LETTER TO SHAREHOLDERS
BIEL/BIENNE, 14 AUGUST 2007

HALF-YEAR REPORT 2007: SWATCH GROUP INCREASES NET INCOME BY ALMOST 40%

- Excellent start into 2007, with highly promising outlook for the full year
- Despite significant capacity bottlenecks, substantial rise of 16.7% in gross sales to CHF 2.74 billion, and as much as 20.0% for Watches & Jewelry segment
- Above-average increase of 27.1% in operating profit from CHF 402 million to CHF 511 million
- Operating margin up from 18.0% to 19.6%
- Overproportional rise of 39.4% in net income to CHF 460 million, reinforced by good financial result

Group key figures (CHF million)	**1st half 2007**	**1st half 2006**	**Change in %** in local currency	**Change in %** in CHF
Gross sales	**2 739**	2 347	16.4%	16.7%
Net sales	**2 601**	2 239		16.2%
Operating profit	**511**	402		27.1%
- in % of net sales	**19.6%**	18.0%		
Net income	**460**	330		39.4%
- in % of net sales	**17.7%**	14.7%		
Investment in non-current assets	**170**	119		42.9%
Equity, 30 June	**5 176**	4 569		13.3%
Market capitalization, 30 June	**20 436**	12 587		62.4%
Annualized return on equity (ROE)	**18.1%**	14.4%		26.0%
Basic earnings per share (EPS) – expressed in CHF per share				
- Registered shares	**1.67**	1.17		42.7%
- Bearer shares	**8.33**	5.83		42.9%

Unaudited figures.

GROUP OVERVIEW

The world leader in the watch industry continues to enjoy robust growth. In the first half of 2007, gross sales climbed by a substantial 16.7% to CHF 2 739 million. At +0.3%, the currency effect was slightly positive. Our core business, the Watches & Jewelry segment, once more demonstrated its strong position as the growth engine of the Group. The Production segment, too, made a significant contribution to the Group's outstanding performance.

With its 18 brands in all price categories, the Swatch Group continues to benefit from strong worldwide demand for watches and jewelry. Due to renewed growth surge in its core business, the Group gained significant market shares, with all geographical regions contributing to this considerable growth. Various innovative retail ideas were realized, including the opening of the N. G. Hayek Center in Tokyo, the first outlet shops with our US joint venture partner, and the acquisition of airport shops in France. The Group also opened additional boutiques in premier locations. All of this proved a key factor in boosting the Group's market position in key markets and strengthening the share accounted for by retail activities. Naturally, this resulted in a certain increase in finished product inventories.

The Production segment for watches, watch movements and components also posted record sales thanks to strong demand across all areas. Due to substantial expansion of capacities, the Production segment reported a strong growth in the period under review. This was boosted by increased demand from third-party customers as well as Group companies. Further expansion is planned in order to tackle existing production bottlenecks. There is still a shortage of skilled watchmakers, and the Group is heavily involved in setting up watchmaking schools to redress this deficiency.

Another highly cyclical trend is dictating the environment in which the Electronic Systems segment operates. Increasing pressure on component prices in the mobile telephony sector impacted the development of this segment in the first half of 2007.

Despite a very cautious investment policy, the financial result was substantially higher than in the prior-year period, due among other elements to gains on capital markets and investments. In spite of the weak US dollar and yen, the currency result was also positive as the Group profited from the strong euro.

Outlook

Given the Swatch Group's strategic thrust, coupled with its strong brand portfolio and sound market position backed by a strong industrial base, the Executive Group Management Board and the Board of Directors have every confidence in the Group's performance for the remainder of this year. The Group's expectations for the second half-year are high. In view of the sustained positive mood among consumers worldwide, there is every indication that the current boom will continue. Sales for July 2007 and initial estimates for the current month point to further strong growth. However, capacity bottlenecks in many of the Group's production companies will pose major challenges to management in the second half-year.

