FINANCIAL STATEMENTS 2000

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SWATCH GROUP

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Income Statement

	2000 million CHF	%	1999 million CHF	%
Gross sales	4 263	100.0	3 626	100.0
Sales reductions	–132	–3.1	–108	–3.0
Net sales (1)	4 131	96.9	3 518	97.0
Movements in inventories	153	3.6	5	0.1
Capitalized expenditures	48	1.2	49	1.4
Other operating income	40	0.9	29	0.8
Group performance	4 372	102.6	3 601	99.3
Material purchases (2)	–1 062	–24.9	–872	–24.0
Other external charges (3)	–197	–4.6	–139	–3.8
Wages and salaries (4)	–985	–23.1	–857	–23.7
Social security costs (4)	–207	–4.9	–182	–5.0
Depreciation of fixed assets (5)	–212	–5.0	–192	–5.3
Depreciation of current assets (6)	–23	–0.5	–12	–0.3
Other operating expenses (7)	–972	–22.8	–836	–23.1
Operating income (9)	714	16.8	511	14.1
Income from non-consolidated participations	1	0.0	1	0.0
Net financial result (10)	80	1.9	46	1.3
Extraordinary result (11)	3	0.1	–11	–0.3
Result before taxes	798	18.8	547	15.1
Taxes (12)	–140	–3.3	–99	–2.7
Net income of consolidated companies	658	15.5	448	12.4
Minority interests	–7	–0.2	–7	–0.2
Net income (13)	651	15.3	441	12.2

Balance Sheet

Assets	2000 million CHF	%	1999 million CHF	%
Intangible assets:				
– Intangible values	23	0.5	43	1.0
Tangible assets:				
– Land and buildings	312	6.7	270	6.0
– Plant and machinery	691	14.8	658	14.7
– Other fixtures and fittings	58	1.2	69	1.5
– Advances and construction in progress	1	0.0	8	0.2
Financial assets:				
– Long-term loans	6	0.2	13	0.3
– Investments	1	0.0	1	0.0
Fixed assets (15)	1 092	23.4	1 062	23.7
Inventories: (16)				
– Raw materials and components	377	8.1	285	6.4
– Work in progress	440	9.4	361	8.1
– Finished goods	362	7.8	349	7.8
– Spare parts for Customer Service	120	2.6	114	2.5
Receivables:				
– Trade receivables (17)	703	15.1	658	14.7
– Other receivables (18)	235	5.0	212	4.7
Prepayments and accrued income (18)	126	2.7	148	3.3
Securities: (19)				
– Treasury shares	333	7.1	342	7.6
– Other marketable securities	302	6.5	235	5.3
Liquid funds (20)	572	12.3	712	15.9
Current assets	3 570	76.6	3 416	76.3
Total assets	4 662	100.0	4 478	100.0

Balance Sheet

Liabilities and shareholders' equity	2000 million CHF	%	1999 million CHF	%
Shareholders' equity:				
– Share capital	312	6.7	312	7.0
– Capital reserves	213	4.6	213	4.8
– Reserve for treasury shares	338	7.2	342	7.6
– Retained earnings	1 806	38.7	1 551	34.6
– Net income	651	14.0	441	9.8
Total shareholders' equity (21)	3 320	71.2	2 859	63.8
Minority interests	18	0.4	13	0.3
Provisions:				
– Tax provisions	262	5.6	242	5.4
– Other provisions	140	3.0	153	3.4
Total provisions (22)	402	8.6	395	8.8
Long-term debts:				
– Bonds issued and mortgaged debts	37	0.8	493	11.0
– Amounts owed to credit institutions	31	0.6	37	0.8
– Other long-term liabilities	8	0.2	7	0.2
Total long-term debts (23)	76	1.6	537	12.0
Short-term debts:				
– Amounts owed to credit institutions	208	4.4	144	3.2
– Trade payables	251	5.4	207	4.6
– Other short-term debts	178	3.8	151	3.4
Accruals and deferred expenses	209	4.6	172	3.9
Total short-term debts (24)	846	18.2	674	15.1
Total liabilities and shareholders' equity	4 662	100.0	4 478	100.0

Consolidated Cash-Flow Statement

	2000 million CHF		1999 million CHF	
Net income (13)	651		441	
Depreciation (5), (6)	235		204	
Cash-flow (13)	886		645	
Net financial result (10)	–80		–46	
Variation in current assets (without liquid funds):				
– Inventories (16)	–205		38	
– Trade receivables (17)	–48		–90	
– Other receivables (18)	–3		–71	
Increase in short-term debts:				
– Short-term liabilities (24)	45		66	
Variation in provisions: (22)				
– Tax provision	22		34	
– Other provisions	–17		25	
Cash-flow from operating activities	600	600	601	601
Divestment of tangible assets	10		14	
Investment in tangible assets	–220		–187	
Investment in intangible assets	–11		–30	
Acquisition of consolidated companies (without liquid funds) (21)	–114		–65	
Securities (19)	–383		171	
Variation in financial fixed assets:				
– Long-term loans	7		–11	
– Investments	0		0	
Cash-flow from investing activities (15)	–711	–711	–108	–108
Dividend paid (21)	–71		–61	
Minority's part	5		7	
Variation in debts:				
– Long-term liabilities (23)	–81		332	
– Short-term liabilities (24)	145		–206	
Cash-flow from financing activities	–2	–2	72	72
Exchange rate difference and consolidation adjustments (21)		–27		–1
Decrease/Increase of disposable assets		–140		564
Variation of liquid funds :				
– Liquidity as of 01.01.2000/99	–712		–148	
– Liquidity as of 31.12.2000/99	572	–140	712	564
Liquidity as of 31.12.2000/99		572		712
Securities included in current assets:				
– Treasury shares		333		342
– Other marketable securities		302		235
Total liquidity		1 207		1 289

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PRINCIPLES GOVERNING THE ESTABLISHMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Swatch Group conform with recommendations concerning the presentation of financial statements (ARR – Swiss GAAP) defined by the responsible Swiss commission. In accordance with the Swiss Stock Exchange regulation for listing, the ARR are recognized as the minimum standards for drawing up financial statements for companies listed in Switzerland.

The consolidated financial statements, presented in line with the ARR, give a fair view of the financial position and the results of the Group (principle of «fair presentation»). The ARR are the standards for presentation of financial statements which apply in principle, in the spirit of International Accounting Standards (IAS).

The consolidated Financial Statements also comply with Swiss law.

INFORMATION RELATING TO THE SCOPE OF THE CONSOLIDATION

Establishment of the consolidated accounts

The consolidated accounts have been drawn up on the basis of the Financial Statements established in accordance with the accounting principles and directives laid down for the entire Swatch Group in a manual distributed to all financial managers.

The main valorization and consolidation principles are given below.

