

The spoken word is valid

Address of Nicolas G. Hayek, Chairman of the Board of Directors of The Swatch Group Ltd. at the Assembly General 2010 of the Swatch Group Shareholders of May 12, 2010, in the Congress Center Basel (Switzerland)

When Swatch Group published its sales results for 2009 on 20th January this year, they were met with congratulations and enthusiastic headlines by financial analysts and journalists. Thus, for example, on 21st January 2010, a respected and important Swiss economic and financial newspaper headlined its front page with "Insolent rise in turnover – Swatch Group surpasses its competitors"; after which followed an article entitled "Swatch Group dominates its sector". For our retail partners and our personnel as well as for yourselves, dear co-shareholders, this result was expected and is certainly beneficial but far be it from us the idea of being insolent, more that of an example to follow. Indeed, we sincerely regret the decline in turnover of some of our watchmaking colleagues. This report, as every year, provides an overview of the results of the work undertaken by over 24 000 men and women employed by this company, as well as that of our distributors, partners and retailers around the world, during the difficult year of 2009.

The key figures for 2009 are as follows:

- Group gross sales of CHF 5 421 million, on comparable basis (excluding divestments of Sokymat Automotive and Michel Präzisionstechnik undertaken in 2008) in decline by –8.1%, including losses incurred by exchange rates of CHF 105 million (–6.3% without these losses).
- Watch segment sales with a decrease of –7.7% largely outperform Federation of the Swiss Watch Industry (FH) export sales (–22.3% in 2009), gaining market shares for the Group in practically all price segments and markets.
- Operating profit reaches CHF 903 million or 17.6% on net sales (versus 21.2% in 2008), with a very strong performance in the second half-year (EBIT margin of over 20%) despite currency losses of CHF 105 million versus 2008.

- Net income amounts to CHF 763 million, –8.9% less than in 2008, with 14.8% of net sales, exactly the same as the previous year.
- Substantial equity of CHF 6 billion or 77.6% of total balance sheet (versus 75.3% in the previous year).
- Dividend 2009 proposed: CHF 0.80 per registered share and CHF 4.00 per bearer share.

Thus this decrease, even if it is disagreeable and unfortunate, is certainly far better than the predictions and estimations made by some economic experts, confirming the excellent work undertaken by our personnel, executives and Group Management Board.

Despite a tempestuous and tumultuous international environment, extremely menacing for the future survival of several watchmaking companies, Swatch Group navigated the storm relatively well, avoiding the major swirls and eddies, and finishing up this turbulent year on good form and up to our expectations, as the results and accounts of the year show. Indeed, Swatch Group indicated this in its annual report in 2008: *“Well, that is all well and good, I hear you say, but where are we going in 2009 – 2010 and beyond? Forecasts are legion ... not only is the number of media in our world considerable but in addition each media hands out, as they did in the past – as do in fact very knowledgeable economists – several contradictory forecasts ... so where are we going? We find ourselves in a tunnel, which is dark and dangerous for the financial economy and with it for the rest of world, for almost the last 22 months and for the Swatch Group for the last 4 to 5 months. We should be able to emerge from this tunnel within 3, 5 or 7 months, or at the latest 9 months. All our predictions, based upon information from the international markets, confirm a recovery during the second part of the year, with an improvement and increase in sales and profits for the Swatch Group in 2009 compared with 2008.”*

Finally the reality of 2009 confirmed our predictions and the second part of the year, contrary to the expectations of most observers was very positive and far better than the second half of 2008. It even ended with a record turnover in December 2009.

Already, during the first half of 2009, Swatch Group had experienced a strong fall in sales of -15,3%, but this is relatively minor when compared to the major decline of 26,4% in the value of Swiss watchmaking exports as noted by the Federation of the Swiss Watch Industry (FH). During the second half of the year, the figures for both sales and profits were even more positive. All this, Ladies and Gentlemen, was achieved despite the fact that we took decisions which seemed absurd in the eyes of a number of economists and financiers.

