

# Consolidated Financial Statements

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# Consolidated Financial Statements

## Income Statement

	1999		1998	
	million CHF	%	million CHF	%
Gross sales	3 626	100.0	3 269	100.0
Sales reductions	-108	-3.0	-84	-2.6
<b>Net sales<sup>(1)</sup></b>	<b>3 518</b>	<b>97.0</b>	<b>3 185</b>	<b>97.4</b>
Movements in inventories	5	0.1	132	4.0
Capitalized expenditures	49	1.4	60	1.9
Other operating income	29	0.8	23	0.7
<b>Group performance</b>	<b>3 601</b>	<b>99.3</b>	<b>3 400</b>	<b>104.0</b>
Material purchases <sup>(2)</sup>	-872	-24.0	-868	-26.5
Other external charges <sup>(3)</sup>	-139	-3.8	-133	-4.1
Wages and salaries <sup>(4)</sup>	-857	-23.7	-770	-23.6
Social security costs <sup>(4)</sup>	-182	-5.0	-216	-6.6
Depreciation of fixed assets <sup>(5)</sup>	-192	-5.3	-185	-5.7
Depreciation of current assets <sup>(6)</sup>	-12	-0.3	-14	-0.4
Other operating expenses <sup>(7)</sup>	-836	-23.1	-772	-23.6
<b>Operating income<sup>(9)</sup></b>	<b>511</b>	<b>14.1</b>	<b>442</b>	<b>13.5</b>
Income from non-consolidated participations	1	0.0	0	0.0
Net financial result <sup>(10)</sup>	46	1.3	20	0.6
Extraordinary result <sup>(11)</sup>	-11	-0.3	-27	-0.8
<b>Result before taxes</b>	<b>547</b>	<b>15.1</b>	<b>435</b>	<b>13.3</b>
Taxes <sup>(12)</sup>	-99	-2.7	-76	-2.3
<b>Net income of consolidated companies</b>	<b>448</b>	<b>12.4</b>	<b>359</b>	<b>11.0</b>
Minority interests	-7	-0.2	-2	-0.1
<b>Net income<sup>(13)</sup></b>	<b>441</b>	<b>12.2</b>	<b>357</b>	<b>10.9</b>

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## Balance Sheet

Assets	1999		1998	
	million CHF	%	million CHF	%
Intangible assets:				
– Intangible values	43	1.0	28	0.7
Tangible assets:				
– Land and buildings	270	6.0	271	6.5
– Plant and machinery	658	14.7	608	14.6
– Other fixtures and fittings	69	1.5	50	1.2
– Advances and construction in progress	8	0.2	54	1.3
Financial assets:				
– Long-term loans	13	0.3	2	0.0
– Investments	1	0.0	1	0.0
<b>Fixed assets<sup>(15)</sup></b>	<b>1 062</b>	<b>23.7</b>	<b>1 014</b>	<b>24.3</b>
Inventories: <sup>(16)</sup>				
– Raw materials and components	285	6.4	294	7.1
– Work in progress	361	8.1	251	6.0
– Finished goods	349	7.8	451	10.8
– Spare parts for Customer Service	114	2.5	107	2.6
Receivables:				
– Trade receivables <sup>(17)</sup>	658	14.7	554	13.4
– Other receivables <sup>(18)</sup>	212	4.7	204	4.9
Own shares (2nd line, with a view to reducing capital) <sup>(18)</sup>	0	0.0	360	8.6
Prepayments and accrued income <sup>(18)</sup>	148	3.3	81	1.9
Securities: <sup>(19)</sup>				
– Own shares	342	7.6	513	12.3
– Other marketable securities	235	5.3	189	4.5
Liquid funds <sup>(20)</sup>	712	15.9	148	3.6
<b>Current assets</b>	<b>3 416</b>	<b>76.3</b>	<b>3 152</b>	<b>75.7</b>
<b>Total assets</b>	<b>4 478</b>	<b>100.0</b>	<b>4 166</b>	<b>100.0</b>

