LETTER TO SHAREHOLDERS
BIEL/BIENNE, 24 AUGUST 2006

SWATCH GROUP: HALF-YEAR REPORT 2006

- Strong sales performance: Increase of 13.1% to more than CHF 2.3 billion
- Operating profit:
  - Above-average increase of 37.2% from CHF 293 million to CHF 402 million
  - Operating margin up from 14.8% to 18.0%
- Net income:
  - Marked increase of 23.6% to CHF 330 million
  - Net margin up from 13.5% to 14.7%
- Positive outlook for the second half-year

Group key figures (CHF million)	1st half 2006	1st half 2005	Change in % in local currency	Change in % in CHF
Gross sales	**2 347**	**2 075**	**11.0%**	**13.1%**
Net sales	2 239	1 980		13.1%
Operating profit	**402**	**293**		**37.2%**
- in % of net sales	18.0%	14.8%		
Net income	**330**	**267**		**23.6%**
- in % of net sales	14.7%	13.5%		
Investment in tangible assets	104	71		46.5%
Equity, 30 June	4 569	4 484		1.9%
Market capitalization, 30 June	12 587	10 996		14.5%
Annualized return on equity (ROE)	14.4%	12.2%		18.0%
Basic earnings per share (EPS) – expressed in CHF per share				
- Registered shares	1.17	0.92		27.2%
- Bearer shares	5.83	4.58		27.3%

Unaudited figures.

SWATCH GROUP

COMMENTARY

All Swatch Group segments contributed to the Group's remarkable performance in the first half of 2006. Sales were up by a substantial 13.1% (organic growth was 11.0%). Currency effects boosted sales by 2.1%.

The excellent figures – sales and operating results – for the first half of 2006 are primarily attributable to the strong demand for watches in all price categories, but particularly in the top price segment.

The Swatch Group brands registered growth everywhere and increased their market share, in some regions quite substantially. This goal was achieved by a higher marketing spend (events, advertising, improved visibility, etc.). In addition, the brands successfully expanded their presence in key markets by opening proprietary shops in prime locations that present the values of the brand in the right light.

The watches, movements and components production segment likewise saw very pleasing growth, mainly due to the vigorous demand for mechanical movements. The gradual closure of Far East production facilities for watch movements in the lowest price segment during last year and the beginning of the current year affected the comparison base only marginally.

The strong performance of the cyclical electronic systems segment is visible both in sales and particularly in excellent profitability. This development was supported by the upbeat trend in the market for integrated circuits, especially in the RFID sector and in mobile telephony.

By pursuing a cautious investment policy the Swatch Group was able to report a positive financial result, despite the weakness of the financial and foreign exchange markets, albeit lower than a year earlier. As expected, the tax rate came in at a higher level than in the previous year.

The Group's balance sheet ratios are extremely solid with an unchanged equity ratio of 69.9%, even after payment of a higher dividend and taking into account the current share buyback program.

Outlook

Given the Swatch Group's ongoing creativity, lively innovative spirit and strategic direction, backed up by its strong portfolio of brands, the Executive Group Management Board and the Board of Directors are very optimistic for the remainder of the year. The expansion of capacities to overcome the current production bottlenecks will be undertaken with great caution, given the shortage of qualified workforce, particularly watchmakers, observable in the market. After the record year 2005, the Group still aims to achieve another highlight in its development.

The Swatch Group's expectations for the second half of the year are high. It is nevertheless alert to the current economic and political environment, which may have a dampening effect on consumer spending over the remaining months of 2006. The positive currency effect felt in the first half of the year could also weaken somewhat in the second half. We have accordingly hedged the major currencies appropriately.

WATCHES AND JEWELRY

(CHF million)	1st half 2006	1st half 2005	Change in % in local currency	Change in % currency effect	Change in % Total
Gross sales					
- Third parties	**1 761**	1 548			
- Group	**0**	0			
- Total	**1 761**	1 548	11.0%	2.8%	13.8%
Net sales	**1 677**	1 473			13.8%
Operating profit	**292**	241			21.2%
- in % of net sales	**17.4%**	16.4%			

Unaudited figures.

