

FINANCIAL STATEMENTS OF THE HOLDING

INCOME STATEMENT OF THE HOLDING

	Notes	2002 million CHF	2001 million CHF
Investment income	(1)	325	357
Financial income	(2)	25	27
Other income	(3)	7	25
Total income		357	409
Staff costs	(4)	-31	-25
Overhead expense	(5)	-9	-8
Depreciation	(6)	-1	-1
Interest expense	(7)	-18	-25
Exchange differences and other financial expenses	(8)	-104	-80
Total expenses		-163	-139
Result before taxes		194	270
Taxes	(9)	-1	-1
Net income		193	269

BALANCE SHEET OF THE HOLDING

Assets	Notes	31.12.2002		31.12.2001	
		million CHF	%	million CHF	%
Non-current assets					
Property, plant and equipment:	(10)				
- Land and buildings		9	0.4	8	0.3
- Furniture and equipment		1	0.0	1	0.0
Financial assets:					
- Long-term loans to Group companies	(11)	43	1.8	44	1.8
- Investments	(12)	1 849	78.3	1 740	71.4
Total non-current assets		1 902	80.5	1 793	73.5
Current assets					
Realizable assets:					
- Sundry receivables	(13)	1	0.0	4	0.2
- Prepayments and accrued income		2	0.1	0	0.0
- Treasury shares (2nd line, with a view to reducing share capital)	(14)	0	0.0	195	8.0
- Short-term loans to Group companies	(15)	221	9.4	127	5.2
- Securities and precious metals	(16)	230	9.7	319	13.1
Liquid funds		7	0.3	1	0.0
Total current assets		461	19.5	646	26.5
Total assets		2 363	100.0	2 439	100.0

BALANCE SHEET OF THE HOLDING

Liabilities and shareholders' equity	Notes	31.12.2002		31.12.2001	
		million CHF	%	million CHF	%
Shareholders' equity:					
- Share capital		137	5.8	140	5.7
- General reserve		67	2.9	67	2.7
- Reserve for treasury shares		369	15.6	566	23.2
- Special reserve		688	29.1	473	19.4
- Profit brought forward		20		19	
- Net income for the year		193		269	
- Available earnings		213	9.0	288	11.9
Total shareholders' equity	(17)	1 474	62.4	1 534	62.9
Provisions	(18)	113	4.8	113	4.6
Short-term debts:					
- Banks	(19)	66	2.8	201	8.3
- Group companies		697	29.5	579	23.7
- Other liabilities		7	0.3	8	0.3
Accrued expenses	(19)	6	0.2	4	0.2
Total short-term debts and accrued expenses		776	32.8	792	32.5
Total liabilities and shareholders' equity		2 363	100.0	2 439	100.0

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

PRINCIPLES GOVERNING THE PREPARATION OF THE FINANCIAL STATEMENTS OF THE HOLDING

The 2002 financial statements of The Swatch Group Ltd are established under the principles of continued operation, materiality and cutoff of accounting periods. They conform to Swiss law and generally accepted accounting practice.

Valuation principles

The financial statements have been valued on the basis of historical values. In particular, investments are indicated on the balance sheet at their purchase value. The following items are exceptions to these rules:

- negotiable securities are valued at their closing rates;
- treasury shares held in reserve for the management stock option plan, as well as escrowed shares, have not been revaluated at market prices.

Conversion method

All assets and liabilities in foreign currencies have been converted at the rates applicable at closing date. Income and expenditure in foreign currencies, as well as currency transactions, have been booked at the corresponding day's rate, or in the case of Group internal transactions, at a predefined rate set by The Swatch Group Ltd Treasury Department.

GENERAL INFORMATION ON THE FINANCIAL STATEMENTS

Operations not included in the balance sheet

Contingent liabilities

At the end of 2002, guarantees provided by The Swatch Group Ltd amounted to CHF 3 394 400 (CHF 30 150 600 prior year). This position includes:

- a global guarantee of CHF 2 000 000 on behalf of the Group in favor of Swiss Customs and Excise;
- a guarantee of GBP 400 000 (or CHF 894 400 at 31.12.2002) to cover a commitment relating to a lease taken out by one of the companies of the Group.
- a guarantee of CHF 500 000 on behalf of a Group company in favor of an insurance company;
- the guarantee of CHF 27 427 800 at 31.12.2001 in relation to a convertible loan of CHF 100 000 000 at 2%, 23.10.1995-23.10.2002, issued by The Swatch Group Finance (Luxembourg) SA, has not been renewed due to the fact that all the bonds were either converted or reimbursed at the expiry date.