In the first instance, Swatch Group decided to maintain the total number of its employees during this period of crisis, even if the reduction in turnover was to be fairly substantial. We already published this decision very early on in the year, with the aim of reassuring our personnel regarding their job security and confirming the fact that, even in difficult times, they are not considered as commodities but as partners working together to contribute fully to the future results, innovation and success of our company.

Secondly, we decided not to exercise pressure on our partners and retailers. During the crisis, a large number of these partners had envisaged selling the watches held in their stock and substantially reducing their purchases from the different brands of our group. We did not wish to force anyone with conditions of having to buy an entire collection or of purchasing in the usual quantities. Unlike certain other watchmaking companies, we thus showed great understanding for their purchasing reticence.

Thirdly, Swatch Group decided not to adhere to the "End of the World" mentality and not to give in to the predominating world catastrophe scenario by placing our partners under strong pressure to sell at all costs, offering terms of consignment, for example, or unacceptable discounts, far lower than the cost of production itself. It was not in our mind set to liquidate our quality products in the prevailing panic.

In this tempestuous storm, consumers were buying less and we heard ever more alarming rumors from the markets. Thus a number of companies, notably those quoted on the Stock Exchange, gave in to the financial mentality, which often dominates the industry, by following strategies aimed at securing maximum profit in the short term. Swatch Group, on the other hand, preferred to favor a long term strategy, which has finally seen

2009 finish on a relatively positive note. This does not mean that we are satisfied with the results of 2009! Results that are lower, both in terms of turnover and of profits, compared to the record years of 2007 and 2008. It is not because we performed better than our competitors that we consider ourselves to be the "world champions". We will therefore be deploying all our efforts, both at the level of our personnel and that of Group Management Board and Board of Directors, to ensure that 2010 will be more successful.

Indeed, one must admit that 2009 was an extremely trying year not only for the watchmaking industry but also for the whole of Switzerland. The financial activities of some of our major banks continued to represent a substantial danger of causing a state of crisis for our country, despite an improvement during the second part of the year. The biggest of our banks had to admit that some of its leading directors had acted in a criminal manner in the United States. At an international level, the governments of our neighboring countries of Germany, France and Italy, as well as other ally countries, all with astronomic budget deficits, voiced their anger, not only on account of these criminal actions but also concerning our financial laws and the unwavering defense of each person's individual privacy, which is typical of the Swiss mentality. The citizen is more important than the Government and the people the Sovereign ruler, who reigns supreme.

Whilst some of these governments are suffering from record budget deficits, the "insolence" of our well-being, of our very stable and wide-reaching democracy and our high standard of living, which encourages an enormous number of people to come and settle in our country, often seems to incite unjustified bitterness.

It seems natural that such a peace-loving nation, which hates violence, and has an income per capita amongst the highest in the world, as well as offering a highly desirable infrastructure and environment, a low rate of unemployment, a currency that has been stable for several decades and a stable government, should continue to entice other foreign nationals, particularly in this time of crisis, to come and settle here with great enthusiasm, in addition to the 1.7 million who are already residing in Switzerland (almost 30% of the Swiss part of the population or over 22% of the total population living in Switzerland). These people come in particular from neighboring countries, such as France, Germany, Austria and Italy,

countries with the same high standard of living and whose societies are almost as rich as our own. During the course of this year of difficulties, some Swiss people began to question themselves and their country. After having criticized several bank directors, they also started to point the finger of doubt at certain politicians whom they judged to be too weak or incapable of surmounting the obstacles that faced them. One should not forget that Switzerland has never believed that it should form brilliant geniuses at the level of its elite leaders, politicians and the like, because the force of Switzerland lies specifically in its people.

This is the basis of all its values, all the qualities of this country, made up of different communities and cultures, despising all forms of violence, peace-loving and democratic to a fault. This is the unchanging, fabulous foundation of this country which ensures that, despite all the criticism, all those who know her wish to live here.

To the citizens who seem to have lost confidence in them and in our institutions, I would like to call upon them to regain confidence: Come on Switzerland! Allez la Suisse, Hopp Schwiiz!! Yes, certain bank directors, and certain leaders have been incompetent, even criminal; it is quite possible; all countries have their black sheep. The other industrialized countries have the same problems, the United States, as in the cases of Bernard Madoff, Lehman Brothers and other examples from Wall Street. However the new generations of bank directors and other decision makers are already emerging and they have a different, more healthy vision of the financial economy; a vision that respects the traditional values of the Swiss Confederation. Our craftsmen, engineers, researchers, entrepreneurs and many others continue to do this country proud by producing the highest of quality and a substantial number of innovations.