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## Balance Sheet

Liabilities and shareholder's equity	1999		1998	
	million CHF	%	million CHF	%
Shareholders' equity:				
– Subscribed capital	312	7.0	329	7.9
– Capital reserves	213	4.8	213	5.1
– Reserve for treasury shares	342	7.6	873	20.9
– Retained earnings	1 551	34.6	1 208	29.0
– Net income	441	9.8	357	8.6
<b>Total shareholders' equity<sup>(21)</sup></b>	<b>2 859</b>	<b>63.8</b>	<b>2 980</b>	<b>71.5</b>
<b>Minority interests</b>	<b>13</b>	<b>0.3</b>	<b>6</b>	<b>0.1</b>
Provisions:				
– Tax provisions	242	5.4	205	4.9
– Other provisions	153	3.4	126	3.0
<b>Total provisions<sup>(22)</sup></b>	<b>395</b>	<b>8.8</b>	<b>331</b>	<b>7.9</b>
Liabilities of more than one year:				
– Bonds issued and mortgaged debts	493	11.0	100	2.4
– Amounts owed to credit institutions	37	0.8	43	1.1
– Other long-term liabilities	7	0.2	9	0.2
<b>Total long-term debts<sup>(23)</sup></b>	<b>537</b>	<b>12.0</b>	<b>152</b>	<b>3.7</b>
Short-term debts:				
– Amounts owed to credit institutions	144	3.2	252	6.1
– Trade payables	207	4.6	180	4.3
– Other short-term debts	151	3.4	88	2.1
Accruals and deferred expenses	172	3.9	177	4.3
<b>Total short-term debts<sup>(24)</sup></b>	<b>674</b>	<b>15.1</b>	<b>697</b>	<b>16.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>4 478</b>	<b>100.0</b>	<b>4 166</b>	<b>100.0</b>

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## Source and Application of Funds Statement

	1999		1998	
	million CHF		million CHF	
<b>Net income<sup>(13)</sup></b>		441		357
Depreciation <sup>(5),(6)</sup>		204		199
<b>Cash-flow<sup>(13)</sup></b>		645		556
Net financial result <sup>(10)</sup>	-46		-20	
Variation in current assets (without liquid funds):				
– Inventories <sup>(16)</sup>	38		-128	
– Trade receivables <sup>(17)</sup>	-90		-65	
– Other receivables <sup>(18)</sup>	-71		40	
Increase in short-term debts				
– Short-term liabilities <sup>(24)</sup>	66		-5	
Variation in provisions: <sup>(22)</sup>				
– Tax provision	34		14	
– Other provisions	25	-44	-3	-167
<b>Flow of funds from operational activities</b>		601		389
Divestment of tangible assets	14		9	
Investment in tangible assets	-187		-239	
Net investment in intangible assets	-30		-23	
Acquisition of consolidated companies (without liquid funds) <sup>(21)</sup>	-65		0	
Securities <sup>(19)</sup>	171		-247	
Variation in financial fixed assets:				
– Long-term loans	-11		2	
– Investments	0		96	
<b>Flow of funds from investment operations<sup>(15)</sup></b>		-108		-402
Dividend paid <sup>(21)</sup>	-61		-61	
Buy-back of own shares:				
– 2nd line, with a view to reducing capital <sup>(18)</sup>	0		-360	
– 2nd line cancelled (by decision of June 1998 General Meeting)	0		-58	
Minority's part	7		-3	
Variation in debts:				
– Long-term liabilities <sup>(23)</sup>	332		23	
– Short-term liabilities <sup>(24)</sup>	-206		165	
<b>Flow of funds from financial operations</b>		72		-294
<b>Exchange rate difference and consolidation adjustments<sup>(21)</sup></b>		-1		-12
<b>Decrease/Increase of disposable assets</b>		564		-319
<b>Variation of liquid funds:</b>				
– Liquidity as of 01.01.99/98	-148		-467	
– Liquidity as of 31.12.99/98	712	564	148	-319
Liquidity as of 31.12.99/98		712		148
Securities included in current assets:				
– Own shares		342		513
– Other marketable securities		235		189
<b>Total liquidity</b>		1 289		850

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### Principles governing the establishment of the consolidated financial statements

The 1999 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 accounts which also conform 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.

### Information relating to the 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 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 the consolidation*

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

The scope of consolidation for the Group's accounts includes 99 legal entities, which is 2 more than at the end of 1998. This increase results from the fact that 7 companies were acquired during the year under review and 5 have been excluded from the consolidation. The new acquisitions include a Swiss company which produces watch-cases for the top-range brands, a company which owns the name Léon Hatot, and 5 firms which make up the former Breguet Group. The latter includes a holding company in the Netherlands which controls directly or indirectly the two commercial watchmaking companies under the name Breguet in Switzerland and France, as well as two production units one of which manufactures movements and the other regulator-assemblies. The companies within the former Breguet Group are only pertinent to the consolidated financial statements of the Swatch Group for the period 1.7.99 to 31.12.99. The two other companies have been integrated into the accounts with effect from 1.1.99.

Through a system of divisionalization, whereby several similar activities are administered within a single legal entity, these 99 companies are segmented into 510 reporting units (490 at the end of 1998) 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 full list of consolidated companies appears on pages 98 to 99 of the current report.

In 1999, only 7 inactive companies and 3 small real estate companies were excluded from the scope of consolidation. As they have no sales and their total shareholders' equity is below CHF 1 million, their exclusion has no material bearing on the Group's consolidation. Furthermore, these companies did not pay out any dividends during the year under review.