Scope of the consolidation

The consolidation includes The Swatch Group Ltd holding company as well as all directly or indirectly controlled Swiss and foreign subsidiaries.

The scope of the consolidation for the Group's accounts includes 110 legal entities, which is 11 more than at the end of 1999. This increase results from the fact that 7 legal entities were acquired and 4 new companies were set up during the year under review. The acquisitions involve 3 companies in connection with the purchase of the brand Glashütte Original, one company in connection with the Jaquet-Droz brand and 3 companies connected with the watch-hand manufacturer Universo. The newly created companies include 2 in Switzerland, one of which is responsible for logistics and distribution of horological products throughout Europe and the other being a retail sales outlet which will sell Omega products in Zurich as a joint venture with a retailer who is already operating in this sector. The two other new companies involve distribution centers, one in Brazil and the other in China. The 7 newly acquired companies have been integrated into the Financial Statements as of 1.1.2000.

Through a system of divisionalization, whereby several similar activities are administered within a single legal entity, these 110 companies are segmented into 538 reporting units (510 at the end of 1999) which form the basis for the Group consolidation. This increase in the number of homogeneous units stems from a continuous effort to further enhance transparency in information and fine-tune techniques for measuring the performance of the management teams in charge of the Group's various activities.

The full list of consolidated companies appears on pages 108 and 109 of this annual report.

In 2000, only 7 inactive companies and 3 small realty companies were excluded from the scope of consolidation. As they have no sales and their total shareholders' equity is below CHF 1 million, their exclusion has no material bearing on the Group's consolidation. Furthermore, these companies did not pay out any dividends during the year under review.

INFORMATION RELATING TO CONSOLIDATION PRINCIPLES

Method of consolidation

Subsidiaries with over 50% voting rights have been consolidated according to the principle of global integration; capital consolidation has been effected according to British and American methods. The minority shareholding interest in the equity of the subsidiaries is shown separately under liabilities. 50% investments in affiliates (joint ventures) are consolidated on the balance sheet according to the principle of proportional integration. Companies in which the Group holds between 20% and 50% of the voting rights are consolidated utilizing the equity method. The other investments appear on the balance sheet at purchase value or at their reduced value to avoid over-valuation.

Appendix

All assets and liabilities in the Group, as well as income and expenses relating to operations between the companies included in the consolidation, have been eliminated. Dividends from the previous year's result distributed among companies within the Group have been eliminated in the consolidated income statements.

Unrealized margins on inventories resulting from deliveries made among Group subsidiaries are eliminated at the different levels of consolidation.

Deferred taxes are calculated on all deferred expenses as well as on any anticipated revenue utilizing the balance sheet method.

Date of closure

The accounts were closed on 31 December 2000. For all consolidated companies the financial year was the same as the calendar year.

No significant new event that might modify the valuation of the 2000 Financial Statements had arisen at the time of finalization of the text of this annual report.

Foreign currency conversion

The income statements of the foreign subsidiaries were converted at the year's average exchange rates, while the balance sheets were converted at the rate applicable at closure date. The difference between the average rate utilized for converting the income statements and the closing rate applied for converting the balance sheets has been directly allocated to the consolidation reserves. The assets and liabilities recorded in foreign currencies in the accounts of the consolidated companies have been valued at closure rates. The principal exchange rates which have been applied are:

		Average rate 2000 CHF	Rate as at 31.12.2000 CHF	Average rate 1999 CHF	Rate as at 31.12.1999 CHF
1	ATS	0.1131	0.1106	0.1163	0.1166
1	AUD	0.9719	0.9085	0.9727	1.0400
100	BEF	3.8587	3.7742	3.9700	3.9800
1	CAD	1.1389	1.0925	1.0188	1.0980
1	DEM	0.7959	0.7784	0.8183	0.8206
100	ESP	0.9355	0.9150	0.9608	0.9600
1	EUR	1.5566	1.5225	1.6004	1.6050
1	FRF	0.2373	0.2321	0.2440	0.2447
1	GBP	2.5620	2.4400	2.4413	2.5800
1	HKD	0.2172	0.2100	0.1950	0.2055
100	ITL	0.0804	0.0786	0.0827	0.0829
100	JPY	1.5670	1.4250	1.3442	1.5600
1	NLG	0.7063	0.6909	0.7262	0.7283
1	SEK	0.1834	0.1720	0.1820	0.1870
1	SGD	0.9796	0.9450	0.8919	0.9580
1	USD	1.6954	1.6400	1.5139	1.6000

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INFORMATION RELATING TO VALUATION PRINCIPLES

Intangible assets

No brands or patents have been valued on the balance sheet. License fees granting rights to new advanced technologies have been capitalized and written off over a minimum lifetime, which is currently fixed at 4 years. This position also includes key-money paid for leasing stores in strategic locations. When these amounts correspond to investments which can be resold upon expiry of the lease the latter are not amortized; if, however, the payment is not recoverable it is amortized over a period of not more than 5 years.

The goodwill involved in the acquisition of shareholdings has been directly deducted from shareholders' equity. The theoretical consequences of capitalization followed by annual amortization over a period of 5 years are referred to under point 15 in the appendix to the balance sheet.

Tangible assets

Property, plant and equipment have been valued at the purchase price less straight-line amortization according to the lifetime of the investment, or after an adjustment to reduce the asset to its liquidation value. Land is shown on the balance sheet at its original purchase price.

Capitalized expenditure has been recorded on the balance sheet at full production cost without profit margin.

The depreciation period of tangible assets has been defined for 68 types of objects. These criteria are applied throughout the Group. Estimated lifetimes have been taken into account according to the following categories in calculating straight-line depreciation:

• furniture, office machinery, motor vehicles:	5 to 8 years
• IT equipment and software:	3 to 5 years
• measuring instruments, tools, installations for machining by non-mechanical processes, automation elements:	5 to 9 years
• machines and production equipment for mechanical systems, furniture and workshop equipment:	9 to 15 years
• factory buildings:	30 years
• administrative buildings:	40 years
• residential property:	50 years

Securities

Marketable securities have been valued at market prices at closure.

Inventories

All inventories of semi-finished and finished products have been valued at total production cost, or at the market price if lower. Products difficult to sell have been written off or covered by specific provisions. Valuation has been carried out utilizing the average price method; in certain rare cases the FIFO system has been applied. Only economically justified criteria have been considered in adapting the balance sheet value of inventories. Stocks of spare parts for customer services have been valued only for the units for which there is thought to be a future demand, based on historical consumption.

Receivables

Provisions have been made to cover doubtful debts and receivables which were more than 12 months overdue and which were not converted into interest-bearing loans.

Provisions

Provisions were constituted according to uniform criteria, economically justified and analogous to those applied during the previous period. Provisions for guarantees were calculated to cover a period equivalent to two years and in line with proposed European legislation. Provisions were also constituted for deferred taxes relating to the differences resulting from the use in the consolidated accounts of valuation methods different from those utilized for tax purposes. Specific tax rates were applied to the companies or sectors concerned.

