

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2003		31.12.2002	
		million CHF	%	million CHF	%
Property, plant and equipment	(8)	1 085	19.3	1 072	22.4
Investment property	(8)	16	0.3	16	0.3
Intangible assets	(7)	315	5.6	284	6.0
Investments in associated companies	(9)	4	0.1	4	0.1
Other financial assets	(9)	6	0.1	6	0.1
Deferred tax assets	(19)	96	1.7	109	2.3
Non-current assets		1 522	27.1	1 491	31.2
Inventories	(10)	1 481	26.4	1 442	30.1
Assets held for sale		1	0.0	3	0.1
Trade receivables	(11)	662	11.8	670	14.0
Other receivables and prepayments	(12)	334	5.9	318	6.6
Available-for-sale investments	(13)	321	5.7	396	8.3
Cash and cash equivalents	(14)	1 294	23.1	463	9.7
Current assets		4 093	72.9	3 292	68.8
Total assets		5 615	100.0	4 783	100.0

CONSOLIDATED BALANCE SHEET

Liabilities and shareholders' equity	Notes	31.12.2003		31.12.2002	
		million CHF	%	million CHF	%
Share capital	(15)	137	2.4	137	2.9
Capital reserves		213	3.8	213	4.4
Treasury shares	(16, 21)	-369	-6.6	-369	-7.7
Conversion differences		-35	-0.6	-20	-0.4
Retained earnings		4 060	72.3	3 580	74.8
Shareholders' equity		4 006	71.3	3 541	74.0
Minority interest		10	0.2	15	0.3
Borrowings	(18)	394	7.0	12	0.3
Deferred tax liabilities	(19)	317	5.7	314	6.5
Retirement benefit obligations	(20)	27	0.5	19	0.4
Non-current provisions	(17)	30	0.5	51	1.1
Non-current liabilities		768	13.7	396	8.3
Trade and other payables and accrued expenses	(22)	567	10.1	578	12.1
Borrowings	(18)	204	3.6	199	4.2
Current provisions	(17)	60	1.1	54	1.1
Current liabilities		831	14.8	831	17.4
Total liabilities		1 599	28.5	1 227	25.7
Total liabilities and shareholders' equity		5 615	100.0	4 783	100.0

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2003 million CHF	2002 million CHF
Operating activities			
Cash generated from operations	(23)	710	672
Interest paid		-13	-11
Interest received		12	20
Tax paid		-82	-115
Cash flows from operating activities		627	566
Investing activities			
Acquisition of consolidated companies (without liquid funds)	(24)	-37	-6
Investment in tangible assets		-204	-229
Proceeds from sale of tangible assets		25	18
Investment in intangible assets		-25	-48
Proceeds from sale of intangible assets		5	1
Investment in financial assets			-2
Proceeds from sale of financial assets			3
Purchase/sale of available-for-sale investments		120	94
Cash flows from investing activities		-116	-169
Financing activities			
Dividend paid to shareholders		-64	-58
Dividend paid to minority interests		-11	-9
Purchase/sale of treasury shares		1	1
Movement in non-current liabilities		395	-54
Movement in current liabilities		25	-107
Cash flows from financing activities		346	-227
Net impact of foreign exchange rate differences on cash		-3	-11
Increase/decrease in cash and cash equivalents		854	159
Movement in cash and cash equivalents			
- At beginning of year		435	276
- At end of year	(14)	1 289	435
Cash and cash equivalents at end of year		1 289	435

CONSOLIDATED INCOME STATEMENT

	Notes	2003		2002	
		million CHF	%	million CHF	%
Gross sales	(1)	3 983	100.0	4 063	100.0
Sales reductions		-138	-3.5	-130	-3.2
Net sales		3 845	96.5	3 933	96.8
Other operating income		28	0.7	37	0.9
Changes in inventories and work in progress		43	1.1	157	3.9
Capitalized expenditures		24	0.6	36	0.9
Material purchases		-806	-20.2	-953	-23.5
Staff costs	(2)	-1 262	-31.7	-1 269	-31.2
Other operating expenses		-1 062	-26.7	-1 099	-27.1
Operating result before depreciation & amortization (EBITDA)		810	20.3	842	20.7
Depreciation of fixed assets (excluding goodwill)		-202	-5.1	-198	-4.8
Amortization of goodwill		-14	-0.3	-12	-0.3
Operating result (EBIT)		594	14.9	632	15.6
Net financial result	(4)	-1	0.0	-22	-0.6
Result before taxes		593	14.9	610	15.0
Income taxes	(5)	-96	-2.4	-110	-2.7
Group result before minority interest		497	12.5	500	12.3
Minority interest		-5	-0.1	-6	-0.1
Net income		492	12.4	494	12.2
Registered shares	(6)				
Basic earnings per share		1.69		1.69	
Diluted earnings per share		1.67		1.69	
Bearer shares	(6)				
Basic earnings per share		8.43		8.47	
Diluted earnings per share		8.36		8.47	

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), as published by the International Accounting Standards Board (IASB), and by 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. 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 income 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 structure

As at the end of 2002, the Group includes 129 legal entities among its consolidated subsidiaries.

This total is the result, on the one hand, of the acquisition of a company in Germany and the creation of a subsidiary in Shanghai of which the Group holds 90%, and on the other, of the merger of two companies and the dissolution of another at the end of its liquidation process.

The two new units recognized within the consolidation structure correspond to the purchase of Sokymat Automotive GmbH, the German company active in the electronics systems sector, and to the creation of SMH Swiss Watch Trading (Shanghai) Co. Ltd, a watch distribution company in China.

The two entities no longer included in the consolidation structure correspond to Universo Plastique SA, which merged with Microcomponents SA, as well as the dissolution of a real estate company whose assets were liquidated in prior financial 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 687 reporting units (651 at the end of 2002), 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.

12 inactive companies were deliberately not consolidated (excluded from the consolidation structure), 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 financial statements of the Group.

Joint ventures

Those entities jointly controlled by the Group with an equal holding of 50%, have been included in the accounts according to the proportional integration method. By applying this method, the annual consolidated financial statements of the Group include product income and expenditure, assets and liabilities, and cash flow.

At 31.12.2003, 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.

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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 results 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 31.12.2003, three entities were considered as associate companies and consolidated as such. These were Danyak SA, La Chaux-de-Fonds, François Golay SA, Le Brassus and Terbival SA, Courchapoix.

Conversion of foreign currency

The consolidated financial statements are prepared in Swiss francs. Group subsidiaries report their financial statements in local currency. Conversion of the profit and loss accounts for foreign subsidiaries is done at the 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 accounts in currencies 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 result. In 2002 and 2003, 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 2003	Rate at 31.12.2003	Average rate 2002	Rate at 31.12.2002
	CHF	CHF	CHF	CHF
1 AUD	0.8793	0.9285	0.8429	0.7880
1 CAD	0.9629	0.9575	0.9865	0.8840
1 EUR	1.5253	1.5600	1.4678	1.4570
1 GBP	2.2038	2.2100	2.3301	2.2360
1 HKD	0.1724	0.1600	0.1988	0.1785
100 JPY	1.1610	1.1615	1.2461	1.1730
1 SEK	0.1670	0.1718	0.1604	0.1590
1 SGD	0.7682	0.7270	0.8659	0.8020
1 USD	1.3436	1.2430	1.5522	1.3925

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 EBITDA as well as on the Group's 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 bodies. 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 counterparties. 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 2002 and 2003.

