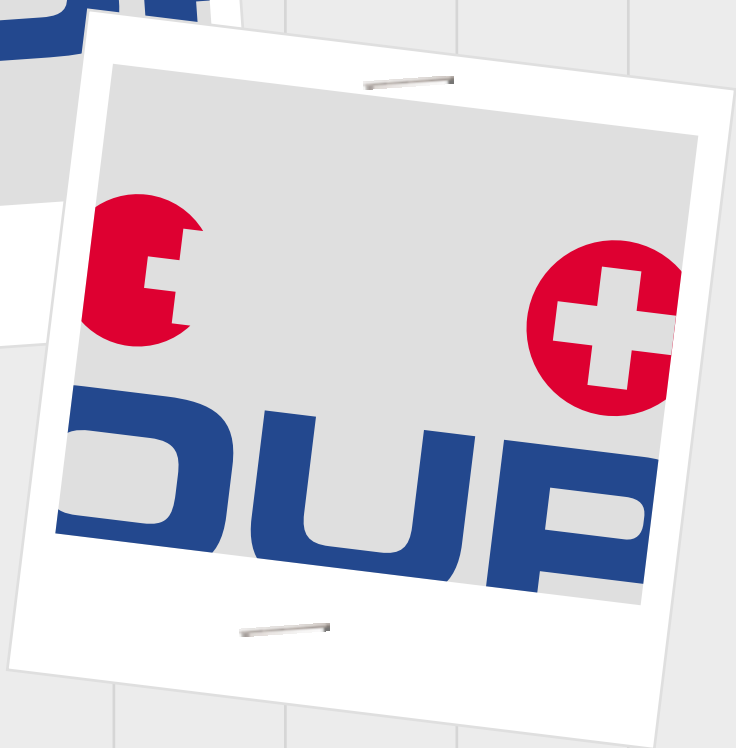
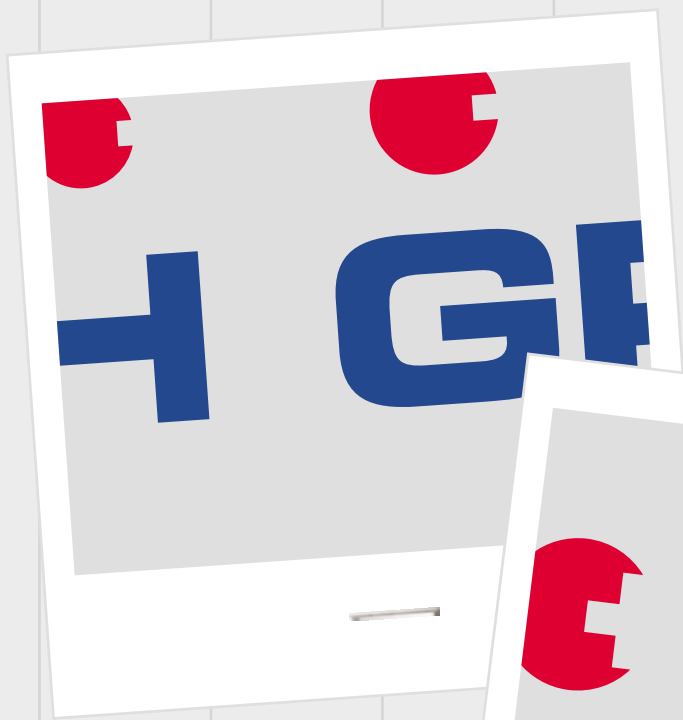


Consolidated Financial Statements

1998

- **Income Statement**
- **Balance Sheet**
- **Source and Application of Funds Statement**
- **Appendix**
- **Report of the group auditors**



Consolidated Financial Statements

Income Statement

	1998		1997	
	in million CHF	%	in million CHF	%
Gross sales	3 269	100.0	3 053	100.0
Sales reductions	-84	-2.6	-83	-2.7
Net sales ⁽¹⁾	3 185	97.4	2 970	97.3
Movements in inventories	132	4.0	109	3.6
Capitalized expenditures	60	1.9	49	1.6
Other operating income	23	0.7	21	0.7
Group performance	3 400	104.0	3 149	103.2
Material purchases ⁽²⁾	-868	-26.5	-788	-25.8
Other external charges ⁽³⁾	-133	-4.1	-119	-3.9
Wages and salaries ⁽⁴⁾	-770	-23.6	-716	-23.5
Social security costs ⁽⁴⁾	-216	-6.6	-204	-6.7
Depreciation of fixed assets ⁽⁵⁾	-185	-5.7	-188	-6.2
Depreciation of current assets ⁽⁶⁾	-14	-0.4	0	0.0
Other operating expenses ⁽⁷⁾	-772	-23.6	-726	-23.8
Operating income ⁽⁹⁾	442	13.5	408	13.3
Income from non consolidated participations	0	0.0	4	0.1
Net financial income ⁽¹⁰⁾	20	0.6	-13	-0.4
Extraordinary result ⁽¹¹⁾	-27	-0.8	-4	-0.1
Result before taxes	435	13.3	395	12.9
Taxes ⁽¹²⁾	-76	-2.3	-63	-2.0
Net income of consolidated companies	359	11.0	332	10.9
Minority interests	-2	-0.1	-3	-0.1
Net income ⁽¹⁴⁾	357	10.9	329	10.8

Consolidated Financial Statements

Balance Sheet

Assets	1998		1997	
	in million CHF	%	in million CHF	%
Intangible assets:				
– Intangible values	28	0.7	35	1.0
Tangible assets:				
– Land and buildings	271	6.5	272	7.5
– Plant and machinery	608	14.6	490	13.5
– Other fixtures and fittings	50	1.2	42	1.1
– Advances and constructions in progress	54	1.3	26	0.7
Financial assets:				
– Long term loans	2	0.0	4	0.1
– Investments	1	0.0	97	2.7
Fixed assets ⁽¹⁶⁾	1014	24.3	966	26.6
Inventories: ⁽¹⁷⁾				
– Raw materials and components	294	7.1	273	7.5
– Work in progress	251	6.0	240	6.6
– Finished goods	451	10.8	342	9.5
– Spare parts for Customer Service	107	2.6	96	2.6
Receivables:				
– Trade receivables ⁽¹⁸⁾	554	13.4	489	13.4
– Other receivables ⁽¹⁹⁾	204	4.9	214	5.9
Own shares (2nd line: share buy-back program) ⁽¹⁹⁾	360	8.6	0	0.0
Prepayments and accrued income: ⁽¹⁹⁾	81	1.9	111	3.1
Securities: ⁽²⁰⁾				
– Own shares	513	12.3	344	9.5
– Other marketable securities	189	4.5	91	2.5
Liquid funds: ⁽²¹⁾				
– Cash at bank and on hand	148	3.6	467	12.8
Current assets	3 152	75.7	2 667	73.4
Total assets	4 166	100.0	3 633	100.0