Pledged assets

The company's assets are all free of pledge.

Derivative financial instruments

The following table presents the contract values and replacement values of derivative financial instruments at 31.12.2002.

Type	Contract value			Positive replacement value			Negative replacement value		
	Third parties	Group	Total	Third parties	Group	Total	Third parties	Group	Total
(million CHF)									
Forward contracts:									
Total at 31.12.02	345	358	703	4.2	0.4	4.6	-0.2	-5.5	-5.7
Total at 31.12.01	471	363	834	1.7	2.1	3.8	-3.3	-2.3	-5.6

Forward contracts open at 31.12.2002 relate to positions held in gold and in 12 foreign currencies (prior year 13).

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

At 31.12.2002, no financial instrument fulfilled the criteria enabling it to be included on the Group's balance sheet as a hedging instrument.

Debts to professional retirement benefit institutions

No debts to professional retirement benefit institutions are included in the year-end balance sheets for 2002 and 2001.

INFORMATION RELATING TO THE INCOME STATEMENT

The overall result for 2002 of The Swatch Group Ltd fell by CHF 76 million (-28.3%) compared to the prior year, due essentially to the decrease of CHF 32 million in dividend income and CHF 18 million in other income, and CHF 24 million as the result of the increase in exchange rate differences and other financial expenses (notes 1, 3 and 8).

1. Investment income	(million CHF)	2002	2001
	Dividends	289	321
	Other income	36	36
	Total	325	357

This heading includes dividends from Group companies and other dividend income.

2. Financial income	(million CHF)	2002	2001
	Interest income	7	7
	Income and gains on securities	18	20
	Total	25	27

Interest income remained stable in 2002, as did long-term loans to Group subsidiaries (note 11). Gross income in 2002 from the company's securities portfolio amounted to CHF 18 million. This income was more than offset by gross losses sustained on securities listed under the heading of exchange differences and other financial expenses (note 8).

3. Other income This position includes mainly internal re-invoicing for services provided for companies within the Group, revenue related to managing AVS agencies and real estate income. In 2001, an amount of CHF 19 million originated from the dissolution – with no impact on the consolidated financial statements – of provisions which became superfluous following the refinancing of certain Group investments.

4. Staff costs Staff costs rose by 24% in 2002, CHF 6 million more than in the prior year, due to an increase in the company's staff numbers, to new service provisioning for Group companies, and to the centralization of specific functions.

5. Overhead expense Overhead expense increased by CHF 1 million compared to the prior year, due principally to additional costs for from maintenance work and consulting services provided by third parties. Overhead includes administration and management costs which, in total, amount to CHF 5 million.

6. Depreciation This heading includes depreciation on the non-financial assets of the company.

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

- 7. Interest expense** Compared to the prior year, interest expense decreased by CHF 7 million. This change is in line with the general decline in lending rates and with changes in the company's financing (note 19).
- 8. Exchange differences and other financial expenses** Exchange rate differences on foreign currencies, which in 2002 were the result of risk coverage operations concluded on behalf of Group companies, led to a loss of less than CHF 1 million (the same as CHF 1 million in 2001). The gross loss recorded in the securities portfolio amounted to CHF 103 million, for the most part, unrealized. It was partially compensated by CHF 18 million in income (note 2). As a whole, the portfolio's net performance reflected the worsening capital markets in 2002, as well as the negative impact of exchange rates on foreign currency investments.
- 9. Taxes** Taxes in 2002 were comparable to those in the prior year, due in particular to the stability of the company's balance sheet structure.

