FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	**2002** million CHF	**2002** %	2001 million CHF	2001 %
Gross sales	(1)	**4 063**	**100.0**	4 182	100.0
Sales reductions		**–130**	**–3.2**	–134	–3.2
Net sales		**3 933**	**96.8**	4 048	96.8
Other operating income		**37**	**0.9**	53	1.3
Changes in inventories and work in progress		**157**	**3.9**	143	3.4
Capitalized expenditures		**36**	**0.9**	37	0.9
Material purchases		**–953**	**–23.5**	–1 032	–24.7
Staff costs	(2)	**–1 269**	**–31.2**	–1 251	–29.9
Other operating expenses		**–1 099**	**–27.1**	–1 153	–27.6
Operating result before depreciation & amortization (EBITDA)		**842**	**20.7**	845	20.2
Depreciation of fixed assets (excluding goodwill)		**–198**	**–4.8**	–189	–4.5
Amortization of goodwill		**–12**	**–0.3**	–12	–0.3
Operating result (EBIT)		**632**	**15.6**	644	15.4
Net financial result	(4)	**–22**	**–0.6**	–20	–0.5
Result before taxes		**610**	**15.0**	624	14.9
Income taxes	(5)	**–110**	**–2.7**	–114	–2.7
Group result before minority interest		**500**	**12.3**	510	12.2
Minority interest		**–6**	**–0.1**	–6	–0.1
Net income		**494**	**12.2**	504	12.1
Registered shares	(6)				
Basic earnings per share		**1.69**		1.69	
Diluted earnings per share		**1.69**		1.69	
Bearer shares	(6)				
Basic earnings per share		**8.47**		8.46	
Diluted earnings per share		**8.47**		8.46	

CONSOLIDATED BALANCE SHEET

Assets		31.12.2002		31.12.2001	
	Notes	**million CHF**	**%**	million CHF	%
Property, plant and equipment	(8)	**1 072**	**22.4**	1 053	22.6
Investment property	(8)	**16**	**0.3**	11	0.2
Intangible assets	(7)	**284**	**6.0**	269	5.8
Investments in associated companies	(9)	**4**	**0.1**	4	0.1
Other financial assets	(9)	**6**	**0.1**	7	0.1
Deferred tax assets	(19)	**109**	**2.3**	105	2.3
Non-current assets		**1 491**	**31.2**	1 449	31.1
Inventories	(10)	**1 442**	**30.1**	1 361	29.2
Assets held for sale		**3**	**0.1**	3	0.1
Trade receivables	(11)	**670**	**14.0**	679	14.6
Other receivables and prepayments	(12)	**318**	**6.6**	298	6.4
Available-for-sale investments	(13)	**396**	**8.3**	584	12.5
Cash and cash equivalents	(14)	**463**	**9.7**	286	6.1
Current assets		**3 292**	**68.8**	3 211	68.9
Total assets		**4 783**	**100.0**	4 660	100.0

CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity	Notes	**31.12.2002 million CHF**	**%**	31.12.2001 million CHF	%
Share capital	(15)	**137**	**2.9**	140	3.0
Capital reserves		**213**	**4.4**	213	4.6
Treasury shares	(16, 21)	**–369**	**–7.7**	–565	–12.1
Conversion differences		**–20**	**–0.4**	37	0.7
Retained earnings		**3 580**	**74.8**	3 436	73.8
Shareholders' equity		**3 541**	**74.0**	3 261	70.0
Minority interest		**15**	**0.3**	19	0.4
Borrowings	(18)	**12**	**0.3**	61	1.3
Deferred tax liabilities	(19)	**314**	**6.5**	274	5.9
Retirement benefit obligations	(20)	**19**	**0.4**	13	0.3
Non-current provisions	(17)	**51**	**1.1**	75	1.6
Non-current liabilities		**396**	**8.3**	423	9.1
Trade and other payables and accrued expenses	(22)	**578**	**12.1**	626	13.4
Borrowings	(18)	**199**	**4.2**	293	6.3
Current provisions	(17)	**54**	**1.1**	38	0.8
Current liabilities		**831**	**17.4**	957	20.5
Total liabilities		**1 227**	**25.7**	1 380	29.6
Total liabilities and shareholders' equity		**4 783**	**100.0**	4 660	100.0

CONSOLIDATED CASH FLOW STATEMENT

	Notes		**2002** **million CHF**		2001 million CHF
Operating activities					
Cash generated from operations	(23)	**672**		709	
Interest paid		**–11**		–5	
Interest received		**20**		21	
Tax paid		**–115**		–102	
Cash flow from operating activities			**566**		623
Investing activities					
Acquisition/disposal of consolidated companies (without liquid funds)	(24)	**–6**		–8	
Investment in tangible assets		**–229**		–227	
Proceeds from sale of tangible assets		**18**		28	
Investment in intangible assets		**–48**		–43	
Proceeds from sale of intangible assets		**1**			
Investment in financial assets		**–2**		–4	
Proceeds from sale of financial assets		**3**		3	
Purchase/sale of available-for-sale investments		**94**		–34	
Cash flow from investing activities			**–169**		–285
Financing activities					
Dividend paid to group shareholders		**–58**		–172 *)	
Dividend paid to minority interests		**–9**		–5	
Purchase/sale of treasury shares		**1**		–228	
Movement in non-current liabilities		**–54**		–13	
Movement in current liabilities		**–107**		100	
Cash flow from financing activities			**–227**		–318
Net impact of foreign exchange rate differences on cash			**–11**		
Increase/decrease in cash and cash equivalents			**159**		20
Movement in cash and cash equivalents					
- At beginning of year		**276**		256	
- At end of year		**435**	**159**	276	20
Cash and cash equivalents at end of year			**435**		276

*) In the form of partial repayment of share capital

GENERAL COMMENTS

MANAGEMENT OF THE BUSINESS AND KEY FINANCIAL FIGURES

THE GROUP AS A WHOLE

Despite worldwide political unrest, uncertain future prospects, consumer reluctance, and the continuing rise of the Swiss franc – which led to exchange losses of CHF 166 million – the Swatch Group nonetheless realized an overall growth of + 1.1% expressed in local currency in 2002, even though sales expressed in CHF dropped slightly by –2.8%. This result clearly demonstrates that the Group succeeded in adapting both quickly and very flexibly to external constraints.

In 2002, the launching of new products and technical innovations were the essential elements contributing to the year's positive results. Increase in market share in all segments, as well as effective cost control significantly contributed to this very promising business development.

As a result of the swift streamlining of costs, the operating result after depreciation and amortization (EBIT) experienced only a slight decline of – 1.9%. Net income, which reached CHF 494 million, fell by only –2.0% with respect to the prior year. The same figures expressed in dollars show an increase of +6.1% in gross sales, +7.2% in operating results and +7.0% in net income!

The Group's extremely solid balance sheet and substantial liquidity will provide the freedom of movement necessary for the Group to concentrate wholeheartedly on its operating business and current development strategy over the coming years.

Distribution of gross sales by product category

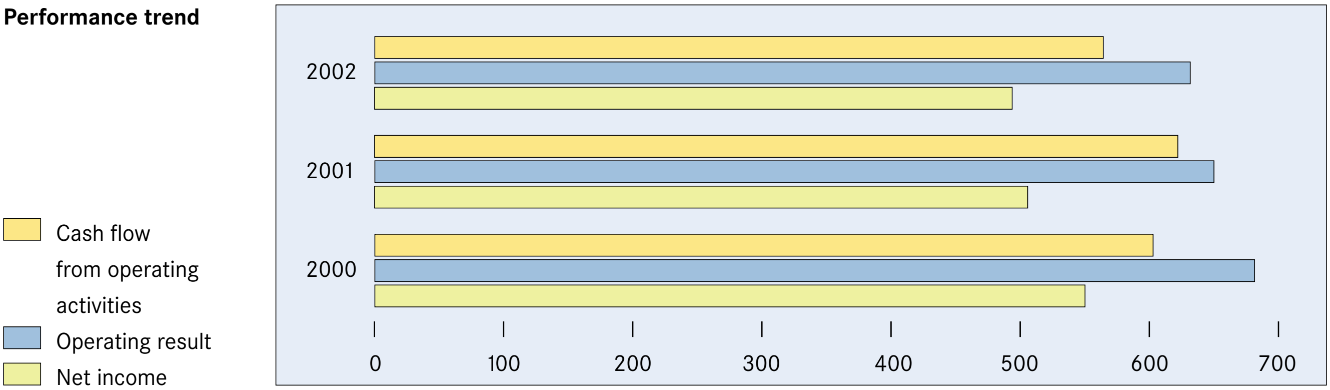
All internal Group statistics refer to gross sales. Gross sales to third parties are divided into two main categories, of which the following table shows the main items:

	2002	2001	Variance %
Total unit sales of watches, movements and stepping motors (1000 units)	**119 585**	113 438	+5.4
Sales of watches, movements and stepping motors (million CHF)	**3 256**	3 315	– 1.8
Other sales (million CHF)	**807**	867	–6.9
Total sales (million CHF)	**4 063**	4 182	–2.8
Average price of watches, movements and stepping motors (CHF)	**27.23**	29.22	–6.8

Total unit sales include the sale of stepping motors, corresponding to 19.9 million units in 2002 and 12.9 million in 2001.

GENERAL COMMENTS

Performance trend



WATCHES

(million CHF)	**2002**	2001	Variance % In local currency	Exchange differences	Total
Sales	**2 980**	3 034	+3.2	–5.0	–1.8
Operating result before depreciation and amortization (EBITDA)	**558**	565			–1.2
- As % of sales	**18.7**	18.6			
Operating result (EBIT)	**515**	523			–1.5
- As % of sales	**17.3**	17.2			

In 2002, the Swatch Group's portfolio of watch brands realized positive and well-balanced growth. All the important brands registered growth in local currency and were able to win market share, while the high-end brands in particular enjoyed above-average growth.

The increase in operating margin from 2001 to 2002 shows that the Group is also capable of adapting rapidly to a difficult economic environment.

The increase in operating profitability during the second half of the year was due principally to the product mix, as well as to the doubled efforts made in reducing costs. By incorporating the investments made in implementing various retail sales activities, marketing costs remained at the same high level as the prior year. The opening of new shops also had a positive effect on margin.

PRODUCTION OF WATCHES, MOVEMENTS AND COMPONENTS

(million CHF)	**2002**	2001	Variance % In local currency	Exchange differences	Total
Sales					
– Third parties	**741**	767			
– Group	**667**	625			
– Total	**1 408**	1 392	+1.9 %	–0.8	+1.1
Operating result before depreciation and amortization (EBITDA)	**209**	187			+11.8
– As % of sales	**14.8**	13.4			
Operating result (EBIT)	**83**	65			+27.7
– As % of sales	**5.9**	4.7			

The operating margin in the watch, watch movement and component production segment rose considerably with respect to the prior year. This increase in sales and profit is essentially due to product innovations and to an increase in the proportion of mechanical movements. The moderate negative influence of exchange rates in this segment was particularly felt in the sale of low-price movements in Hong Kong. Due to the constant pressure on prices experienced in particular during the second half of the year, as well as to the increasingly unfavorable exchange rates, operating margin during the second half of the year was slightly less than during the first six months. Restructuring undertaken in this segment resulted in a non-recurring cost effect, also largely concentrated in the second half of the year.

ELECTRONIC SYSTEMS

(million CHF)	**2002**	2001	Variance %		
			In local currency	Exchange differences	Total
Sales					
– Third parties	**323**	374			
– Group	**53**	48			
– Total	**376**	422	– 10.1	–0.8	– 10.9
Operating result before depreciation and amortization (EBITDA)	**94**	109			– 13.8
– As % of sales	**25.0**	25.8			
Operating result (EBIT)	**59**	78			–24.4
– As % of sales	**15.7**	18.5			

The continuing difficulties experienced by the mobile telephone industry, where prices remain under pressure and where sales have stagnated, made any increase in profitability during the second half of the year impossible. However, thanks to new cost realignments and to market share gains by some component manufacturers during the year under review, it was nonetheless possible to realize a relatively attractive operating margin.