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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 Group, as well as the judicious investment of cash reserves, means that Group Treasury has sufficient funds at all times. Over and above this, in order to cover exceptional requirements, Group Treasury also has credit limits with financial institutions.

Derivative financial instruments and hedging transactions

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

When option contracts are identified as cash-flow hedges, a distinction is made between the contract's time value and its intrinsic value to calculate premiums and replacement values for given dates.

Time value paid is recognized as an asset when the position is opened. At valuation date, the change in the time value is recognized in the income statement and the change in the intrinsic value against equity.

As soon as the underlying becomes operative and can be considered as effective, the fair values of both the underlying 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 of hedging operations are presented on page 141.

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.

Recognition of income and expenses

Sales are entered upon delivery of the goods or services to third parties, following deduction of sales taxes and discounts. Gross sales correspond to sales invoiced before discount or other deductions. These are recognized as deductions from sales in the consolidated income statement. 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.

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VALUATION PRINCIPLES AND DEFINITIONS**Net financial result**

This position includes the interest expense on capital borrowed outside the Group, as well as interest income from the investment of capital 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 the values of 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, 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, carryforward tax losses and tax credits, to the extent that these could probably be applied against future taxable profits.

No deferred tax has been recognized on temporary differences relating to investments in subsidiaries, joint ventures and consolidated associated companies when it is probable that these differences will not reverse in the foreseeable future.

Deferred taxes are calculated based on maximum tax rates. In the case that these are not applicable, the tax rates in force or practically in force on the closing date serve as the basis. The tax rates used relate to the companies or relevant sectors concerned.

Intangible assets

In addition to the items mentioned separately below, this heading also includes:

- License fees paid which grant rights to use new state-of-the-art technologies. Related lump-sum payments have been capitalized and amortized over a minimum period of five 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 acquisition price over the net asset value of the company at purchase date held by the Group – in all cases, for an estimated useful life. 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 economic benefits 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 the anticipated benefit. The amortization period 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 to 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.

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Tangible assets

Property, plant and equipment are 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

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 a loss is recognized each time the value of an asset entered 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 liability 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 service have been valued only for 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 12 months overdue and which were not converted into interest-bearing loans.

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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

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 the 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, acquisition 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 either recognized directly in equity or, at the time of sale, as a 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 coupled 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 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 assessment 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 of 50% between their purchase prices and their fair value based on a period of 24 months. 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 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 financial investments whose fair value is 90% or more below their purchase price on balance sheet date, irrespective of their term.

A basis for impairment has been established when evaluation of the financial investment concerned, including "soft" factors, does not present sufficient positive potential for development.

The following criteria, among others, are considered as "soft" factors:

- Over the past 12 to 18 months, the financial investment must have exceeded the average performance of the peer group under review.
- The majority of analyses and external analysts (Bloomberg consensus), as well as the Group's evaluation, all confirm a positive medium-term development of the company in terms of results.
- The company has not undergone significant deterioration in terms of solvency or of rating (S+P/Moody's).

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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 valuation adjustment as soon as the facts pertaining to these investments are proven.

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 01.01.2002.

Employee benefit obligations**Post-employment benefits**

Post-employment benefits with respect to the Group mainly relate to pensions and retirement benefits. Other post-employment benefits for employees, such as medical care benefits, are not provided.

Similarly, the Group has also not entered into other commitments entailing long-term benefits for its employees, such as termination 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 the 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 funds. These plans are independent.

Despite 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 and 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, the actuarial differences.

The long-term assets of defined benefit plans are valued 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. Similarly, when a calculated short-fall does not correspond to an actual commitment of the Group equivalent to future use of resources, the amount in question is not recognized as a liability in the consolidated balance sheet.

Contributions to defined benefit plans are recognized in the income statement in the year to which they refer.

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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 watch movements
- 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. The 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. The segment-based liabilities include operating commitments.

In accordance with the presentation standard applicable to the horology sector, geographical segmentation is indicated by continent. With respect to the turnover and unit sales, allocation is made according to invoice destination. Total third party assets are distributed in relation to their location.

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Primary segment information (activity sector)
Income statement

2003	Watches	Horological	Electronic	General	Consolidation	Total
(million CHF)		production	systems	services	adjustment	
- Third	2 921	562	468	32		3 983
- Group		677	43	11	-731	0
Gross sales	2 921	1 239	511	43	-731	3 983
Operating result before depreciation and amortization (EBITDA)	563	152	109	-14		810
- In % of gross sales	19.3	12.3	21.3			20.3
- In % of total	69.5	18.8	13.4	-1.7		100.0
Operating result (EBIT)	516	33	64	-19		594
- In % of gross sales	17.7	2.7	12.5			14.9
- In % of total	86.9	5.5	10.8	-3.2		100.0
Net financial result						-1
Result before taxes						593
Taxes						-96
Group result before minority interest						497
Minority interest						-5
Net income						492

2002	Watches	Horological	Electronic	General	Consolidation	Total
(million CHF)		production	systems	services	adjustment	
- Third	2 980	604	460	19		4 063
- Group		689	48	14	-751	0
Gross sales	2 980	1 293	508	33	-751	4 063
Operating result before depreciation and amortization (EBITDA)	558	204	99	-19		842
- In % of gross sales	18.7	15.8	19.5			20.7
- In % of total	66.3	24.2	11.8	-2.3		100.0
Operating result (EBIT)	515	85	57	-25		632
- In % of gross sales	17.3	6.6	11.2			15.6
- In % of total	81.5	13.4	9.0	-3.9		100.0
Net financial result						-22
Result before taxes						610
Taxes						-110
Group result before minority interest						500
Minority interest						-6
Net income						494

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

**Balance sheet
and other information**

2003	Watches	Horological	Electronic	General	Total
(million CHF)		production	systems	services	
Balance sheet					
- Segment assets	2 361	1 299	612	1 339	5 611
- Equity in associated companies		3		1	4
Total assets	2 361	1 302	612	1 340	5 615
- Segment liabilities	685	247	71	596	1 599
- Liabilities not affectedd					0
Total liabilities	685	247	71	596	1 599
Net assets	1 676	1 055	541	744	4 016

Other information

Investments					
(including capitalized expenditures)	68	127	63	8	266
Depreciation on tangible assets	26	114	40	5	185
Amortization on intangible assets	19	5	3		27
Impairment	1	1	2		4