INFORMATION RELATING TO THE BALANCE SHEET

- 10. Property, plant and equipment** **Fire insurance values**
At the end of 2002, property, fire insurance on plant and equipment amounted to CHF 30 890 200 (CHF 31 560 000 in 2001).
- 11. Long-term loans** Long-term loans were granted principally to Group subsidiaries.
- 12. Investments** The list of the 128 legal entities, including minority investments, held directly or indirectly by the Holding and consolidated at Swatch Group level, is published on pages 144 – 146 of this report. Holdings represent 78.3% of the balance sheet total at 31.12.2002, compared to 71.4% in the prior year. In absolute figures, the value of holdings increased by CHF 109 million to 1 849 million at the end of 2002. This corresponds to consolidated holdings. The change in this balance sheet position is due to the following movements:
Acquisition of the following company:
– Rubattel & Weyermann SA, La-Chaux-de-Fonds;
Founding of the following company:
– Prestadora de Servicios Relojeros SA de CV, Mexico DF;
Other movements:
– Increase in share capital of Dernier Batz SA, Neuchâtel;
– Increase in share capital of Hamilton International SA, Bienne;
– Increase in share capital of The Swatch Group Finance (Bermuda) Ltd, Hamilton;
– Increase in share capital of The Swatch Group do Brasil Ltda, São Paulo;
– Decrease in share capital of Swatch Telecom SA, Bienne;
– Liquidation of a real estate company abroad.
- 13. Sundry receivables** Sundry receivables include, in particular, anticipated recoverable taxes of CHF 1 million in 2002 (CHF 1 million in 2001).

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

14. Treasury shares (2nd line, with a view to reducing share capital) In accordance with a decision to reduce capital, approved by the shareholders at the Annual General Meeting held June 7th 2002, treasury shares repurchased by The Swatch Group Ltd before 31.12.2002, namely 3 758 673 registered shares and 757 550 bearer shares, representing 2.4% of the share capital before reduction, were all cancelled. This operation, carried out with the aim of optimizing the balance sheet, will have a positive long-term effect on both return on equity and earnings per share.

In 2002, no shares were bought on this particular negotiation line (2nd line), which was opened on the Swiss stock exchange with a view to reducing share capital and on which only The Swatch Group Ltd may purchase.

15. Short-term loans to Group companies A portion of the Group companies' financing is provided by The Swatch Group Ltd. In 2002, loans given to these companies increased by CHF 94 million with respect to the prior year.

16. Securities and precious metals This heading includes gold and precious metals intended for covering the manufacturing requirements of Group subsidiaries and represented a value of CHF 22 million at 31.12.2002 (CHF 23 million at the end of 2001). Securities portfolios were valued at CHF 208 million in 2002, versus CHF 296 in the prior year.

The securities position also includes registered treasury shares, of which the greater part is intended for the management stock option plan, valued pro memoria at 31.12.2002, compared to CHF 0.3 million at the close of 2001.

Treasury shares held in other consolidated companies' portfolios amounted to CHF 202 million.

In the financial statements of the Holding, as well as those of other consolidated companies, treasury share assets were valued according to the following principles:

- Free shares: stock exchange rate at 31.12.2002;
- Special fund and escrowed shares: no revaluation at market price.

In the consolidated financial statements, the total of treasury shares, valued at weighted average purchase price, has been recognized as a deduction from equity.

The corresponding reserve for treasury shares in the liabilities of The Swatch Group Ltd balance sheet was also calculated using the weighted average purchasing price method (note 17).

17. Shareholders' equity The total value of treasury shares held by The Swatch Group Ltd in its own books and through its subsidiaries at 31.12.2002 corresponds to 4.1% of the nominal value of its share capital.

The table showing changes in The Swatch Group Ltd shares held by the Group is published on page 157.

The changes in equity, expressed in millions of francs, are as follows:

(million CHF)	Share capital	General reserve	Treasury share reserve	Special reserve	Profit reserve	Total share holders' equity
Balance at 31.12.2001	140	67	566	473	288	1 534
Allocated in 2002				210	-210	0
Repayment of share capital	-3		-192			-195
Paid-out dividend					-58	-58
Adjustment of treasury share reserve			-5	5		0
Net income					193	193
Balance at 31.12.2002	137	67	369	688	213	1 474

Compared to the prior year, equity decreased by CHF 60 million to CHF 1 474 million, and represented 62.4% of the total balance sheet at 31.12.2002.