In 2002, the reluctance of telecommunication companies to invest in equipment led to the market segment occupied by the oscillator manufacturer Oscilloquartz being severely hit, and resulted in a considerable loss in profitability, obliging this Group company to undertake drastic cost-reduction measures.

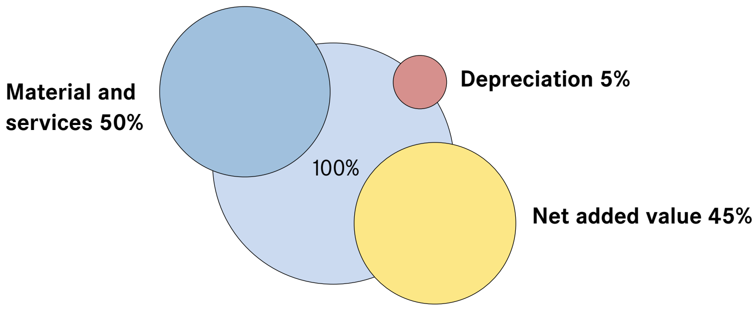
The strong market position held by certain suppliers of niche products, as well as the relatively low level of stocks on the customer side, allow us to anticipate 2003 with confidence. In the medium and long-term future, following the current period of stagnation – which has been with us now for almost two years – demand for extremely low energy consumption miniaturized products will once again increase, thus enabling the companies operating in this market to largely benefit from the revival as a result of their strong market positions. Moreover, the acquisition of SID Sokymat Identifikations-Komponenten GmbH widens prospects in this field.

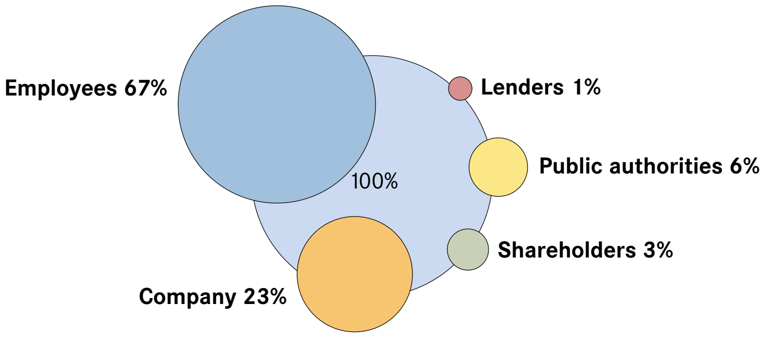
GENERAL COMMENTS

Analysis of added value

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

(million CHF)	**2002**	2001
Overall Group performance	**4 151**	4 374
Material and services	**2 054**	2 285
Depreciation	**210**	201
Net added value	**1 887**	1 888
% change	**–0.1**	





PERSPECTIVES FOR 2003

The Swatch Group is confident for the current year. This positive sentiment is strengthened by a good start of sales to customers in the first two and a half months, despite highly adverse currency factors. The operating result for the first few months indicates an encouraging growth trend.

However, in view of the current economic and geopolitical tensions, it would not be judicious at this point to predict precise profit and sales figures for 2003, and along with the risks related to the prevailing macroeconomic situation, the continued growth in strength of the Swiss franc will continue weighing heavily on Swatch Group throughout the first half of the year.

The current prevailing general pessimistic attitude neither corresponds to Swatch Group's way of thinking nor to the Group's observations made at the outset of this year. The Group's extremely solid financial capacity, its high level of liquid assets and its important share of the world's markets provide it with numerous development possibilities in terms of sales and profit; and while these possibilities exist throughout the Group's key sectors, the main effort nonetheless remains concentrated in the watches segment.

CONSOLIDATED INCOME STATEMENT

	Notes	**2002** million CHF	**2002** %	2001 million CHF	2001 %
Gross sales	(1)	**4 063**	**100.0**	4 182	100.0
Sales reductions		**–130**	**–3.2**	–134	–3.2
Net sales		**3 933**	**96.8**	4 048	96.8
Other operating income		**37**	**0.9**	53	1.3
Changes in inventories and work in progress		**157**	**3.9**	143	3.4
Capitalized expenditures		**36**	**0.9**	37	0.9
Material purchases		**–953**	**–23.5**	–1 032	–24.7
Staff costs	(2)	**–1 269**	**–31.2**	–1 251	–29.9
Other operating expenses		**–1 099**	**–27.1**	–1 153	–27.6
Operating result before depreciation & amortization (EBITDA)		**842**	**20.7**	845	20.2
Depreciation of fixed assets (excluding goodwill)		**–198**	**–4.8**	–189	–4.5
Amortization of goodwill		**–12**	**–0.3**	–12	–0.3
Operating result (EBIT)		**632**	**15.6**	644	15.4
Net financial result	(4)	**–22**	**–0.6**	–20	–0.5
Result before taxes		**610**	**15.0**	624	14.9
Income taxes	(5)	**–110**	**–2.7**	–114	–2.7
Group result before minority interest		**500**	**12.3**	510	12.2
Minority interest		**–6**	**–0.1**	–6	–0.1
Net income		**494**	**12.2**	504	12.1
Registered shares	(6)				
Basic earnings per share		**1.69**		1.69	
Diluted earnings per share		**1.69**		1.69	
Bearer shares	(6)				
Basic earnings per share		**8.47**		8.46	
Diluted earnings per share		**8.47**		8.46	

CONSOLIDATED BALANCE SHEET

Assets		**31.12.2002**		31.12.2001	
	Notes	**million CHF**	**%**	million CHF	%
Property, plant and equipment	(8)	**1 072**	**22.4**	1 053	22.6
Investment property	(8)	**16**	**0.3**	11	0.2
Intangible assets	(7)	**284**	**6.0**	269	5.8
Investments in associated companies	(9)	**4**	**0.1**	4	0.1
Other financial assets	(9)	**6**	**0.1**	7	0.1
Deferred tax assets	(19)	**109**	**2.3**	105	2.3
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Inventories	(10)	**1 442**	**30.1**	1 361	29.2
Assets held for sale		**3**	**0.1**	3	0.1
Trade receivables	(11)	**670**	**14.0**	679	14.6
Other receivables and prepayments	(12)	**318**	**6.6**	298	6.4
Available-for-sale investments	(13)	**396**	**8.3**	584	12.5
Cash and cash equivalents	(14)	**463**	**9.7**	286	6.1
Current assets		**3 292**	**68.8**	3 211	68.9
Total assets		**4 783**	**100.0**	4 660	100.0

CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity		**31.12.2002**		31.12.2001	
	Notes	**million CHF**	**%**	million CHF	%
Share capital	(15)	**137**	**2.9**	140	3.0
Capital reserves		**213**	**4.4**	213	4.6
Treasury shares	(16, 21)	**–369**	**–7.7**	–565	– 12.1
Conversion differences		**–20**	**–0.4**	37	0.7
Retained earnings		**3 580**	**74.8**	3 436	73.8
Shareholders' equity		**3 541**	**74.0**	3 261	70.0
Minority interest		**15**	**0.3**	19	0.4
Borrowings	(18)	**12**	**0.3**	61	1.3
Deferred tax liabilities	(19)	**314**	**6.5**	274	5.9
Retirement benefit obligations	(20)	**19**	**0.4**	13	0.3
Non-current provisions	(17)	**51**	**1.1**	75	1.6
Non-current liabilities		**396**	**8.3**	423	9.1
Trade and other payables and accrued expenses	(22)	**578**	**12.1**	626	13.4
Borrowings	(18)	**199**	**4.2**	293	6.3
Current provisions	(17)	**54**	**1.1**	38	0.8
Current liabilities		**831**	**17.4**	957	20.5
Total liabilities		**1 227**	**25.7**	1 380	29.6
Total liabilities and shareholders' equity		**4 783**	**100.0**	4 660	100.0

CONSOLIDATED CASH FLOW STATEMENT

			2002		2001
	Notes		**million CHF**		million CHF
Operating activities					
Cash generated from operations	(23)	**672**		709	
Interest paid		**–11**		–5	
Interest received		**20**		21	
Tax paid		**–115**		–102	
Cash flow from operating activities			**566**		623
Investing activities					
Acquisition/disposal of consolidated companies (without liquid funds)	(24)	**–6**		–8	
Investment in tangible assets		**–229**		–227	
Proceeds from sale of tangible assets		**18**		28	
Investment in intangible assets		**–48**		–43	
Proceeds from sale of intangible assets		**1**			
Investment in financial assets		**–2**		–4	
Proceeds from sale of financial assets		**3**		3	
Purchase/sale of available-for-sale investments		**94**		–34	
Cash flow from investing activities			**–169**		–285
Financing activities					
Dividend paid to group shareholders		**–58**		–172 *)	
Dividend paid to minority interests		**–9**		–5	
Purchase/sale of treasury shares		**1**		–228	
Movement in non-current liabilities		**–54**		–13	
Movement in current liabilities		**–107**		100	
Cash flow from financing activities			**–227**		–318
Net impact of foreign exchange rate differences on cash			**–11**		
Increase/decrease in cash and cash equivalents			**159**		20
Movement in cash and cash equivalents					
- At beginning of year		**276**		256	
- At end of year		**435**	**159**	276	20
Cash and cash equivalents at end of year			**435**		276

*) In the form of partial repayment of share capital

CHANGES IN CONSOLIDATED EQUITY

(million CHF)	Share capital	Capital reserves	Treasury shares	Conversion differences	Retained earnings	Total shareholders' equity
Balance at 1.1.2001	312	213	–337	21	2 947	3 156
– Changes in accounting principles applicable to:						
– IAS 39: Financial instruments					39	39
– IAS 12: Deferred taxes re IAS 39					–3	–3
Balance at 1.1.2001 restated	312	213	–337	21	2 983	3 192
– Conversion differences				–6		–6
– Exchange differences related to IAS 21§19 and sundry				22		22
– Restatement related to cash-flow hedges					–3	–3
– Available-for-sale investments:						
Revaluation at fair value					–51	–51
Deferred taxes on available-for-sale investments					3	3
– Partial repayment of share capital	–172					–172
– Net income for the year					504	504
– Acquisitions/disposals of treasury shares			–228			–228
Balance at 31.12.2001	140	213	–565	37	3 436	3 261
Balance at 1.1.2002	**140**	**213**	**–565**	**37**	**3 436**	**3 261**
– Conversion differences				**–65**		**–65**
– Exchange differences related to IAS 21§19 and sundry				**8**		**8**
– Restatement related to cash-flow hedges					**–11**	**–11**
– Available-for-sale investments:						
Revaluation at fair value					**–88**	**–88**
– Paid-out dividends					**–58**	**–58**
– Net income for the year					**494**	**494**
– Capital reduction	**–3**		**196**		**–193**	**0**
Balance at 31.12.2002	**137**	**213**	**–369**	**–20**	**3 580**	**3 541**

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES GOVERNING THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

General principles and accounting standards

The consolidated financial statements of The Swatch Group Ltd, Neuchâtel are prepared in accordance with International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS), published by the International Accounting Standards Board (IASB), and its predecessor, the International Accounting Standards Committee (IASC).
Unless otherwise indicated in the following principles, the financial statements are prepared on the basis of historic costs. Fiscal year cutoffs are determined according to the liability method of accounting.
With regard to preparation of the financial statements, management has taken account of the estimates and assumptions influencing the total assets and liabilities considered, as well as any contingent assets and liabilities shown in the annual year-end financial statements, in the same manner as the income and expenditure relating to the fiscal year under review. However, actual figures may differ from these estimates.
The annual closing date for the individual financial statements is 31 December. The fiscal year covers the same period as the calendar year for all consolidated companies.

Consolidated companies

The consolidated companies are those companies which are controlled directly or indirectly by The Swatch Group Ltd holding company, which holds more than half of their voting rights or exercises control over their operations. The subsidiary companies of the Group are consolidated from the date the power of control is transferred to the Group. Conversely, subsidiary companies are no longer consolidated from the time this power of control is withdrawn. All the receipts and expenditure corresponding to internal Group transactions, including gross profit (margins on stocks) not yet realized, as well as the debts and receivables on internal deliveries have been taken out. Where applicable, the accounting principles of the consolidated companies were modified so as to ensure their compliance with the principles adopted by the Group.
Newly-acquired companies are consolidated as of the actual date of purchase or taking control, in line with the purchase method.