Sales in the watch segment were up in first-half 2006 by 11.0% in local currency and by 13.8% in Swiss francs. All brands contributed to this strong sales growth, although the strongest increase was visible in the top price segment. All the other watch brands in the portfolio saw very solid growth rates, and their market and brand positioning was strengthened in all regions of the world.

Breguet continues to post the strongest growth rates, closely followed by the other luxury brands. In the basic range the Swatch brand is exhibiting an excellent performance.

In the first half of 2006 the Group stepped up its marketing efforts. This included the presence of Omega at the February 2006 Winter Olympics in Turin, Omega's participation in the «SolarImpulse» project, the successful launch of the new Swatch models «Jelly in Jelly» at an event celebrating the 333 millionth Swatch watch in Lugano attended by international celebrities, the Tissot brand's presence at the Nascar races in the USA and many other events. These activities resulted in a higher marketing spend, which should positively impact sales through the second half-year as well.

The above-average increase in operating profit in the watch segment can be ascribed to the factors product mix, volume increase, cost discipline and a positive exchange rate development. The shift in product mix towards the high price segment is, however, clearly the main factor underlying the increase in profitability.

In terms of individual regions, Asia is still a major contributor to the Group's success, but the US and Europe are also showing solid growth with accelerating momentum. Improved consumer sentiment, mainly in Europe, has helped to put all the European economies back on a growth path.

PRODUCTION

(CHF million)	1st half 2006	1st half 2005	Change in % in local currency	currency effect	Total
Gross sales					
- Third parties	**298**	277			
- Group	**395**	382			
- Total	**693**	659	5.0%	0.2%	5.2%
Net sales	**662**	622			6.4%
Operating profit	**65**	29			124.1%
- in % of net sales	**9.8%**	4.7%			

Unaudited figures.

In the watches, movements and components production segment sales rose by 5.2%. This was primarily due to the strong trend of sales in mechanical movements. This was slightly impacted by the already sharply reduced watch movement production activities in the lowest price segment in the Far East.

The ongoing shift in the product mix towards mechanical movements and the absence of special factors in the prior-year period coupled with additional improvements in efficiency have resulted in an above-average increase in profitability in this segment. Rationalization and closure costs had negatively impacted the prior-year figures by some CHF 6 million. Even adjusted for these non-recurring factors, the operating margin was significantly higher, exceeding the Group's previously communicated medium-term margin target of 7%.

The Group companies in this segment had full order books at 30 June 2006. This situation will require investments in the targeted expansion of capacities, some of which are already underway.

ELECTRONIC SYSTEMS

(CHF million)	1st half 2006	1st half 2005	Change in %		
			in local currency	currency effect	Total
Gross sales					
- Third parties	**285**	247			
- Group	**13**	16			
- Total	**298**	263	13.1%	0.2%	13.3%
Net sales	**294**	260			13.1%
Operating profit	**56**	34			64.7%
- in % of net sales	**19.0%**	13.1%			

Unaudited figures.

Sales in the electronic systems segment were up 13.3% in the first half of the year. This is primarily due to increased demand from the mobile telephony sector and the semiconductor industry as well as to the continued expansion of RFID activities at EM Marin.

Given the growing volumes and strict cost controls, the operating margin saw a considerable increase.

The ever-shortening cycles in these industry sectors together with the hard-to-match prior-year comparison base of second-half 2005 represent a substantial challenge for the segment over the remainder of the year.

SWATCH GROUP

Interim Consolidated Financial Statements

CONDENSED INCOME STATEMENT

	1st half 2006		1st half 2005		Change	
	CHF million	%	CHF million	%	CHF million	%
Gross sales	**2 347**	**104.8**	**2 075**	**104.8**	**272**	**13.1**
Sales reductions	–108	–4.8	–95	–4.8	–13	13.7
Net sales	**2 239**	**100.0**	**1 980**	**100.0**	**259**	**13.1**
Other operating income	180	8.0	155	7.8	25	16.1
Operating expenses	–1 920	–85.7	–1 748	–88.3	–172	9.8
Depreciation, amortization and impairment charges	–97	–4.3	–94	–4.7	–3	3.2
Operating profit	**402**	**18.0**	**293**	**14.8**	**109**	**37.2**
Net financial result	13	0.5	33	1.7	–20	–60.6
Profit before taxes	**415**	**18.5**	**326**	**16.5**	**89**	**27.3**
Income taxes	–85	–3.8	–59	–3.0	–26	44.1
Net income	**330**	**14.7**	**267**	**13.5**	**63**	**23.6**
Attributable to equity holders of The Swatch Group Ltd.	328		264		64	24.2
Attributable to minority interests	2		3		–1	–33.3