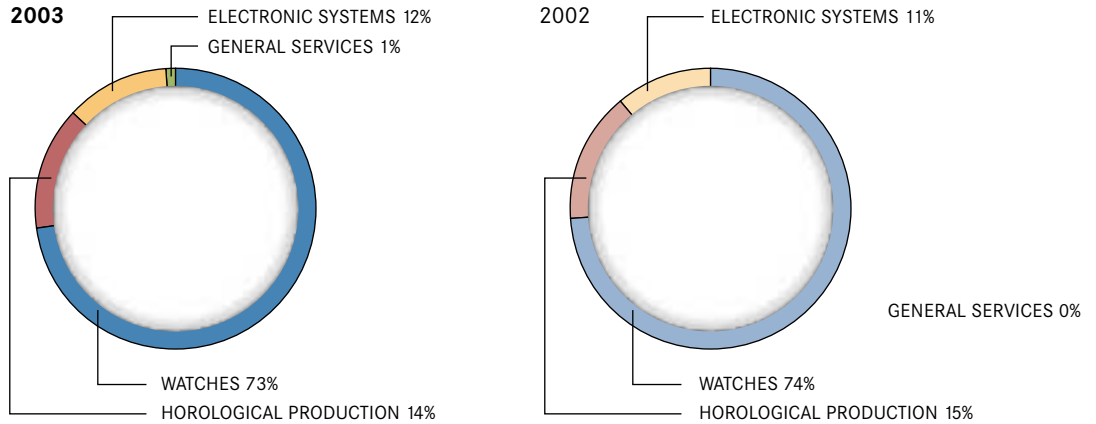
2002	Watches	Horological	Electronic	General	Total
(million CHF)		production	systems	services	
Balance sheet					
- Segment assets	2 354	1 265	424	736	4 779
- Equity in associated companies		3		1	4
Total assets	2 354	1 268	424	737	4 783
- Segment liabilities	686	277	64	200	1 227
- Liabilities not affectedd					0
Total liabilities	686	277	64	200	1 227
Net assets	1 668	991	360	537	3 556

Other information

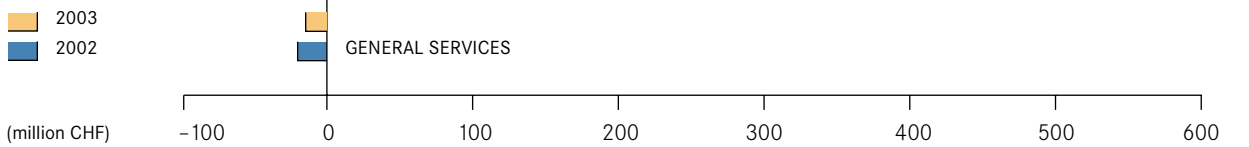
Investments					
(including capitalized expenditures)	73	180	20	7	280
Depreciation on tangible assets	25	114	38	6	183
Amortization on intangible assets	18	4	2		24
Impairment		1	2		3

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

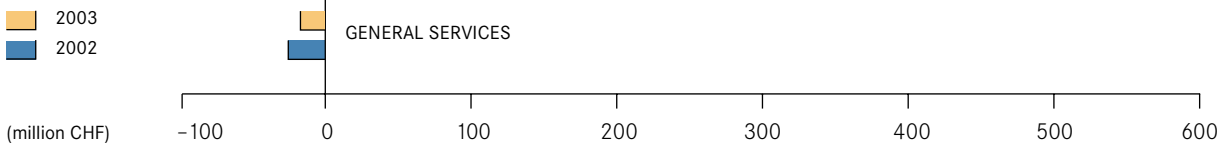
Segment share of consolidated gross sales



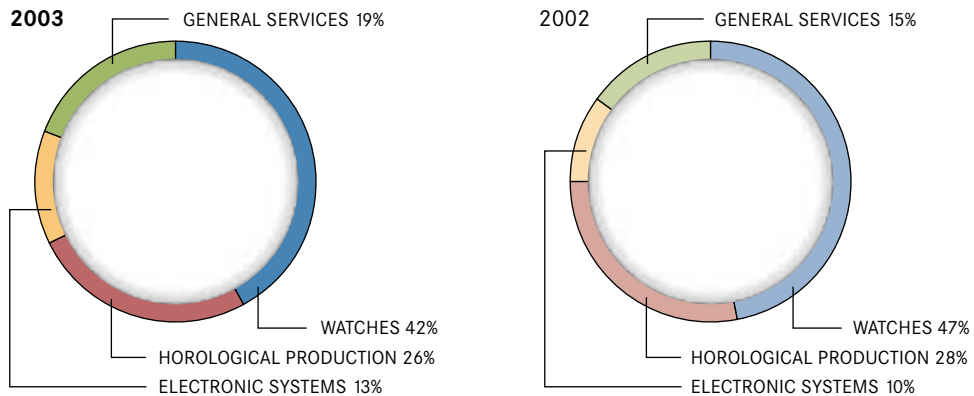
Segment share of operating result before depreciation and amortization (EBITDA)



Segment share of operating result (EBIT)



Segment share of net assets



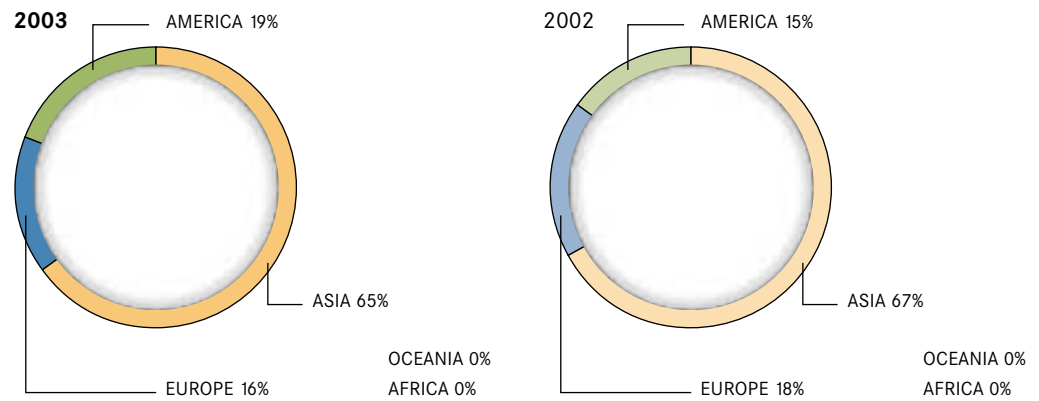
ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Secondary segment information (geographic sector)

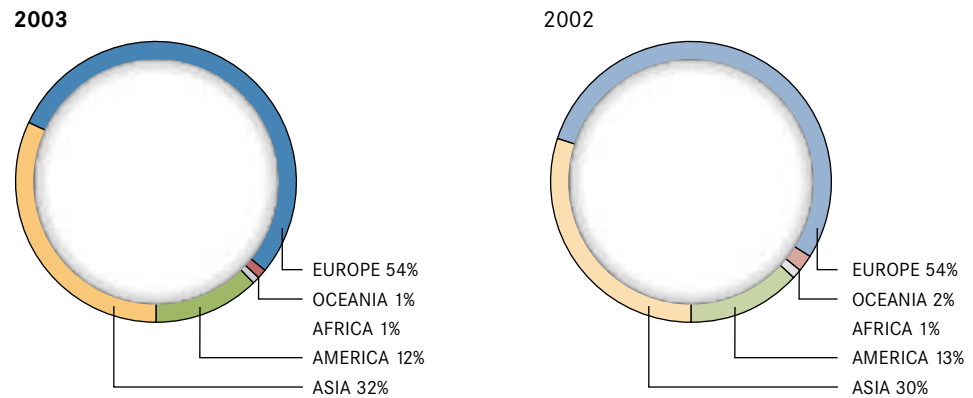
(million CHF)	2003			2002		
	Sales	Total assets	Investments*	Sales	Total assets	Investments*
Europe	2 153	4 930	227	2 232	4 138	253
America	475	216	6	527	229	6
Asia	1 263	447	32	1 210	393	21
Oceania	56	22	1	63	23	
Africa	36			31		
Total	3 983	5 615	266	4 063	4 783	280