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

Share capital

Following the reduction of share capital approved by the shareholders at the Annual General Meeting on June 7th 2002, share capital at 31.12.2002 comprised 137 051 327 registered shares each with a par value of CHF 0.45, and 33 506 950 bearer shares each with a par value of CHF 2.25.

Principal shareholders at 31 December 2002

This topic has been included in the chapter on corporate governance, paragraphs 1.2. page 97 and 5.5. page 105. These paragraphs have been audited.

Reserve for treasury shares

The reserve for treasury shares was valued according to the weighted average purchase price method, and was adjusted on the balance sheet of the Holding and stands at CHF 369 million at 31.12.2002, so that it covers treasury shares recognized as assets in the balance sheets of Group companies at the end of the year.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd has changed according to the details in the following table:

Securities (new shares) held by :	Registered shares	Bearer shares
	Quantity*)	Quantity
The Swatch Group Ltd		
Balance at 31.12.2001	7 936 751	757 550
Reduction in capital: 2nd line	-3 758 673	-757 550
Purchases in 2002	60	
Disposals in 2002	-200 332	
Balance at 31.12.2002	3 977 806	0
Other consolidated companies		
Balance at 1.1.2002	8 418 495	44 580
Purchases en 2002	58 914	
Disposals in 2002	-66 686	-580
Balance at 31.12.2002	8 410 723	44 000
Balance at 31.12.2002	12 388 529	44 000

*) of which 3 962 966 registered shares were assigned to a special management stock option plan at the end of 2002 (4 163 298 shares were reserved in 2001).

Apart from movements relating to the special fund and to the convertible bond issued by The Swatch Group Finance (Luxembourg) SA, which expired on the 23.10.2002 (conversion price CHF 21.- per registered share of CHF 0.45 nominal value), all transactions relating to treasury shares were recognized at market value. The average price paid in 2002 for each free share was CHF 26.16 per registered share.

Available earnings

According to a decision of the Annual General Meeting of Shareholders on 7 June 2002, a dividend of CHF 0.20 per registered share, and of CHF 1.- per bearer share was deducted from available earnings at 31.12.2001. The total dividend paid to shareholders in 2002 amounted to CHF 24 897 487 for registered shares and to CHF 33 462 370 for bearer sharers. In compliance with the proposal for appropriation of available earnings approved by the above-mentioned Shareholders' Meeting, the dividend of CHF 4 066 643 on treasury shares held by Swatch Group was not paid out, and remains an integral part of the company's equity at 31.12.2002. Finally, CHF 210 million deducted from available earnings at 31.12.2002, was assigned to the special reserve.

ANNEX TO THE FINANCIAL STATEMENTS OF THE HOLDING

18. Provisions	Provisions remain unaltered with respect to the prior year.
19. Short-term debts and accrued expenses	Compared to the prior year, short-term debt-financing is secured by Group companies (increase of CHF 118 million in debts owed to Group companies) to a greater extent than by third party institutions – resulting in a decline of CHF 135 million in short-term bank debts. Accrued expenses, which have risen by CHF 2 million, relate in particular to the negative replacement values of derived financial instruments.

PROPOSAL FOR APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to the Annual General Meeting the following appropriation of available earnings:

	2002	2001
	CHF	CHF
Net income at December 31	193 435 154	269 161 809
Balance brought forward from previous year	20 080 459	19 278 507
Available earnings	213 515 613	288 440 316
Allocation to special reserve	-130 000 000	-210 000 000
Payment on share capital of CHF 140 459 625.-*) of a 2001 dividend, i.e.:		
- CHF 0.20 per registered share with a par value of CHF 0.45		-24 897 487
- CHF 1.- per bearer share with a par value of CHF 2.25		-33 462 370
Payment on share capital of CHF 137 063 734.65**) of a 2002 dividend, i.e.:		
- CHF 0.22 per registered share with a par value of CHF 0.45	-30 151 292	
- CHF 1.10 per bearer share with a par value of CHF 2.25	-36 857 645	
Balance carried forward	16 506 676	20 080 459

*) The part of the dividend owing on treasury shares held by the Swatch Group was not paid out.