Earnings per share (EPS)	**CHF**	**CHF**	**CHF**	**%**
Registered shares				
Basic earnings per share	1.17	0.92	0.25	27.2
Diluted earnings per share	1.14	0.91	0.23	25.3
Bearer shares				
Basic earnings per share	5.83	4.58	1.25	27.3
Diluted earnings per share	5.69	4.56	1.13	24.8

Unaudited figures.

SWATCH GROUP

Interim Consolidated Financial Statements
CONDENSED BALANCE SHEET

	30.06.2006		31.12.2005		Change	
Assets	**CHF million**	**%**	**CHF million**	**%**	**CHF million**	**%**
Property, plant and equipment	1 162	17.8	1 153	17.5	9	0.8
Intangible assets	288	4.4	263	4.0	25	9.5
Other non-current assets	221	3.4	215	3.3	6	2.8
Total non-current assets	**1 671**	**25.6**	**1 631**	**24.8**	**40**	**2.5**
Inventories	1 825	27.9	1 724	26.2	101	5.9
Trade receivables	623	9.6	707	10.7	–84	–11.9
Other current assets	969	14.8	655	9.9	314	47.9
Cash and cash equivalents	1 444	22.1	1 871	28.4	–427	–22.8
Total current assets	**4 861**	**74.4**	**4 957**	**75.2**	**–96**	**–1.9**
Total assets	**6 532**	**100.0**	**6 588**	**100.0**	**–56**	**–0.9**
Equity and liabilities						
Equity	**4 569**	**69.9**	**4 603**	**69.9**	**–34**	**–0.7**
Provisions	51	0.8	49	0.7	2	4.1
Borrowings	494	7.6	396	6.0	98	24.7
Other non-current liabilities	378	5.8	376	5.7	2	0.5
Total non-current liabilities	**923**	**14.2**	**821**	**12.4**	**102**	**12.4**
Provisions	51	0.8	50	0.8	1	2.0
Borrowings	156	2.4	329	5.0	–173	–52.6
Other current liabilities	833	12.7	785	11.9	48	6.1
Total current liabilities	**1 040**	**15.9**	**1 164**	**17.7**	**–124**	**–10.7**
Total liabilities	**1 963**	**30.1**	**1 985**	**30.1**	**–22**	**–1.1**
Total equity and liabilities	**6 532**	**100.0**	**6 588**	**100.0**	**–56**	**–0.9**

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED CASH FLOW STATEMENT

	1st half 2006 CHF million		1st half 2005 CHF million	
Operating activities				
Net income	330		267	
Depreciation and impairment charge	97		94	
Changes in provisions, taxes and interest	5		1	
Changes in net working capital and other items	19		–30	
Cash flow from operating activities		**451**		**332**
Investing activities				
Purchase / sale of marketable securities	–323		74	
Investments in other assets	–119		–87	
Proceeds from sale of other assets	4		9	
Acquisitions of subsidiaries	–25		0	
Cash flow from investing activities		**–463**		**–4**
Financing activities				
Dividends paid	–140		–101	
Purchase / sale of treasury shares	–176		0	
Change in non-current borrowings	99		0	
Change in current borrowings	–165		–8	
Buyback of minority interests	–25		0	
Cash flow from financing activities		**–407**		**–109**
Net impact of foreign exchange rate differences on cash		**–3**		**9**
Decrease / increase in cash and cash equivalents		**–422**		**228**
Change in cash and cash equivalents				
- at beginning of year	1 863		1 373	
- at 30 June	1 441	**–422**	1 601	**228**

Unaudited figures.