* Including capitalized expenditures

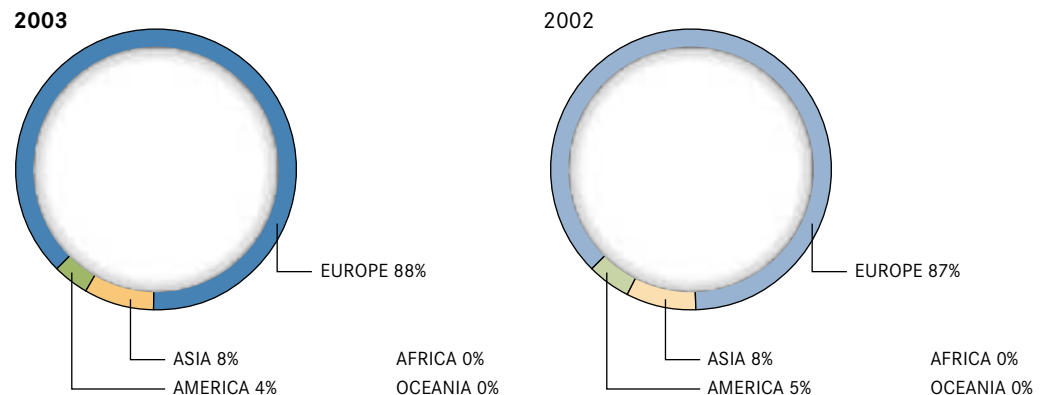
Units



Sales



Total assets



ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Staff costs

As the result of a change in the definition of employment contracts, figures published in 2002 were adjusted in order to compare them with 2003 figures. Henceforth, staff numbers include home workers, trainees and additional help. The restated 2002 figures are as follows:

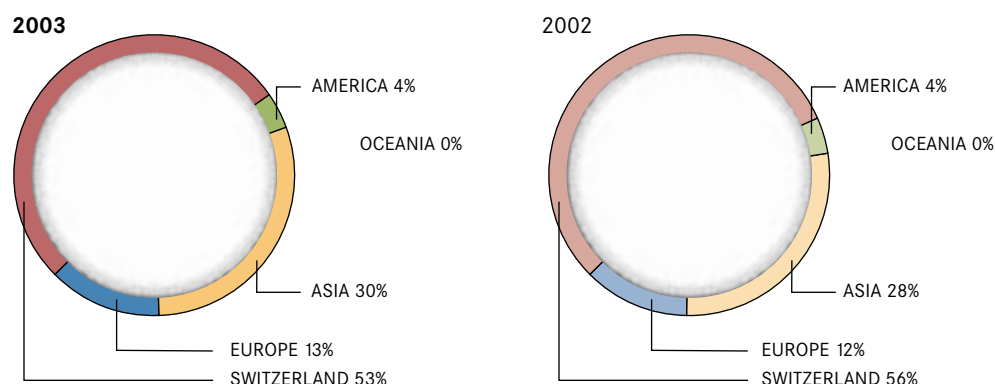
	2002	2002	
	restated	published	Difference
Number of contracts			
Average	20 568	20 341	227
At year end	20 545	20 327	218
- Of which:			
Men	9 157	9 124	33
Women	11 388	11 203	185

The difference at 31.12.2002 resulting from the restatement corresponds to the following contracts:

Home workers	Trainees	Additional help	Difference
124	12	82	218

In 2002, all home workers, trainees and additional help had Swiss employment contracts. Additional help is distributed geographically between the continent of America: three, Oceania: 12, and Switzerland: 67. The comparative figures below are restated figures.

The average number of employees in 2003 was 20 707. Staff numbers at the close of the year expressed in numbers of contracts (new definition) amounted to 20 700. The number of employees with a Swiss contract fell by 439. Staff employed outside Switzerland increased by 594, principally in China (+390) and in Malaysia (+107). The result of these changes is that the Group now employs a workforce of 10 958 with a Swiss contract and 9 742 employees outside Switzerland with a non-Swiss contract. The geographical distribution of employees is shown below:



Breakdown of staff by gender, and annual average number of employees with an employment contract (including home workers, trainees and additional help) or an apprenticeship contract are as follows:

	2003	2002
Men	9 074	9 157
Women	11 626	11 388
Total as at 31.12.	20 700	20 545
Annual average number of employees	20 707	20 568

During the year, the average number of staff rose by 0.7% while the gross volume of salaries fell by 0.5%. The Group's average social security costs rose slightly from 21.9% (2002) to 22.3% in 2003. This rise is due to an increase in contributions paid to pension funds. Pension plans are, for the most part, contracted outside the Group with legally independent institutions.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. Research and development costs

Research and development costs rose from CHF 139 million (2002) to CHF 157 million in 2003, representing 3.9% of gross sales.

4. Net financial result

(million CHF)	2003	2002
Bank interest	-10	-11
Interest on convertible loan	-3	0
Interest expense	-13	-11
Interest income	12	20
Net income on exchange transactions	-13	-28
Profit/loss on investments	13	-3
Net financial result	-1	-22

Impairment on financial investments 31.12.2003

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 31.12.2003 includes less than CHF 0.5 million (prior year CHF 2 million) recognized in this position.

5. Income taxes

(million CHF)	2003	2002
Current tax	81	82
Deferred tax	15	28
Total	96	110

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

	2003	2002
	%	%
Discounted rate	18.0	18.0
Effect of applicable tax rate different from Group rate	2.0	2.4
Change in applicable tax rate on temporary differences	0.1	-0.6
Effect of tax rate different from applicable rate	-0.2	-0.3
Capitalization of tax assets from prior years and utilization of tax losses/ unused tax credits	-0.7	-1.0
Taxes on non-tax-deductible items	0.1	0.3
Impact of elements taxable at reduced rates	-3.1	-1.0
Other elements	0.0	0.2
Actual rate	16.2%	18.0

6. Earnings per share

	2003	2002
Registered shares		
Basic earnings per share in CHF	1.69	1.69
Net income per income statement, in million CHF	210	211
Average number of shares in issue	124 732 274	124 543 989
Diluted earnings per share in CHF	1.67	1.69
Net income per income statement, in million CHF	212	211
Average number of shares in issue	126 832 274	124 543 989
Bearer shares		
Basic earnings per share in CHF	8.43	8.47
Net income per income statement, in million CHF	282	283
Average number of shares outstanding	33 462 950	33 462 467
Diluted earnings per share in CHF	8.36	8.47
Net income per income statement, in million CHF	280	283
Average number of shares outstanding	33 462 950	33 462 467

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)	2003	2002
Gross value		
At 1 January	237	232
Goodwill from acquisitions	37	5
At 31 December	274	237
Accumulated amortization		
At 1 January	-38	-26
Annual amortization	-14	-12
At 31 December	-52	-38
Net at 31 December	222	199

8. Tangible assets

Changes in tangible assets and the references to acquisition values are given in the summary table on the next page.

At 31.12.2003, total non-current assets pledged to cover the Group's companies' commitments amounted to CHF 11 million. The comparable amount in 2002 was less than CHF 4 million.