In view of the fact that the favorable currency situation resulting from the strong euro enjoyed by the Group in the first half-year may weaken in the second half. Consequently, exposure in the major currencies has been appropriately hedged.

WATCHES & JEWELRY

(CHF million)	1st half 2007	1st half 2006	Change in %		
			in local currrency	currency effect	Total
Gross sales					
- Third parties	**2 113**	1 761			
- Group	**0**	0			
- Total	**2 113**	1 761	19.6%	0.4%	20.0%
Net sales					
- Third parties	**1 997**	1 677			
- Group	**0**	0			
- Total	**1 997**	1 677			19.1%
Operating profit	**353**	292			20.9%
- in % of net sales	**17.7%**	17.4%			

Unaudited figures.

Gross sales in the Watch segment rose by 20% in the first half of 2007, clearly exceeding the CHF 2 billion threshold. The increase in local currencies was only marginally lower. This impressive growth was recorded across all watch segments, providing unequivocal proof that the Group is gaining market share in all segments and consistently expanding its dominant global presence.

Growth in the luxury segment, and above all the Breguet, Blancpain and Omega brands, was again particularly strong. All other price categories also recorded impressive growth rates, led by Longines and Tissot. This applies not least to the Swatch brand, which sold far more watches and jewelry in the first six months of 2007 than in the prior-year period and recorded double-digit growth.

The Swatch Group has substantially expanded its worldwide marketing activities in order to provide effective support for rapid growth in its core business over the long term. In this context the Group's increased presence in the Chinese, Russian and US markets deserves special mention. In addition to stepping up activities in the USA, Omega boosted its profile in China as Title Sponsor of the Mission Hills World Cup golf tournament and as official timekeeper of the 2008 Olympic Games in Beijing. Longines also invested heavily in positioning the brand more firmly in the sports sector. All these marketing efforts will bear fruit in the medium term, in the form of further growth.

The further rise in operating profit – despite a rise in raw material prices and the luxury goods tax in China – is mainly attributable to the product mix, higher volumes and efficient cost management.

With regard to the individual regions, double-digit growth was chalked up in Asia, America and Europe. Conversely, sales in Japan leveled off due to the difficult economic situation and the weak yen. The N. G. Hayek Center in Tokyo, opened at the end of May this year, has already injected new impetus in this market.

PRODUCTION

(CHF million)	1st half 2007	1st half 2006	Change in % in local currency	Change in % currency effect	Change in % Total
Gross sales					
- Third parties	**334**	298			
- Group	**523**	395			
- Total	**857**	693	23.5%	0.2%	23.7%
Net sales					
- Third parties	**315**	278			
- Group	**511**	384			
- Total	**826**	662			24.8%
Operating profit	**122**	65			87.7%
- in % of net sales	**14.8%**	9.8%			

Unaudited figures.

In the Production segment for watches, watch movements and components, gross sales rose by 23.7% and net sales by an impressive 24.8%. This record rate of growth is clear confirmation that the Group has rectified some of the capacity problems in the production area. However, some Group companies are still battling with delayed deliveries for certain production stages, for example watch movements, watch hands and dials. The ongoing shortage of qualified watchmakers continues to pose a challenge.

Measures to increase production capacity for movements and other components were consistently implemented in the period under review, and should continue to exert a positive impact on sales growth in this segment.

The segment's operating margin literally soared from 9.8% to 14.8%, primarily due to the sharp rise in volume, a generally very high capacity utilization, a favorable product mix with the emphasis on higher-priced movements, and improvements in efficiency and quality at the various production sites.

Given the full order books of Group companies in this segment as of mid-2007, the Group expects business performance to be at least as strong in the second half-year.

ELECTRONIC SYSTEMS

(CHF million)	1st half 2007	1st half 2006	Change in % in local currrency	currency effect	Total
Gross sales					
- Third parties	**290**	285			
- Group	**16**	13			
- Total	**306**	298	2.4%	0.3%	2.7%
Net sales					
- Third parties	**287**	281			
- Group	**15**	13			
- Total	**302**	294			2.7%
Operating profit	**47**	56			–16.1%
- in % of net sales	**15.6%**	19.0%			

Unaudited figures.