Interim Consolidated Financial Statements
STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Minority interest	Total equity
	Share capital	Capital-reserves	Treasury shares	Other reserves	Retained earnings	Total		
Balance at 01.01.2005	**137**	**213**	**–518**	**–36**	**4 465**	**4 261**	**15**	**4 276**
Net income					264	**264**	3	**267**
Translation differences and other changes				39		**39**	2	**41**
Total recognized income 1st half 2005				39	264	**303**	5	**308**
Dividends paid					–101	**–101**	–1	**–102**
Share based compensation								
- Value of employee services					2	**2**		**2**
- Proceeds from shares								
Balance at 30.06.2005	**137**	**213**	**–518**	**3**	**4 630**	**4 465**	**19**	**4 484**
Net income					350	**350**	4	**354**
Translation differences and other changes				8		**8**		**8**
Total recognized income 2nd half 2005				8	350	**358**	4	**362**
Share based compensation								
- Value of employee services					4	**4**		**4**
- Proceeds from shares					1	**1**		**1**
Share buyback			–248			**–248**		**–248**
Share capital reduction	–2		149		–147			
Balance at 31.12.2005	**135**	**213**	**–617**	**11**	**4 838**	**4 580**	**23**	**4 603**
Net income					328	**328**	2	**330**
Translation differences and other changes				–26		**–26**	1	**–25**
Total recognized income 1st half 2006				–26	328	**302**	3	**305**
Dividends paid					–140	**–140**		**–140**
Share based compensation								
- Value of employee services					2	**2**		**2**
- Proceeds from shares								
Profit on sale of own shares					1	**1**		**1**
Purchase / sale of own shares			–177			**–177**		**–177**
Buyback of minority interests					–7	**–7**	–18	**–25**
Share capital reduction								
Balance at 30.06.2006	**135**	**213**	**–794**	**–15**	**5 022**	**4 561**	**8**	**4 569**

Unaudited figures.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2006 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 2005.

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 2005, except for the adoption of the following new and amended standards and interpretations mandatory for annual periods beginning on or after 1 January 2006:

- Amendment to IAS 19 – Employee Benefits:
  Actuarial Gains and Losses, Group Plans and Disclosures
- Amendment to IAS 21 – The Effects of Changes in Foreign Exchange Rate
- Amendments to IAS 39 – Financial Instruments:
  - Cash Flow Hedge Accounting of Forecast Intragroup Transactions
  - The Fair Value Option
  - Financial Guarantee Contracts
- IFRS 6 – Exploration for and Evaluation of Mineral Resources
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease
- IFRIC 5 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of these amendments did not affect the Group's operating results or financial position. Their impact on the annual financial statements will be limited to additional disclosures.

3. Group structure and presentational changes

The consolidation structure comprises 144 legal entities at 30 June 2006, compared to 140 on 31 December 2005. This increase is due to the creation and liquidation of various companies as well as the newly acquired subsidiaries (refer to paragraph 7 Business Combinations). These changes to the consolidation structure have no significant impact on the half-year figures.

The former segment «General services» is now denominated «Corporate and elimination». In addition to the Group elimination entries, it includes the holding companies, research and development companies, real estate companies and several other companies none of which is of a sufficient size to require separate presentation.

Furthermore, at 1 January 2006 the sports activities of Omega Electronics SA were integrated into the company Swiss Timing Ltd. At the same time, the acquisition of WIGE Data strengthened the position of the Group's sports activities. These sports activities are now included in the segment «Electronic systems» instead of within «Corporate and elimination».

The prior year figures have been restated in order to reflect this switch between segments. There is no impact on the interim financial statements 2005, and the impact in the second half of 2005 was limited to a transfer in operating result of CHF 2 million from «Corporate and elimination» to the segment «Electronic systems».