Appendix

Shareholders' equity

The statements are based on acquisition prices for valuation on the balance sheet; since current values have not been applied, the Financial Statements do not take into account any re-evaluation of fixed assets which might influence total shareholders' equity. The goodwill involved in the purchase of consolidated subsidiaries has been deducted directly from shareholders' equity; the theoretical consequences of capitalization followed by amortizaton over a period of 5 years are referred to under point 15 of the appendix to the balance sheet.

Relations with associated third parties

Transactions favoring associated third parties are not Group policy. On the contrary, in the few transactions made with such partners, the Swatch Group enjoys preferential rates.

Segment information

Primary segment information has been drawn up according to operational management structure. It includes details according to type of activity and provides infomation on sales, EBITDA, operating results, total assets and net invested assets.

Secondary segment information concerning geographical distribution by continent includes data on the number of units sold, value of sales, distribution of staff and total assets.

INFORMATION RELATING TO THE CONSOLIDATED INCOME STATEMENT

2000 was a year of records, with regard to both sales and results. All sectors of activity played an active role in contributing to the highly satisfactory performance.

Gross sales reached CHF 4263 million, representing a rise of 17.6% over the previous year. Operating profit increased by 39.7% to CHF 714 million. Net income after deduction of minority interests rose by 47.6% to a total of CHF 651 million.

1. Net sales

Taking into account sales reductions, net turnover rose by 17.4% compared with 1999, namely by CHF 613 million.

The acquisition of new subsidiaries represented 2.5% of the rise in sales; exchange rates for their part accounted for 3.6%.

Unit sales of finished watches, movements and stepping motors developed as follows:

	2000	1999	Evolution
Total in million units	112.3	103.5	+8.5%

Unit sales of finished watches and «Swiss made» movements once again rose considerably. As far as concerns movements, particularly strong demand was seen in the luxury sector, involving mainly decorated and improved mechanical movements. Quartz movements made in Switzerland also enjoyed a high level of demand. Although there was some rise in sales of low-range quartz movements made abroad, prices generally stabilized at a level considered still relatively low.

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Breakdown of gross sales by product category

All internal figures for the Group are based on gross sales. Gross sales to third parties can be broken down into two main categories, as shown in the following table:

	2000	1999	Evolution
Total unit sales: watches, movements, stepping motors (1 000 units)	112 257	103 474	+8.5%
Sales: watches, movements, stepping motors (million CHF)	3 379	2 905	+16.3%
Sales: other (million CHF)	884	721	+22.6%
Total sales (million CHF)	4 263	3 626	+17.6%
Average price of watches and movements (CHF)	30.10	28.07	+7.2%

Total unit sales include sales of stepping motors amounting to 15.0 million units in 2000 and 11.6 million units in 1999.

2. Material purchases

The cost of materials purchased rose by CHF 190 million, taking into account a considerable rise in production volume and as a result of the acquisition of new subsidiaries. As a percentage of sales, the cost of materials rose by 0.9% to 24.9% in 2000.

3. Other external charges

The value of outsourced production rose by CHF 58 million, the Group having no further capacity within its own organization. Only CHF 7 million can be attributed to the acquisition of new subsidiaries.

4. Salaries and social security costs

In 2000 the average number of employees was 19 284 (17 751 in 1999). Staff numbers at closure expressed in the number of contracts amounted to 19 748. The number of people having a Swiss contract rose by 980, of whom 498 were taken on with newly acquired subsidiaries. The rise in total staff employed outside Switzerland was 1 049, of whom 191 can be explained by the acquisition of new subsidiaries in Europe. Other increases involved mainly production and assembly plants in Thailand and China. This gives in total 11 032 employees with Swiss contracts and 8 716 with non-Swiss contracts working abroad. The geographical distribution of staff is shown in the section dealing with secondary segmentation.

The breakdown of staff by gender and the average number of employees with an employment or apprenticeship contract over the year were as follows:

	2000	1999
Men	8 704	8 065
Women	11 044	9 654
Total as at 31.12.	19 748	17 719
Average number of employees over the year	19 284	17 751

Following a decision taken in 1999 and as a consequence of the good management of the Pension Fund for Swiss companies, it was possible during 2000 to finalize measures aimed at reducing pension contributions for both the employee and the employer on the one hand, and to pay out equivalent supplementary benefits to retired staff on the other. It was thus possible to maintain the Group's average social security contributions at around 21%, as was the case in 1999. In principle pension insurance is arranged outside the Group with legally distinct insurance companies.

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Total staff numbers and total salaries (including social security costs) of the members of the Board of Directors as well as senior managers responsible for the 538 operating units around the world were as follows:

	2000	1999
Number of senior managers	477	426
Total remuneration (000 CHF)	108 698	91 369

5. Depreciation of fixed assets

Major investments have been made during the past few years which mainly come under the heading of modernization and extension of production equipment and machinery. As a consequence, depreciation of fixed assets in 2000 amounted to CHF 212 million (CHF 192 million in 1999).

6. Depreciation of current assets

The cost of stabilizing obsolete inventories amounted to CHF 23 million in 2000 (CHF 12 million in 1999). This rise corresponds principally to extraordinary expenditure incurred by manufacturers of watch components following the discontinuation of old products.

7. Other operating expenses

This position, including among other things the cost of advertising, maintenance, rentals, sales and administration, travel and research and development, rose by CHF 136 million, or 16.3%, compared with 1999. Following the rise in sales, investment in advertising approved by the Group rose once again, although there was a slight drop in the cost of advertising expressed as a percentage of sales. The proportion of the rise in expenses represented by the newly acquired companies amounted to CHF 21 million.

8. Research and development costs

All research and development costs have been charged directly to the income statement. During 2000 all the remaining costs, plus the balance of costs outstanding at the end of 1999 in connection with the automobile project were completely amortized.

In 2000 costs directly incurred through research and development in the Group as a whole amounted to CHF 135 million. Part of the cost of research and development is taken over by the central laboratories and departments within the general services division, which are involved in preparatory work for promising projects. Other important research and development departments are integrated directly in the operational units for the watches division (for example at Omega, Rado, Swatch, etc.), watch production (notably ETA) and in the electronic systems segment (e.g. EM-Marin, Renata, etc.) and have considerable funds at their disposal. The relative costs are included in the operating result for the units concerned.

In the context of research and development activities, it should be noted that the Swatch Group is associated with various institutions in connection with specific development. These include among others the CSEM (Swiss Center for Electronics and Microtechnology Ltd) in Neuchâtel in connection with watchmaking activities.

9. Operating income

The fact that operating income increased much more dramatically than the corresponding expenditure resulted in a highly satisfactory operating profit of CHF 714 million, representing a 39.7% rise over the previous year.