Sales in the Electronic Systems segment were slightly higher than prior-year figures. EM Microelectronic-Marin and the battery manufacturer Renata recorded encouraging growth, with both companies posting significantly higher sales. Conversely, a slight drop in incoming orders and a change in the product mix in the mobile telephony area resulted in decreased sales.

The shift in orders towards lower-priced mobile phones also had a negative effect on the segment's profitability. This somewhat affected the Group company Micro Crystal, as supplier of quartz in this business area. Nonetheless, this company still achieved very good results.

Orders at Micro Crystal have already significantly recovered in the course of June and July 2007, although little has changed in terms of the product mix.

Despite the strong cyclical nature of this segment, based on the current volume of incoming orders the Group expects sales for 2007 to be slightly higher year-on-year.

Interim Consolidated Financial Statements
CONDENSED INCOME STATEMENT

	1st half 2007		1st half 2006		Change	
	CHF million	%	CHF million	%	CHF million	%
Gross sales	**2 739**	**105.3**	2 347	104.8	392	16.7
Sales reductions	**–138**	**–5.3**	–108	–4.8	–30	27.8
Net sales	**2 601**	**100.0**	2 239	100.0	362	16.2
Other operating income	**283**	**10.9**	180	8.0	103	57.2
Operating expenses	**–2 275**	**–87.5**	–1 920	–85.7	–355	18.5
Depreciation, amortization and impairment charges	**–98**	**–3.8**	–97	–4.3	–1	1.0
Operating profit	**511**	**19.6**	402	18.0	109	27.1
Net financial result	**56**	**2.2**	13	0.5	43	330.8
Profit before taxes	**567**	**21.8**	415	18.5	152	36.6
Income taxes	**–107**	**–4.1**	–85	–3.8	–22	25.9
Net income	**460**	**17.7**	330	14.7	130	39.4
Attributable to equity holders of The Swatch Group Ltd.	**457**		328		129	39.3
Attributable to minority interests	**3**		2		1	50.0

Earnings per share (EPS)	**CHF**		**CHF**		**CHF**	**%**
Registered shares						
Basic EPS	**1.67**		1.17		0.50	42.7
Diluted EPS	**1.64**		1.14		0.50	43.9
Bearer shares						
Basic EPS	**8.33**		5.83		2.50	42.9
Diluted EPS	**8.20**		5.69		2.51	44.1

Unaudited figures.

Interim Consolidated Financial Statements
CONDENSED BALANCE SHEET

Assets	30.06.2007		31.12.2006		Change	
	CHF million	%	CHF million	%	CHF million	%
Property, plant and equipment	**1 289**	**17.7**	1 230	17.8	59	4.8
Intangible assets	**323**	**4.4**	315	4.6	8	2.5
Other non-current assets	**229**	**3.1**	206	3.0	23	11.2
Total non-current assets	**1 841**	**25.2**	1 751	25.4	90	5.1
Inventories	**2 126**	**29.1**	1 877	27.2	249	13.3
Trade receivables	**698**	**9.6**	750	10.9	–52	-6.9
Other current assets	**1 002**	**13.7**	857	12.3	145	16.9
Cash and cash equivalents	**1 634**	**22.4**	1 669	24.2	–35	-2.1
Total current assets	**5 460**	**74.8**	5 153	74.6	307	6.0
Total assets	**7 301**	**100.0**	6 904	100.0	397	5.8