Consolidation parameters

The Group includes 129 legal entities among its consolidated subsidiaries – in other words 10 more than at the end of 2001.
This growth is the result of creating six companies, acquiring one other, integrating four non-consolidated companies (of which three are minority participations taken into account using the equity method) and disposing of one legal entity.
The newly-created companies comprise one service unit in Mexico and one distribution unit in Russia, as well as four retail sales companies established in England, Germany, Italy and the USA.
The acquisitions concern one dial manufacturing company in Switzerland, integrated into the Group's financial statements as of 1 January 2002.
The integration of new companies includes two real estate companies, as well as two small manufacturing companies in which the Group holds a minority share.
The legal entity no longer included in the consolidation parameters corresponds to an older company whose assets had been liquidated during prior fiscal years.
Bearing in mind the existence of a divisional system, making it possible to manage several activities of the same nature within one and the same legal unit, these 129 companies correspond to 651 reporting units (562 at the end of 2001), which constitute the basis of Group consolidation. The increase in the number of homogeneous units is the result of ongoing research into achieving the best transparency of information, so as to refine the performance of managers overseeing the various different activities.
The full list of consolidated companies is published on pages 144 to 146 of this report.
Ten inactive companies were deliberately not consolidated (excluded from the consolidation parameters), since they did not generate any turnover and their accumulated equity amounted to less than CHF 1 million. These companies did not issue any dividend during the fiscal year under review. This exclusion is of no significant consequence for the annual consolidated Group financial statements.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Joint venture

Those entities jointly controlled by the Group with an equal holding of 50%, referred to as joint venture companies, have been included in the accounts according to the proportional integration method. By applying this method, the Group annual consolidated financial statements include product share and expenditure, assets and liabilities, and cash flow.
At 31 December 2002, only one company is defined as a joint venture and is consolidated as such. The Group's share in the assets, liabilities, expenditure, and revenue of this company is immaterial in terms of consolidation.

Associated companies

Associated companies are considered according to the equity method. This relates to companies in which the Group holds between 20% and 50% of voting rights or over which it has a significant influence, without actually controlling their management. The net assets and income of these companies are recorded in the Group financial statements on the basis of the accounting principles relating to them. The Group share in associate companies includes the goodwill on acquisition (net of accumulated amortization).
As at 31 December 2002, three entities were considered as associate companies and consolidated as such.

Conversion of foreign currency

Group subsidiaries present their financial statements in local currency, the consolidated financial statements are shown in CHF. Conversion of the profit and loss accounts for foreign subsidiaries is done at average annual rates, while the balance sheet is converted at the rate prevailing on the closing date. When selling a foreign subsidiary, the accumulated conversion differences are included in the results of the sale, as shown in the income statement.
The financial statements of foreign companies presenting their annual financial statements in currency of hyper-inflationary economies are dealt with according to IAS 29 by applying the appropriate indices prior to conversion to the currency for Group presentation. The profit or loss on the net monetary item is shown in the net financial results. In 2001 and 2002, none of the Group companies presented their financial statements in this type of currency.
Transactions in foreign currencies are converted at the rate of exchange in force at the time these take place; exchange rate profits and losses on these transactions, as well as those resulting from the conversion of monetary assets and liabilities expressed in foreign currencies, are taken into account in the income statement.
The main exchange rates used include:

	Average rate	**Rate at**	Average rate	Rate at
	2002	**31.12.2002**	2001	31.12.2001
	CHF	**CHF**	CHF	CHF
1 AUD	**0.8429**	**0.7880**	0.8670	0.8570
1 CAD	**0.9865**	**0.8840**	1.0907	1.0535
1 EUR	**1.4678**	**1.4570**	1.5089	1.4825
1 GBP	**2.3301**	**2.2360**	2.4351	2.4320
1 HKD	**0.1988**	**0.1785**	0.2171	0.2157
100 JPY	**1.2461**	**1.1730**	1.3875	1.2850
1 SEK	**0.1604**	**0.1590**	0.1629	0.1591
1 SGD	**0.8659**	**0.8020**	0.9423	0.9095
1 USD	**1.5522**	**1.3925**	1.6951	1.6835

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Management of financial risks

Financial risks

In view of the Group's diverse worldwide activities, Group specialists are actively engaged in managing exchange risks, changes in interest rates as well as marketable securities.
Risk management is concentrated on recognizing and analyzing exchange risks, with the aim of limiting their effect on Group EBITDA as well as net income. In order to manage risks associated with fluctuations in foreign currencies, derivative financial instruments such as forward exchange contracts and hedging options are negotiated with third parties.
Risk management is ensured by the central treasury of The Swatch Group Ltd – Group Treasury – which acts in line with the directives issued by the Group's management organs.
Risks are evaluated jointly with the operating units concerned and the agreed-upon coverage is then implemented, under the supervision of the Finance Committee.

Exchange risks

Group financial statements are published in Swiss francs and consequently are primarily exposed to fluctuations in the rate of the Euro, the US dollar, Japanese yen and other currencies of the Asiatic region. In order to cover the discounted income in foreign currency, the Group negotiates forward exchange contracts and options on foreign currencies. The affiliated companies subscribe to contracts with the Group Treasury, thus guaranteeing their margins in local currency. Group Treasury is responsible for covering the net positions in foreign currencies with third-party counterparts. These operations can be qualified as cash-flow hedging.

Risks associated with interest rates

Interest-bearing financial assets are regulated and actively managed. In the current environment, fluctuations in interest rates have no material influence on the Group's financial results.
In the two years under review, the Group had no recourse to interest rate swaps recorded under liabilities in the balance sheet, and no related position is included in the balance sheets of 2001 and 2002.

Credit risks

The Group's policy on customer credits specifies that a periodic creditworthiness check is required. The risk of purchasing marketable securities with inadequate solvency is minimized by the fact that only those securities whose rating satisfies investment directives can be purchased. Management regularly monitors strict compliance with these instructions.
The risk of loss on derivative financial instruments, on monetary investment contracts and on deposits in current accounts is reduced by the fact that only those financial institutions whose solvency has undergone a prior check by Group Treasury are used as counterparts. Exposure to these risks is closely monitored by management and is contained within pre-defined limits.
Because of these strict requirements governing partner solvency, the risks of losses due to the non-execution of contracts is limited.

Cash-related risks

Close supervision of cash throughout the company, as well as the judicious investment of cash reserves means that Group Treasury has sufficient funds at all times. In order to cover exceptional requirements, Group Treasury also has credit limits with financial institutions.

Derivative financial instruments and hedging transactions

Derivatives are valued at actual cost on signing the contract, and according to the nature of the basis transaction either as a cash-flow hedge or as a fair-value hedge. During subsequent re-assessments, the change in value compared with the fair value is, depending on its nature, either recognized in the income statement (fair-value hedge) or against equity (cash-flow hedge).

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

As soon as the secured base transaction becomes operative and can be considered as effective, the fair values of both the base transaction and the hedging operation are determined, with the difference between the two values recognized in the income statement. In the case of cash-flow hedges, the change in value recognized in equity for the prior period is transferred to the income statement.
Details on hedging operations are explained on pages 142 and 143.

Determination of fair value
The fair values of publicly-traded available-for-sale investments correspond to their closing stock market values at balance sheet date. Derivatives and forward contracts are valued at their market value at closing date.

Comments relating to income and expenses

Sales are entered upon delivery of the goods or services to third parties, following deduction of sales taxes and discounts. Provisions for customer discounts are recognized in the same period as the sales giving rise to these discounts, and according to the terms of contract. Costs relating to contracts currently in process are taken into consideration proportionally to work completed.

VALUATION PRINCIPLES AND DEFINITIONS

Net financial result

This position includes the interest expense on funds borrowed outside the Group, as well as interest income from the investment of funds with third parties. It also includes exchange differences and the result of currency hedges, as well as interest with respect to external loans and third-party investments in foreign currency.

Taxes

This position only includes income tax. Other taxes, such as tax on capital and real estate tax, are included in other operating expenses.
Income tax is recognized in the same period as the income and expenses to which it is related.
Deferred taxes are determined according to the variable deferral method for all timing differences between assets and liabilities for statutory reporting and their values in the financial statements. The main timing differences result from depreciation on property, machines and installations, re-assessments of some non-current assets and derivative contracts, value adjustments on current assets, provisions of an equity nature in tax accounts and carryforward tax losses. In relation to acquisitions, these are linked to the difference between the fair value of net assets acquired and their tax value.
Deferred tax assets are recognized for all deductible temporary differences to the extent that these could probably be applied against future taxable profits.
No deferred tax has been calculated on temporary differences resulting from the difference in valuation of participations in affiliated companies.
Deferred taxes are calculated on the basis of maximum tax rates; in the case that these are not applicable, then on the basis of the tax rates in force or practically in force on the closing date. The tax rates used relate to the companies or relevant sectors.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible assets

In addition to the items mentioned separately below, this heading also includes:
- License fees granting rights to new advanced technologies. Related lump-sum payments have been capitalized and amortized over a minimum period of four years.
- Key-money paid for leasing stores in strategic locations. Where these amounts can be recovered on expiry of the lease, they are not amortized. If, on the other hand, payment is not recoverable, key-money is amortized over a period not exceeding the term of the lease.

No brands or patents have been valued.

Goodwill

Goodwill represents the excess of the price paid for an acquisition compared with the net asset value of the company at purchase date, retained by the Group. Goodwill is amortized by the straight-line method over a 20-year period.

Research and development costs

Research costs are recognized as ordinary expenses. The costs associated with development projects are recognized as intangible assets, provided future financial profits are anticipated. Other development costs are recognized as ordinary expenses. From the time of initial commercial production of the product, capitalized development costs are subject to straight-line amortization over the period of expected profits. The period of amortization does not exceed five years.

Software development costs

Generally, software development and maintenance costs are recognized as ordinary expenses. However, costs directly associated with unique and identifiable software which is controlled by the Group, and whose anticipated economic benefit exceeds annual costs, are recognized as intangible assets. Direct costs include expenses for the internal project development team.
Costs associated with improvement to software or extension of its performance in excess of the original specifications are recognized as an asset and added to the original cost of the software. Costs associated with the development of software recognized as an asset are amortized by the straight-line method over a period not exceeding five years.

Tangible assets

Property, plant and equipment is valued at purchase price, less straight-line depreciation according to the useful life of the investment.
Land is recognized on the balance sheet at its acquisition cost.
Capital expenditure has been recognized on the balance sheet at full production cost without profit margin.
Useful life considered in determining straight-line depreciation is defined according to the following categories:

– Furniture, office machinery, tooling, 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, workshop equipment:	9 to 15 years
– Factory buildings:	30 years
– Administrative buildings:	40 years
– Residential property:	50 years

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of assets

The value of assets is examined on the balance sheet date in order to establish whether there is any indication of impairment. If an indication exists, the recoverable amount of the asset is estimated and an impairment is recognized each time the book value of an asset is greater than its recoverable amount. The recoverable amount is the higher of the net selling price of the asset and its value in use. This latter is determined by estimating future financial flows generated by the asset and by discounting these at the average lending rate of the country in which it is located. This rate is adjusted for specific risks inherent with the asset.

Leasing agreements

Finance leases

A finance lease agreement applies where the lessor transfers to the lessee the quasi-totality of risks and benefits inherent in ownership of an installation, machine or item of equipment. Finance lease agreements are capitalized at the start of the agreement at the fair value of the property leased or, where this is less, at the current value of minimum payments with respect to the lease. Each payment is apportioned between the amortization of the balance of the debt and financial expenditure, so as to obtain a periodic, constant rate of interest on the balance outstanding on the liabilities with respect to each period. The obligation to make future payments with respect to the lease, which are net of the finance charge, is included in non-current liabilities. The financial cost is considered as a charge over the term of the lease agreement. Installations, machines and equipment financed by such agreements are depreciated over the shorter of the duration of the lease agreement and its duration in use.