Consolidated Financial Statements

Balance Sheet

Liabilities and shareholders' equity	1998		1997	
	in million CHF	%	in million CHF	%
Shareholders' equity:				
– Subscribed capital	329	7.9	331	9.1
– Capital reserves	213	5.1	213	5.9
– Reserve for treasury shares	873	20.9	344	9.5
– Retained earnings	1 208	29.0	1 587	43.7
– Net income	357	8.6	329	9.0
Total shareholders' equity ⁽²²⁾	2 980	71.5	2 804	77.2
Minority interests	6	0.1	9	0.2
Provisions:				
– Tax provisions	205	4.9	83	2.3
– Other provisions	126	3.0	71	1.9
Total provisions ⁽²³⁾	331	7.9	154	4.2
Liabilities of more than one year:				
– Bonds issued and mortgaged debts	100	2.4	100	2.8
– Amounts owed to credit institutions	43	1.1	25	0.7
– Other long-term liabilities	9	0.2	4	0.1
Total long-term debts ⁽²⁴⁾	152	3.7	129	3.6
Short-term debts:				
– Amounts owed to credit institutions	252	6.1	87	2.4
– Trade payables	180	4.3	182	5.0
– Other short-term debts	88	2.1	54	1.5
Accruals and deferred expenses:	177	4.3	214	5.9
Total short-term debts ⁽²⁵⁾	697	16.8	537	14.8
Total liabilities and shareholders' equity	4 166	100.0	3 633	100.0

Consolidated Financial Statements

Source and Application of Funds Statement

(After extraction of the restatement)

	1998 in million CHF	1997 in million CHF
Net income ⁽¹⁴⁾	357	332
Depreciation of fixed assets ⁽⁵⁾	185	188
Cash-flow ⁽¹⁴⁾	542	520
Variation in current assets (without liquid funds)		
– Inventories ⁽¹⁷⁾	–114	–60
– Trade receivables ⁽¹⁸⁾	–65	–62
– Other receivables ⁽¹⁹⁾	40	–42
Increase in short-term debts		
– Short-term liabilities ⁽²⁵⁾	–5	73
Variation in provisions ⁽²³⁾		
– Tax provision	14	0
– Other provisions	–3	–9
Flow of funds from operational activities	409	420
Divestment of tangible assets	9	32
Investment in tangible assets	–239	–183
Net investment in intangible assets	–23	–18
Securities ⁽²⁰⁾	–267	–397
Variation in financial fixed assets		
– Long-term loans	2	–3
– Investments	96	52
Flow of funds from investment operations ⁽¹⁶⁾	–422	–517
Dividend paid ⁽²²⁾	–61	–60
Goodwill and consolidation adjustment ⁽²²⁾	0	–7
Buy-back of own shares (2nd line, with a view to reducing capital)	–360	0
Reduction of share capital (by decision of June 98 General Meeting)	–58	0
Minority's part	–3	0
Variation in debts		
– Long-term liabilities ⁽²⁴⁾	23	6
– Short-term liabilities ⁽²⁵⁾	165	–140
Flow of funds from financial operations	–294	–201
Exchange rate difference and miscellaneous ⁽²²⁾	–12	–11
Decrease/Increase of disposable assets	–319	–309
Variation of liquid funds		
– Liquidity as of 01.01.98/97	–467	–776
– Liquidity as of 31.12.98/97	148	467
Liquidity as of 31.12.98/97	148	467
Securities included in current assets		
– Own shares	513	344
– Other marketable securities	189	91
Total Liquidity	850	902

Consolidated Financial Statements

Appendix

Principles governing the establishment of consolidated financial statements

The 1998 financial statements are based on the following:

- application of the principles of consolidation, valuation and presentation as defined in the fourth and seventh directives of the European Union;
- establishment of the accounts also in conformity with the Swiss Accounting and Reporting Recommendations laid down by the Swiss Foundation for Accounting and Reporting Recommendations (ARR). Hence, the consolidated financial statements are presented in line with the requirements of the Swiss Stock Exchange quotation regulations;
- some changes have been made in the criteria for valuation in order to comply with the requirements of the Swiss Accounting and Reporting Recommendations (ARR) as well as to largely adapt the presentation to International Accounting Standards (IAS). This involves the change from direct costs to integral production costs in relation to valuation of stocks, taking deferred taxes into full account using specific differentiated rates for each company/sector concerned, setting up exhaustive provisions based on detailed considerations per company concerning holidays and guarantees, and the revision of certain lifetimes of tangible assets. These adjustments have resulted in a theoretical revision of the 1997 balance sheet as well as a detailed analysis of their effect on the financial statements for 1998. The correction of values corresponding to the balance sheet dated 31.12.97 and drawn up on the basis of the new criteria has been achieved through a restatement of shareholders' equity and is dealt with in detail on page @308 of the present report.

Information relating to scope of consolidation

Establishment of the consolidated accounts

The consolidated accounts have been drawn up on the basis of the financial statements in accordance with the accounting principles and directives laid down for the entire Swatch Group in a financial manual distributed to all financial managers. The principles of valuation and presentation conform to the stipulations of the fourth and seventh directives of the European Union, and are in harmony with ARR standards. The main accounting and consolidation principles are specified below.

Scope of consolidation

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

Included in the Group's consolidation are 97 legal entities, the same number as in 1997. Nevertheless new companies have been integrated (namely a service company in Shanghai which provides customer services for our horological products and a purely administrative company in Italy). One old company in Thailand was liquidated after being dormant for some time, and another small American company was merged with The Swatch Group (US) Inc.

Through a system of divisionalization, whereby several similar activities are administered within a single legal entity, these 98 companies are segmented into 490 reporting units (445 at the end of 1997) which form the basis for the Group consolidation. This increase in the number of homogeneous units stems from a continuous effort to further enhance transparency in information and fine-tune techniques of measuring the performance of management teams in charge of the Group's various activities.

The exhaustive list of consolidated companies appears on pages @391 to @401 of this annual report.

In 1998, only 6 inactive companies and 3 small real estate companies have been excluded from the scope of consolidation. As they have no sales and their total shareholders' equity is below CHF 1 million, their exclusion has no material effect on the Group's consolidation. Furthermore, these companies did not pay out any dividends during the year under review.

Information relating to consolidation principles

Method of consolidation

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

Consolidated Financial Statements

Appendix

All assets and liabilities in the Group, as well as income and expenses relating to operations between the companies included in the consolidation, have been offset. Dividends from the previous year's results distributed among companies within the Group have been eliminated in the consolidated income statements. Unrealized margins on inventories resulting from deliveries made among Group subsidiaries are eliminated at the different levels of consolidation.

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

Date of closure

The accounts were closed on December 31, 1998. For all consolidated companies, the financial year was the same as the calendar year.