### Information relating to consolidation principles

#### *Method of consolidation*

Subsidiaries with over 50% 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 shareholding interest in the equity of the subsidiaries is shown separately under liabilities. 50% investments in affiliates (joint ventures) are

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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.

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

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

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

### *Date of closure*

The accounts were closed on December 31, 1999. For all consolidated companies the financial year was the same as the calendar year, with the exception of the newly-acquired companies within the former Breguet Group, for which both the financial year and the accounts included in the consolidation correspond to a 6-month period from 1.7.99 to 31.12.99. The date of closure for all these companies was therefore changed to December 31, which corresponds to the standard practice of the Group.

No significant new event modifying the valuation of the 1999 financial statements had arisen at the time of finalization of the text of this annual report.

### *Foreign currency conversion*

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

	Average rate 1999	Rate as at 31.12.1999	Average rate 1998	Rate as at 31.12.1998
	CHF	CHF	CHF	CHF
1 ATS	0.1163	0.1166	0.1171	0.1170
1 AUD	0.9727	1.0400	0.9131	0.8460
100 BEF	3.9700	3.9800	3.9900	3.9800
1 CAD	1.0188	1.0980	0.9755	0.8900
1 DEM	0.8183	0.8206	0.8249	0.8230
100 ESP	0.9608	0.9600	0.9708	0.9700
1 FRF	0.2440	0.2447	0.2459	0.2450
1 GBP	2.4413	2.5800	2.4083	2.2925
1 HKD	0.1950	0.2055	0.1873	0.1780
100 ITL	0.0827	0.0829	0.0835	0.0831
100 JPY	1.3442	1.5600	1.1100	1.2100
1 NLG	0.7262	0.7283	0.7316	0.7305
1 SEK	0.1820	0.1870	0.1823	0.1700
1 SGD	0.8919	0.9580	0.8698	0.8340
1 USD	1.5139	1.6000	1.4528	1.3800

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### Information relating to valuation principles

<b><i>Intangible assets</i></b>	<p>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 1999 development costs relating to the automobile project have been partially capitalized and are being amortized over a period of 3 years, utilizing the straight-line method.</p> <p>The goodwill involved in the acquisition of shareholdings has been directly deducted from shareholders' equity. The theoretical consequences of capitalization followed by annual amortization over a period of 5 years are referred to under point 15 in the appendix to the balance sheet.</p>
<b><i>Fixed assets</i></b>	<p>Property, plant and equipment have been valued at the purchase price less straight-line amortization according to the lifetime of the investment, or after an adjustment to reduce the asset to its liquidation value. Land is shown on the balance sheet at its original purchase price.</p> <p>Capitalized expenditure has been recorded on the balance sheet at full production cost without profit margin.</p> <p>The depreciation period of tangible assets has been defined for 68 types of objects. These criteria are applied throughout the Group. Estimated lifetimes have been taken into account according to the following categories in calculating straight-line depreciation:</p> <ul style="list-style-type: none"> <li>• machines used for shift work, tools, motor vehicles: 4–8 years</li> <li>• measuring instruments, IT, installations for machining by non-mechanical processes, automation equipment: 5–9 years</li> <li>• machines and production equipment for mechanical systems, furniture and workshop equipment: 8–15 years</li> <li>• factory buildings: 30 years</li> <li>• administrative premises: 40 years</li> <li>• residential properties: 50 years</li> </ul>
<b><i>Securities</i></b>	<p>Marketable securities have been valued at market prices at closure. The potential appreciation on own securities held to cover the convertible bond has been limited to its value fixed by the conversion price. Potential annual profits are also limited by taking into account this maximum appreciation distributed over the life of the convertible bond using the straight-line method.</p>
<b><i>Inventories</i></b>	<p>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 carried out utilizing the average price method; in certain rare cases the FIFO system has been applied. Only economically justified criteria have been considered in adapting the balance sheet value of inventories. Stocks of spare parts for customer services have been valued only for the units for which there is thought to be a future demand, based on historical consumption.</p>
<b><i>Receivables</i></b>	<p>Provisions have been made to cover doubtful debts and receivables which were more than twelve months overdue and which were not converted into interest-bearing loans.</p>
<b><i>Provisions</i></b>	<p>Provisions were constituted according to uniform criteria, economically justified and analogous to those applied during the previous period. Provisions for guarantees were calculated to cover a period equivalent to two years and in line with proposed European legislature. Provisions for deferred taxes cover all requirements in connection with internal and external differences in valuation among the various companies or consolidation adjustments, specific rates being applied to the companies or sectors concerned.</p>
<b><i>Shareholders' equity</i></b>	<p>The statements are based on acquisition prices for valuation on the balance sheet; since current values have not been applied, the financial statements do not take into account any re-evaluation of fixed assets which might influence total shareholders' equity. The goodwill involved in the purchase of consolidated subsidiaries has been deducted directly</p>

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from shareholders' equity; the theoretical consequences of capitalization followed by amortization over a period of 5 years are referred to under point 15 of the appendix to the balance sheet.