Assets financed by finance lease agreements are included in the assets on the balance sheet when their unit value exceeds CHF 50 000, when the term of the agreement is more than three years and when the item can be purchased at the end of the lease.

Operating leases

A simple operating lease agreement applies where ownership of the property and the inherent risks fall mainly on the lessor. The payments of operating leases are recognized as expenses in the income statement on a linear basis throughout the term of the lease.

Inventories

All inventories of goods and semi-finished or finished products are valued at total production cost to the Group, at maximum, market price. Products which are difficult to sell have been written off or covered by specific provisions. Valuation is based on the weighted average price method; in certain rare cases, the FIFO (first-in, first-out) method has been applied. Only economically justified criteria have been taken into account for adapting the balance sheet values of inventories. Stocks of spare parts for customer services have been valued exclusively for the units for which there is thought to be a future demand, based on historical consumption.

Trade receivables

Trade receivables are recognized in the balance sheet at the historic amount invoiced. Provisions have been made to cover doubtful debts and receivables which were more than twelve months overdue and which were not converted into interest-bearing loans.

Financial instruments

The Group applies valuation principles according to IAS 39. Classification of financial assets includes the following categories:

- Financial assets held for transaction purposes
- Loans and receivables issued by the company
- Held-to-maturity investments
- Available-for-sale investments

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

In view of the policy of long-term investment adopted by Management, current Group investments are assigned to the category of available-for-sale investments.
The allocation of financial investments to the various categories takes place at the time of investment and undergoes a regular review based on set targets.
Purchase and sale of investments is based on the settlement date principle. At the time of purchase, purchase costs are included in the price.
Available-for-sale investments are valued at their fair value. Unrealized gains and losses in relation to the fair value are recognized directly in equity at the time of sale or reduction in the value of the instrument (impairment), and transferred to the income statement of the financial year (i.e. recycled). The Group consistently applies this principle of recognition to the various categories as a whole.

Investment and valuation policies
In its regulations governing investments, General Management has established criteria for assessing the recoverability of financial investments.
The Group's long-term investment policy, combined with its solid balance sheet reserves in terms of equity and liquid assets, enables the Group to withstand prolonged fluctuations in capital markets without requiring that assets be liquidated. A valuation adjustment is made at the closing dates of 30.06. and 31.12. each time objective and substantial evidence might indicate that an impairment is permanent. These regulations are applied retroactively as of 1 January 2001, the date on which IAS 39 regulations governing financial instruments came into force.

Assessment criteria for impairment
The assesment of the permanency of an impairment is based both on «hard» factors (changes in fair value) as well as on «soft» factors (qualitative assessment criteria). Accordingly, an evaluation of recoverability follows this sequence of criteria:

Hard factors (changes in fair value):
To be included in the control list for impairment, financial investments under evaluation must present a permanent minimum decrease in value of 50% between their purchase price and their fair value based on a period of 24 months, starting 1 January 2001 at the earliest. Investments which meet this criteria are subjected to the following procedure:
- if the investment's quoted price is consistently lower than the value limit for the entire 24-month observation period, the position must be subjected to an impairment test, which must also take the «soft» factors into consideration;
- if the investment's quoted price exceeds the value limit during the observation period, the investment is withdrawn from the control list for impairment.

However, an impairment test, including «soft» factors, is systematically carried out on all financial investments whose fair value is 90% or more below their purchase price on balance sheet date, irrespective of their term.
The basis for an impairment has been established when evaluation of the financial investment concerned, including «soft» factors, does not present sufficient positive potential for development.

The following events require a valuation adjustment:
financial investments protected under Chapter 11, or involved in similar bankruptcy or legal protection procedures, must be subjected to a valuation adjustment as soon as the facts pertaining to these investments are proven.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Cash and cash equivalents

Cash and cash equivalents are recognized in the balance sheet at their nominal value. In the cash flow statement, cash and cash equivalents include petty cash, credit notes and short-term bank overdrafts. Bank loans are included in the balance sheet under current and non-current borrowings.

Provisions

Provisions are created according to homogeneous criteria, which are financially justified and are the same as those applied during the prior financial year. Provisions for warranty and goodwill were calculated to cover the equivalent of two years, in accordance with the European directive which came into force on 1 January 2002.

Employee benefit obligations

Post-employment benefits
Post-employment benefits with respect to the Group mainly relate to pensions and retirement benefits.

Pensions and retirement benefits
Group employees receive retirement benefits provided by either defined contribution or defined benefit plans. Pension plans are either financed, in which case their assets are managed separately and independently of those of the Group, or not financed, in which case these obligations are shown as a debt in the balance sheet. In all major instances, the obligation relating to defined benefit plans is determined on an annual basis by independent actuaries and based on the projected credit unit method. The actuarial hypotheses used in determining the benefits vary according to the economic conditions prevailing in the country in which the benefit plans are located.
Group pension plans in Switzerland are defined under pension fund regulations as defined contribution plans. This means that employer contributions are determined in advance and that companies are neither obliged by way of statute nor by legal constraints to make extra contributions in the event that the pension fund no longer possesses the necessary funding. These plans are independent.
In spite of this, calculations made with the projected credit unit method have also been made for Swiss pension plans. The resulting figures are integrated into the information presented in the notes.
Actuarial differences are essentially due to modifications made to hypotheses and to the difference between results anticipated on the basis of actuarial hypotheses and the actual results of the defined benefit plans. Differences exceeding 10% of the higher of the discounted value of the obligation or the fair value of assets at the outset of the year under review are recognized in the income statement. Allocation in the income statement is based on the average remaining working life of the personnel in the plan concerned.
Actuarial costs for plans considered as defined benefit plans and recognized in the income statement include the current service costs, financial costs, the expected return on plan assets, past service costs and, if applicable, actuarial differences.
The long-term assets of defined benefit plans are assessed at their fair value. For such plans, an asset deficit or surplus, compared with the discounted fair value of the obligation, is recognized as a liability or asset in the balance sheet by taking cumulated actuarial differences, as well as past service costs not yet recognized in the income statement into consideration. However, an asset surplus is only considered to the extent that it may provide future financial benefits which will actually be available to the Group.
Contributions to defined benefit plans are recognized in the income statement in the year to which they refer.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES

1. Segment information and Gross sales

The Group manages its activities at world level according to four separate operational segments:
- Watches – marketing finished watches
- Horological production – production of watches and movements for watches or analog systems (stepping motors)
- Electronic systems – design, production and marketing of electronic components
- General services – service and financial companies, research and development activities, real estate companies

Gross sales are attributable to sales to third party clients while sales to other operational segments are shown separately. Segment-based assets essentially comprise buildings and land, machines and installations, intangible assets, inventories of goods, loans to third parties and cash. They do not include consolidated holdings. Segment-based liabilities include operating commitments.
In accordance with the presentation standard applicable to the horological sector, geographical segmentation is indicated by continent. With respect to turnover and unit sales, allocation is made according to invoice destination. Total third party assets are allocated in relation to their location.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Primary segment information (activity sector)

Income statement

2002 (million CHF)	**Watches**	**Horological production**	**Electronic systems**	**General services**	**Consolidation adjustment**	**Total**
– Third	**2 980**	**741**	**323**	**19**		**4 063**
– Group		**667**	**53**	**14**	**–734**	**0**
Gross sales	**2 980**	**1 408**	**376**	**33**	**–734**	**4 063**
Operating result before depreciation and amortization (EBITDA)	**558**	**209**	**94**	**–19**		**842**
– In % of sales	**18.7**	**14.8**	**25.0**			**20.7**
– In % of total	**66.3**	**24.8**	**11.2**	**–2.3**		**100.0**
Operating result (EBIT)	**515**	**83**	**59**	**–25**		**632**
– In % of sales	**17.3**	**5.9**	**15.7**			**15.6**
– In % of total	**81.5**	**13.1**	**9.3**	**–3.9**		**100.0**
Net financial result						**–22**
Result before taxes						**610**
Taxes						**–110**
Group results before minority interest						**500**
Minority interest						**–6**
Net income						**494**

2001 (million CHF)	Watches	Horological production	Electronic systems	General services	Consolidation adjustment	Total
– Third	3 034	767	374	7		4 182
– Group		625	48	7	–680	0
Gross sales	3 034	1 392	422	14	–680	4 182
Operating result before depreciation and amortization (EBITDA)	565	187	109	–16		845
– In % of sales	18.6	13.4	25.8			20.2
– In % of total	66.9	22.1	12.9	–1.9		100.0
Operating result (EBIT)	523	65	78	–22		644
– In % of sales	17.2	4.7	18.5			15.4
– In % of total	81.2	10.1	12.1	–3.4		100.0
Net financial result						–20
Result before taxes						624
Taxes						–114
Group results before minority interest						510
Minority interest						–6
Net income						504

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

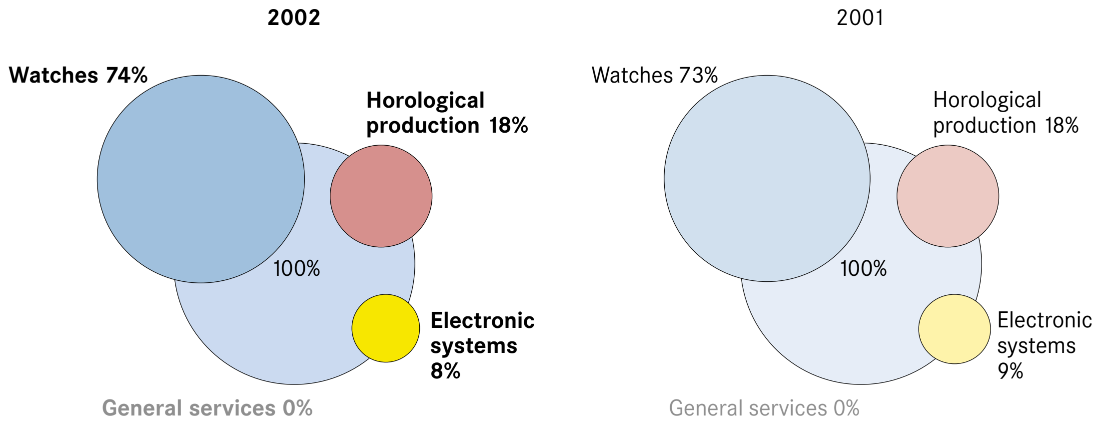
Balance Sheet and other information

2002 (million CHF)	Watches	Horological production	Electronic systems	General services	Total
Balance Sheet					
– Segment assets	**2 354**	**1 382**	**307**	**736**	**4 779**
– Equity in associated companies		**3**		**1**	**4**
Total assets	**2 354**	**1 385**	**307**	**737**	**4 783**
– Segment liabilities	**686**	**299**	**42**	**200**	**1 227**
– Liabilities not affected					**0**
Total liabilities	**686**	**299**	**42**	**200**	**1 227**
Net assets	**1 668**	**1 086**	**265**	**537**	**3 556**
Other information					
Capital expenditure	**72**	**153**	**15**	**4**	**244**
Depreciation on tangible assets	**25**	**121**	**31**	**6**	**183**
Amortization on intangible assets	**18**	**5**	**1**		**24**
Valuation differences		**1**	**2**		**3**

