LETTER TO SHAREHOLDERS
BIEL/BIENNE, 15 AUGUST 2008

HALF-YEAR REPORT 2008: SWATCH GROUP – FURTHER EXPANSION OF MARKET SHARE IN ALL WATCH SEGMENTS AND REGIONS

- Strong sales growth of +17.7% at constant exchange rates (+11% at current 30 June 2008 exchange rates) in the Watches and Jewelry segment despite ongoing capacity bottlenecks and unfavorable exchange rates.
- Sales growth of +13.8% at constant exchange rates for the entire Group (+8.5% at current 30 June 2008 exchange rates).
- 16% increase in operating profit to CHF 593 million and to an operating margin of 21% (first half-year 2007: 19.6%), despite negative currency effects and sharp rise in the price of raw materials and precious metals.
- Slight decline of 9.1% in consolidated net income to CHF 418 million (prior year: CHF 460 million) as a result of unrealized temporary value adjustments on portfolios and foreign investments due to exceptionally weak stock markets and exchange rates at the end of June 2008. Return on sales of 14.8%.

Growth in gross sales

	Organic [1]	**Current [2]**
Watches & Jewelry	+17.7%	+11.0%
Production	+11.6%	+11.4%
Electronic Systems	–2.6%	–3.9%
Group	**+13.8%**	**+8.5%**

[1] at constant exchange rates
[2] at current exchange rates (at 30 June 2008) in CHF

GROUP OVERVIEW

Group key figures **(CHF million)**	**1st half 2008**	**1st half 2007**	**Change in %** in local currency	in CHF
Gross sales	**2 973**	2 739	13.8%	8.5%
Net sales	**2 824**	2 601		8.6%
Operating profit	**593**	511		16.0%
- in % of net sales	**21.0%**	19.6%		
Net income	**418**	460		–9.1%
- in % of net sales	**14.8%**	17.7%		
Investment in non-current assets	**166**	170		–2.4%
Equity, 30 June	**5 169**	5 176		–0.1%
Market capitalization, 30 June	**14 204**	20 436		–30.5%
Annualized return on equity (ROE)	**15.9%**	18.1%		–12.2%
Basic earnings per share (EPS) – expressed in CHF per share				
- Registered shares	**1.56**	1.67		–6.6%
- Bearer shares	**7.82**	8.33		–6.1%

Unaudited figures.

Group growth continued unabated in the first half of 2008. In local currency terms, Group sales rose by an impressive +13.8%, however, the negative exchange effect of –5.3% was significant. The strong Swiss franc and, in particular, the fall in the value of the US dollar and many of the currencies linked to the US dollar, negatively impacted Group sales in Swiss francs.

The Group's strong half-year performance is mainly attributable to the Watches & Jewelry and Production segments. With its internationally known brands in all price categories, the Swatch Group benefits from the strong demand for its watches and jewelry. Market shares, particularly in the watch segment, were also further expanded in the period under review. All regions contributed to the good result. Asia and America achieved clear double-digit growth in local currencies, while sales in this segment in Europe grew at a rate only slightly above the double-digit mark. The sharp rise in sales in the Production segment underlines the sustained demand for watch movements and components.

Additional proprietary retail stores were opened in prime locations. Given the current environment, the Group is consciously exploiting opportunities to consolidate brand presence over the long term.

The sustained, highly cyclical trend in the Electronic Systems segment continued in the first half of the current year. The trend towards lower-priced mobile phones, coupled with declining sales in the automobile industry, slightly depressed sales in this segment.

Stemming from the exceptionally strong downturn on the world's currency and capital markets at 30 June 2008, value adjustments to invested funds were recorded in the financial result, in particular, to the interest in the leading Hong Kong listed Chinese watch distributor, Xin Yu Hengdeli. These shares lost over 30% in local currency as a result of the general stock market downturn. However, the operational business with Xin Yu Hengdeli is outstanding and will produce excellent results in 2008 as well.

The temporary negative impact on the financial result has already partially decreased in the meantime, and a substantial improvement is expected by year end.

Outlook

An extremely strong industrial base, solid brand portfolios in all segments and a worldwide presence in distribution, whether with its own companies and stores or in fast-growing regional markets with strategically important partners such as Xin Yu Hengdeli in China or Rivoli in the Middle East and India, places the Swatch Group in an excellent position for the second half of the year and beyond.