No new significant event modifying the valuation of the 1998 financial statements had arisen at the time of finalization of the text of this annual report.

Foreign currency exchange rates

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

	Average rate 1998 CHF	Daily rate as at 31.12.98 CHF	Average rate 1997 CHF	Daily rate as at 31.12.97 CHF
1 ATS	0.1171	0.1170	0.1188	0.1155
1 AUD	0.9131	0.8460	1.0700	0.9525
100 BEF	3.9900	3.9800	4.0500	3.9400
1 CAD	0.9755	0.8900	1.0452	1.0150
1 DEM	0.8249	0.8230	0.8359	0.8130
100 ESP	0.9708	0.9700	0.9883	0.9600
1 FRF	0.2459	0.2450	0.2483	0.2430
1 GBP	2.4083	2.2925	2.3777	2.4075
1 HKD	0.1873	0.1780	0.1874	0.1877
100 ITL	0.0835	0.0831	0.0848	0.0827
100 JPY	1.1100	1.2100	1.1933	1.1200
1 NLG	0.7316	0.7305	0.7424	0.7210
1 SEK	0.1823	0.1700	0.1891	0.1840
1 SGD	0.8698	0.8340	0.9725	0.8650
1 USD	1.4528	1.3800	1.4515	1.4575

Information relating to valuation principles

No brands or patents have been valued on the balance sheet. License fees granting rights to new advanced technologies have been capitalized and written off over a minimum lifetime, which is currently fixed at 4 years. As in the past, the 1998 development costs relating to the automobile project have been partially capitalized. During the same financial year all the capitalizations accumulated at the end of 1997 relating to the automobile project and not covered by a reserve were written off completely. During 1998 no surcharge was paid upon acquisition of an investment (goodwill).

Intangible assets

Consolidated Financial Statements

Appendix

Fixed assets

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

Capitalized expenditures has been recorded on the balance sheet at full production cost without profit margin. The depreciation period of tangible assets has been defined for 68 types of objects. These criteria are applied throughout the Group. The lifetime of certain categories of production machinery has been revised in certain cases taking into account minimum lifetime based on experience over the past ten years. In order to avoid using a false future value for depreciation, we adjusted figures for the end of 1997 and 1998 to obtain a theoretical value which takes into account past depreciation and remaining values based on new lifetime estimates for assets. Estimated lifetimes have been taken into account according to the following categories in calculating straight-line depreciation:

- machines used for shift work, tools, motor vehicles: 4–6 years
- measuring instruments, IT, installations for machining by non-mechanical processes, automation equipment: 5–7 years
- machines and production equipment for mechanical systems, furniture and workshop equipment: 10-15 years
- factory buildings: 30 years
- administrative offices: 40 years
- residential properties: 50 years

For balance sheet valuation, the accounts have been based on the principle of the cost of acquisition. As no valuation to current value has been applied, no re-evaluation of fixed assets which could affect total shareholders' equity has been made.

Securities

Marketable securities have been valued at market value at closure. Own shares repurchased on the 2nd line with a view to reducing share capital have been included at purchase value.

Inventories

As from 1998 all inventories of semi-finished and finished products have been valued at the Group's total production cost, or at the market price if lower. Products difficult to sell have been written off or covered by specific provisions. Valuation has been made utilizing the average price method. Only economically justified criteria have been considered in adapting the balance sheet value of the inventories. Stocks of spare parts for customer services have only been valued for the units with a probable future demand, based on historical consumption. The changeover to valuation of stocks based on total production cost necessitated the theoretical revision of the balance sheet at the end of 1997 (restatement by adjusting shareholders' equity). Changes in inventories, as seen in the operating account, were calculated according to comparable bases and taking into account total production costs.

Receivables

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

Provisions

Provisions were constituted according to uniform criteria economically justified and analogous to those applied during the previous period. Partial provisions for holidays and guarantees were completed in order to meet the overall needs of the whole Group. Guarantees were calculated to cover a period equivalent to two years and in line with proposed European legislature. The additional provisions needed at 31.12.97 were constituted by adjusting shareholders' equity, while changes in requirements were allowed for in the operating account. The provision for deferred taxes was updated taking into account the specific needs of the various companies within the Group and by applying specific rates for the companies or sectors concerned. The restatement was carried out according to the same criteria as those applied in relation to holidays and guarantees.

Shareholders' equity

Some changes in the valuation principles were made by adjusting shareholders' equity. This became necessary in order to fully meet the requirements of Swiss ARR norms and with a view to complying as far as possible with IAS norms. Details of the effects on consolidated shareholders' equity can be found on page @308 of the present report.

Minority interests are no longer included as statistical information at the end of the operating account but have been integrated into the consolidated income statement.

Consolidated Financial Statements

Appendix

Relations with associated third parties

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

Segment information

A new information section has been incorporated into the notes on the consolidated accounts (cf. point 28 of the appendix).

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

As far as concerns secondary segment information, including geographical distribution, this includes data by continent concerning number of pieces sold, value of sales and distribution of staff. This information by geographical area is presented as before under point 1 of the Notes on the consolidated accounts.

Notes on the consolidated accounts

1998 was once again marked by an increase in both sales and results, despite some difficulties on certain Asian markets.

Gross sales reached CHF 3 269 million, representing a rise of 7.1% over the figure for 1997. Operating profit increased by 8.3% to CHF 442 million. Net income after deduction of minority interests rose by 8.5% to a total of CHF 357 million.

Taking into account the adjustments made following the modification of certain valuation criteria and affecting mainly

- valuation of inventories at full cost,
- the calculation of deferred taxes now taking into account differences in valuation of realty (so far considered as permanent differences), as well as differentiated rates per subsidiary,
- the modification of the lifetime of certain types of equipment, taking into account real lifetimes recorded in statistics, and
- the integral inclusion of provisions such as that for work under warranty, which now covers a potential risk of two years,

results for 1997 and 1998 are not directly comparable. Although the figures itemized in the balance sheet are quite high (cf. section concerning the evolution of consolidated shareholders' equity), the estimated negative effect on net income for the Group in 1997 amounts to around CHF 2 million and is therefore not of major importance for the notes below as a whole.

1. Net sales

Taking into account sales reductions, net turnover rose by 7.2% compared with 1997, namely by CHF 215 million.

The negative effect of changes in conversion rates between 1997 and 1998 for the various consolidated currencies resulted in a loss in sales of CHF 43 million in Asia, CHF 13 million in Europe and CHF 3 million in the USA. Unit sales of watches, movements and stepping motors developed as follows:

	1998	1997	Evolution
Total (million units)	118,8	116,1	+ 2,3%

It should be noted that there was a fall in the number of movements sold to third parties which is mainly due to sales of movements in Hong Kong where we restricted our range because of pressure on low-price calibers exerted by Japanese competitors. Once again, however, unit sales of watches on world markets rose considerably, despite all the difficulties encountered during the year under review.

