development. Once again, the strongest growth was recorded in Asia. However, the US and Europe are not far behind and are enjoying healthy growth momentum. The worldwide economic boom is reflected in these more balanced growth trends. The opening of the Nicolas G. Hayek Center in Tokyo, Japan, with seven retail outlets for Group brands among other services, planned for the first half of this year, will increase the already strong market shares and accelerate growth in the region even more.

Production

(CHF millions)

		2006	2005	**% change**		
				In local currency	**currency effect**	**Total**
Gross sales	- Third parties	**562**	537	+ 4.7 %	+ 0.0 %	+ 4.7 %
	- Group	**832**	767	+ 8.5 %	--	+ 8.5 %
	Total	**1 394**	1 304	+ 6.9 %	0.0 %	+ 6.9 %

Growth momentum in the Watch segment had a direct impact on the Production segment. The decisive factors for the strong growth were, above all, the favorable product mix and an increased demand for movements and components in all price categories.

In the year under review, the segment also benefited directly from the high demand for jewelry (gem setting, jewelry production, etc.). A further increase in orders for higher priced, complex mechanical watch movements made an above-average contribution to the successful business development. Both Group brands and third-party customers continued to increase their orders over the course of the year.

The high demand led to a number of delivery bottlenecks and capacity problems over the course of the year. The top price segment of watches and components was affected above all, but some impact could also be felt in the premium and mid-price segments. Substantial additional investments in production facilities and increased personnel recruitment helped the Group to partly overcome these production bottlenecks.

The phased expansion of capacity for watch movements by enhancing existing production facilities will enable a further increase in sales in this segment during 2007. The development of additional capacity nevertheless takes time and cannot always be implemented at short notice.

The jewelry segment will gain further importance within the Group, with the construction of a center of competence for the development and production of high-quality jewelry by the Dress Your Body (DYB) company in Corcelles-Cormondrèche.

The production facilities of the Group's watch movements and components sector worked at high capacity for the entire year under review, which also resulted in a very healthy development of inventory.

Electronic Systems

(CHF millions)

		2006	2005	**% change**		
				In local currency	**currency effect**	**Total**
Gross sales	- Third parties	**571**	517	+ 10.2 %	+ 0.2 %	+ 10.4 %
	- Group	**22**	27 [1)]	- 18.5 %	--	- 18.5 %
	Total	**593**	544 [1)]	+ 8.8 %	+ 0.2 %	+ 9.0 %

[1)] restated due to the integration of Swiss Timing into the segment Electronic systems

Growth in the Electronic Systems segment amounted to +9.0% in 2006. During the second half of the year all companies in this segment were able to confirm growth, with the exception of one company operating in the automobile sector. Growth was achieved despite a stark reduction in the number of watch movements in the lowest price category sold in Asia in the second half of the year, and in comparison with a particularly strong previous year.

Progress was underpinned by the strong increase in demand for mass-market products such as mobile phones and portable electronic devices, but also by the growing demand for components for Swatch watches.

Component manufacturers Micro Crystal and EM Microelectronic, in particular, achieved a noticeable increase in their volumes, while Renata benefited from a new tire pressure monitoring system (TPMS) for automobiles. EM Microelectronic was also able to reinforce its position in the growth market of RFID tagging.

Expected earnings for 2006 and initial outlook for 2007

The strong increase in sales in all segments of the Group will lead to an above-average increase in the operating profit for 2006. As already mentioned during the presentation of the half-year figures, the operating margins of the various segments will also clearly improve on an annualized basis.

The negative currency effects in the second half of the year and the high gold price both held down margins. The luxury tax introduced in China in April 2006 also led to a temporary eroding of margins. These effects could be partially compensated through selective price increases, particularly in the top price segment.

The profitability of the watch movements and components sector will be very good in tandem with the Watch segment. The increased sales volumes and the positive development of the product mix will have a positive and sustained effect on margins. The targeted increase in efficiency and associated increase in profitability will continue to be pursued.

The production bottlenecks that were already in evidence in the first half of 2006 will present the Group with major challenges in the current year. The effects of this will be felt by the Group brands and third-party customers. The Group is striving to eliminate these production bottlenecks through the phased expansion of capacities. This will enable it to meet both internal and external demands as best as it can.

A dynamic development in profitability is also expected in the Electronic Systems segment. The level of orders continues to be good, while future trends will largely depend on how prices for components develop. The market position of the various companies is being expanded and new markets such as RFID (Radio Frequency Identification) provide even more potential for growth.

The financial result will be somewhat better than in the previous year. The positive stock markets in 2006 and an underweighting of bonds contributed significantly to the good performance. Foreign exchange earnings will be slightly negative as currency performances were unfavorable during the second half of the year and hedging costs were incurred.

The Group expects 2006 to be a record year, and the Board of Directors and the Executive Group Management Board expect this pleasing trend to continue in 2007. The very high demand for products in all price categories means that there is also a healthy development in the inventory situation. The continuing economic boom in all regions and an uninterrupted high demand for brand products worldwide will help to further sustain growth within the Group. The Group is well positioned with its brands and is aiming to win additional market shares.

Last year a CHF 300 million share buyback program was successfully concluded. The Group's Board of Directors will meet shortly to deliberate and make a decision on a new share buyback program.

Next publications:

22 March 2007	Publication Key Figures
19 April 2007	Press conference and meeting with analysts
11 May.2007	Annual General Meeting

Original: German
Translations: English, French and Italian

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