In the Watches & Jewelry segment, the Swatch Group will continue to promote the worldwide expansion of its distribution structures. Constant progress in solutions to production bottlenecks with targeted investment in the production area will further support growth.

Based on this, the Board of Directors and the Executive Group Management Board are confident for the further course of business for the remainder of this year. Despite all the negative reports of the financial sector and the increase in costs worldwide, the Group Management still expects sales and profitability to show solid positive development in the second half-year.

WATCHES & JEWELRY

(CHF million)	1st half 2008	1st half 2007	Change in %		
			in local currency	currency effect	Total
Gross sales					
- Third parties	**2 344**	2 113			
- Group	**1**	0			
- Total	**2 345**	2 113	17.7%	–6.7%	11.0%
Net sales					
- Third parties	**2 216**	1 997			
- Group	**1**	0			
- Total	**2 217**	1 997			11.0%
Operating profit	**416**	353			17.8%
- in % of net sales	**18.8%**	17.7%			

Unaudited figures.

In the first half of 2008 gross sales for the Watches segment rose by +17.7% at constant exchange rates. Once more the Middle East and Asia put in the strongest performance, growing by high double-digit rates. Sales in America also increased at double-digit rates in local currency terms, while Europe saw sales grow slightly above the double-digit rate. The negative currency effect of –6.7% in the Watches segment was particularly strong in the period under review. Nevertheless, an outstanding increase of +11% in Swiss franc terms was achieved. This excellent performance was sustained by all price segments and brands.

Brand marketing activities continued to be vigorously pursued worldwide and will even be increased, as in previous years, in the second half of the year. The Olympic Games currently under way in China provide outstanding worldwide visibility for the Omega brand as official time-keeper. In the long term, this will allow the brand to further advance its leader position worldwide as well as in China.

Watch orders currently on the books as well as orders placed during the Basel Watch and Jewelry Fair will have a further positive impact on sales. Despite improved production capacity, not all of these orders will be completed and delivered by the end of the year.

Despite a number of negative influencing factors, the period under review saw a further increase in operating margin in the Watches segment. Negative currency effects and a rise in the price of raw materials and precious metals have prevented the operating margin rising even further in the short term. Selective price increases which came into force only in the first half-year could just partially offset the aforementioned factors. As usual, the Group is keeping a close eye on costs.

PRODUCTION

(CHF million)	1st half 2008	1st half 2007	Change in %		
			in local currency	currency effect	Total
Gross sales					
- Third parties	**346**	334			
- Group	**609**	523			
- Total	**955**	857	11.6%	–0.2%	11.4%
Net sales					
- Third parties	**328**	315			
- Group	**593**	511			
- Total	**921**	826			11.5%
Operating profit	**150**	122			23.0%
- in % of net sales	**16.3%**	14.8%			

Unaudited figures.

In the Watches, Watch Movements and Components Production segment, gross sales rose by +11.6% at constant exchange rates.

This renewed robust rise in sales is a clear indication that the Group has undertaken major efforts to tackle capacity bottlenecks. Nevertheless, the issue will continue to be given top priority since delivery delays in the mechanical segment are still a regular occurrence and the demand for movements and components still outstrips available supply. Various minor acquisitions made during the period under review will help the Group to expand production capacities.

Sales to the Group's own brands increased, reflecting increased volumes for Swatch watches produced by ETA and the great success of the new Omega caliber «Hour Vision». The segment's operating margin has again improved.

The main factors that had a positive impact on operating performance were the rise in volume, the sustained high level of capacity utilization, a favorable product mix, and efficiency enhancements.

Based on current order books, the Group expects business performance to remain strong in the second half-year.

ELECTRONIC SYSTEMS

(CHF million)	1st half 2008	1st half 2007	Change in %		
			in local currency	currency effect	Total
Gross sales					
- Third parties	**279**	290			
- Group	**15**	16			
- Total	**294**	306	–2.6%	–1.3%	–3.9%
Net sales					
- Third parties	**277**	287			
- Group	**15**	15			
- Total	**292**	302			–3.3%
Operating profit	**33**	47			–29.8%
- in % of net sales	**11.3%**	15.6%			

Unaudited figures.

Gross sales at constant exchange rates in the Electronic Systems segment were slightly lower in the first half-year, with sales performance for the individual companies ranging from highly satisfactory to declining.