10. Net financial result

The following breakdown of the positions in the consolidated income statement shows the interest income and expenses as well as the gains and losses resulting from interest income and expenses:

	2000			1999		
(million CHF)	Income	Expenses	Net total	Income	Expenses	Net total
Interest income and expenses	30	–25	5	19	–12	7
Capital gains and losses	113	–31	82	85	–20	65
Exchange rate differences	65	–72	–7	36	–62	–26
Total	208	–128	80	140	–94	46

Net financial income rose by 74% to CHF 80 million at the end of 2000. This position includes an element which is specific to the year under review relating to the income accrued amounting to CHF 58 million through the repayment of the convertible bond.

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11. Extraordinary result

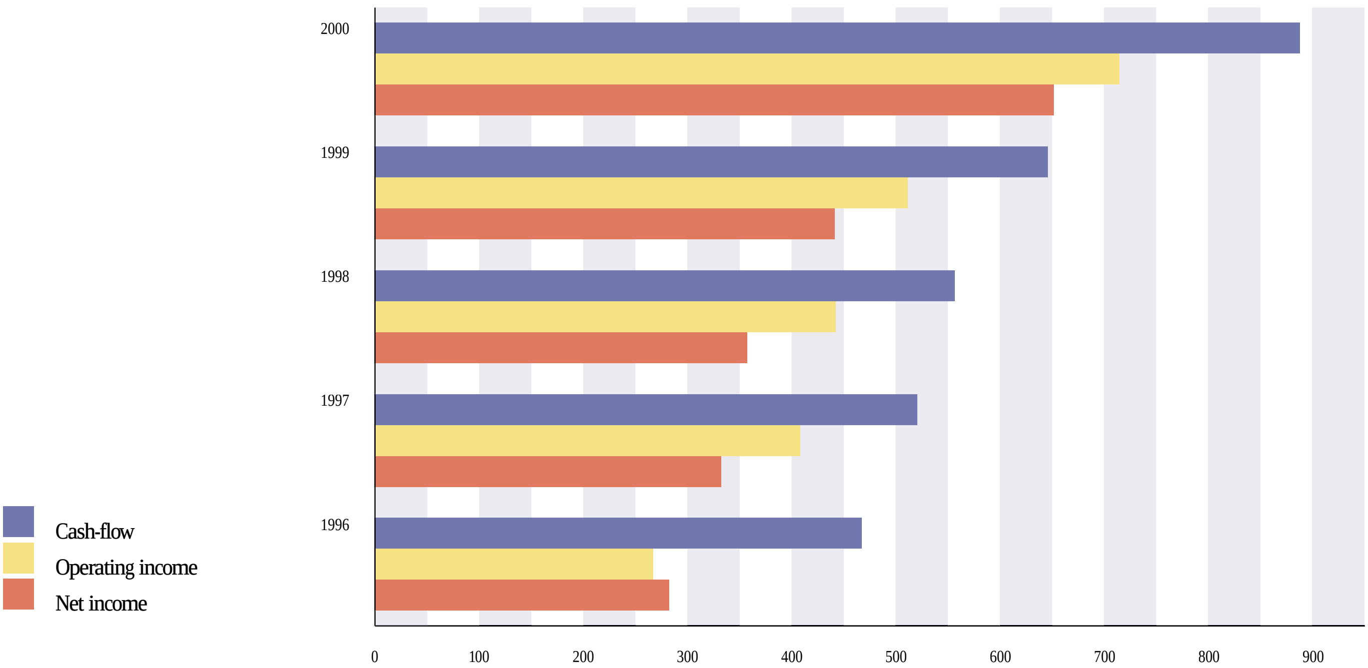
Extraordinary income was generated mainly through the income resulting from the sale of a building not occupied by any of the subsidiaries of the Group. This position does not include any dividend income paid out by companies outside the scope of the consolidation. Revenue from minority interests amounted to less than CHF 0.1 million.

12. Taxes

Fiscal expenses rose by CHF 41 million, reaching a total of CHF 140 million (CHF 99 million in 1999). This item includes expenses amounting to CHF 117 million (CHF 76 million in 1999) in connection with declared tax profits plus the part relating to the updating of deferred taxes in conformity with the development of valuation differences during the year under review (CHF 23 million, CHF 23 million in 1999). The internal rate of tax expenditure thus fell from 18.3% to 17.7% at a consolidated level.

13. Net income and cash-flow

After deduction of minority interests, the consolidated net result for 2000 increased by 47.6% over the net result for 1999, reaching CHF 651 million. The changes made in the scope of consolidation betweeen 1999 and 2000 had no material effect on the annual results, being under 1%. After deduction of minority interests, cash-flow rose by 37.4% to reach an amount of CHF 886 million. Developments in the results and cash-flow can be visualized as follows for the past 5 years:



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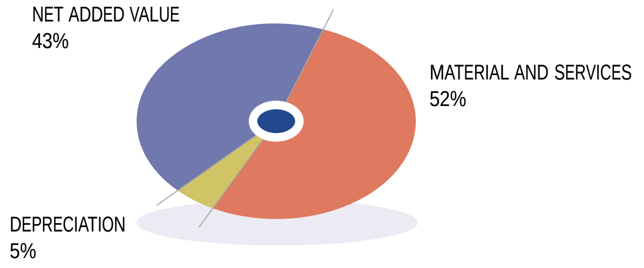
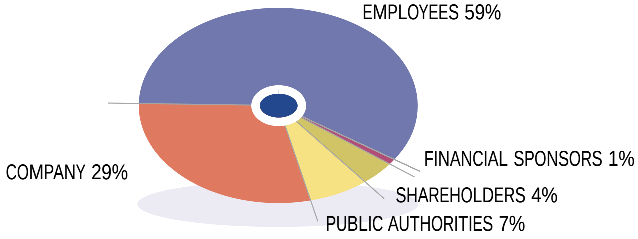
14. Analysis of added value

The breakdown of total operating revenues, more commonly known as total Group performance when referring to calculations of added value, can be shown as follows:

(million CHF)	2000	1999
Overall Group performance	4 621	3 732
Materials and services	–2 401	–1 950
Depreciation	–212	–192
Net added value	2 008	1 590
% variation	+26.3%	



The allocation of added value among the different beneficiaries at the end of 2000 was as follows:



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INFORMATION RELATING TO THE CONSOLIDATED BALANCE SHEET

The balance sheet total increased by CHF 184 million to reach CHF 4 662 million. Shareholders' equity rose by CHF 461 million to a total of CHF 3 320 million at the end of 2000, representing 71% of the total balance sheet (64% at 31.12.1999).

15. Fixed assets

The development of intangible, fixed and financial assets, as well as their respective purchase values, are shown in the table of movements in fixed assets on the following page.

The total amount of expenditure on development in connection with the automobile project capitalized at the end of 1999 was amortized. Similarly, expenditure on the project during 2000 was included in the accounts for the year. The remaining intangible assets mentioned on the balance sheet correspond essentially to recoverable key money paid out in order to secure strategic sites for retail stores.