Consolidated Financial Statements

Appendix

Breakdown of gross sales by product category

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

	1998	1997	Variation
Total unit sales: watches, movements, stepping motors (1000 units)	118 827	116 131	+ 2,3%
Sales: watches, movements, stepping motors (million CHF)	2 630	2 487	+ 5,8%
Sales: other (million CHF)	639	566	+ 12,9%
Total sales (million CHF)	3 269	3 053	+ 7,1%
Average price of watches and movements (CHF)	22.13	21.42	+ 3,3%

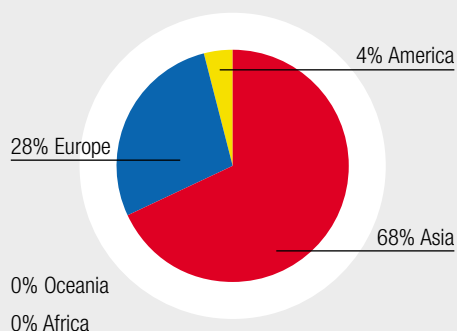
Total sales include sales of stepping motors amounting to 8.7 million units in 1998 and 6.4 million units in 1997.

Analysis by geographical area

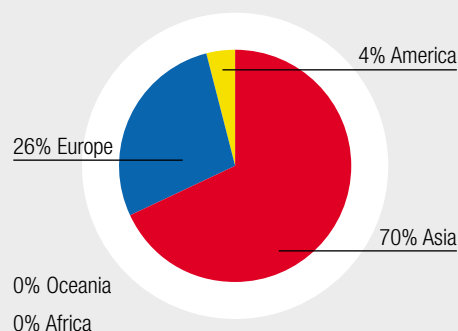
In view of the fact that our principal competitors publish no information concerning the geographical breakdown of their sales, we give below the breakdown of unit sales for watches, movements and stepping motors, as well as overall sales by continent. This breakdown does not necessarily reflect the final consumer destination, but rather the country of destination according to invoices, particularly in respect of movements sold in Switzerland and Hong Kong.

Pieces sold in Asia constitute mainly movements sold in Hong Kong from where the majority of the finished products manufactured by our customers are exported to the United States.

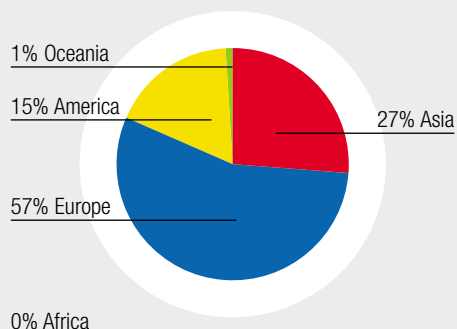
Units 1998



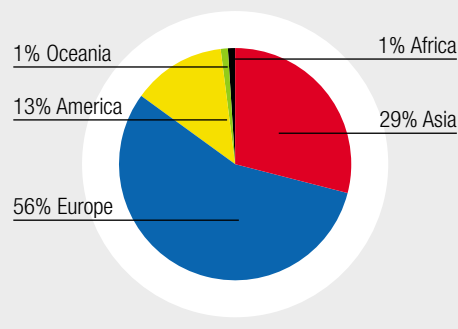
Units 1997



Values 1998



Values 1997



Consolidated Financial Statements

Appendix

2. Material purchases

Material costs rose by CHF 80 million, mainly as a result of the increase in production volume due to the success enjoyed by our main brands on all the important markets.

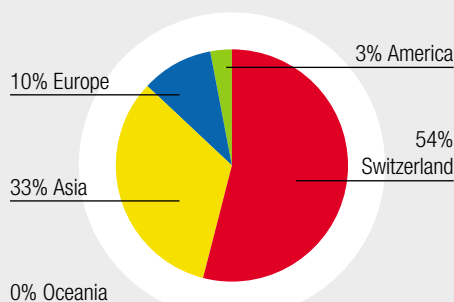
3. Other external charges

The cost of outsourced production operations developed in a similar way to that of material purchases, rising from CHF 119 million (in 1997) to CHF 133 million (in 1998).

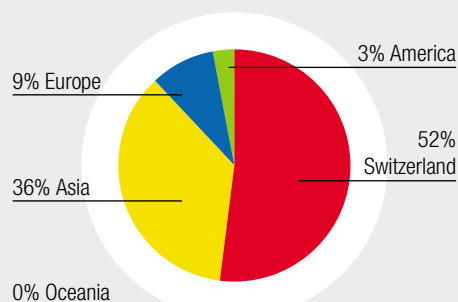
4. Wages, salaries and social security costs

In 1998 the average number of employees was 18 262. Staff numbers at closure expressed in number of contracts amounted to 17 815. The number of people employed in Switzerland rose by 282 mainly due to increased recruitment in the watchmaking production units as well as in the commercial and marketing sectors of the main watch brands. The drop in total staff employed outside Switzerland was 196 and affected principally the production and assembly units in Thailand and Malaysia, while in China staff numbers continued to increase. This development resulted in a total of 9 551 employees in Switzerland and 8 264 abroad. The geographical distribution of staff is shown below:

Employees 1998



Employees 1997



The breakdown by men and women and the year's average number of employees with an employment or apprenticeship contract were as follows:

	1998	1997
Men	7 676	7 420
Women	10 139	10 309
Total as at 31.12.	17 815	17 729
Average throughout the year	18 262	16 678

The average annual proportion of social security costs fell slightly to 28.1% (28.5% in 1997). Pension schemes were generally contracted outside the Group with legally independent institutions.

Total staff numbers and total salaries (including social security costs) of the members of the Board of Directors as well as senior managers responsible for the 490 operating units around the world were as follows:

	1998	1997
Number of senior managers	420	370
Total remuneration (in 1000 CHF)	82 955	68 302

5. Depreciation of fixed assets

Major investments have been made during the past three years. They mainly come under the heading of modernization and extension of production equipment and machinery, as well as for necessary replacements due to the fire in 1995 at the Fontainemelon production unit. As a consequence, depreciation of fixed assets in 1998 remained high, namely CHF 185 million.

Consolidated Financial Statements

Appendix

6. Depreciation of current assets

The cost of stabilizing obsolete inventories amounted to CHF 14 million in 1998 and had a negative effect on income. In 1997 the elimination of a sum of CHF 17 million was taken into account through a specific provision constituted during previous years as and when risks became evident.

7. Other operating expenses

This position, including among other things the cost of advertising, maintenance, rentals, sales and administration, travel and research and development, rose by CHF 46 million, or 6.3%, compared with the previous year. Following the rise in sales, investment in advertising approved by the Group once again rose significantly, the cost of advertising expressed as a percentage of sales remaining constant.

8. Research and development costs

All research and development costs have been charged directly against income, except for part of the costs incurred for the automobile project, in the amount of CHF 16 million.