Most notably EM Marin performed very well in this segment. Several smaller companies which are mainly active in the automobile and mobile telephony component sectors reported falling sales due to the more difficult market environment and continuing price pressure as a result of surplus capacities.

The segment's profitability has temporarily suffered, primarily for the aforementioned reasons. Judging by past experience, however, performance – both in terms of sales and profitability – tends to be stronger in the second half-year.

Interim Consolidated Financial Statements
CONDENSED INCOME STATEMENT

	1st half 2008 CHF million	1st half 2008 %	1st half 2007 CHF million	1st half 2007 %
Gross sales	**2 973**	**105.3**	2 739	105.3
Sales reductions	**–149**	**–5.3**	–138	–5.3
Net sales	**2 824**	**100.0**	2 601	100.0
Other operating income	**51**	**1.8**	45	1.7
Changes in inventories	**289**	**10.2**	238	9.2
Operating expenses	**–2 464**	**–87.2**	–2 275	–87.5
Depreciation, amortization and impairment charges	**–107**	**–3.8**	–98	–3.8
Operating profit	**593**	**21.0**	511	19.6
Net financial result	**–120**	**–4.3**	56	2.2
Profit before taxes	**473**	**16.7**	567	21.8
Income taxes	**–55**	**–1.9**	–107	–4.1
Net income	**418**	**14.8**	460	17.7
Attributable to equity holders of The Swatch Group Ltd.	**416**		457	
Attributable to minority interests	**2**		3	
Earnings per share (EPS) – expressed in CHF per share				
Registered shares				
Basic earnings per share	**1.56**		1.67	
Diluted earnings per share	**1.54**		1.64	
Bearer shares				
Basic earnings per share	**7.82**		8.33	
Diluted earnings per share	**7.70**		8.20	

Unaudited figures.

Interim Consolidated Financial Statements

CONDENSED BALANCE SHEET

Assets	30.06.2008 CHF million	%	31.12.2007 CHF million	%
Property, plant and equipment	**1 423**	**19.9**	1 391	18.7
Intangible assets	**344**	**4.8**	334	4.5
Other non-current assets	**274**	**3.8**	243	3.2
Total non-current assets	**2 041**	**28.5**	1 968	26.4
Inventories	**2 531**	**35.4**	2 273	30.5
Trade receivables	**758**	**10.6**	875	11.8
Other current assets	**915**	**12.8**	1 045	14.0
Cash and cash equivalents	**907**	**12.7**	1 286	17.3
Total current assets	**5 111**	**71.5**	5 479	73.6
Total assets	**7 152**	**100.0**	7 447	100.0

Equity and liabilities	30.06.2008 CHF million	%	31.12.2007 CHF million	%
Equity	**5 169**	**72.3**	5 329	71.5
Provisions	**54**	**0.7**	58	0.8
Financial debts	**483**	**6.8**	485	6.5
Other non-current liabilities	**337**	**4.7**	386	5.2
Total non-current liabilities	**874**	**12.2**	929	12.5
Provisions	**62**	**0.9**	64	0.9
Financial debts and derivative financial instruments	**39**	**0.5**	36	0.5
Other current liabilities	**1 008**	**14.1**	1 089	14.6
Total current liabilities	**1 109**	**15.5**	1 189	16.0
Total liabilities	**1 983**	**27.7**	2 118	28.5
Total equity and liabilities	**7 152**	**100.0**	7 447	100.0

Unaudited figures.

Interim Consolidated Financial Statements
CONDENSED STATEMENT OF CASH FLOWS

	1st half 2008 CHF million		1st half 2007 CHF million	
Operating activites				
Net income	**418**		460	
Depreciation and impairment charge	**107**		98	
Changes in provisions, taxes and interests	**–150**		–13	
Changes in net working capital and other items	**–107**		–139	
Cash flow from operating activities		**268**		406
Investing activities				
Acquisition of subsidiaries	**–14**		0	
Deconsolidation of companies	**–17**		0	
Purchase / sale of marketable securities	**52**		–69	
Investments in other assets	**–166**		–170	
Proceeds from sale of other assets	**1**		3	
Cash flow from investing activities		**–144**		–236
Financing activities				
Dividends paid	**–225**		–192	
Sale / purchase of treasury shares	**–266**		–86	
Change in non-current borrowings	**–4**		0	
Change in current borrowings	**4**		75	
Cash flow from financing activities		**–491**		–203
Net impact of foreign exchange rate differences on cash		**–12**		–2
Change in cash and cash equivalents		**–379**		–35
Change in cash and cash equivalents				
- at beginning of year	**1 284**		1 666	
- at 30 June	**905**	**–379**	1 631	–35