The goodwill amounting to CHF 84 million paid in connection with the acquisition of new companies included in the scope of the consolidation was directly written off against shareholders' equity. Taking into account the acquisitions completed, the theoretical impact (on shareholders' equity and on the net consolidated result) of the capitalization of the goodwill followed by amortization over a period of 5 years is as follows:

(million CHF)	Acquisition in 2000	Acquisition in 1999	Total
Goodwill deducted from shareholders' equity	84	140	224
Theoretical amortization 1999		–28	–28
Theoretical amortization 2000	–17	–28	–45
Theoretical increase in shareholders' equity as at 31.12.2000	67	84	151

Shareholders' equity and the adjusted net consolidated result are as follows:

(million CHF)	2000	1999
Shareholders' equity as at 31.12.	3 471	2 971
Net consolidated result	606	413

Machinery leased by the Group has been capitalized on the balance sheet if its unit value exceeds CHF 50 000.–, if the duration of the leasing contract is longer than 3 years and if the object can be purchased upon expiry of the contract.

At the end of 2000 the residual values of contracts of this type represented less than CHF 100 000.–.

Values for fire insurance

Assets were insured for the following amounts:

(million CHF)	2000	1999
Real estate	1 342	1 267
Machinery and equipment	2 809	2 685
Total insurance value	4 151	3 952

It should be pointed out that the net value of the fixed assets (including land) in the balance sheet as per 31.12.2000 represents only 25.6% of the insurance value.

16. Inventories

Stocks increased to CHF 1 299 million, i.e. by CHF 190 million over the the previous year. This rise is related to the considerable increase in sales and is also partly due to the acquisition of new companies during 2000.

Appendix

Movements in Fixed Assets

a) Acquisition values (million CHF)	Historical acquisition value 31.12.99	Currency diff. Bal 00/99	Acquis. val. 31.12.1999 adj. at rates of 31.12.00	Acquisitions (net value) 2000	Investments 2000	Capitalized expenditures 2000	Divestments (sales) 2000	*) Transfers 2000	Historical acquisition value 31.12.00
Capitalized development expenses	69		69		1		–48		22
Other intangible assets	35		35		6	4			45
Total intangible assets	104	0	104	0	7	4	–48	0	67
Land and buildings	654	–2	652	18	26	1	–3	14	708
Plant and machinery	1 886	–11	1 875	16	121	39	–65	12	1 998
Other fixtures and fittings	217	–2	215		24		–13		226
Advances and construction in progress	9		9		5	4		–4	14
Total tangible assets	2 766	–15	2 751	34	176	44	–81	22	2 946
Long-term loans	13		13		3		–10		6
Investments	1		1						1
Total financial assets	14	0	14	0	3	0	–10	0	7
Total fixed assets	2 884	–15	2 869	34	186	48	–139	22	3 020

b) Net balance sheet values (million CHF)	Historical acquision value 31.12.00	Depreciation year to date 31.12.99	Currency diff. Bal 00/99	Deprec. on divest./transfers 2000	Depreciation 2000	Depreciation ytd 31.12.00	Net balance sheet value 31.12.99	Net balance sheet value 31.12.00
Capitalized development expenses	22	–41		48	–23	–16	28	6
Other intangible assets	45	–20			–8	–28	15	17
Total intangible assets	67	–61	0	48	–31	–44	43	23
Land and buildings	708	–384	1	2	–15	–396	270	312
Plant and machinery	1 998	–1 228	7	60	–146	–1 307	658	691
Other fixtures and fittings	226	–148	1	–1	–20	–168	69	58
Advances and construction in progress	14	–1		–12		–13	8	1
Total tangible assets	2 946	–1 761	9	49	–181	–1 884	1 005	1 062
Long-term loans	6	0				0	13	6
Investments	1	0				0	1	1
Total financial assets	7	0	0	0	0	0	14	7
Total fixed assets	3 020	–1 822	9	97	–212	–1 928	1 062	1 092

*) The heading “Transfers” includes transfers between different categories of balance sheet positions.

Appendix

17. Trade receivables

Payment of trade receivables from sales and services remained stable. Calculated on the basis of effective monthly sales, the corresponding ratio remained at 52 days at the end of 2000.

Trade receivables value and bad debt provisions developed as follows:

(million CHF)	2000	1999
Receivables	723	674
Bad debt provision	–20	–16
Net receivables	703	658

The bad debt provision represented 2.8% of trade receivables and covered all identified risks at closure.

18. Other receivables, prepayments and accrued income

These two categories include a number of items the total of which can be summarized as follows:

(million CHF)	2000	1999
Advances	38	32
VAT to be recovered	136	132
Other taxes to be recovered	37	44
Defined financial expenses	14	16
Prepaid advertising	3	2
Miscellaneous receivables and other defined prepayments	133	134
Total other receivables, prepayments and accrued income	361	360

19. Securities

All third-party negotiable securities have been valued at year-end rates.

The other marketable securities include only equities amounting to CHF 302 million.

This position also includes holdings of treasury shares of which a part is reserved for a management stock option plan. As in the past, the portion of treasury shares reserved for the stock option plan was not revalued at market price. The value of treasury shares held by the Group was CHF 333 million. The 2000 consolidated development of the number of The Swatch Group Ltd shares can be summed up as follows:

	Registered 000 units	Bearer 000 units
Balance at 1.1.2000	1 995	0
Purchases	1 083	40
Sales	–1 924	–31
Balance at 31.12.2000	1 154	9

With the exception of movements related to the special fund and repayment of the convertible bond (conversion price CHF 260.– per registered share with nominal value of CHF 10.–), all treasury share transactions were revaluated at market price. The average price paid for free shares in 2000 was CHF 425.– per registered share and CHF 2 142.– per bearer share. At 31.12.2000, the free shares were adjusted to their year-end stock market price over the income statement.

20. Liquid funds

Liquid funds are generated by the Treasury Department of The Swatch Group Ltd, in line with a defensive asset allocation strategy, the risk profile being constantly monitored. Special attention is paid to active risk management. Liquid funds are invested in the usual financial tools of the capital market.

Liquid funds decreased by CHF 140 million, totalling CHF 572 million as at 31.12.2000. Net liquid funds, comprising total liquid funds and securities minus bank and bond debts rose by CHF 316 million to CHF 931 million.

Appendix

21. Shareholders' equity

Consolidated shareholders' equity rose by CHF 461 million and represents 71% of the balance sheet total, or CHF 3 320 million (64% and CHF 2 859 million in 1999). This development in shareholders' equity includes the amortization of the goodwill linked to the acquisition of a total of CHF 84 million in investments.