In 1998 costs directly incurred through research and development throughout the Group amounted to CHF 96 million.

In this context it should be remembered that The Swatch Group is collaborating with different bodies in connection with specific fields of development. These include the Centre Suisse d'Electronique et de Microtechnique SA in Neuchâtel in relation to horological activities.

9. Operating income

The fact that operating income increased more quickly than the corresponding expenditures resulted in an operating profit of CHF 442 million, representing a rise of 8.3% over the previous year.

10. Net financial income

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

(in million CHF)	1998			1997		
	Income	Expenses	Net total	Income	Expenses	Net total
Interest income and expenses	26	-22	4	18	-7	11
Capital gains and losses	21	0	21	17	-18	-1
Exchange rate differences	26	-31	-5	35	-58	-23
Total	73	-53	20	70	-83	-13

Despite falling interest rates on the money markets net interest income generated a net revenue of CHF 20 million in place of the loss of CHF 13 million suffered in 1997. These net financial gains include net exchange rate losses of CHF 5 million (CHF 23 million in 1997).

11. Extraordinary result

Extraordinary expenses include mainly two large amounts. The first, CHF 12 million, corresponds to a reverse of assets linked to the automobile project (depreciation of old traction modules and prototypes initially designed for the 'Smart' project). The second, CHF 10 million, corresponds to a similar operation concerning old paggers for which production and commercialization have been finally abandoned. This item does not include any dividend paid out by companies not included in the scope of consolidation. Minority participation income represents less than CHF 0.1 million.

12. Taxes

Fiscal expenses rose by CHF 13 million, reaching CHF 76 million. This item includes expenses incurred by declared tax profits, the part relating to updating of deferred taxes in conformity with the development of valuation differences during the year under review, and the updating of non-recoverable withholding tax on dividend payments and interest on loans by foreign subsidiaries.

13. Share in the results of associated companies

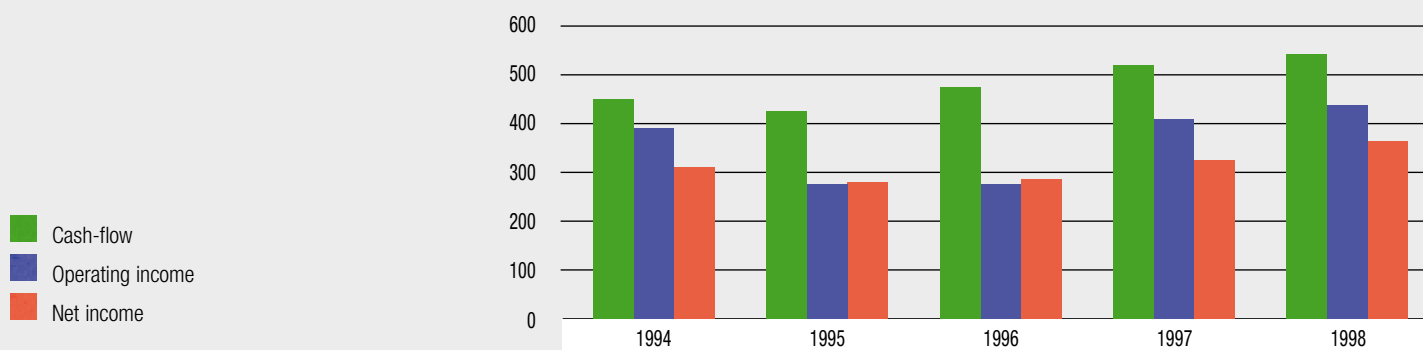
In pursuance of its policy of disinvestment in Micro Compact Car SA (Switzerland) and MCC Micro Compact Car France SA, a strategy initiated in 1997, The Swatch Group sold off the balance of its interests in these companies set up with Mercedes-Benz in the automobile sector. Since the amount relating to this position was zero in 1997 and 1998 the corresponding item in the operating account has been removed.

Consolidated Financial Statements

Appendix

14. Net income and cash-flow

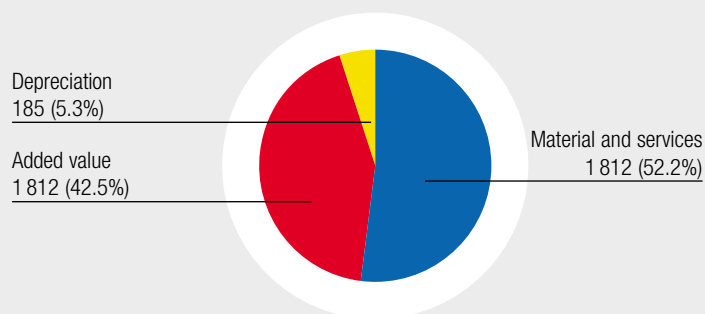
After deduction of minority interests, the consolidated net result for 1998 increased by 8.5% over the net result for 1997, reaching CHF 357 million. The changes made in the scope of consolidation between 1997 and 1998 had no material effect on the annual results. After deduction of minority interests cash-flow rose by 4.8% to reach an amount of CHF 542 million. Developments in the results and cash-flow can be visualized as follows for the past 5 years:



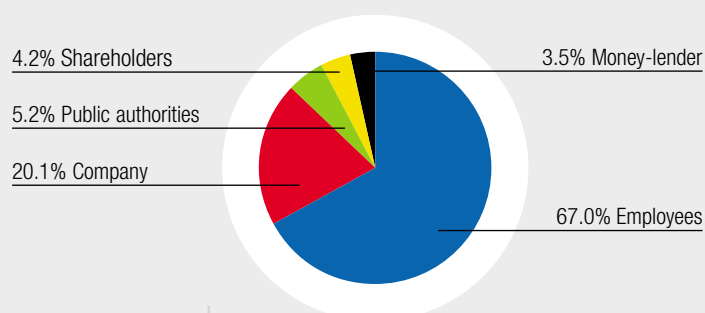
15. Analysis of added value

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

(in million CHF)	1998	1997
Overall Group performance	3 469	3 170
– Material and services	1 812	1 660
– Depreciation	185	188
= Net added value	1 472	1 322



The allocation of added value among the different beneficiaries at the end of 1998 was as follows:



Consolidated Financial Statements

Appendix

Consolidated balance sheet

The balance sheet total increased by CHF 533 million to reach CHF 4.2 billion. Shareholders' equity rose by CHF 176 million to a total of CHF 3 billion at the end of 1998, representing 72% of the total balance sheet (77% at the end of 1997).

The increase in the balance sheet total was affected in the amount of CHF 117 million by the fact that the valuation principles mentioned along with those governing the establishment of the consolidated accounts were modified. These changes resulted in an increase of the following items as per 1.1.98 (restatement):

- increase in inventories: CHF 38 mio
- increase in fixed assets: CHF 79 mio
- increase in tax provisions: CHF 109 mio
- increase in other provisions: CHF 57 mio
- reduction in shareholders' equity: CHF 49 mio

Notes on these changes are given under the various corresponding headings.