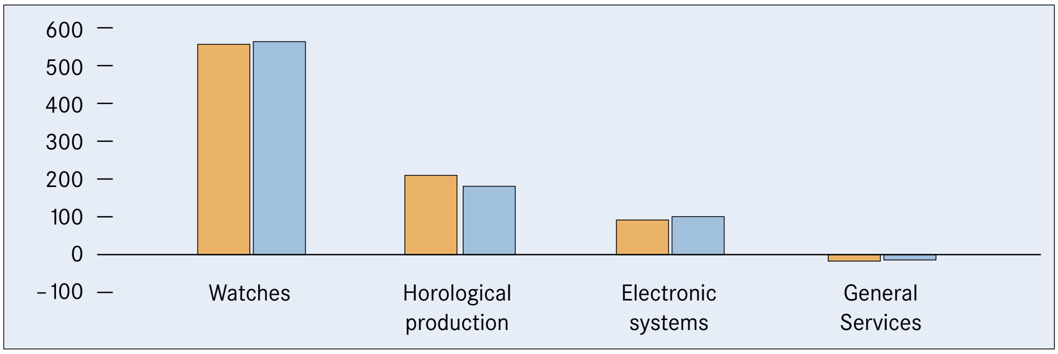
2001 (million CHF)	Watches	Horological production	Electronic systems	General services	Total
Balance sheet					
– Segment assets	2 218	1 335	366	737	4 656
– Equity in associated companies	1	3			4
Total assets	2 219	1 338	366	737	4 660
– Segment liabilities	696	291	67	326	1 380
– Liabilities not affected					0
Total liabilities	696	291	67	326	1 380
Net assets	1 523	1 047	299	411	3 280
Other information					
Capital expenditure	61	130	47	7	245
Depreciation on tangible assets	31	114	30	3	178
Amortization on intangible assets	11	4	1	2	18
Valuation differences		4		1	5

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment share of gross consolidated sales

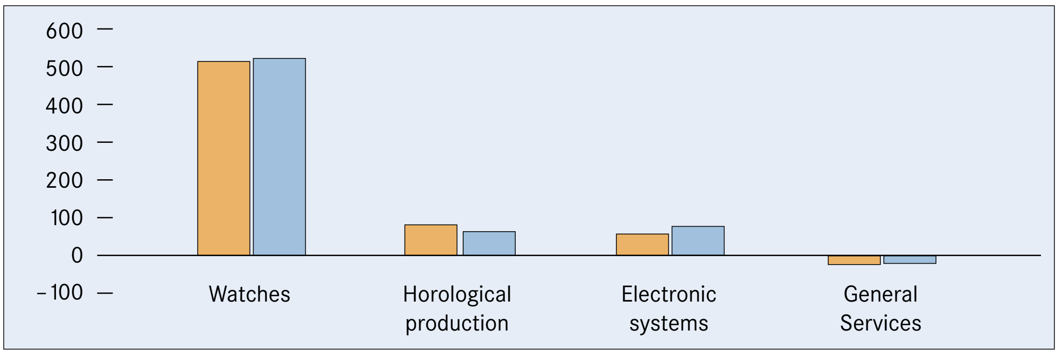


Segment share with respect to operating result before depreciation and amortization (EBITDA)



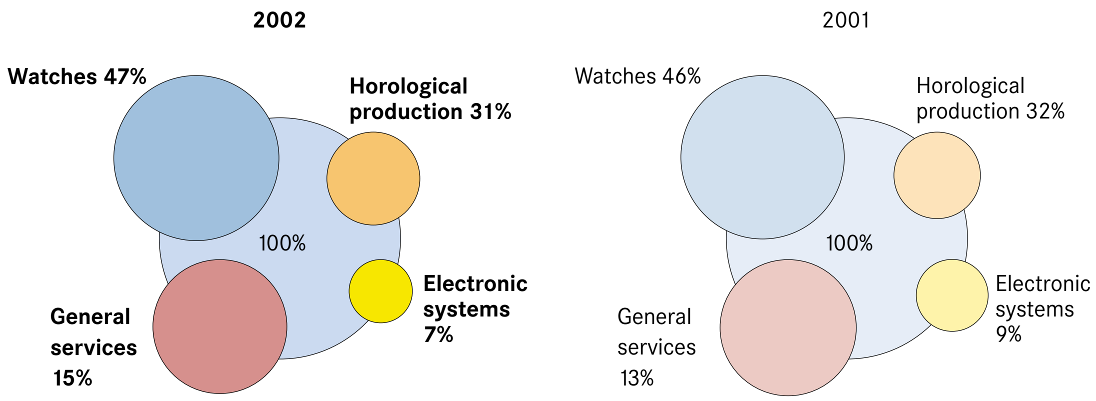
2002
2001

Segment share with respect to operating result (EBIT)



2002
2001

Net asset share relating to segments



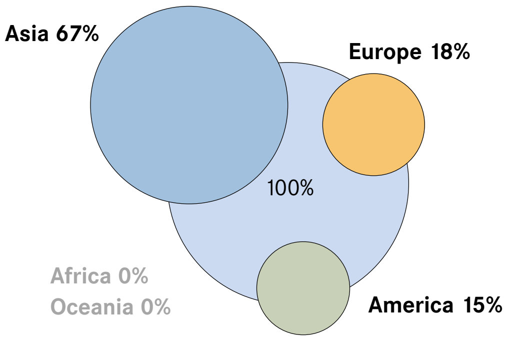
ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Secondary segment information (geographic sector)

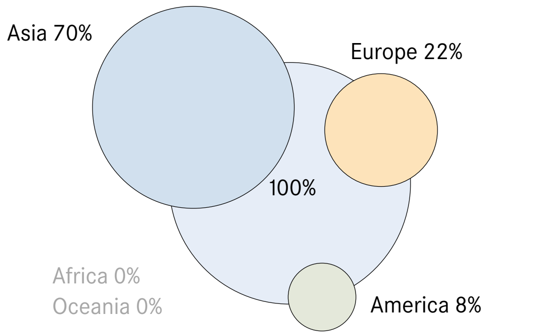
		2002			2001	
(million CHF)	**Sales**	**Total assets**	**Capital expenditure**	Sales	Total assets	Capital expenditure
Europe	**2 232**	**4 138**	**218**	2 323	4 023	225
America	**527**	**229**	**5**	514	242	4
Asia	**1 210**	**393**	**21**	1 237	370	16
Oceania	**63**	**23**		68	25	
Africa	**31**			40		
Total	**4 063**	**4 783**	**244**	4 182	4 660	245

Units

2002

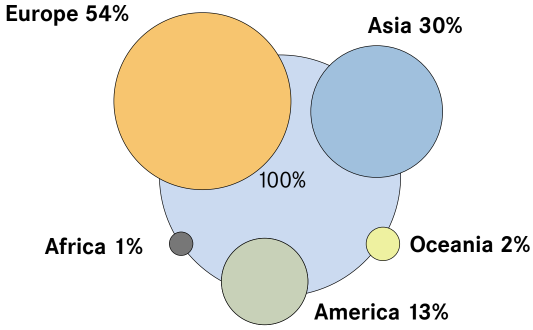


2001

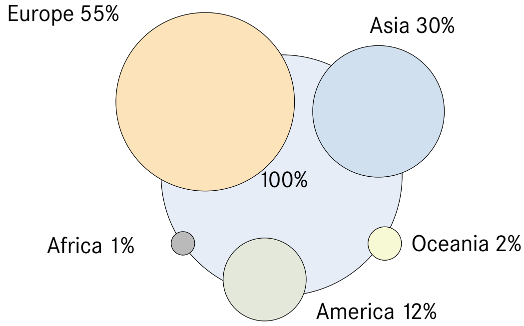


Values

2002

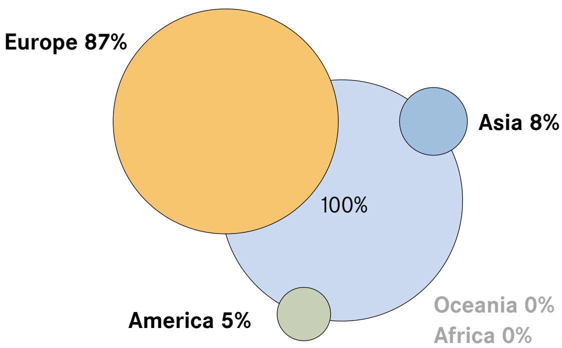


2001

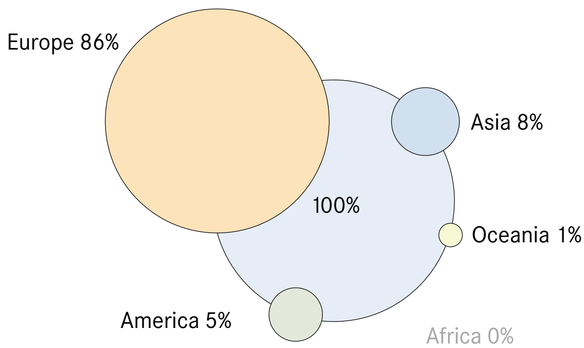


Total assets

2002



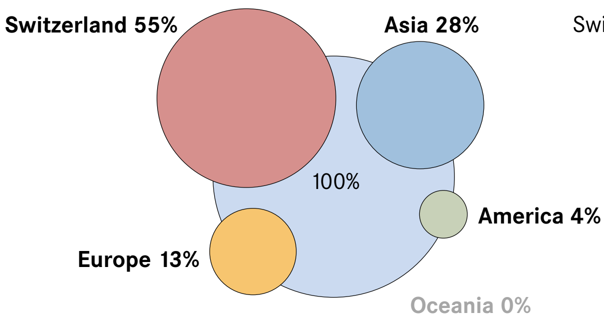
2001

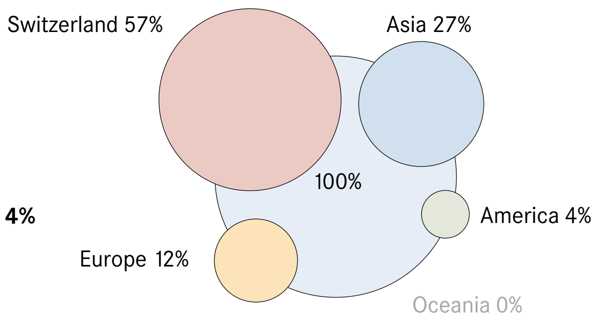


ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Staff costs

In 2002, the average number of employees was 20 341 (20 087 in 2001). Staff numbers at the close of the year expressed in numbers of contracts amounted to 20 327. The number of employees with a Swiss contract rose by 106. Staff employed outside Switzerland increased by 556, principally in Thailand (+226), in China (+196), in Mexico (+83) and in Korea (+46). This trend means that the Group now employs a workforce of 11 194 with a Swiss contract and 9 133 employees outside Switzerland with a non-Swiss contract. The geographical distribution of employees is shown below:





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

	2002	2001
Men	**9 124**	8 898
Women	**11 203**	10 767
Total as at 31.12.	**20 327**	19 665
Annual average number of employees	**20 341**	20 087

During the year, both the average number of staff and the gross volume of salaries rose by 1.3%. The Group's average social security costs rose slightly from 21.7% in 2001 to 21.9% in 2002. This rise is due to an increase in contributions paid to pension funds abroad. Pension plans are, for the most part, contracted outside the Group with legally independent institutions.

3. Research and development costs

Research and development costs rose from CHF 117 million in 2001 to CHF 139 million in 2002, representing an increase of 3.4% of gross sales.

4. Net financial result

(million CHF)	2002	2001
Bank interest	**–11**	–17
Interest on convertible bond	**0**	–2
Interest expense	**–11**	–19
Interest income	**20**	25
Net income on exchange transactions	**–28**	–13
Profit/loss on investments	**–3**	–13
Net financial result	**–22**	–20

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment on financial investments at 31 December 2002

Based on the assessment criteria for valuation adjustments on financial investments defined by General Management in the Group's regulations governing investments, the net financial result at 31 December 2002 includes CHF 2 million, recognized in the position profit/loss on investments.