Equity and liabilities						
Equity	**5 176**	**70.9**	4 967	71.9	209	4.2
Borrowings	**485**	**6.6**	484	7.0	1	0.2
Other non-current liabilities	**431**	**5.9**	419	6.1	12	2.9
Provisions	**63**	**0.9**	58	0.8	5	8.6
Total non-current liabilities	**979**	**13.4**	961	13.9	18	1.9
Borrowings	**146**	**2.0**	72	1.1	74	102.8
Other current liabilities	**942**	**12.9**	847	12.3	95	11.2
Provisions	**58**	**0.8**	57	0.8	1	1.8
Total current liabilities	**1 146**	**15.7**	976	14.2	170	17.4
Total liabilities	**2 125**	**29.1**	1 937	28.1	188	9.7
Total equity and liabilities	**7 301**	**100.0**	6 904	100.0	397	5.8

Unaudited figures.

SWATCH GROUP

Interim Consolidated Financial Statements
CONDENSED STATEMENT OF CASH FLOWS

	1st half 2007 CHF million		1st half 2006 CHF million	
Operating activities				
Net income	**460**		330	
Depreciation and impairment charge	**98**		97	
Changes in provisions, taxes and interest	**–13**		5	
Changes in net working capital and other items	**–139**		19	
Cash flow from operating activities		**406**		451
Investing activities				
Purchase / sale of marketable securities	**–69**		–323	
Investments in other assets	**–170**		–119	
Proceeds from sale of other assets	**3**		4	
Acquisitions of subsidiaries	**0**		–25	
Cash flow from investing activities		**–236**		–463
Financing activities				
Dividends paid	**–192**		–140	
Sale / purchase of treasury shares	**–86**		–176	
Change in non-current borrowings	**0**		99	
Change in current borrowings	**75**		–165	
Buyback of minority interests	**0**		–25	
Cash flow from financing activities		**–203**		–407
Net impact of foreign exchange rate differences on cash		**–2**		–3
Decrease in cash and cash equivalents		**–35**		–422
Change in cash and cash equivalents				
- at beginning of year	**1 666**		1 863	
- at 30 June	**1 631**	**–35**	1 441	–422

Unaudited figures.

Interim Consolidated Financial Statements
STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders						Minority interests	Total equity
	Share capital	Capital reserves	Treasury shares	Other reserves	Retained earnings	Total		
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	0	0	0	–26	328	**302**	3	**305**
Dividends paid					–140	**–140**		**–140**
Share based compensation:								
- Value of employee services (net of tax)					2	**2**		**2**
- Proceeds from shares						**0**		**0**
Profit on sale of own shares					1	**1**		**1**
Purchase / sale of own shares			–177			**–177**		**–177**
Purchase of minority interests					–7	**–7**	–18	**–25**
Balance at 30.06.2006	**135**	**213**	**–794**	**–15**	**5 022**	**4 561**	**8**	**4 569**
Net income					499	**499**	1	**500**
Translation differences and other changes				10		**10**	–1	**9**
Total recognized income 2nd half 2006	0	0	0	10	499	**509**	0	**509**
Dividends paid						**0**	–2	**–2**
Share based compensation:								
- Value of employee services (net of tax)					6	**6**		**6**
- Proceeds from shares					1	**1**		**1**
Purchase / sale of own shares			–117			**–117**		**–117**
Purchase of minority interests					–2	**–2**	3	**1**
Share capital reduction	–3		250		–247	**0**		**0**
Balance at 31.12.2006	**132**	**213**	**–661**	**–5**	**5 279**	**4 958**	**9**	**4 967**
Net income					457	**457**	3	**460**
Translation differences and other changes				24		**24**	0	**24**
Total recognized income 1st half 2007	0	0	0	24	457	**481**	3	**484**
Dividends paid					–192	**–192**	0	**–192**
Share based compensation:								
- Value of employee services (net of tax)					3	**3**		**3**
- Proceeds from shares						**0**		**0**
Purchase / sale of own shares			–86			**–86**		**–86**
Balance at 30.06.2007	**132**	**213**	**–747**	**19**	**5 547**	**5 164**	**12**	**5 176**

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 2007 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 2006.