At the end of 2003, tangible assets financed by capital lease contracts and recognized as assets in the balance sheet, represented less than CHF 2 million (less than CHF 2 million at 31.12.2002).

Fire insurance values

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

(million CHF)	2003	2002
Buildings	1 425	1 358
Equipment	3 012	2 734
Total amount insured	4 437	4 092

The net value of tangible assets (including land) in the balance sheet at 31.12.2003 represented only 24.8% of the value insured.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movements in Fixed Assets 2003

a) Acquisition values	Historical acquisition value	Currency diff.	Acquis.val. 31.12.02 adjust.	Acquisi-tions (net value) 2003	Invest-ments 2003	Capitalized expendi-tures 2003	Disposals (sales) 2003	*) Trans-fers 2003	Historical acquisition value 31.12.03
(million CHF)	31.12.02	Bal 03/02	31.12.03	2003	2003	2003	2003	2003	31.12.03
Capitalized development expenses	28		28		4	3		-9	26
Other intangible assets	128	3	131		18		-5	11	155
Goodwill	237		237		37				274
Total intangible assets	393	3	396	0	59	3	-5	2	455
Land and buildings	726	1	727	3	35		-8	17	774
Plant and machinery	2 124	1	2 125	9	119	20	-28	-33	2 212
Other fixtures and fittings	253		253		24	1	-9	15	284
Advances and construction in progress	30		30		5			-7	28
Investment property	25		25						25
Total tangible assets	3 158	2	3 160	12	183	21	-45	-8	3 323
Other financial assets	6		6						6
Investment in associated companies	4		4						4
Total financial assets	10	0	10	0	0	0	0	0	10
Total non-current assets (without deferred taxes)	3 561	5	3 566	12	242	24	-50	-6	3 788
b) Net balance sheet values	Historical acquisition value	Deprec. year to date	Currency diff.	Deprec. on disposals	Deprec. on transfers	Depre-ciation 2003	Deprec. year to date	Net balance sheet value	Net balance sheet value
(million CHF)	31.12.03	31.12.02	Bal 03/02	2003	2003	2003	31.12.03	31.12.02	31.12.03
Capitalized development expenses	26	-20			7	-3	-16	8	10
Other intangible assets	155	-51			-11	-10	-72	77	83
Goodwill	274	-38				-14	-52	199	222
Total intangible assets	455	-109	0	0	-4	-27	-140	284	315
Land and buildings	774	-409		3	1	-17	-422	317	352
Plant and machinery	2 212	-1 460	-1	13	9	-145	-1 584	664	628
Other fixtures and fittings	284	-170		8		-22	-184	83	100
Advances and construction in progress	28	-22				-1	-23	8	5
Investment property	25	-9					-9	16	16
Total tangible assets	3 323	-2 070	-1	24	10	-185	-2 222	1 088	1 101
Other financial assets	6						0	6	6
Investment in associated companies	4						0	4	4
Total financial assets	10	0	0	0	0	0	0	10	10
Total non-current assets (without deferred taxes)	3 788	-2 179	-1	24	6	-212	-2 362	1 382	1 426

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

Depreciation in the income statement also includes an impairment charge of CHF 4 million not included in the above table.

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 (Danyak SA, François Golay SA and Terbival SA) 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 less than CHF 0.5 million in 2003 (CHF 1 million in 2002).

Other financial assets

These assets correspond in particular to securities and various deposits paid by Group companies to third-party lessors amounting to CHF 3 million (CHF 3 million in 2002), as well as long-term loans and investments. Amounts whose expiry date is less than five years did not yield interest in 2002 or in 2003 and amounted globally to CHF 3 million at 31.12.2003 (prior year CHF 1 million). Those whose expiry date is more than five years also amounted to CHF 3 million (CHF 5 million at 31.12.2002), and yielded an average interest rate of 1.2% (1.9% in 2002).

Changes in financial assets are included in the schedule on page 133.

10. Inventories

(million CHF)	2003	2002
Raw materials and components	465	458
Work in progress	431	421
Finished products	442	403
Spare parts for customer service	143	160
Total	1 481	1 442

Inventories increased slightly (+2.7%) compared with the prior year, particularly in the luxury watches segment, and correspond to development plans in this sector of activity. 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)	2003	2002
Gross trade receivables	695	695
Provision for bad and doubtful debt	-33	-25
Net trade receivables	662	670

This provision represents 4.7% (prior year 3.6%) of open receivables and covers all 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 fell slightly to 52 days (54 at the end of 2002).

12. Other receivables and prepayments

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

(million CHF)	2003	2002
Advances	42	30
VAT to be recovered	132	141
Tax to be recovered	8	7
Prepaid financial expenses	9	3
Prepaid advertising	5	4
Miscellaneous receivables and other prepayments	138	133
Total	334	318

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Available-for-sale investments

Available-for-sale investments amounted to CHF 321 million (prior year CHF 396 million), and were 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)	2003	2002
Cash at bank and in hand	252	232
Short-term bank deposits	1 042	231
Total	1 294	463

The average yield obtained 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 up to three months.

In the consolidated cash flow statement, cash and cash equivalents comprise the following headings:

(million CHF)	2003	2002
Cash and cash equivalents	1 294	463
Bank overdrafts	-5	-28
Total	1 289	435

15. Capital structure

At 31 December 2003, the capital structure of The Swatch Group Ltd was as follows:

15.1 Capital

137 051 327 registered shares	at CHF 0.45 par value	CHF	61 673 097.15
33 506 950 bearer shares	at CHF 2.25 par value	CHF	75 390 637.50
Total share capital at 31.12.2003			CHF 137 063 734.65

All shares are fully paid in. No changes were made to the share capital structure in 2003.

15.2 Authorized and conditional capital

As at the end of 2002, no authorized and conditional capital existed at 31.12.2003.

15.3 Changes in capital

Over the past three years, the share capital of The Swatch Group Ltd changed as follows:

Key date	Registered shares	Bearer shares	Share capital CHF
31.12.2000	14 081 000 at CHF 10.00	3 426 450 at CHF 50.00	312 132 500.00
31.12.2001	140 810 000 at CHF 0.45 ¹⁾	34 264 500 at CHF 2.25 ¹⁾	140 459 625.00
31.12.2002	137 051 327 at CHF 0.45 ²⁾	33 506 950 at CHF 2.25 ²⁾	137 063 734.65
31.12.2003	137 051 327 at CHF 0.45	33 506 950 at CHF 2.25	137 063 734.65

¹⁾ Par value repayment of 55%; split 1:10

²⁾ Share redemption on the 2nd trading line and cancellation, based on a decision of the General Meeting of 7 June 2002: 3 758 673 registered shares and 757 550 bearer shares.

16. Treasury shares

The Swatch Group Ltd shares held by the Group are valued in the consolidated financial statements at the average purchase price. They are recognized as a deduction from consolidated equity. Details on the movements in the number of shares are presented in the annex to the financial statements of the Holding, note 16.

With the exception of movements relating to the special management stock option plan, all transactions involving treasury shares were recorded at market value.