5. Income taxes

(million CHF)	**2002**	2001
Current tax	**82**	98
Deferred tax	**28**	16
Total	**110**	114

Group tax on result before taxes differs from the theoretical amount calculated on the basis of the local rates of Group companies as follows:

	2002	2001
	%	%
Discounted rate	**18.0**	18.0
Effect of applicable local tax rate different from Group rate	**2.4**	1.3
Change in applicable tax rate on temporary differences	**–0.6**	–0.6
Effect of tax rate different from local applicable rate	**–0.3**	0.0
Capitalization of tax assets from prior years and and utilization of tax losses/unused tax credits	**–1.0**	–0.2
Taxes on non-tax-deductible items	**0.3**	–0.2
Impact of elements taxable at reduced rates	**–1.0**	0.0
Other elements	**0.2**	0.0
Actual rate	**18.0**	18.3

6. Earnings per share

Registered shares	**2002**	2001
Basic earnings per share in CHF	**1.69**	1.69
Net income per income statement, in million CHF	**211**	216
Average number of shares in issue	**124 543 989**	127 710 075
Diluted earnings per share in CHF	**1.69**	1.69
Net income per income statement, in million CHF	**211**	216
Average number of shares in issue	**124 543 989**	127 710 075

Bearer shares		
Basic earnings per share in CHF	**8.47**	8.46
Net income per income statement, in million CHF	**283**	288
Average number of shares in issue	**33 462 467**	34 047 207
Diluted earnings per share in CHF	**8.47**	8.46
Net income per income statement, in million CHF	**283**	288
Average number of shares in issue	**33 462 467**	34 047 207

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. Intangible assets

Changes in intangible assets and the reference to acquisition values are summarized in the table on the next page.
The table showing changes in goodwill is set out below:

(million CHF)	2002	2001
Gross value		
At 1 January	**232**	224
Goodwill from acquisitions and rounding differences	**5**	8
At 31 December	**237**	232
Accumulated amortization		
At 1 January	**–26**	–14
Annual amortization	**–12**	–12
At 31 December	**–38**	–26
Net at 31 December	**199**	206

8. Tangible assets

Changes in tangible assets and the reference to acquisition values are given in the summary table on the next page.
At 31 December 2002, total non-current assets pledged to cover Group companies' commitments amounted to CHF 4 million. The comparable amount in 2001 was less than CHF 1 million.
At the end of 2002, tangible assets financed by capital lease contracts and recognized as assets in the balance sheet represented less than CHF 2 million.

Fire insurance values
Property, plant and equipment was insured for the following amounts:

(million CHF)	2002	2001
Buildings	**1 358**	1 350
Equipment	**2 734**	2 718
Total amount insured	**4 092**	4 068

The net value of tangible assets (including land) in the balance sheet at 31 December 2002 represented only 26.6% of the value insured.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movements in Fixed Assets 2002

a) Acquisition values	Historical acquisition value	**Currency diff.**	**Acquis.val. 31.12.2001 adjust. as of**	**Acqui-sitions (net value)**	**Invest-ments**	**Capita-lized expendi-tures**	**Dis-posals (sales)**	***) Trans-fers**	**Historical acquisition value**
(million CHF)	31.12.01	**Bil 02/01**	**31.12.02**	**2002**	**2002**	**2002**	**2002**	**2002**	**31.12.02**
Capitalized development expenses	26		**26**		**1**	**2**		**–1**	**28**
Other intangible assets	93	**–3**	**90**		**38**	**2**	**–1**	**–1**	**128**
Goodwill	232		**232**		**5**				**237**
Total intangible assets	351	**–3**	**348**	**0**	**44**	**4**	**–1**	**–2**	**393**
Land and buildings	699	**–3**	**696**	**2**	**26**		**–7**	**9**	**726**
Plant and machinery	2 064	**–24**	**2 040**	**2**	**127**	**32**	**–64**	**–13**	**2 124**
Other fixtures and fittings	245	**–6**	**239**		**25**		**–15**	**4**	**253**
Advances and construction in progress	27		**27**		**19**			**–16**	**30**
Investment property	20		**20**					**5**	**25**
Total tangible assets	3 055	**–33**	**3 022**	**4**	**197**	**32**	**–86**	**–11**	**3 158**
Other financial assets	7	**–1**	**6**		**2**		**–2**		**6**
Investment in associated companies	4		**4**		**1**		**–1**		**4**
Total financial assets	11	**–1**	**10**	**0**	**3**	**0**	**–3**	**0**	**10**
Total non-current assets (without deferred taxes)	3 417	**–37**	**3 380**	**4**	**244**	**36**	**–90**	**–13**	**3 561**

b) Net balance sheet values	**Historical acquisition value**	Deprec. year to date	**Currency diff.**	**Deprec. on dis-posals**	**Deprec. on transfers**	**Depre-ciation**	**Deprec. year to date**	Net balance sheet value	**Net balance sheet value**
(million CHF)	**31.12.02**	31.12.01	**Bil 02/01**	**2002**	**2002**	**2002**	**31.12.02**	31.12.01	**31.12.02**
Capitalized development expenses	**28**	–17				**–3**	**–20**	9	**8**
Other intangible assets	**128**	–39	**2**		**–2**	**–12**	**–51**	54	**77**
Goodwill	**237**	–26				**–12**	**–38**	206	**199**
Total intangible assets	**393**	–82	**2**	**0**	**–2**	**–27**	**–109**	269	**284**
Land and buildings	**726**	–398	**1**	**6**	**–2**	**–16**	**–409**	301	**317**
Plant and machinery	**2 124**	–1 394	**15**	**52**	**12**	**–145**	**–1 460**	670	**664**
Other fixtures and fittings	**253**	–168	**4**	**14**	**2**	**–22**	**–170**	77	**83**
Advances and construction in progress	**30**	–22					**–22**	5	**8**
Investment property	**25**	–9					**–9**	11	**16**
Total tangible assets	**3 158**	–1 991	**20**	**72**	**12**	**–183**	**–2 070**	1 064	**1 088**
Other financial assets	**6**	0					**0**	7	**6**
Investment in associated companies	**4**	0					**0**	4	**4**
Total financial assets	**10**	0	**0**	**0**	**0**	**0**	**0**	11	**10**
Total non-current assets (without deferred taxes)	**3 561**	–2 073	**22**	**72**	**10**	**–210**	**–2 179**	1 344	**1 382**

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

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Financial assets

Investments in associated companies

These relate to investments in third-party companies in which the Group holds between 20% and 50% of voting rights. Three entities were consolidated by the equity method, due to the fact that the Group exercises significant operating control. The Group's share in these companies generated an after-tax income of CHF 1 million in 2002 (no impact in 2001).

Other financial assets

These assets correspond in particular to securities and various deposits paid to Group companies amounting to CHF 3 million, as well as long-term loans and investments. Securities whose expiry date is less than five years do not yield interest and amounted globally to CHF 1 million. Those whose expiry date is more than five years amounted to CHF 5 million and yielded an average interest rate of 1.9%
Changes in financial assets are included in the schedule on page 135.

10. Inventories

(million CHF)	**2002**	2001
Raw materials and components	**458**	440
Work in progress	**421**	430
Finished products	**403**	344
Spare parts for customer service	**160**	147
Total	**1 442**	1 361

Inventories increased by 6.0% compared with the prior year, particularly in the luxury watches sector and the high-end movements segment, and correspond to these sectors' development plans. Stocks showing a high risk of obsolescence have been revalued at their net realizable value. This value adjustment can be compared with that taken into account in the prior year.

11. Trade receivables

(million CHF)	**2002**	2001
Gross trade receivables	**695**	700
Provision for bad and doubtful debt	**–25**	–21
Net trade receivables	**670**	679

The provision represents 3.6% of open receivables and covers all the risks identified at the year-end closing. The number of days outstanding for trade receivables remains stable. Calculated on the basis of actual monthly sales, the corresponding ratio also remains stable and represents 54 days at the end of 2002.

12. Other receivables and prepayments

These two headings include several items, which can be summarized as follows:

(million CHF)	**2002**	2001
Advances	**30**	18
VAT to be recovered	**141**	123
Tax to be recovered	**7**	11
Accrued financial expenses	**3**	0
Prepaid advertising	**4**	2
Miscellaneous receivables and other accrued charges	**133**	144
Total	**318**	298

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Available-for-sale investments

Available-for-sale investments amount to CHF 396 million (prior year, CHF 584 million), and are valued at their fair value on the balance sheet date.
The Swatch Group holds only current investments, which can be sold within 12 months.

14. Cash and cash equivalents

(million CHF)	**2002**	2001
Cash	**1**	1
Short-term bank deposits	**462**	285
Total	**463**	286

The average yield on short-term bank deposits corresponds to the average interest rates prevailing in the capital markets and for different currencies for deposits with an average maturity of 1 to 2 months.
In the consolidated cash flow statement, cash and cash equivalents comprise the following headings:

(million CHF)	**2002**	2001
Cash and cash equivalents	**463**	286
Bank overdrafts	**–28**	–10
Total	**435**	276

15. Share capital

Share capital has been treated in the chapter on corporate governance, paragraphs 2.1 – 2.3, page 98. These paragraphs have been audited.

16. Treasury shares

The Swatch Group Ltd shares held by the Group are valuated in the consolidated financial statements at average purchase price. They are recognized as a deduction from equity. Details on changes in the number of shares are presented in the Annex to the financial statements of the Holding, note 17.
With the exception of movements relating to the special management stock option plan and the convertible loan issued by The Swatch Group Finance (Luxembourg) SA, which expired on 23 October 2002, all transactions involving treasury shares were recorded at market value.

17. Provisions

(million CHF)	**Warranty**	**Litigation**	**Other**	**Total**
At 31 December 2001	55	10	48	113
Conversion differences	**–2**		**–2**	**–4**
Additional provisions	**52**	**5**	**2**	**59**
Amounts not used	**–8**	**–1**	**–2**	**–11**
Used during the year	**–42**	**–4**	**–6**	**–52**
At 31 December 2002	**55**	**10**	**40**	**105**

Analysis of total provisions (million CHF)	**2002**	2001
Non-current provisions	**51**	75
Current provisions	**54**	38
Total	**105**	113

Warranty and goodwill

The Group offers a two-year warranty and either repairs or replaces those products which do not work to satisfaction. The provision set up at the end of the year to cover future warranty costs is based on historic experience with respect to the volume of repairs and returns.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Legal risks

Provisions have been made for covering certain legal proceedings instituted against the Group in its normal course of business. It is the opinion of management, which is backed up by the appropriate legal advice, that these proceedings will not result in any significant loss beyond the amounts set aside at 31 December 2002.

Others

Other provisions correspond to various commitments to third parties, as entered into by Group companies. These relate to commitments where the expiry date and amount are not definitely specified.

18. Borrowings

(million CHF)	**2002**	2001
Non-current		
Long-term bank debts	**4**	27
Convertible loan	**0**	26
Other long-term debts	**8**	8
Total	**12**	61

(million CHF)	**2002**	2001
Current		
Bank overdraft	**28**	11
Short-term bank debts	**171**	282
Total	**199**	293

The schedule of interest-bearing loans at Group level is as follows:

(million CHF)	**6 months or less**	**6 – 12 months**	**1 – 5 years**	**More than 5 years**	**Total**
At 31.12.2002	**179**	**20**	**11**	**1**	**211**
At 31.12.2001	288	5	61	0	354

At 31 December 2002, the weighted average interest rate on loans was less than 2% for the amounts whose expiry is less than twelve months, and approximately 3% for long-term loans (more than one year).

19. Deferred taxes (assets and liabilities)

Changes in deferred taxes are as follows:

(million CHF)	**2002**	2001
Balance as at 1 January	**–169**	–165
Effects of the adoption of IAS 39 (2001)	**0**	–3
Conversion differences and other movements	**–8**	12
Income statement (note 5)	**–28**	–16
Tax debited/credited to equity	**0**	3
At 31 December	**–205**	–169

Deferred tax assets resulting from deductible temporary differences, tax credits or carryforward tax losses are only recognized to the extent that it is probable that a future taxable profit will be available against which they can be utilized.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Temporary differences for which no deferred tax has been recognized principally concern carryforward tax losses which are not included in the consolidated financial statements. These tax losses amounted to CHF 100 million at 31 December 2002 (prior year, CHF 89 million). The deductible temporary differences and tax credits not included in the calculation of deferred taxes represent an amount of CHF 20 million (CHF 15 million at 31.12.2001).

Approximately 50% of carryforward tax losses expire in six years. For the remainder, the expiry is later.

Deferred tax assets and liabilities (prior to offsetting any balances submitted to the same tax authority), are related to the following items on the consolidated balance sheet:

Deferred tax assets

Source (million CHF)	**2002**	2001
Reported losses/tax credits	**16**	10
Non-current assets	**25**	19
Current assets	**85**	82
Short-term debts	**8**	5
Provisions	**5**	6
Long-term debts	**3**	5
Total	**142**	127

Deferred tax liabilities

Source (million CHF)	**2002**	2001
Non-current assets	**–104**	–109
Current assets	**–140**	–121
Short-term debts	**–1**	0
Provisions	**–100**	–66
Long-term debts	**–2**	0
Total	**–347**	–296

Deferred tax assets and liabilities are offset among legal entities coming under the same tax authority.