The development of consolidated equity was as follows:

(million CHF)	Share capital	Capital reserves	Treasury share reserves	Profit reserves	Total share holders' equity
Balance at 1.1.2000	312	213	342	1 992	2 859
Dividend paid out				–71	–71
Net income 2000				651	651
Adjustment of treasury share reserve			–4	4	0
Goodwill on acquisitions				–84	–84
Exchange rate difference P&L / balance sheet and on pseudo shareholders' equity				–11	–11
Exchange rate difference and other				–24	–24
Balance at 31.12.2000	312	213	338	2 457	3 320

22. Provisions

Provisions include specific items intended to cover real latent risks and deferred expenses; from an economic point of view, they are therefore all justified. Some of these provisions were set up centrally by the Group, in order to avoid any duplication on the one hand, and to ensure optimal supervision of their future utilization on the other.

The fiscal provisions include a provision of CHF 260 million (CHF 240 million at the end of 1999) for taxes on undisclosed reserves, as well as a provision of CHF 2 million for withholding tax on dividends (unchanged).

Other provisions amount to CHF 140 million (CHF 153 million at the end of 1999) and are reserved principally to cover risks attached to reorganization of markets and deferred expenses.

23. Long-term debts

Long-term debts fell by CHF 461 million mainly due to the early total repayment of a convertible bond of CHF 400 million issued by The Swatch Group Ltd as well as the partial repayment of a bond of CHF 100 million from The Swatch Group Finance (Luxembourg) Ltd.

Appendix

As at 31.12.2000 The Group had an outstanding bond issue amounting to CHF 100 million the details of which are given below:

Issued by The Swatch Group Finance (Luxembourg) Ltd

Convertible bond of CHF 100 million at 2%, 1995 – 23.10.2002, quoted on the Swiss stock exchange, security no. 412 260, not callable.

At the end of the year 2000, 14 504 bonds with a nominal value of CHF 72.5 million were converted into 333 592 shares in The Swatch Group Ltd.

At the end of 2000 the consolidated balance sheet did not include any liability of over 5 years. The Group has taken no loans from the Swatch Group Pension Fund nor from any other Group funds.

24. Short-term debts

Short-term debts rose by CHF 172 million to CHF 846 million and can be broken down as follows:

(million CHF)	2000	1999
Debts to banks	208	144
Debts and deferred charges on purchases and services	282	236
Salaries and social security costs	63	63
Sales reductions	12	19
Advertising	58	55
VAT due	13	29
Taxes	57	32
Advances received	1	3
Other debts and deferred charges	152	93
Total short-term debts	846	674

This position includes all deferred charges relating to the current year not yet invoiced by third parties to companies within the Group. The principal items concern advertising expenses as well as the current fiscal charge for certain subsidiaries. These positions rose by CHF 37 million to reach CHF 209 million at the end of 2000.

25. Contingent liabilities

As at the end of 1999, the consolidated accounts at the end of 2000 included no guarantees or securities.

26. Derivative financial instruments

The operations carried out on behalf of the whole Group on the financial derivatives markets are the sole responsibility of the Treasury Department of The Swatch Group Ltd.

Gold and currencies

Financial derivatives on gold and currencies are valued at market value. Transactions unfinished at 31.12.2000 were entered into in order to provide cover according to the operational risks due to fluctuations in exchange rates and market prices. These transactions are detailed on page 115 of the appendix to the annual accounts of the holding company.

Appendix

Other financial instruments

These include «over-the-counter» options on registered shares in The Swatch Group Ltd contracted with third parties in order to ensure the permanent availability of the securities necessary for the integral conversion of the convertible loan issued in 1995 and maturing on 23.10.2002. The remaining overall contractual value of the two options included in this category amounts to CHF 42 million. The resulting replacement values present no risk at all and have not been included due to the details agreed with the contracting partner concerning the exercise of options. Furthermore, according to the options mentioned above, the Group will incur no losses as long as the rate for registered shares in The Swatch Group Ltd remains above CHF 145.– per share, regardless of the partial or total conversion of the convertible loan on which the transactions with third parties are based. The Group's maximal remaining liabilities as per 31.12.2000 relating to these transactions amount to CHF 18.3 million.

SEGMENT INFORMATION

The primary segment information is related to operational sectors, in compliance with the internal management tools available to company management and management scope. The relevant detailed elements are given and referred to below.

The secondary segment information includes analytical elements by geographical sector.

Primary segment information: by operational sector

Finished watches

Despite the particularly high comparative basis during the second half of 1999 sales figures for finished watches managed to show a rise of over 14.3%.

The luxury segment alone (excluding Rado and Longines) recorded growth of over 30%. New management and innovative projects in relation to both products and public relations enabled Breguet to enjoy a growth rate that was well above average. Blancpain too achieved an exceptional result. Glashütte Original is the newcomer in this segment. All brands expanded to an appreciable degree, but Omega's success deserves special mention.

Thanks to various innovations in the products and public relations areas Longines also progressed well. As usual, Rado continued to grow steadily.

The medium-range segment also recorded double-digit growth. Tissot in particular made very good progress in this sector.

In the basic range, sales through Swatch Stores increased considerably. While some of the other distribution channels in western Europe saw a slight drop in sales, all others recorded a rise. The major launches of Swatch products such as the Skin Chrono and S^2 (Square) originally planned for the end of 2000 had to be postponed due to overloaded production capacity and will therefore only affect sales figures for 2001. The production of the basic-range Lanco watches and private label watches was reduced in order to free up production capacity for Swatch and products for the luxury and top-range sectors. Sales at Swatch Telecom also fell.

The specific and targeted development of the Group retail sales structures, the launch of the Swatch e-commerce platform in the USA in spring 2001, the stage-by-stage development of the jewellery sectors at Breguet, Swatch, Omega and Léon Hatot and the continued systematic integration of Breguet and Glashütte Original into the Group distribution network (until being taken over by Swatch Group, Glashütte Original was more or less solely marketed in Germany and Austria) will notably have a positive influence on the achievement of the Group's objectives for 2001.

Appendix

Despite the consolidation of distribution structures, linked to the rise in sales, and expenditure on marketing, which was in proportion to sales, the operational margin increased above the average rate. Thanks to strong growth at Breguet, Blancpain and Omega it was possible to considerably strengthen position on the markets in the upper and luxury ranges; important new projects are currently underway. The acquisition of Jaquet-Droz and Glashütte Original last fall constituted a harmonious complement in this segment. At the same time, after conclusive initial marketing tests for Breguet and Swatch during the last half-year, the launch of Léon Hatot products and the expansion of the jewellery range are also part of the Group's strategy. Other brands such as Rado and Longines as well as those in the medium and basic ranges also made a contribution – sometimes important – to the overall result.

Manufacture of watches, movements and watch components

The intensive improvements in this segment quickly showed positive and impressive results (rise in sales of 18.7%).

Demand was extremely high, principally in the upper price range for both mechanical and electronic movements, while in the basic price range, which remained relatively stable, slower growth was planned and achieved.