17. Provisions

(million CHF)	Warranty	Legal risks	Other	Total
At 31 December 2002	55	10	40	105
Conversion differences	0	0	0	0
Additional provisions	59	2	9	70
Amounts not used	-12	0	-3	-15
Used during the year	-46	-1	-17	-64
Other movements	0	-2	-4	-6
At 31 December 2003	56	9	25	90

Analysis of total provisions (million CHF)	2003	2002
Non-current provisions	30	51
Current provisions	60	54
Total	90	105

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Warranty

The Group generally offers a two-year warranty and either repairs or replaces those products which do not work to customer 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.

Legal risks

Provisions have been made for covering certain legal proceedings instituted against the Group in its normal 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 amount set aside at 31 December 2003.

Others

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

18. Borrowings

(million CHF)	2003	2002
Non-current		
Long-term bank debts	1	4
Convertible loan	390	0
Other long-term debts	3	8
Total	394	12

(million CHF)	2003	2002
Current		
Bank overdraft	5	28
Short-term bank debts	199	171
Total	204	199

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

(million CHF)	6 months or less	6–12 months	1–5 years	More than 5 years	Total
At 31.12.2003	137	67	0	394	598
At 31.12.2002	179	20	11	1	211

At 31.12. 2003, the average weighted interest rate on loans was less than 2% (prior year 2%) for amounts whose term is less than twelve months, and in the order of 3% for long-term loans (more than one year) (prior year 3%).

Convertible loan

On 15.10.2003, The Swatch Group Finance (Luxembourg) SA issued a 2003–2010 convertible loan at 2.625%, for a total amount of CHF 411 600 000. During the conversion period, the bonds (par value CHF 5 000) can be converted to registered shares of The Swatch Group Ltd at CHF 49.00.

The loan was split into “equity” and “debt” components, recognized in the balance sheet under their respective headings. The fair value of the debt component, recognized as a long-term debt, was determined using a market rate (3.248% per year) of an equivalent non-convertible loan. The residual value (option part) was recognized in shareholders’ equity.

For subsequent periods up to the time of conversion or reimbursement of the loan, the shareholders’ equity portion and related adjustments will be determined according to the effective rate method. The shareholders’ equity portion was determined at the time of issue and will not be modified at a later date.

The convertible loan is recognized as follows:

(million CHF)	
Debt at date of issue, 15.10.2003	412
Option value (shareholders’ equity)	-16
Issuing costs	-7
Debt portion at date of issue	389
Interest on convertible loan	3
Interest charges on coupons only, at 2.625%	-2
Debt portion according to IAS 32 at 31.12.2003	390

As at 31.12.2003 no bonds were converted.

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

**19. Deferred taxes
(assets and liabilities)**

Changes in deferred tax are as follows:

(million CHF)	2003	2002
Balance as at 01.01.	-205	-169
Conversion differences and other movements	-1	-8
Income statement (note 5)	-15	-28
Tax debited/credited to equity	0	0
At 31.12.	-221	-205

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

Temporary differences for which no deferred tax has been recognized principally concern carryforward tax losses which are not included in the consolidated statements. These amounted to CHF 106 million at 31.12.2003 (prior year CHF 100 million). Deductible temporary differences and tax credits which were not included in the calculation of deferred taxes amounted to CHF 6 million (CHF 20 million at 31.12.2002).

Approximately 40% of carryforward tax losses expire in six years (50% in 2002). For the remainder, the expiry is later.

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

Deferred tax assets

Source (million CHF)	2003	2002
Reported losses/tax credits	16	16
Non-current assets	20	25
Current assets	72	85
Short-term debts	3	8
Provisions	4	5
Long-term debts	4	3
Total	119	142

Deferred tax liabilities

Source (million CHF)	2003	2002
Non-current assets	-100	-104
Current assets	-136	-140
Short-term debts	-1	-1
Provisions	-103	-100
Long-term debts	0	-2
Total	-340	-347

Deferred tax assets and liabilities are offset between 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)	2003	2002
Deferred tax assets	96	109
Deferred tax liabilities	-317	-314
Total net	-221	-205

**20. Retirement benefit
obligations (post-
employment benefits)****Defined benefit plans**

The following table shows the financial situation of the principle pension plans under the heading of defined benefit plans. Swiss pension funds, 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	2003	2002
	million CHF	million CHF
Present value of funded obligations	-2 651	-2 683
Fair value of plan assets	2 623	2 390
Liability surplus	-28	-293
Unrecognized actuarial difference	54	320
Present value of unfunded obligations	1	2
Unrecognized past service cost	1	1
Value adjustment	-45	-45
Net liability in the balance sheet	-17	-15
Amounts recognized in the income statement		
Current service cost	-70	-80
Interest cost on obligations	-102	-110
Expected return on plan assets	73	155
Net actuarial losses/gains recognized current year	-4	-1
Past service cost	-1	-72
Employee contributions	46	46
Change in adjustment	0	6
Total reported in staff costs	-58	-56
Movement in the net asset/liability recognized in the balance sheet		
Net asset/liability at 1 January	-15	-13
Net expense recognized in the income statement	-58	-56
Employer contributions paid	56	54
Net asset/liability at 31 December	-17	-15
Actual return on plan assets		
Expected return on plan assets	73	155
Actuarial difference on plan assets	202	-517
Actual return on plan assets	275	-362
Principal actuarial assumptions used		
	2003	2002
	%	%
Discount	1.0-6.5	1.0-6.5
Expected return on plan assets	2.7-8.5	3.0-8.5
Salary increases due to inflation	1.0-4.5	1.0-4.5
Pension index	0.0-2.9	0.0-2.4

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

The sharp increase in assets is principally due to the excellent actual rates of return.

Moreover, the investments made by the principal Swiss retirement funds, calculated according to the legal directives relative to professional pension funds, are covered.

This heading also includes CHF 10 million (prior year CHF 4 million) which corresponds to other commitments to staff abroad.

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 2003, these contributions amounted to CHF 1 million (CHF 1 million in 2002).

21. Stock option plan

When the group of investors known as the Hayek Pool took control of the Swatch Group, a block of shares was reserved in 1986 for a management stock option plan. At 31 December 2003, this portfolio contained 3 742 200 registered shares (prior year 3 962 966). In 2003, 220 766 registered shares were issued at a preferential price of CHF 4.00 per registered share, according to the following details:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/ payup
2001	60 336	179	2003
2002	74 440	196	2003
2003	85 990 ¹⁾	206	2003
Total	220 766		

¹⁾ Including 3 780 registered shares attributed to seven managers in connection with an extraordinary transaction relating to the takeover of EM (US) Design, Inc., Colorado by EM Microelectronic-Marin SA.

In addition, the Group gave participating managers the following options to subscribe in future to additional registered shares at the following preferential prices:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/ payup
2002	75 848	203	2004
2003	84 549	206	2004
2003	84 738	206	2005
Total	245 135 ¹⁾		

¹⁾ Including 6 476 registered shares attributed to the seven managers, as mentioned above.

Neither the members nor the Chairman of the Board of Directors have ever received options or shares under this plan.

In 2003, the members of the Executive Group Management Board and the Extended Group Management Board, with the exception of the Chairman and Delegate of the Board of Directors, received 121 769 registered shares (prior year 107 736) at the preferential price of CHF 4.00 per registered share, according to the following details:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/ payup
2001	32 450	16	2003
2002	41 611	19	2003
2003	47 708	19	2003
Total	121 769		

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following rights to subscribe in future to additional registered shares at preferential prices have been given to this group of beneficiaries:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/ payup
2002	41 633	19	2004
2003	47 708	19	2004
2003	47 734	19	2005
Total	137 075		

Neither the members nor the Chairman of the Board of Directors have ever received options or shares under this plan.