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 2006, except for the adoption of the following new and amended standards and interpretations mandatory for annual periods beginning on or after 1 January 2007:

- IFRS 7: Financial Instruments: Disclosures
- Amendment to IAS 1: Capital disclosures
- IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of Embedded Derivatives
- IFRIC 10: Interim Financial Reporting and Impairment

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 changes

The consolidation structure comprises 151 legal entities at 30 June 2007, compared to 148 at 31 December 2006. This increase is due to the creation of new Group companies. These changes to the consolidation structure have no significant impact on the half-year figures.

4. Segment information by activity sector

(CHF million)	1st half 2007			1st half 2006		
Gross sales	**Third**	**Group**	**Total**	**Third**	**Group**	**Total**
Watches & Jewelry	**2 113**	**0**	**2 113**	1 761	0	1 761
Production	**334**	**523**	**857**	298	395	693
Electronic systems	**290**	**16**	**306**	285	13	298
Corporate and elimination	**2**	**–539**	**–537**	3	–408	–405
Total	**2 739**	**0**	**2 739**	2 347	0	2 347
Net sales						
Watches & Jewelry	**1 997**	**0**	**1 997**	1 677	0	1 677
Production	**315**	**511**	**826**	278	384	662
Electronic systems	**287**	**15**	**302**	281	13	294
Corporate and elimination	**2**	**–526**	**–524**	3	–397	–394
Total	**2 601**	**0**	**2 601**	2 239	0	2 239
Operating profit		**in % of net sales**	**in % of total**		**in % of net sales**	**in % of total**
Watches & Jewelry	**353**	**17.7%**	**69.1%**	292	17.4%	72.6%
Production	**122**	**14.8%**	**23.9%**	65	9.8%	16.2%
Electronic systems	**47**	**15.6%**	**9.2%**	56	19.0%	13.9%
Corporate and elimination	**–11**		**–2.2%**	–11		–2.7%
Total	**511**	**19.6%**	**100.0%**	402	18.0%	100.0%

Unaudited figures.

5. Seasonality of operations

Due to a certain seasonal nature of the segments «Watches & 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 24 March 2006 to 23 November 2006, 704 000 bearer shares and 3 430 000 registered shares were repurchased by the Swatch Group. According to the capital reduction decision by Swatch Group's Annual General Meeting held on 11 May 2007, 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 19 March 2007, a new buyback program commenced on 29 March 2007. Up to 30 June 2007, the Group acquired own shares representing a market value of CHF 86 million.

7. Business combinations

In the first half of 2007, no Group companies or holdings in affiliated companies or joint ventures were acquired.
In the prior-year period the Group acquired 100% of the shares in two companies for a total purchase price of CHF 26 million. These acquisitions were accounted for under the purchase method. The related goodwill amounted to CHF 13 million, the impact of which on the 2006 interim statements was immaterial. Additional details are disclosed in the interim report at 30 June 2006 and the consolidated financial statements at 31 December 2006.

8. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2006, the dividend agreed at the Annual General Meeting on 11 May 2007, with a value date of 16 May 2007, was distributed as follows:

Dividend per registered share	CHF	0.70
Dividend per bearer share	CHF	3.50
Corresponds to a total dividend paid of	CHF million	192

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 2006.

10. Events after the closing date

Upon publishing 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 2007.

11. Key exchange rates

CHF for	1 CNY	1 EUR	1 HKD	100 JPY	1 USD
Average rate January to June 2007	**0.1595**	**1.6361**	**0.1572**	**1.0205**	**1.2282**
Average rate January to June 2006	0.1585	1.5680	0.1639	1.1004	1.2717
Rate at the end of June 2007	**0.1618**	**1.6570**	**0.1578**	**1.0000**	**1.2320**
Rate at the end of December 2006	0.1560	1.6090	0.1572	1.0280	1.2225
Rate at the end of June 2006	0.1547	1.5675	0.1592	1.0750	1.2370

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