Thanks to development projects in the extension and modernization program for production capacity, as well as the rationalization of manufacturing processes as announced by the Group last summer, it should be possible to meet the growing demand for movements and components.

Progress was also seen in the rationalization and development of sales in the component sector. Favre & Perret considerably increased their production of gold cases for luxury models for supply to brands in the Group and to third parties. The balance-spring manufacturer Nivarox-FAR also achieved solid double-digit growth. Thanks to the planned investment program this company will be in a better position to meet rising demand. Reorganization at Swatch Group Watch Assembly for the final assembly of all brands also had positive repercussions. Included in the consolidation for the first time, the watch-hand manufacturer Universo is being radically modernized using investment funds earmarked for rationalization. In the immediate future these measures will have a positive effect and will allow Universo, which is in the red at present, to establish a solid foothold on the positive side of the balance.

Order books at ETA, Nouvelle Lemania and Frédéric Piguet are more than full for 2001. Orders received by certain departments at ETA and for the whole range manufactured by Nouvelle Lemania and Frédéric Piguet currently exceed the production capacity available for the present year. Extension plans implemented in numerous companies producing different types of products will be pursued during 2001 and will continue to receive the support of major investment programs.

Electronic systems

It is in this sector that the most marked rise in sales figures overall was seen. Compared with those of the two other segments, profit margins are also much higher. EM-Marin, which has a broad range of applications in the low power / low voltage sector including over 70% sales to third parties, Lasag, which is enjoying a high level of demand for industrial laser applications, as well as Oscilloquartz achieved a notable increase in sales. Thanks to a strong position on several markets, in particular outside the mobile telephone field, and in view of the Group's strong link with industrial microelectronics, other development phases backed up by investment and acquisition programs can be implemented in the future. Micro Crystal took advantage of strong demand in the mobile telephone market.

General services

This sector comprises principally research and development activities within the Group's central departments and laboratories. The preliminary services provided by this sector were once again expanded with regard to a number of promising projects, which will have a positive effect on future launches. In addition, Swiss Timing was involved in the Olympic Games of Sydney 2000.

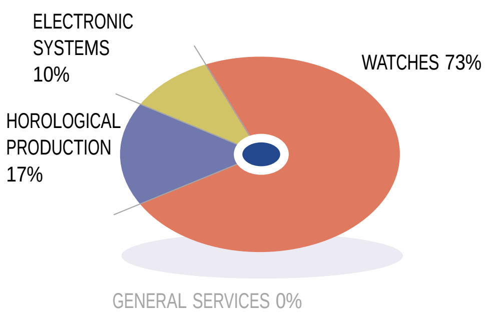
Appendix

Gross sales

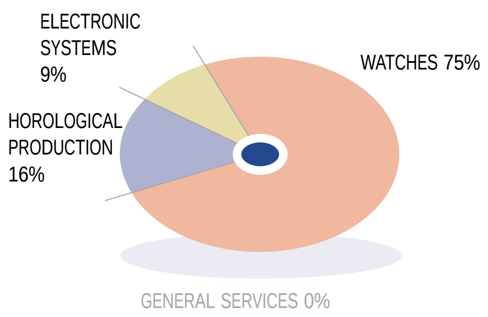
(million CHF)	2000 Third	Group	Total	1999 Third	Group	Total
Watches	3 120	0	3 120	2 729	0	2 729
Horological production	727	686	1 413	575	615	1 190
Electronic systems	412	56	468	320	57	377
General services	4	42	46	2	10	12
Adjustments	0	–784	–784	0	–682	–682
Total	4 263	0	4 263	3 626	0	3 626

Proportion of consolidated gross sales represented by each segment

2000



1999



EBITDA

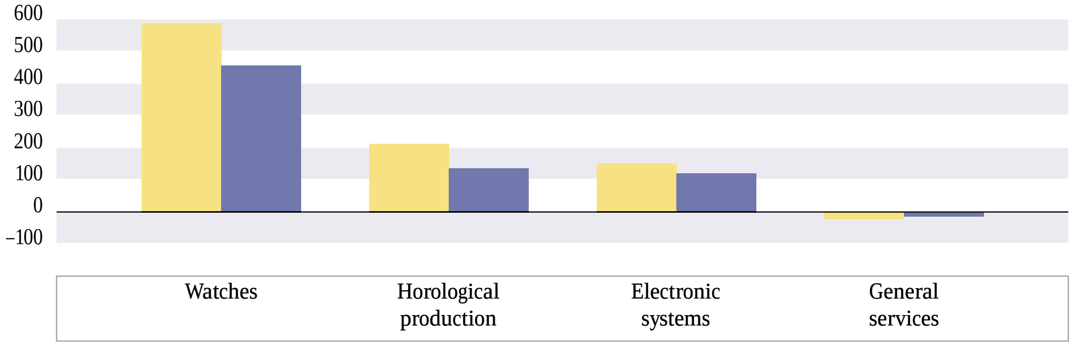
Earnings before interest, taxes, depreciation and amortization are as follows for the various segments:

	2000 million CHF	in % of sales	in % of total	1999 million CHF	in % of sales	in % of total
Watches	598	19.2	63.0	464	17.0	64.9
Horological production	217	15.4	22.9	140	11.8	19.6
Electronic systems	155	33.1	16.3	123	32.6	17.2
General services	–21		–2.2	–12		–1.7
Total	949	22.3	100.0	715	19.7	100.0

Appendix

Proportion of EBITDA per segment

2000
1999

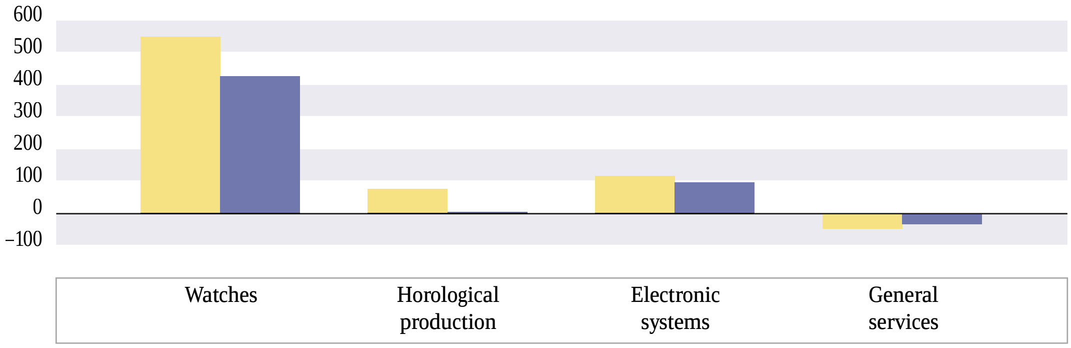


Operating result

	2000			1999		
	million CHF	in % of sales	in % of total	million CHF	in % of sales	in % of total
Finished watches	559	17.9	78.3	435	15.9	85.1
Horological production	80	5.7	11.2	7	0.6	1.4
Electronic systems	121	25.9	16.9	100	26.5	19.6
General services	–46		–6.4	–31		–6.1
Total	714	16.8	100.0	511	14.1	100.0