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 31.12.2006	**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**
Share buyback			–86			**–86**		**–86**
Balance at 30.06.2007	**132**	**213**	**–747**	**19**	**5 547**	**5 164**	**12**	**5 176**
Net income					554	**554**	1	**555**
Net result on cash flow hedges				–1		**–1**		**–1**
Translation differences and other changes				–41		**–41**		**–41**
Total recognized income 2nd half 2007	0	0	0	–42	554	**512**	1	**513**
Dividends paid						**0**	–4	**–4**
Share based compensation:								
- Value of employee services (net of tax)					8	**8**		**8**
- Proceeds from shares					1	**1**		**1**
Changes in minority interests						**0**	10	**10**
Share buyback			–375			**–375**		**–375**
Share capital reduction	–3		301		–298	**0**		**0**
Balance at 31.12.2007	**129**	**213**	**–821**	**–23**	**5 812**	**5 310**	**19**	**5 329**
Net income					416	**416**	2	**418**
Net result on cash flow hedges				1		**1**		**1**
Translation differences and other changes				–83		**–83**		**–83**
Total recognized income 1st half 2008	0	0	0	–82	416	**334**	2	**336**
Dividends paid					–225	**–225**	0	**–225**
Share based compensation:								
- Value of employee services (net of tax)					3	**3**		**3**
- Proceeds from shares						**0**		**0**
Changes in minority interests			0			**0**	–8	**–8**
Share buyback			–266			**–266**		**–266**
Balance at 30.06.2008	**129**	**213**	**–1 087**	**–105**	**6 006**	**5 156**	**13**	**5 169**

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 2008 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 2007.

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 2007, except for the adoption of the following new interpretations mandatory for annual periods beginning on or after 1 January 2008:

- IFRIC 11: IFRS2: Group and Treasury Share Transactions
- IFRIC 12: Service Concession Arrangements
- IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these interpretations did not affect the Group's operating results or financial position. They will have no impact on the annual financial statements 2008.

3. Group structure changes

The consolidation structure comprises 163 legal entities at 30 June 2008, compared to 161 at 31 December 2007. This increase is due to a newly acquired entity (refer to note 7) and the creation of a new Group company. One entity has been classified as a disposal group held for sale in June 2008 (refer to note 10). The stake in Belenos Clean Power Holding AG has been reduced from 64% to 45% following the sale of shares. As a consequence, the company has been deconsolidated and is now accounted for using the equity method. 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 2008			1st half 2007		
Gross sales	**Third**	**Group**	**Total**	**Third**	**Group**	**Total**
Watches & Jewelry	**2 344**	**1**	**2 345**	2 113	0	2 113
Production	**346**	**609**	**955**	334	523	857
Electronic systems	**279**	**15**	**294**	290	16	306
Corporate and elimination	**4**	**–625**	**–621**	2	–539	–537
Total	**2 973**	**0**	**2 973**	2 739	0	2 739
Net sales	**Third**	**Group**	**Total**	**Third**	**Group**	**Total**
Watches & Jewelry	**2 216**	**1**	**2 217**	1 997	0	1 997
Production	**328**	**593**	**921**	315	511	826
Electronic systems	**277**	**15**	**292**	287	15	302
Corporate and elimination	**3**	**–609**	**–606**	2	–526	–524
Total	**2 824**	**0**	**2 824**	2 601	0	2 601
Operating profit		**in % of net sales**	**in % of total**		**in % of net sales**	**in % of total**
Watches & Jewelry	**416**	**18.8%**	**70.1%**	353	17.7%	69.1%
Production	**150**	**16.3%**	**25.3%**	122	14.8%	23.9%
Electronic systems	**33**	**11.3%**	**5.6%**	47	15.6%	9.2%
Corporate and elimination	**–6**		**–1.0%**	–11		–2.2%
Total	**593**	**21.0%**	**100.0%**	511	19.6%	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 30 March 2007 to 22 November 2007, 570 000 bearer shares and 2 850 000 registered shares were repurchased by the Swatch Group. A new repurchase program with a total value of CHF 420 million started on 10 December 2007. Up to 30 June 2008, the Group acquired with the new buyback program own shares representing a market value of CHF 326 million.
According to the capital reduction decision by Swatch Group's Annual General Meeting held on 21 May 2008, share capital will be reduced by CHF 3 669 750 during the second half of the year and the repurchased shares cancelled, in accordance with normal legal procedures.