***) The Group intends to forego paying the dividend to the companies of which it is 100% owner.

REPORT OF THE STATUTORY AUDITORS

Report of the
statutory auditors to the
General Meeting of

The Swatch Group Ltd

Neuchâtel

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes/pages 150 to 158) of The Swatch Group Ltd for the year ended 31 December 2002.

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

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

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers Ltd

P. Sütterlin

A. Stotz

Basle, 26 March 2003

THE SWATCH GROUP LTD SECURITIES

Share Capital	IAS				Swiss GAAP FER		
	2002 basic/ diluted	2001 basic/ diluted	2000 basic	2000 diluted	2000	1999	1998
Number of registered shares of CHF 10.-		Comparative basis after split			14 081 000	14 081 000	14 890 000
Number of bearer shares of CHF 50.-		Comparative basis after split			3 426 450	3 426 450	3 594 000
Number of registered shares of CHF 0.45	124 543 989	127 710 075	126 195 263	132 338 963			
Number of bearer shares of CHF 2.25	33 462 467	34 047 207	34 241 620	34 241 620			
Total securities	158 006 455	161 757 282	160 436 883	166 580 583	17 507 450	17 507 450	18 484 000
Share capital registered shares of CHF 0.45	56 044 795	57 469 534	56 787 868	59 552 533			
Share capital bearer shares of CHF 2.25	75 290 550	76 606 216	77 043 645	77 043 645			
Total share capital	131 335 345	134 075 750	133 831 513	136 596 178			

Key data per registered share

(nom CHF 0.45) in CHF	2002	2001	2000	2000	2000	1999	1998
Consolidated net income	1.69	1.69	1.84	1.80	2.09	1.41	1.09
Cash flow from operating activities	1.94	2.09	2.02	1.98			
Consolidated shareholders' equity	12.19	10.94	10.61	10.40	10.64	9.16	9.07
Dividend	0.22 *	0.20	0.55	0.55	0.55	0.24	0.21

Key data per bearer share

(nom CHF 2.25) in CHF	2002	2001	2000	2000	2000	1999	1998
Consolidated net income	8.47	8.46	9.18	8.99	10.43	7.06	5.43
Cash flow from operating activities	9.70	10.45	10.12	9.92			
Consolidated shareholders' equity	60.97	54.72	53.06	51.99	53.18	45.80	45.33
Dividend	1.10 *	1.00	2.75	2.75	2.75	1.20	1.05

Stock price of registered shares (adjusted)	High	36.85	43.50	54.70	54.70	547	371	274
	Low	20.45	19.40	31.80	31.80	318	180	168
	End of year	23.40	32.90	42.30	42.30	423	371	206
Stock price of bearer shares (adjusted)	High	173.00	214.00	273.90	273.90	2 739	1 838	1 325
	Low	99.25	91.00	157.70	157.70	1 577	726	645
	End of year	115.00	149.25	202.50	202.50	2 025	1 834	850
Market capitalization (million CHF)	End of year	7 060	9 747	12 895	12 895	12 895	11 508	6 112

Key ratios (year-end)		2002	2001	2000	2000	2000	1999	1998
Average return on equity	%	14.5	15.7	18.7	18.7	21.1	15.1	12.4
Dividend yield registered shares	%	0.9 *	0.6	1.3	1.3	1.3	0.6	1.0
Dividend yield bearer shares	%	1.0 *	0.7	1.4	1.4	1.4	0.7	1.2
Price / earnings ratio - registered shares		13.8	19.4	23.0	23.5	20.3	26.3	18.9
Price / earnings ratio - bearer shares		13.6	17.6	22.1	22.5	19.4	25.4	15.7

Securities

	Securities no.	Reuters Symbol
The Swatch Group Ltd registered shares	1 225 514	UHRZn.VX
The Swatch Group Ltd bearer shares	1 225 515	UHRZ.VX

The securities are listed on the Swiss Stock Exchange.

* Board of Directors' proposal.

The Board of Directors of The Swatch Group Ltd has fixed following restrictions for registered share ownership: maximum 5% per shareholder in line with the company's articles.

THE SWATCH GROUP LTD SECURITIES

EVOLUTION OF THE SWATCH GROUP LTD REGISTERED SHARES AND THE SWISS MARKET INDEX

(indexed weekly from 1. 7. 1988 to 31. 12. 2002 – adjusted)