Proportion of operating result per segment

2000
1999



Appendix

Total assets

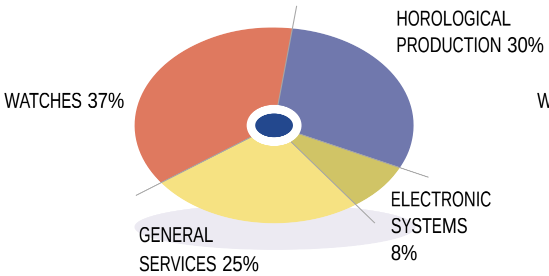
	2000		1999	
	million CHF	in % of total	million CHF	in % of total
Watches	1 958	42.0	1 693	37.8
Horological production	1 337	28.7	1 219	27.2
Electronic systems	344	7.4	274	6.1
General services	1 023	21.9	1 292	28.9
Total	4 662	100.0	4 478	100.0

Total net assets

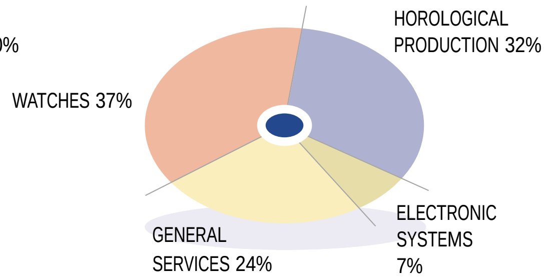
	2000		1999	
	million CHF	in % of total	million CHF	in % of total
Watches	1 232	36.9	1 073	37.4
Horological production	993	29.8	905	31.5
Electronic systems	267	8.0	202	7.0
General services	846	25.3	692	24.1
Total	3 338	100.0	2 872	100.0

Proportion of net assets per segment

2000



1999



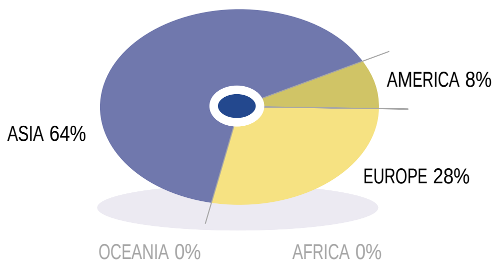
Secondary segment information: by geographical sector

In line with the standard of presentation applied in the watchmaking branch, the breakdown of unit sales (finished watches, movements and stepping motors) per continent as well as of global sales is indicated here. This breakdown does not necessarily reflect the final destination at consumer level but corresponds to the country of destination indicated on invoices, notably in the case of movements sold in Switzerland and Hong Kong.
Sales in Asia concern mainly movements sold in Hong Kong from where many of the finished products sold by Group customers are exported to the United States.

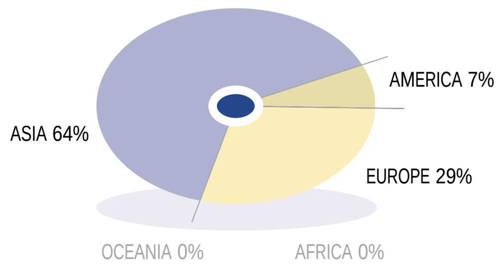
back

Appendix

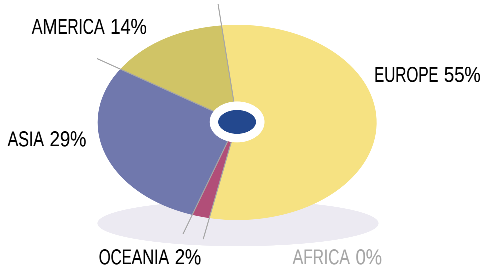
UNITS 2000



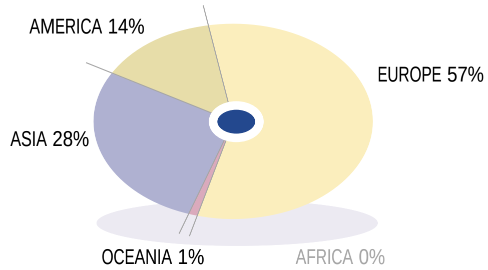
UNITS 1999



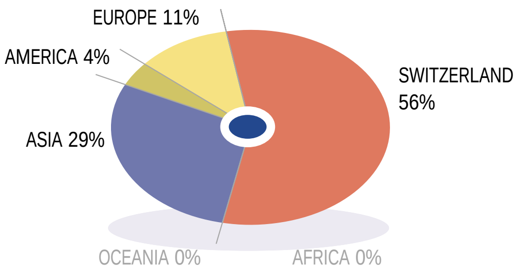
VALUES 2000



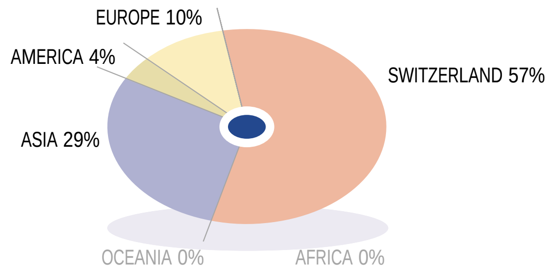
VALUES 1999



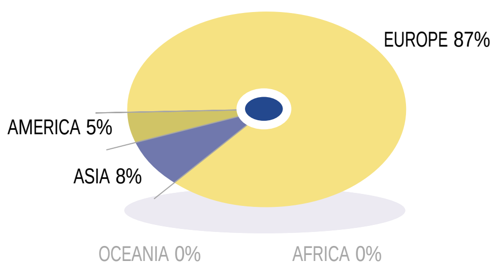
PERSONNEL 2000



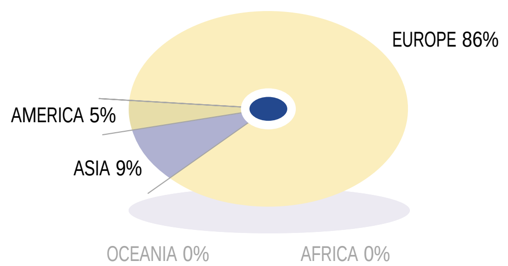
PERSONNEL 1999



TOTAL ASSETS 2000



TOTAL ASSETS 1999



Report of the group auditors
to the general meeting of
The Swatch Group Ltd
Neuchâtel

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows and notes / pages 85 to 109) of The Swatch Group Ltd for the year ended 31 December 2000.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Accounting and Reporting Recommendations (ARR) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

P. Sütterlin A. Stotz

Basel, 14 March 2001