7. Business combinations

In January 2008, the Group acquired the business activities of the company H. Moebius & Sohn, Allschwil, a supplier of classic and synthetic oils, lubricants and epilam coatings. In March 2008, another small transaction involved the acquisition of 100 % of the issued capital of Vica Sàrl, Lausanne.
In June 2008, the Group acquired the remaining 65% of François Golay SA, Le Brassus, a developer of high-quality wheels and other watch components. The acquisitions have been accounted for using the purchase method of accounting.
The identifiable assets and liabilities acquired in the transactions as well as the goodwill and cash outflow arising from the acquisitions are as follows:

(CHF million)	**Provisional fair value**	**Carrying amount**
Property, plant and equipment	10	6
Intangible assets	6	0
Current assets	3	3
Cash and cash equivalents	0	0
Provisions	–5	–2
Current liabilities	–1	–1
Net assets acquired	**13**	**6**
Goodwill (capitalized)	5	
Negative goodwill (recognized in P&L)	–3	
Total purchase consideration	**15**	
Cash acquired	0	
Remaining payments outstanding	–1	
Cash outflow from acquisitions	**14**	

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 mainly attributable to the acquired know-how and the expected operating synergies from the combinations. In the case of François Golay SA, the fair values of net assets acquired were in excess of the consideration paid. The resulting negative goodwill of CHF 3 million was recognized in the income statement within other operating income.
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 less than CHF 1 million. Also, if the acquisitions had taken place at the beginning of the year, the Group's revenue would not have increased by more than CHF 8 million, and Group profit would not have changed by more than CHF 1 million.
In the comparative period 2007, no Group companies or holdings in affiliated companies or joint ventures were acquired.

8. Dividend

The Company pays one dividend per fiscal year. For fiscal year 2007, the dividend agreed at the Annual General Meeting on 21 May 2008, with a value date of 26 May 2008, was distributed as follows:

Dividend per registered share	CHF	0.85
Dividend per bearer share	CHF	4.25
Total dividend paid	CHF million	225

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 2007.

10. Assets held for sale

In June 2008, the group company Michel Präzisionstechnik AG which is part of the Electronic Systems segment has been classified as held for sale, following a decision by Group management to dispose of the operation with a view to focusing its activities on its core business. The transaction was completed after the balance sheet date with transfer of control in the second half of 2008. As a consequence, assets and liabilities of the legal entity are considered a disposal group as at 30 June 2008. Since the disposal does not represent a major line of business for the Group, it is not a discontinued operation according to IFRS 5.

The reclassified balance sheet items represent mainly fixed assets and inventories. No impairment had to be recorded upon classification as held for sale. The profit on disposal will be realized and booked upon completion of the transaction in the second half of 2008.

11. Events after the closing date

In July 2008, the Swatch Group acquired a strategic stake in Rivoli Group, the market leader in the retailing of lifestyle luxury goods in the GCC (Gulf Cooperation Council) Region. This investment qualifies as an associated company according to IAS 28 and will be accounted for using the equity method.

As a countermove to the sale of the company Michel Präzisionstechnik AG (refer to note 10), the Swatch Group expects to acquire the watch components division of Burri AG in Moutier (subject to approval by the responsible competent bodies) in the second half of the year. This acquisition essentially comprises the entire personnel as well as various machines and a factory building. The purchase price allocation will be done in the second half-year.

The events mentioned in notes 10 and 11 do not have a significant impact on the Group's balance sheet and income statement.

Other than that, the company was not aware of any significant new event after publishing this press release that could affect the half-year figures as of 30 June 2008.

12. Key exchange rates

CHF for	1 CNY	1 EUR	1 HKD	100 JPY	1 USD
Average rate January to June 2008	**0.1485**	**1.6074**	**0.1337**	**0.9990**	**1.0419**
Average rate January to June 2007	0.1595	1.6361	0.1572	1.0205	1.2282
Rate at the end of June 2008	**0.1490**	**1.6090**	**0.1310**	**0.9660**	**1.0210**
Rate at the end of December 2007	0.1545	1.6600	0.1447	1.0055	1.1280
Rate at the end of June 2007	0.1618	1.6570	0.1578	1.0000	1.2320

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