SWATCH GROUP

4. Segment information by activity sector

(CHF million)	1st half 2006			1st half 2005		
Gross sales	**Third**	**Group**	**Total**	**Third**	**Group**	**Total**
Watches and Jewelry	1 761	0	1 761	1 548	0	1 548
Production	298	395	693	277	382	659
Electronic systems	285	13	298	247	16	263
Corporate and elimination	3	–408	–405	3	–398	–395
Total	**2 347**	**0**	**2 347**	**2 075**	**0**	**2 075**
Net sales						
Watches and Jewelry	1 677	0	1 677	1 473	0	1 473
Production	278	384	662	260	362	622
Electronic systems	281	13	294	244	16	260
Corporate and elimination	3	–397	–394	3	–378	–375
Total	**2 239**	**0**	**2 239**	**1 980**	**0**	**1 980**
Operating profit		**in % of net sales**	**in % of total**		**in % of net sales**	**in % of total**
Watches and Jewelry	292	17.4%	72.6%	241	16.4%	82.3%
Production	65	9.8%	16.2%	29	4.7%	9.9%
Electronic systems	56	19.0%	13.9%	34	13.1%	11.6%
Corporate and elimination	–11		–2.7%	–11		–3.8%
Total	**402**	**18.0%**	**100.0%**	**293**	**14.8%**	**100.0%**

Unaudited figures.

5. Seasonality of operations

Due to a certain seasonal nature of the segments «Watches and Jewelry» and «Production», slightly higher revenues and operating profits are usually expected in the second half of the year. This is mainly due to strong sales in the months of September to December relating to the above-average Christmas season.

6. Treasury shares / share buyback

Under the completed share repurchase program, which ran from 1 July 2005 to 7 March 2006, 693 450 bearer shares and 3 381 327 registered shares were repurchased by the Swatch Group. According to the capital reduction decision by Swatch Group's General Meeting held on 19 May 2006, share capital will be reduced during the second half of the year and the repurchased shares cancelled, in accordance with normal legal procedures.

As announced in the press release of 23 March 2006, a new buyback program commenced on 24 March 2006. Up to 30 June 2006, the Group acquired own shares representing a market value of CHF 183 million.

7. Business combinations

In February and March 2006, the Group acquired 100% of WIGE Data GmbH, Leipzig and The Swatch Group (RUS), Moscow. The acquisitions have been accounted for using the purchase method of accounting. The identifiable assets and liabilities acquired in the transactions and the goodwill arising are as follows:

(CHF million)	Provisional fair value	Carrying amount
Property, plant and equipment	4	4
Intangible assets	7	1
Other non-current assets	1	1
Current assets	9	4
Cash and cash equivalents	1	1
Provisions	–5	–1
Current liabilities	–4	–4
Net assets	**13**	**6**
Total purchase consideration	**26**	
Fair value of net assets acquired	13	
Goodwill	**13**	

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 attributable to the expected operating synergies from the combinations and the anticipated profitability of the distribution of the Group's products in the new markets.
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 CHF 1 million. Also, if the acquisitions had taken place at the beginning of the year, the Group's profit and revenue would not have been changed by more than CHF 1 million.
Furthermore, in June 2006 the Group acquired an additional 44% of its subsidiaries in Singapore and Malaysia for a consideration of CHF 25 million, thereby reducing the minority interests in both entities from 49% to 5%. In this case IFRS 3 Business Combinations did not apply since the Group already exercised control before the transaction. Applying the «Economic entity model», the resulting goodwill was charged directly against equity.

8. Dividend

The Company pays only one dividend per fiscal year. For fiscal year 2005, the dividend agreed at the Annual General Meeting on 19 May 2006, with a value date of 24 May 2006, was distributed as follows:

Dividend per registered share	CHF	0.50
Dividend per bearer share	CHF	2.50
Total dividend paid	CHF million	140

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 2005.

10. Events after the closing date

Upon printing this press release, the company was not aware of any significant new event that could affect the validity of the half-year figures as of the end of June 2006.

11. Key exchange rates

CHF for	1 USD	1 EUR	1 GBP	1 HKD	100 JPY
Average rate January to June 2006	**1.2717**	**1.5680**	**2.2774**	**0.1639**	**1.1004**
Average rate January to June 2005	1.2142	1.5460	2.2667	0.1558	1.1398
Rate at 30 June 2006	**1.2370**	**1.5675**	**2.2650**	**0.1592**	**1.0750**
Rate at 31 December 2005	1.3190	1.5565	2.2700	0.1700	1.1200
Rate at 30 June 2005	1.2850	1.5510	2.3175	0.1653	1.1625

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