22. Trade and other payables and accrued expenses

This position decreased by CHF 11 million to CHF 567 million. These liabilities include the following debts and accruals:

(million CHF)	2003	2002
Debts and accruals on purchase of goods and services	225	223
Salaries and social security contributions	81	92
Sales reductions	18	13
Advertising	69	59
VAT payable	18	26
Taxes	40	39
Advances received	4	5
Other debts and accrued charges	112	121
Total	567	578

Accrued expenses include all charges relating to the current period not yet invoiced by third parties to companies within the Group. The main items relate to accrued staff costs, advertising costs and, for certain subsidiaries, to accrued tax expense for the current year. These accrual positions increased CHF 8 million from CHF 251 million (end of 2002) to CHF 259 million at the end of 2003.

23. Cash generated from operations

	2003 million CHF	2002 million CHF
Net income	492	494
Minority interest	5	6
Taxes	96	110
Depreciation of tangible assets	185	183
Amortization of intangible assets	27	24
Impairment charge	4	3
Profit/loss on sale of fixed assets	-4	-4
Fair value gains/losses on available-for-sale investments	-10	5
Interest income	-12	-20
Interest expense	13	11
Changes in working capital (without liquid funds):		
- Inventories	-47	-117
- Trade and other receivables	4	-51
- Assets held for sale	2	-1
Changes in short-term debt:		
- Trade payables and other current liabilities	-39	23
Changes in provisions	-14	-4
Changes in pensions and other retirement benefits	8	10
Cash generated from operations	710	672

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. Company acquisitions

Effective 1 January 2003, the Swatch Group acquired 100% of the capital of Sokymat Automotive GmbH in Germany. In 2002, the Group acquired Rubattel & Weyermann SA, Switzerland.

The breakdown of net assets and goodwill related to these acquisitions is as follows:

(million CHF)	2003	2002
Cash expended	37	9
Fair value of acquired net assets	0	-5
Goodwill	37	4
Cash and cash equivalents	0	3
Tangible assets	10	4
Inventories	1	1
Receivables	3	1
Debts	-14	-4
Fair value of acquired net assets	0	5
Total purchase value	37	9
Less: cash and cash equivalents acquired	-0	-3
Cash flow as a result of acquisitions	37	6

25. Derivative financial instruments

An overview of all contract values and replacement values of derivative financial instruments on precious metals and currency positions is shown below.

Contract values and replacement values for financial instruments pertaining to the parent company are shown in the annex to the financial statements of the Holding on page 152. Only third-party values are a factor for the Group accounts.

Type (million CHF)	Contractual value	Positive replacement value	Negative replacement value
Forward contracts	766	3.4	-5.6
Options	143	8.1	
Total at 31.12.2003	909	11.5	-5.6
Total at 31.12.2002	380	5.0	-1.0

The increase in contract value compared to the prior year was due to a higher coverage ratio on future receipts in the principal foreign currencies. This resulted in a positive net replacement value at 31.12.2003 of CHF 5.9 million on the values of contracts and options mentioned above.

As in the prior year, no cover operations designated as cash-flow hedges existed.

Fair value and other reserves

(million CHF)	Cash flow hedging reserves	Derivative instruments (frozen)	Paper securities available- for-sale	Convertible loan
Balance at 01.01.2002	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	
Balance at 31.12.2002	0	-1	-113	0
Balance at 01.01.2003	0	-1	-113	0
Recognized in the income statement			-4	
Deferred taxes on amounts recognized in the income statement				
Fair-value valuation			40	16
Deferred taxes on fair-value valuation			-6	
Balance at 31.12.2003	0	-1	-83	16

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. Commitments, contingent assets and liabilities

Guarantees and cautions

Guaranties to third parties for guaranteeing the commitments of the Group's companies were less than CHF 1 million at the end of 2003 (CHF 1 million at 31.12.2002).

The total amount of current assets pledged by Group companies to guarantee their commitments, amounted to CHF 3 million (CHF 8 million at 31.12.2002).

Leasing, rental and other commitments

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

(million CHF)	2003	2002
Less than 1 year	50	31
From more than 1 year to less than 5 years	118	92
More than 5 years	89	69
Total	257	192
Proportion of contracts (% of total amount)		
- With renewal option	60.2	41.1
- With advanced purchase option	0.5	0.6
Maximum risk (% of total amount)		
- Less than	84.9	89.9

Rental contracts presented in the 2002 Annual Report relate for the most part to Group companies located in Asia. The figures in the following table also include all rental contracts relating to buildings, an important part of which relates to the Group's Retail activities, as well as all other simple rental contracts open at 31.12.2003. Figures for 2002 were adjusted accordingly. Leasing costs amounting to CHF 48 million (prior year CHF 29 million) were recognized in the 2003 results. The part identified as such of contracts which can be terminated in a time limit of less than or equal to 12 months represents CHF 61 million at 31.12.2003 (CHF 56 million in 2002). A subleasing clause is included in a large number of rental contracts for retail stores. In addition, it is possible that the Group can, if necessary, negotiate termination of a contract at conditions much lower than the total commitment provided for in the initial contract.

Other commitments entered into by the Group and open at 31.12.2003 amount to CHF 8 million (prior year CHF 8 million). These 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 parties

In 2003, the Hayek Group invoiced CHF 12.6 million (prior year CHF 7.8 million) to The Swatch Group, mainly in relation to assistance given to the Group's General Management in the following activities:

- Audits, feasibility studies and process optimization including strategic plan for manufacturing in the Vallée de Joux	CHF 3.2 million
- Supplying managers and filling important missing functions	CHF 2.9 million
- Managing construction projects	CHF 2.4 million
- Introducing cost calculation systems in production companies	CHF 0.9 million
- Supplying support to projects in the materials and surface treatment technology branches	CHF 0.7 million
- Store rental in Cannes city centre (France) in a building belonging to a Hayek Group subsidiary	CHF 0.3 million
- Supplying various services relating to evaluation of investment projects, cost control, IT consulting, due diligence monitoring in acquisition projects, etc.	CHF 2.2 million

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition, CHF 5.2 million was paid out to Hayek Group companies for Group management contracts (prior year CHF 5.2 million). 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 remunerations.

One of the Group's minority share companies based in Singapore supplied the Group with marketing and special events services valued at CHF 2.4 million (prior year CHF 3.4 million). 93% of the amount is rebilling only, as this company organizes the services of external specialists, and rebills these costs.

Procurement of goods and services from associated companies is as follows:

(million CHF)	2003	2002
Procurement of goods and sub-contracting:		
- François Golay SA	3	3
- Terbival SA	2	2
Total	5	5

Sales of goods and services to the associated companies mentioned above, as well as the positions still open with respect to these partners at the end of 2003 and 2002 represent less than CHF 1 million.

Group Management Board and Board of Directors: remuneration, shareholdings and loans

The total amount of remuneration of the executive members of the Board of Directors, as well as the Group Management Board, including the Extended Group Management Board, amounted to CHF 17.8 million in the past year (prior year CHF 16.1 million), of which CHF 7.9 million was in salaries and CHF 9.9 million in performance and result-dependant bonuses for the preceding year, with no compensation given to the Hayek Group relating to its company management mandate. There were no changes to report for 2003 in this group of managers.