16. Fixed assets

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

Intangible assets included only CHF 20 million expenditure incurred in connection with the development of the automobile project, of which CHF 16 million were accrued during 1998. The other CHF 8 million is made up essentially of recoverable key-money paid to obtain strategic locations for Swatch stores.

The adjustment of lifetimes of some categories of equipment necessitated retroactively recalculating remaining values entered in the list of fixed assets. The re-evaluation of fixed assets was then posted as per 1.1.98 with the real calculation of the resulting new depreciation requirements. The change in values included in the restatement amounted to CHF 79 million, representing in effect values that have already been depreciated in the consolidated accounts but which should be depreciated again in the future in order to preserve the notion of permanence in the presentation of the results.

Machinery leased by the Group has been capitalized on the balance sheet if its unit value exceeds CHF 50 000.–, if the duration of the leasing contract is longer than 3 years, and if the object can be purchased upon expiry of the contract. At the end of 1998 there were only small contracts of this type, representing a total of CHF 311 000.– in all.

Property insurance

The fire insurance value of the fixed assets was as follows:

(in million CHF)	1998	1997
Real estate	1 246	1 240
Machinery and equipment	2 472	2 379
Total insurance value	3 718	3 619

It should be pointed out that the net value of the fixed assets (including land) in the balance sheet as per 31.12.98 represents only 26.4% of the insurance value.

17. Inventories

In order to improve transparency in relation to the different elements that make up our inventories, we have separated items involving spare parts for customer services which were formerly included under various headings according to the sector concerned (manufacturing companies, watch brand mother companies, watch distribution companies and non-horological companies). This new classification, applied for 1997 and 1998, allows a better analysis of development in the various categories of inventories.

Stocks increased by CHF 152 million as compared with the previous year, of which CHF 38 million are the result of the net effect of changing our valuation principle.

In effect, in order to apply the principle of valuing inventories at overall production cost as opposed to valuation at direct cost in the future, we revised all the items making up inventories, backdating to 1.1.98, by recalculating not only the effect of the re-evaluation, but also the effect on internal margins on inventories for all the products held by the Group. At the same time we redefined new requirements in stock abatements resulting from the new values thus obtained, in such a way that no artificial over-valuation occurred in relation to acceptable commercial values.

Consolidated Financial Statements

Appendix

Acquisition in fixed assets

a) Acquisition values

	Historical acquisition value	Currency diff.	Acqu. val. 31.12.97 adjusted as per rates	Invest- ments	Capita- lized expen- ditures	Divest- ments (sales)	Trans- fers & restatem. (*)	Historical acquisition value
(in million CHF)	31.12.97	Bal 98/97	31.12.98	1998	1998	1998	1998	31.12.98
Capitalized development expenses	31		31		16		2	49
Other intangible assets	20		20	6	1	-2	-1	24
TOTAL Intangible assets	51		51	6	17	-2	1	73
Land and buildings	625		625	16		-1	-4	636
Plant and machinery	1 612	6	1 618	120	36	-46	8	1 736
Other fixtures and fittings	160		160	23	4	-8	-2	177
Advances and fixed assets in progress	27		27	37	3		-12	55
TOTAL Tangible assets	2 424	6	2 430	196	43	-55	-10	2 604
Long-term loans	4		4			-2		2
Investments	100		100			-99		1
TOTAL Financial assets	104		104			-101		3
TOTAL FIXED ASSETS	2 579	6	2 585	202	60	-158	-9	2 680

b) Net Balance sheet values

	Historical acquisition value	Deprec. year to date	Currency diff.	Deprec. of divest./ transfers	Deprec.	Deprec. year to date & restatem.	Net balance sheet value	Net balance sheet value
(in million CHF)	31.12.98	31.12.97	Bal 98/97	1998	1998	31.12.98	31.12.97	31.12.98
Capitalized development expenses	49				-29	-29	31	20
Other intangible assets	24	-16				-16	4	8
TOTAL Intangible assets	73	-16			-29	-45	35	28
Land and buildings	636	-353		3	-15	-365	272	271
Plant and machinery	1 736	-1 122	-3	41	-123	-1 128	490	608
Other fixtures and fittings	177	-118		9	-18	-127	42	50
Advances and fixed assets in progress	55	-1				-1	26	54
TOTAL Tangible assets	2 604	-1 594	-3	53	-156	-1 621	830	983
Long-term loans	2						4	2
Investments	1	-3		3			97	1
TOTAL Financial assets	3	-3		3			101	3
TOTAL FIXED ASSETS	2 680	-1 613	-3	56	-185	-1 666	966	1 014

* The heading 'Transfers' includes entries and exits from the area of consolidation as well as transfers between different categories of balance sheet positions.
NB: Restatement 1997 in 1998 = 79 million CHF included under cumulated depreciation correction.

Consolidated Financial Statements

Appendix

18. Trade receivables

The payment terms of trade receivables from sales and services remained stable. Calculated on the basis of effective monthly sales, the corresponding ratio had risen to 54 days by the end of 1998 (53 days at the end of 1997).

Trade receivables value and bad debt provisions developed as follows:

(in million CHF)	1998	1997
Receivables	572	507
Bad debt provision	-18	-18
Net receivables	554	489

The bad debt provision represented 3.2% of trade receivables and covered all identified risks at closure.

19.1 Other receivables/ Prepayments and accruals

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

(in million CHF)	1998	1997
Fire at Fontainemelon	0	16
Advances	22	10
VAT to be recovered	91	94
Other taxes to be recovered	39	70
Defined financial expenses	2	2
Prepaid advertising	1	6
Miscellaneous receivables and other defined prepayments	130	127
Total other receivables, prepayments and accruals	285	325

19.2 Own 2nd line shares (share buy-back program with a view to reducing capital)

The total acquisition price for own shares repurchased on the 2nd line at the Swiss Stock Exchange amounted to CHF 418 million. A first part of CHF 58 million was used to cancel shares following the General Meeting of Shareholders on June 24, 1998. The balance on the balance sheet as per 31.12.98 amounts to CHF 360 million.

20. Securities

This position includes holdings of own shares of which a part is reserved for The Swatch Group Management Stock Option Plan. Negotiable shares have been valued at year-end rates while the value of the shares reserved for the Option Plan entered the previous year has been maintained. The 1998 consolidated development of The Swatch Group share portfolio can be summed up as follows:

	Registered		Bearer		Total
	1000 units	million CHF	1000 units	million CHF	million CHF
As at 1.1.98	1 869	286	72	58	344
Purchases	810	172	4	5	177
Sales	-31	-4	-16	-13	-17
Adapt. val.		7		2	9
As at 31.12.98	2 648	461	60	52	513

The other marketable securities include mainly equities amounting to CHF 72 million, bonds in the amount of CHF 92 million and investments in gold to a value of CHF 18 million. These values appear on the balance sheet at their year-end market value. This position also includes investments in France in the form of monetary SICAV. Liquid funds decreased by CHF 319 million, totalling CHF 148 million at year's end. Investments were made in the money markets in Swiss francs and other hard foreign currencies.