The following deferred tax asset and liability amounts, calculated by offsetting, are presented in the consolidated balance sheet:

(million CHF)	**2002**	2001
Deferred tax assets	**109**	105
Deferred tax liabilities	**–314**	–274
Total net	**–205**	–169

20. Retirement benefit obligations (post-employment benefits)

Defined benefit plans

The following table shows the financial situation of the principal pension plans under the heading of defined benefit plans. Group pension plans in Switzerland, defined under pension fund regulations as defined contribution plans, are also shown in these figures.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Plans with liability surplus	2002	2001
	million CHF	million CHF
Present value of funded obligations	–2 683	–2 884
Fair value of plan assets	2 390	2 801
Liability surplus	**–293**	–83
Unrecognized actuarial difference	320	124 *)
Present value of unfunded obligations	2	–3
Unrecognized past service cost	1	0
Value adjustment	–45	–51
Net liability in the balance sheet	**–15**	–13
Amounts recognized in the income statement		
Current service cost	–80	–72
Interest cost on obligations	–110	–108
Expected return on plan assets	155	169
Net actual losses recognized current year	–1	–482 *)
Past service cost	–72	0
Employee contributions	46	35
Variation of adjustment	6	404 *)
Total reported in staff costs	**–56**	–54
Movement in the net asset/liability recognized in the balance sheet		
At beginning of year	–13	–2
Net expense recognized in the income statement	–56	–54
Employer contributions paid	54	43
Net asset/liability at end of year	**–15**	–13
Actual return on plan assets		
Expected return on plan assets	155	169
Actuarial difference on plan assets	–517	–319
Actual return on plan assets	**–362**	–150

Principal actuarial assumptions used	2002	2001
	%	%
Discount	1.0 – 6.5	2.5 – 7.0
Expected return on plan assets	3.0 – 8.5	3.0 – 8.5
Salary increases due to inflation	1.0 – 4.5	1.5 – 4.3
Pension index	0.0 – 2.4	1.0 – 5.0

*) The recognition of the actuarial differences is related to the application of the amendment IAS 19 “Asset Ceiling”.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

The sharp decline in assets is principally due to lower actual rate of return.
Moreover, contrary to what the figures presented in the previous table may suggest, investments made by the principal Swiss retirement funds, calculated according to the legal directives relative to professional pension funds, are covered.
This position also includes CHF 4 million which corresponds to other employee benefit obligations.

Defined contribution plans

Amounts recognized in the consolidated income statement relating to contributions to defined contribution plans, excluding Swiss pension plans, correspond to the employer's share payable, calculated according to the regulations of the various pension funds. In 2002, as in the prior year, these contributions amounted to CHF 1 million.

21. Stock option plan

This topic has been treated in the chapter on corporate governance, paragraphs 2.7, page 99, and 5.6, page 105. These paragraphs have been audited.

22. Trade and other payables, and accrued expenses

This position decreased by CHF 48 million to CHF 578 million. These liabilities include the following debts and accruals:

(million CHF)	**2002**	2001
Debts and accruals on purchase of goods and services	**223**	239
Salaries and social security contributions	**92**	76
Sales reductions	**13**	11
Advertising	**59**	73
VAT payable	**26**	17
Taxes	**39**	73
Advances received	**5**	2
Other debts and accrued charges	**121**	135
Total	**578**	626

Accrued expenses include all charges relating to the current period not yet invoiced by third parties to companies within the Group. For certain subsidiaries, the main items relate to advertising costs and to tax expenses for the current year. These items account for an increase of CHF 6 million from CHF 245 million (end of 2001) to CHF 251 million at the end of 2002.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. Changes in working capital

	2002	2001
	million CHF	million CHF
Net income	**494**	504
Minority interest	**6**	6
Taxes	**110**	114
Depreciation of tangible assets	**183**	178
Amortization of intangible assets	**24**	18
Impairment charge	**3**	5
Profit/loss on sale of fixed assets	**–4**	–4
Fair value gains/ losses on available for sale investments	**5**	14
Interest income	**–20**	–25
Interest expense	**11**	19
Changes in working capital (without liquid funds):		
– Inventories	**–117**	–149
– Trade and other receivables	**–51**	32
– Assets held for sale	**–1**	
Changes in short-term debt:		
– Trade payables and other current liabilities	**23**	–32
Changes in provisions	**–4**	18
Changes in pensions and other retirement benefits	**10**	11
Cash generated from operations	**672**	709

24. Company acquisitions

Effective 1 January 2002, the Swatch Group acquired 100% of the share capital of Rubattel & Weyermann SA, Switzerland. In 2001, the Group acquired two retail and distribution companies in Greece as well as majority ownership in a company located in the Czech Republic.
The breakdown of net assets and goodwill is as follows:

(million CHF)	**2002**	2001
Cash expended	**9**	8
Fair value of acquired net assets	**–5**	0
Goodwill	**4**	8
Cash and cash equivalents	**3**	0
Tangible assets	**4**	1
Inventories	**1**	1
Receivables	**1**	4
Debts	**–4**	–6
Net fair value of acquired assets	**5**	0
Total purchase value	**9**	8
Less: cash and cash equivalents acquired	**–3**	0
Cash flow as a result of purchase	**6**	8

25. Derivative financial instruments

An overview of all the contract values, as well as those concerning the replacement of derivative financial instruments on gold and currencies, is shown hereafter. Derivative financial instrument contract values and replacement values pertaining to the parent company are shown in the annex to the financial statements of the Holding on pages 153 and 154.

Type (million CHF)	**Contractual value**	**Positive replacement value**	**Negative replacement value**
Forward contracts	380	5	–1
Total at 31.12.02	**380**	**5**	**–1**
Total at 31.12.01	471	2	–3

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fair value reserves

(million CHF)	**Cash-flow hedging reserves**	**Derivative instruments (frozen)**	**Paper securities available-for-sale**	**Convertible loan**
Balance at 1 January 2001	14	–1	26	4
Deferred taxes on the balance	–1		–2	
Recognized in the income statement	–14			
Deferred taxes on amounts recognized in the income statement	1			
Fair-value valuation	11		–51	
Deferred taxes on fair-value valuation	–1		3	
Total at 31 December 2001	10	–1	–24	4
Balance at 1 January 2002	**10**	**–1**	**–24**	**4**
Recognized in the income statement	**–11**			
Deferred taxes on amounts recognized in the income statement	**1**			
Fair-value valuation			**–88**	**–4**
Deferred taxes on fair-value valuation			**–1**	
Total at 31 December 2002	**0**	**–1**	**–113**	**0**

In the course of the prior year, some derivatives were recognized as cash-flow hedges; these served to protect operating margins.
At 31 December 2002, no cover operations designated as cash-flow hedges existed.

Other financial instruments

In order to ensure the permanent availability of funds required for the complete conversion of the 1995–2002 convertible loan, the Group contracted over-the-counter (OTC) transactions with third parties for registered shares of the Swatch Group Ltd. Upon expiry of the loan on 23 October 2002, 99.4% of the nominal loan amount of CHF 100 million had been converted. At the expiry date, the remaining bondholders were reimbursed in the amount of CHF 595 000. At 31 December 2002, no OTC operation in relation to this transaction remained.

26. Commitments, contingent assets and liabilities

Guarantees and cautions

Guarantees to third parties to secure the commitments of Group companies amounted to CHF 1 million at the end of 2002 (CHF 1 million at the end of 2001).
The total amount of current assets pledged by Group companies to guarantee their commitments, amounted to CHF 8 million (CHF 1 million at 31.12.2001).

Leasing and other commitments

Leasing commitments for the Group as a whole not recognized on the balance sheet are as follows:

(million CHF)	**2002**	2001
Less than one year	**6**	8
From more than one year to less than five years	**13**	14
More than five years	**13**	0
Total	**32**	22

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Leasing contracts have been included for the first time in the totals presented above. Figures relating to 2001 have been restated. The portion of contracts which can be cancelled within a year represents CHF 2 million at 31 December 2002 (CHF 1 million in 2001).
Other commitments entered into by the Group and open at 31.12.2002 amount to CHF 8 million (prior year CHF 10 million). They correspond to investment commitments in financial assets.

Contingent liabilities and assets
Any contingent assets and liabilities relate to past events, the outcome of which must be confirmed by future events, which are partially beyond the Group’s control.
Some Group companies are involved in litigation arising from the normal course of their business and they may be liable to make compensation. The costs relating to these may possibly not be covered by insurance – either in part or in whole. However, according to Group Management, the outcome of the matters these relate to will not significantly affect the Group’s financial situation.

27. Relations with associated third party companies

In the course of the year under review, the Hayek Group invoiced Swatch Group to a total of CHF 7.8 million, mainly in relation to assistance given to the Group’s General Management in appraising investment projects, designing and implementing specific cost-reduction programs, implementing control systems for gold and carrying out organizational flow optimization studies. This sum also includes the remuneration for project management, operational monitoring tasks, organizational and IT support, as well as the temporary support of specialists for the management of various companies.
In addition, CHF 5.2 million was paid to Hayek Group companies for Group Management contracts. This sum, which is linked to performance, was used in its greater part for bonus payments made to Hayek Engineering specialists, as well as for other lump-sum remuneration.
One of the Group’s minority share companies based in Singapore supplied the Group with marketing and special events services valued at CHF 3.4 million. Given that this company primarily engages external specialist help, 92% of this sum comprises rebilling.
Procurement of goods and services from associated Group companies can be presented as follows:

(million CHF)	**2002**	2001
Procurement of goods and sub-contracting:		
– François Golay	**3**	2
– Terbival	**2**	3
Total	**5**	5

Sales of goods and services to the associated companies mentioned above, as well as the positions still open at the end of 2001 and 2002 represent less than CHF 1 million.

Directors’, executives’ and external administrators’ remuneration, participations and loans
This topic has been treated in the chapter on corporate governance, paragraphs 5.1–5.9, pages 104 to 105. These paragraphs have been audited.

28. Post-closing-date events

No significant new event likely to modify the valuation of the financial statements for 2002 was indicated at the time of finalizing this report.