Our international presence confirms to us every day that the immense majority of world populations have a warm and friendly respect towards Switzerland and its people. In fact, Swiss men and women have a deep respect for everyone and for all human rights. Switzerland has never been a colonizing power and its population is capable of showing a solidarity that is unique in the world, as witnessed by the reactions after each natural disaster.

Switzerland started to suffer from the “disease of the hyper rich” where the new generation, unlike their parents and grandparents, no longer have the strength, courage and determination to overcome obstacles and face up to difficulties. Thus in Switzerland we were beginning to lack real artistic entrepreneurs and creators, alone capable of creating new wealth and with them new jobs. After the crisis that it has undergone, Switzerland is recovering, creating again numerous entrepreneurs... a positive result of this crisis and its problems. Come on Switzerland! Allez la Suisse! Hopp Schwiiz!

Our craftsmen therefore remain amongst the most gifted and the best, and our people amongst the most peace-loving and humanist, our country amongst the most desirable, and our researchers and entrepreneurs amongst the most prolific. Concerning the alliance between researchers and entrepreneurs, in 2007, Swatch Group together with Hayek Engineering, Deutsche Bank, the Swiss Federal Institutes of Technology, the Paul Scherrer Institute, the Groupe E, the Ammann Group and George Clooney, created the company Belenos Clean Power. Our own researchers from our research and development laboratories, together with those from other partners, such as the Swiss Federal Institutes of Technology Zurich (ETH Zurich), and the Paul Scherrer Institute, are making progress in the realization of new concepts in renewable energy. Switzerland has an important role to play in this field. We hope that in a few years from now this work will give rise to tangible and visible results that we can show you. The same engineers and scientists also work on the development of the Solar Impulse project of Bernard Piccard and André Borschberg.

Over the last few decades, Swatch Group – your group – has developed the vast majority of the expertise and production resources for mechanical watchmaking movements and complications in Switzerland. During the crisis faced by the watchmaking industry in the 1980s our group was obliged to bear all the risks on its own and to take full responsibility for saving all the important production centers, such as Nivarox- FAR and ETA amongst others, since no other watchmaking company wanted to join forces with us. Throughout all these years we have been forced to deliver our products, and in so doing also our know-how, to almost all the companies who asked for them; this situation created an entry level far too low for any company wishing to enter our industry, even those with no connection to the watchmaking industry. For over 20 years we have been requesting that

these watchmakers develop their own production facilities for their timepieces, or at least part of them, which would indeed be feasible if they deployed the appropriate means, and this in the interest of the whole Swiss watchmaking industry.

The major traditional Swiss watchmaking brands who have their own Manufactures, and who are traditionally supplied in part by us, agree with us on this point and support and encourage us in our actions. We have therefore commenced discussions with the appropriate Swiss authorities to correct this obligation to deliver to everyone (two interviews explaining these points in greater detail were published in Switzerland, the first in *L'AGEFI* on 18th December 2009 in French and the other in German in the *Bieler Tagblatt* on 23rd December 2009).

The Management Board and the Board of Directors foresee a positive year for 2010, as much for the development of the Swatch Group as for a general improvement in our country and throughout the world, at an ethical, moral, economic and industrial level, despite an immense level of debt incurred by the governments of several industrialized countries. It is on this positive note that we will steer our ship during 2010. The start into the new year was indeed dynamic: the first four months – January to April 2010 – show strong growth and consequently strong results. We achieved record sales – and record profits - almost every month. We therefore have good reason to expect a new record year for 2010 – unless this trend is annihilated by another worldwide crisis of the finance sector.

Our resounding thanks go to all the personnel of Swatch Group, all the men and women, in Switzerland and abroad, as well as all our executives and directors, for their commitment and their efforts. And I thank you all too, dear co-shareholders, for your support.

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