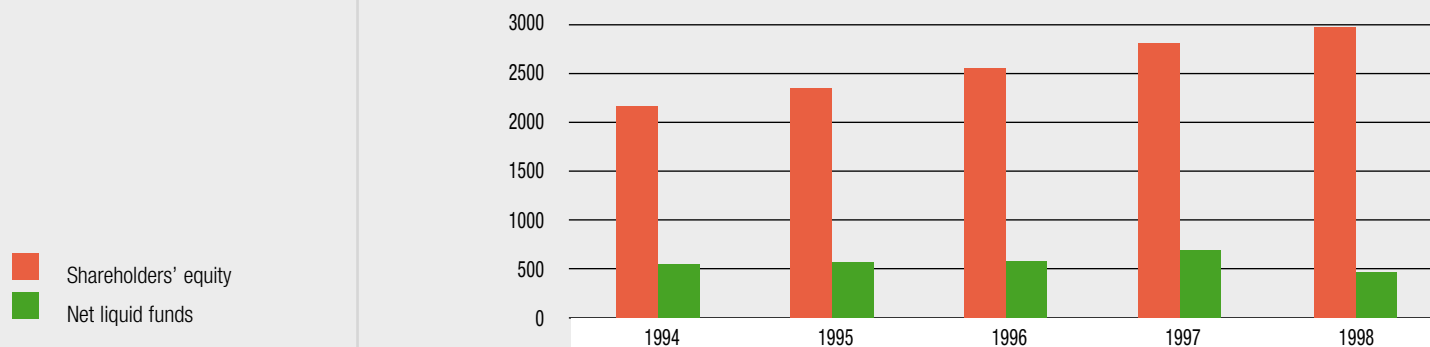
21. Liquid funds

Net liquid funds, comprising total liquid funds and securities minus bank and bond debts fell by CHF 235 million to CHF 455 million. This drop was largely influenced by the CHF 418 invested in the reacquisition of own shares (2nd line) with a view to reducing share capital.

Consolidated Financial Statements

Appendix

Compared with total shareholders' equity, net liquid funds have developed as follows over the last five years (in million CHF):



22. Shareholders' equity

Consolidated shareholders' equity rose by CHF 176 million and represented 72% of the balance sheet total, or CHF 2 980 million (77% or CHF 2 804 million at the end of 1997).

The effect of the change in valuation principles at 1.1.98 (restatement) achieved by adjusting shareholders' equity amounted to CHF 49 million and has already been dealt with under the general remarks concerning the Group's balance sheet.

The development of consolidated equity was as follows:

(in million CHF)	Share capital	Capital reserves	Own shares reserves	Profit reserves	Total shareholders' equity
Equity at 1.1.98	331	213	344	1 916	2 804
Effect of restatement 1.1.98				-49	-49
Capital reduction	-2			-56	-58
Dividend payment				-61	-61
Net income 1998				357	357
Adaptation of own shares reserve			529	-529	0
Exchange rate difference and other				-13	-13
Equity at 31.12.98	329	213	873	1 565	2 980

23. Provisions

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

Provisions for risks of a permanent nature having no effect on current expenditure during the year under review were constituted or adapted to the new requirements by restatement as per 1.1.98. These are mainly provisions for deferred taxes on latent reserves and provisions on guarantees allowing for an average guarantee period of two years. This adjustment generated an increase in the provision for deferred taxes of CHF 109 million and CHF 57 million for other provisions.

The fiscal provisions include a provision of CHF 203 million for taxes on undisclosed reserves, as well as a provision of CHF 2 million for withholding tax on dividends.

Other provisions amount to CHF 126 million and are reserved principally to cover risks attached to close-down of activities, reorganization of markets and deferred expenses.

24. Long-term debts

Long-term debts increased by CHF 23 million, following the obtention of special funds for the 'habillage' (cases and bracelets) sector and electronic parts production as part of the economic promotion program.

Consolidated Financial Statements

Appendix

The Group has an outstanding bond issue amounting to CHF 100 million, the details of which are given below:

Issued by Swatch Group Finance (Luxembourg) Ltd:

Convertible bond of CHF 100 million at 2%, 1995–10.23.2002, quoted on the Swiss Stock Exchange, security no. 412 260, not callable.

As in 1997, the consolidated balance sheet includes no liability of over five years. In addition, the Group has taken no loans from the SMH Pension Fund nor from any other Group funds.

25. Short-term debts

Short-term debts rose by CHF 160 million to CHF 697 million and can be broken down as follows:

(in million CHF)	1998	1997
Debts to banks	252	87
Debts and deferred charges on purchases and services	197	191
Salaries and social security costs	55	49
Sales reductions	11	15
Advertising	33	48
VAT due	18	17
Taxes	30	30
Advances received	8	6
Other debts and deferred charges	93	94
Total short-term debts	697	537

This position includes all deferred charges relating to the current year not yet invoiced by third parties to companies within the Group. The principal items concern advertising expenses as well as the current fiscal charge for certain subsidiaries. These positions fell by CHF 37 million to reach CHF 177 million at the end of 1998.

26. Contingent liabilities

As at the end of 1997, the consolidated accounts at the end of 1998 included no guarantees or securities.

27. Derivative financial instruments

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

Currencies

Financial derivatives on currencies are valued at market value. Transactions unfinished at 31.12.98 were entered into in order to provide cover according to the operational risks due to fluctuations in exchange rates and market prices. These transactions are detailed on page @456 of the appendix to the annual accounts of the Holding company. In the consolidated accounts internal operations within the Group have been eliminated, with the result that only unfinished transactions involving third parties are shown.

Other financial instruments

These include 'over-the-counter' options on registered shares in The Swatch Group Ltd contracted with third parties in order to ensure the permanent availability of the securities necessary for the integral conversion of the convertible loan issued in 1995 and maturing on 23.10.2002. The total contractual value of the two options included in this category amounts to CHF 152 million. The resulting replacement values present no risk at all and have not been included due to the details agreed with the contracting partner concerning the exercise of options. Furthermore, according to the options mentioned above, the Group will incur no losses as long as the rate for registered shares in The Swatch Group Ltd remains above CHF 145.– per share, regardless of the partial or total conversion of the convertible loan on which the transactions with third parties are based.

Consolidated Financial Statements

Appendix

28. Segment information

The primary segment information given in this section corresponds to the operational segmentation of the Group and gives an idea of structure according to types of activity. This structure comprises 4 segments, namely:

- Watches
- Horological production
- Electronic systems
- General services

Details of which segment the brands and activities fall under are provided in the table concerning the operational organization of the Group.