In 2003, CHF 0.6 million (unchanged from prior year) was paid to non-executive members of the Board of Directors.

Compensation for former members of governing bodies

No compensation was paid to former members of governing bodies.

Share allotment in the year under review

Under the management stock option plan mentioned under note 21, 143 150 options to subscribe to registered shares at an issue price of CHF 4.00 each (124 855 at CHF 4.00 in 2002) were issued to members of the Executive Group Management Board, as well as the Extended Group Management Board. One third of these could be subscribed, paid up and claimed immediately, and another third in one and two years respectively.

Neither the members nor the Chairman and Delegate of the Board received any options or shares from this plan.

Share ownership

All executive members of the Board of Directors and members of the Group Management Board, as well as related parties, held directly or indirectly 54 306 703 registered shares and 91 634 bearer shares or 31.9% of the entire votes at 31.12.2003 (prior year 31.8%).

In addition, all non-executive members of the Board of Directors, as well as related parties, held 14 998 910 registered shares and 365 500 bearer shares or 9.0% of the votes at 31.12.2003 (prior year 8.8%).

Details on principal shareholders are given in note 16 in the annex to the financial statement of the Holding.

Loans to members of the governing bodies

The employees of the Company have the possibility to take out a mortgage loan with the Swatch Group Pension Fund for the construction or acquisition of (primary residence) properties in Switzerland.

The conditions of these mortgage loans are set by the Swatch Group Pension Fund Foundation Board. These conditions are applied equally to all employees of the Swatch Group. At the end of 2003, three such loans had been granted to members of the Group Management Board for a total amount of CHF 1.6 million (in 2002, three loans for a total amount of CHF 1.4 million). Furthermore, at the end of 2003, The Swatch Group USA Inc. had granted a loan in the amount of USD 0.1 million (USD 0.7 million at 31.12.2002) to the manager of this subsidiary (who is also a member of the Extended Group Management Board). This loan is secured by a mortgage and bears interest at 6.25%.

28. Post-closing-date events

No significant new event likely to modify the valuation of the financial statements for 2003 was indicated at the time of finalizing this report.

THE SWATCH GROUP COMPANIES – as at 31.12.2003

Company name, Registered offices	Field of Activity	Share capital in millions	Swatch Group Shareholding (%)	Consoli- dation	Division
EUROPE					
SWITZERLAND					
The Swatch Group SA, Neuchâtel	Holding	CHF 137.06			▼
Asulab SA, Marin-Epagnier	Research and development	CHF 0.10	100	●	▼
Atlantic Immobilien 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, Grenchen	Watches, movements and components	CHF 6.20	100	●	▲
Farco SA, Le Locle	Real estate	CHF 2.00	100	●	▼
François Golay SA, Le Brassus	Manufacture of 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, Le Crêt-du-Locele	Watch cases	CHF 0.60	100	●	▲
Manufacture Ruedin SA, Bassecour	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	●	◆
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	●	▼
SSIH Management Services SA, Biel	Inactive	CHF 0.05	100	●	▼
Swatch SA, Biel	Watches	CHF 2.00	100	●	■
Swatch Telecom SA, Biel	Communication	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 Immeubles SA, Neuchâtel	Real estate project and property management	CHF 0.50	80	●	▼
The Swatch Group Les Boutiques SA, Lausanne	Retailing	CHF 3.00	100	●	■
The Swatch Group Management Services SA, Biel	Services and licences	CHF 0.05	100	●	▼
Terbival SA, Courchapoix	Watch case polishing	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	●	▲
Valdar SA, L'Orient	Watch components	CHF 0.05	100	●	▲

Legend: ● Fully consolidated
○ Equity method
○ Proportionally consolidated (IV)

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

THE SWATCH GROUP COMPANIES – as at 31.12.2003

Company name, Registered offices	Field of Activity	Share capital in millions	Swatch Group Shareholding (%)	Consoli- dation	Division
GERMANY					
Altweiler GmbH, Lörrach	Real estate	EUR 0.03	95	●	▼
ETA Uhrwerke GmbH, Pforzheim	Tools	EUR 0.03	100	●	▲
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	■
Sokymat Automotive GmbH, Reichshof-Wehnraht	Transponders	EUR 0.10	100	●	◆
Swiss Prestige Uhren Handel GmbH, Reutlingen	Inactive	EUR 0.08	100	●	■
The Swatch Group Customer Service (Europe) GmbH, Glashütte	After sales service	EUR 0.50	100	●	■
The Swatch Group (Deutschland) GmbH, Eschborn/Niederhöhnstadt	Distribution (Breguet, Blancpain, Léon Hatot, Omega, Rado, Longines, Tissot, Certina, Pierre Balmain, cK Watch, Swatch, Lasag, Renata, EM Marin, Micro-Crystal)	EUR 1.28	100	●	■
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn/Niederhöhnstadt	Retailing	EUR 0.20	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 SA, 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	100	●	▲
Frésard Composants SAS, Charquemont	Watch components	EUR 1.80	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 12.10	100	●	■
Universo France Sarl, Besançon	Watch hands	EUR 0.28	87	●	▲
GREAT BRITAIN					
The Swatch Group (UK) Ltd, Eastleigh	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, Hamilton, cK Watch, Swatch, Omega Electronics)	GBP 2.00	100	●	■
The Swatch Group (UK) Les Boutiques Ltd, Eastleigh	Inactive	GBP 0.08	100	●	■
GREECE					
Alkioni SA, Athens	Retailing	EUR 0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution (Breguet, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, Certina, cK Watch, Swatch)	EUR 0.06	100	●	■
IRELAND					
SMH Ireland Ltd, Dublin	In liquidation	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, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Mido, Hamilton, Pierre Balmain, cK Watch, Swatch, Renata)	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, Luxembourg	Finance company	CHF1000.00	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) – Sociedade 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 31.12.2003

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 241.74	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, Glashütte, 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	Inactive	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, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, cK Watch, Swatch)	CNY 1.66	100	●	■
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution (Omega, Rado)	USD 0.20	90	●	■
Zhuhai SMH Watchmaking Co. Ltd, Zhuhai	Watches, movements, components	USD 5.25	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, Glashütte, Jaquet Droz, Léon Hatot, Omega, Rado, Longines, Tissot, Hamilton, Pierre Balmain, cK Watch, Swatch, ETA)	HKD 5.00	100	●	■
INDIA					
Swatch Group (India) Private Ltd, New Delhi	Distribution (Omega, Rado, Longines, Tissot, cK Watch, Swatch)	INR 0.50	100	●	■
JAPAN					
The Swatch Group (Japan) KK, Tokyo	Distribution (Breguet, Blancpain, Glashütte, Jaquet Droz, Léon Hatot, 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, Tissot, 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, Blancpain, Glashütte, Omega, Rado, Longines, Tissot, cK Watch, Swatch, Omega Electronics, Renata)	AUD 0.40	100	●	■

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

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

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 (income statement, balance sheet, statement of cash flows, statement of changes in equity and notes/pages 113 to 146) of The Swatch Group Ltd for the year ended 31 December 2003.

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

A. Stotz

R. Bächinger

Basle, 31 March 2004