THE SWATCH GROUP COMPANIES – as at 31.12.2002

EUROPE

SWITZERLAND

Company name, Registered offices	Field of Activity	Share capital in millions	Swatch Group Shareholding (%)	Consoli-dation	Division
The Swatch Group SA, Neuchâtel	Holding	CHF 137.06			▼
Asulab SA, Biel	Research and development	CHF 0.10	100	●	▼
Atlantic Uhrenfabrik AG, Bettlach	Real estate	CHF 0.70	100	●	▼
Blancpain SA, Le Brassus	Watches	CHF 0.10	100	●	■
Certina, Gebr. Kurth AG, Grenchen	Watches	CHF 3.50	100	●	■
CK Watch Co. Ltd., Biel	Watches	CHF 5.00	90	●	■
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	■
Danyak SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 2.50	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Dress your body AG, Biel	Watches, jewelry	CHF 0.10	100	●	▲
EM Microelectronic-Marin SA, Marin	Microelectronics	CHF 25.00	100	●	◆
Endura SA, Biel	Watches	CHF 2.00	100	●	■
ETA SA Manufacture Horlogère Suisse, Granges	Watches, movements, components and systems	CHF 6.20	100	●	▲
Farco SA, Le Locle	Real estate	CHF 2.00	100	●	▼
François Golay SA, Le Brassus	Watch wheels	CHF 0.10	35	○	▲
Frédéric Piguet SA, Le Brassus	Movements	CHF 0.30	100	●	▲
Groupe Habillage Haute Horlogerie Ltd, Saint-Imier	Assembly	CHF 0.10	100	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	■
ICB Ingénieurs Conseils en Brevets SA, Marin-Epagnier	Patents	CHF 0.20	100	●	▼
Lasag AG, Thun	Lasers for industrial applications	CHF 1.00	100	●	◆
Léon Hatot SA, Neuchâtel	Watches	CHF 0.10	100	●	■
Louis Jeanneret-Wespy SA, La Chaux-de-Fonds	Real estate	CHF 0.05	100	●	▼
Maeder-Leschot SA, Biel	Real estate	CHF 0.70	100	●	▼
Manufacture Favre & Perret SA, La Chaux-de-Fonds	Watch cases	CHF 0.60	100	●	▲
Manufacture Ruedin SA, Bassecourt	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 0.48	100	●	▲
Meseltron SA, Corcelles	Real estate	CHF 2.00	100	●	▼
Microcomponents SA, Grenchen	Components for the automobile industry	CHF 14.00	100	●	▲
Mido G. Schaeren & Co SA, Biel	Watches	CHF 1.20	100	●	■
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	■
Montres Jaquet Droz SA, Neuchâtel	Watches	CHF 3.68	100	●	■
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Nouvelle Lémania SA, L'Orient	Movements	CHF 6.00	100	●	▲
Omega Electronics SA, Biel	Sports timing equipment, information display systems	CHF 1.50	100	●	▲
Omega SA, Biel	Watches	CHF 50.00	100	●	■
Oscilloquartz SA, Neuchâtel	High-stability frequency sources	CHF 2.00	100	●	◆
Pierres Holding SA, Biel	In liquidation	CHF 21.12	78	●	▼
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	■
Record Watch Co SA, Tramelan	Inactive	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	◆
Rubattel & Weyermann SA, La-Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
S.I. Grand-Cernil 2, Les Brenets SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. Grand-Cernil 3, Les Brenets SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. L'Etang, SA, Les Brenets	Real estate	CHF 0.05	54	●	▼
S.I. Rue de la Gare 2, Les Brenets SA, Les Brenets	Real estate	CHF 0.24	100	●	▼
SMH Engineering AG, Grenchen	Real estate	CHF 1.00	100	●	▼
SMH Immeubles SA, Neuchâtel	Real estate and project management	CHF 0.50	80	●	▼
SSIH Management Services SA, Biel	Inactive	CHF 0.05	100	●	▼
Swatch SA, Biel	Watches	CHF 2.00	100	●	■
Swatch Telecom SA, Biel	Telecommunication	CHF 0.10	100	●	■
Swatch Timing SA, Biel	Sports timing	CHF 0.10	100	●	▼
Swiss Timing Ltd, Biel	Sports timing	CHF 0.10	100	●	▼
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	▼
The Swatch Group Distribution AG, Biel	Logistics and distribution	CHF 1.00	100	●	■
The Swatch Group Les Boutiques SA, Lausanne	Retailing	CHF 3.00	100	●	■
Swatch Group Management Services SA, Biel	Services and licences	CHF 0.05	100	●	▼
Terbival SA, Courchapoix	Watch cases	CHF 0.10	45	○	▲
Time Flagship AG, Lucerne	Retailing	CHF 0.50	50	◗	■
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	■
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲
Universo Plastique SA, La Chaux-de-Fonds	Plastic components	CHF 1.10	100	●	▲
Valdar SA, L'Orient	Watch components	CHF 0.05	100	●	▲

Legend:
- ● Fully consolidated
- ○ Equity method
- ◗ Proportionally consolidated (JV)

- ■ Watches
- ▲ Watches, movements and components manufacturing
- ◆ Electronic systems
- ▼ General services, R & D, real estate companies

THE SWATCH GROUP COMPANIES – as at 31.12.2002

Company name, Registered offices	Field of Activity	Share capital in millions		Swatch Group Shareholding (%)	Consolidation	Division
GERMANY						
Altweiler GmbH, Lörrach	Real estate	EUR	0.03	95	●	▼
ETA Uhrenwerke GmbH, Pforzheim	Tools	EUR	0.03	100	●	▲
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR	0.51	100	●	■
Saxonian Luxury Goods Holding GmbH, Glashütte	Holding	EUR	0.03	100	●	▼
Swiss Prestige Uhren Handel GmbH, Reutlingen	Inactive	EUR	0.08	100	●	■
The Swatch Group (Deutschland) GmbH, Eschborn/Niederhöchstadt	Distribution (Breguet, Blancpain, Léon Hatot, Omega, Rado, Longines, Tissot, Pierre Balmain, cK Watch, Swatch, Lasag, EM Marin, Micro-Crystal)	EUR	1.28	100	●	■
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn/Niederhöchstadt	Retailing	EUR	0.10	100	●	■
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR	0.05	100	●	■
AUSTRIA						
The Swatch Group (Oesterreich) GmbH, Wien	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch)	EUR	0.04	100	●	■
BELGIUM						
The Swatch Group (Belgium) SA, Bruxelles	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, Hamilton, Pierre Balmain, cK Watch, Swatch, Omega Electronics)	EUR	1.75	100	●	■
The Swatch Group Participation SA, Bruxelles	Holding	EUR	2.09	100	●	▼
SPAIN						
The Swatch Group (España) SA, Madrid	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, Hamilton, Pierre Balmain, cK Watch, Swatch)	EUR	0.45	100	●	■
FRANCE						
Breguet SAS, Paris	Distribution	EUR	6.10	100	●	■
Chablais Florissant, Annemasse	In liquidation		0.00	100	●	▼
Fabrique de Fournitures de Bonnétage FFB SAS, Villers-le-Lac	Watch components and precision parts	EUR	0.29	99	●	▲
Frésard Composants SAS, Charquemont	Watch components	EUR	0.15	100	●	▲
Société Européenne de Fabrication d'Ebauches d'Annemasse (SEFEA) SAS, Annemasse	Watch components and electronic assembly	EUR	0.67	100	●	▲
The Swatch Group (France) SAS, Paris	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Endura)	EUR	2.47	100	●	■
The Swatch Group (France) Les Boutiques SAS, Paris	Retailing	EUR	2.00	100	●	■
Universo France Sàrl, Besançon	Watch hands	EUR	0.28	87	●	▲
GREAT BRITAIN						
The Swatch Group (UK) Ltd, Eastleigh	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Omega Electronics)	GBP	2.00	100	●	■
The Swatch Group (UK) Les Boutiques Ltd, Eastleigh	Retailing	GBP	0.08	100	●	■
GREECE						
Alkioni SA, Athens	Retailing	EUR	0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution (Breguet, cK Watch, Swatch)	EUR	0.06	100	●	■
IRELAND						
SMH Ireland Ltd, Dublin	Inactive	EUR	0.15	100	●	▼
ITALY						
Lascor S.p.A, Sesto Calende	Watch cases and bracelets	EUR	0.43	100	●	▲
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR	0.01	100	●	▼
The Swatch Group (Italia) S.p.A., Rozzano	Distribution (Breguet, Blancpain, Jaquet Droz, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch)	EUR	23.00	100	●	■
The Swatch Group (Italia) Les Boutiques S.p.A., Rozzano	Retailing	EUR	0.12	100	●	■
LIECHTENSTEIN						
Etablissement Voltax, Vaduz	Intellectual property rights	CHF	0.03	100	●	▼
LUXEMBURG						
The Swatch Group Finance (Luxembourg) SA, Société anonyme Holding, Luxemburg	Finance company	CHF	1000.00	100	●	▼
NETHERLANDS						
Breguet Investments BV, Rotterdam	Holding	EUR	0.02	100	●	▼
The Swatch Group (Netherlands) BV, Maastricht	Distribution (Omega, Rado, Longines, Tissot, Certina, Pierre Balmain, cK Watch, Swatch)	EUR	0.70	100	●	■
PORTUGAL						
The Swatch Group (Europa) - Sociedada Unipessoal SA, Funchal	Distribution	EUR	24.14	100	●	■
RUSSIA						
Swiss Watch Le Prestige OOO Russia, Moscow	Distribution	RUR	0.20	100	●	■
SWEDEN						
The Swatch Group (Nordic) AB, Stockholm	Distribution (Breguet, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch)	SEK	0.50	100	●	■
CZECH REPUBLIC						
ASICentrum, Prague	Microelectronics	CZK	2.01	51	●	◆

THE SWATCH GROUP COMPANIES – as at 31.12.2002

Company name, Registered offices	Field of Activity	Share capital in millions	Swatch Group Shareholding (%)	Consoli- dation	Division
AMERICA					
BERMUDA					
The Swatch Group Finance (Bermuda) Ltd, Hamilton	Finance company	CHF 161.74	100	●	▼
The Swatch Group Re Ltd, Hamilton	Reinsurance	CHF 1.64	100	●	▼
BRAZIL					
The Swatch Group do Amazonas SA, Manaus	Assembly	BRL 4.93	99	●	■
The Swatch Group do Brasil Ltda, São Paulo	Distribution (Breguet, Omega, Rado, Longines, Tissot, Mido, cK Watch, Swatch)	BRL 14.05	100	●	■
CANADA					
The Swatch Group (Canada) Ltd, Toronto	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch)	CAD 1.00	100	●	■
UNITED STATES					
EM (US) Design Inc, Colorado	Microelectronics	USD 0.04	100	●	◆
e-Swatch (US) Inc, Delaware	e-Commerce	USD 0.00	100	●	■
The Swatch Group (US) Inc, Dover, Delaware	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, Lasag, Micro-Crystal, Renata, Oscilloquartz)	USD 168.90	100	●	■
The Swatch Group (US) Les Boutiques Inc, Dover, Delaware	Retail	USD 0.00	100	●	■
Unitime Industries Inc, Virgin Islands VI	Assembly	USD 0.13	100	●	▲
MEXICO					
Prestadora de Servicios Relojeros SA de CV, Mexico DF	Horological services	MXN 0.05	100	●	■
The Swatch Group (Mexico) SA de CV, Mexico DF	Distribution (Breguet, Omega, Rado, Longines, Tissot, Mido, cK Watch, Swatch)	MXN 43.65	100	●	■
BRITISH VIRGIN ISLANDS					
The Swatch Group (Asia) Inc, British Virgin Islands	Distribution	USD 0.01	100	●	■
ASIA					
CHINA					
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	After sales service	CNY 3.50	100	●	■
SMH International Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, cK Watch, Swatch)	CNY 1.66	100	●	■
Zhuhai SMH Watchmaking Co. Ltd, Zhuhai	Watches, movements, components	USD 3.75	100	●	▲
SOUTH KOREA					
The Swatch Group (Korea) Ltd, Seoul	Distribution (Omega, Rado, Longines, Tissot, cK Watch, Swatch)	KRW 3300.00	100	●	■
HONG KONG					
Lanco Watches Ltd, Hong Kong	Inactive	USD 0.07	100	●	■
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution (Breguet, Blancpain, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, ETA)	HKD 5.00	100	●	■
INDIA					
The Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 0.50	100	●	■
JAPAN					
The Swatch Group (Japan) KK, Tokyo	Distribution (Breguet, Blancpain, Jaquet Droz, Léon Hatot, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, cK Watch, Swatch, Endura)	JPY 200.00	100	●	■
MALAYSIA					
Micromechanics (Malaysia) Sdn Bhd, Ipoh	Assembly, watch components	MYR 35.00	100	●	▲
The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur	Distribution (Omega, Rado, Longines, Tissot, cK Watch, Swatch)	MYR 0.50	51	●	■
SINGAPORE					
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch)	SGD 4.00	51	●	■
THAILAND					
ETA (Thailand) Co. Ltd, Bangkok	Movements and components	THB 504.50	100	●	▲
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution (Breguet, Omega, Rado, Longines, cK Watch, Swatch)	THB 6.00	49	●	■
Wachirapani Co. Ltd, Bangkok	Holding	THB 3.06	49	●	▼
OCEANIA					
AUSTRALIA					
The Swatch Group (Australia) Ltd, Prahran	Distribution (Breguet, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Omega Electronics, Renata)	AUD 0.40	100	●	■

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REPORT OF THE GROUP AUDITORS

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 (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes – pages 114 to 147) of The Swatch Group Ltd for the year ended 31 December 2002.

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 and with the International Standards on Auditing, 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 statement 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 International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers Ltd

P. Sütterlin A. Stotz

Basle, 26 March 2003