The figures relating to 1997 correspond mainly to those presented at the press conference held in 1998. Meanwhile, the automobile sector has been allotted to the 'electronic systems' category and all the consolidation adjustment positions have been allotted separately to the various segments, which has made it necessary to detail certain figures. The consequence of this systematic analysis of each position is that global adjustments not specific to one segment have been suppressed.

Assets have been allotted in their entirety to the segments. Net assets correspond to the assets mentioned above minus debts, accruals and deferred expenses and provisions.

For all margins on all the relevant products, the adjustments made to inventory values for margins not yet realized at Group level have been allotted to the segment holding the inventories at closure. This rule is justified by the fact that this segment is the only one which has any influence on the sale of the products concerned and thus the only one which can realize the entire margins.

Consolidated Financial Statements

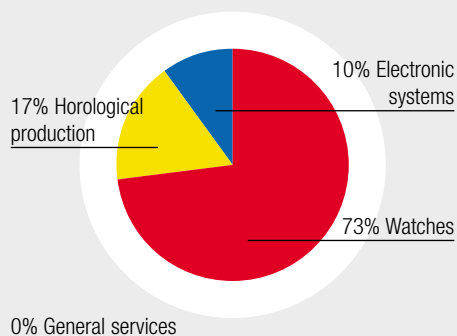
Appendix

Gross sales per segment

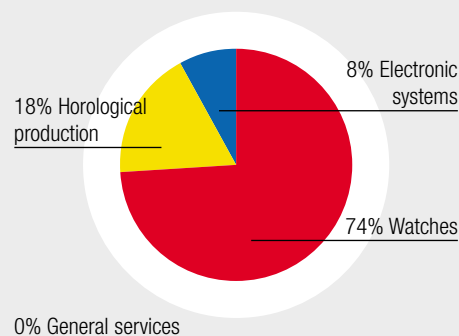
(in million CHF)	1998			1997		
	Third	Group	Total	Third	Group	Total
Watches	2 385	0	2 385	2 261	0	2 261
Horological production	560	686	1 246	540	688	1 228
Electronic systems	323	59	382	248	64	312
General services	1	10	11	4	10	14
Adjustments	0	-755	-755	0	-762	-762
Total	3 269	0	3 269	3 053	0	3 053

Breakdown of consolidated gross sales by segment

1998



1997



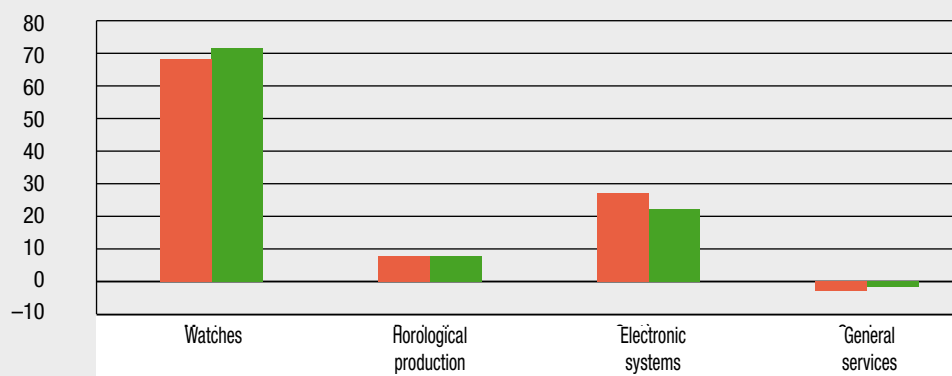
Consolidated Financial Statements

Appendix

Breakdown of operating result by segment

	1998			1997		
	million CHF	% of sales	% of total	million CHF	% of sales	% of total
Watches	301	12.6	68.1	292	12.9	71.6
Horological production	34	2.7	7.7	32	2.6	7.8
Electronic systems	120	31.4	27.1	91	29.2	22.3
General services	-13		-2.9	-7		-1.7
Total	442	13.5	100.0	408	13.4	100.0

Breakdown of operating result by segment (% of total)



Operational cash-flow by segment

	1998			1997		
	million CHF	% of sales	% of total	million CHF	% of sales	% of total
Watches	318	13.3	50.7	307	13.6	51.5
Horological production	168	13.5	26.8	176	14.3	29.5
Electronic systems	148	38.7	23.6	112	35.9	18.8
General services	-7		-1.1	1		0.2
Total	627	19.2	100.0	596	19.5	100.0

Consolidated Financial Statements

Appendix

Total assets by segment

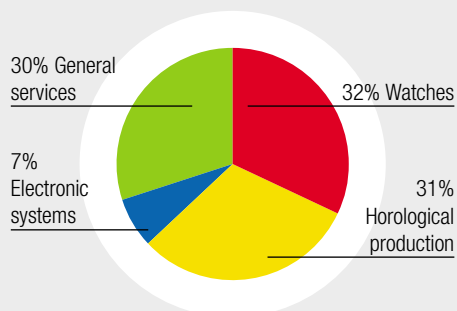
	1998	% of	1997	% of
	million	total	million	total
	CHF	total	CHF	total
Watches	1 487	35.7	1 439	39.6
Horological production	1 200	28.8	952	26.2
Electronic systems	290	7.0	262	7.2
General services	1 189	28.5	980	27.0
Total	4 166	100.0	3 633	100.0

Total net assets by segment

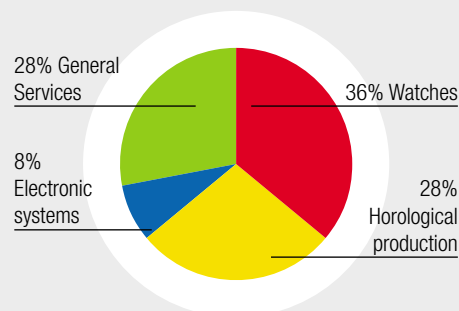
	1998	% of	1997	% of
	million	total	million	total
	CHF	total	CHF	total
Watches	941	31.5	1 027	36.5
Horological production	920	30.8	777	27.6
Electronic systems	224	7.5	215	7.7
General services	901	30.2	794	28.2
Total	2 986	100.0	2 813	100.0

Breakdown of net assets allotted to segments

1998



1997



Consolidated Financial Statements

Appendix

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

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows and notes / pages @197 to @401) of The Swatch Group Ltd for the year ended 31 December 1998.

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 profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial 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 Swiss Accounting and Reporting Recommendations (ARR) and the European Union accounting provisions and comply with the law and the accounting provisions as contained in the Listing Rules of the Swiss Stock Exchange.

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

STG-Coopers & Lybrand AG

P. Sütterlin

A. Stotz

Basel, 6 April 1999