### *Relations with associated third parties*

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

### *Segment information*

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

Secondary segment information concerning geographical distribution includes data by continent on number of units sold, value of sales and distribution of staff. This information by geographical area is presented under points 1 to 4 of the notes on the consolidated financial statements.

## Notes on the income statement

The business year 1999 was once again characterized by satisfactory development both in turnover and in results, in all sectors of activity.

Gross turnover amounted to CHF 3626 million, representing a rise of 10.9% over the previous year. Operating profit increased by 15.6% to reach CHF 511 million. As far as regards net income after deduction of minority interests, this also rose, namely to CHF 441 million (+23.5%).

### *1. Net turnover*

Taking into account sales reductions, net turnover increased by 10.5% or CHF 333 million over the figure for 1998.

The acquisition of new subsidiaries represented 1.5% of this rise, while exchange rates constituted 2.1%.

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

	1999	1998	Variation
Total unit sales (millions)	103.5	118.8	-12.9%

Sales of watches and Swiss-made movements increased satisfactorily, mainly during the second half of the year in the case of the latter. There was continuous strong pressure on the price of movements in the first category, which are largely manufactured outside Switzerland and of which the volume sold in Hong Kong fell drastically. Every effort was made in this area to adapt cost structures, following the Group General Management's decision to reduce production.

### *Breakdown of gross sales by product category*

All the Group's internal statistics refer to gross sales. Gross sales to third parties can be broken down into two main categories, the principal elements being given in the table below:

	1999	1998	Variation
Total unit sales: watches, movements, stepping motors (in 1000 units)	103 474	118 827	-12.9%
Sales of watches, movements, stepping motors (in million CHF)	2 905	2 630	+10.5%
Other sales (in million CHF)	721	639	+12.8%
<b>Total gross sales (in million CHF)</b>	<b>3 626</b>	<b>3 269</b>	<b>+10.9%</b>
Average price of watches and movements (in CHF)	28.07	22.13	+26.8%

The total number of units sold includes 11.6 million stepping motors in 1999 and 8.7 million in 1998.

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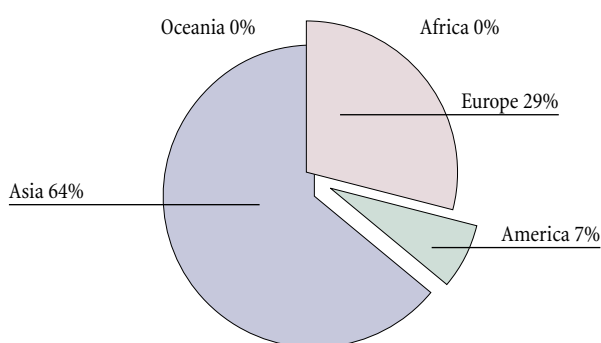
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### Analysis by geographical area

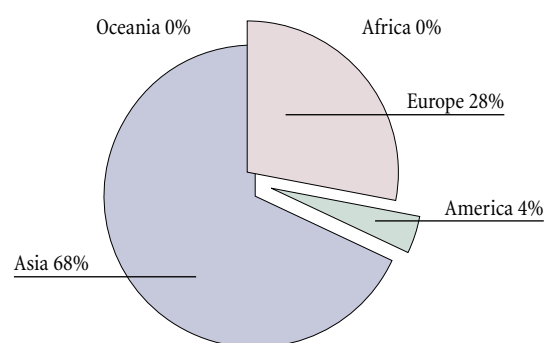
In view of the fact that our main competitors do not publish any information regarding the geographical breakdown of their sales, in this report we have limited our statistics to the breakdown of unit sales for watches, movements and stepping motors, as well as overall sales by continent. This breakdown 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.

Units 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.

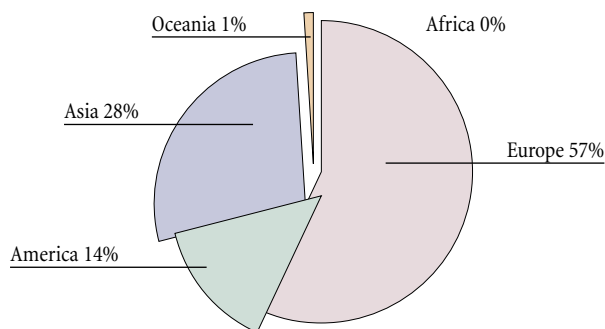
#### Units 1999



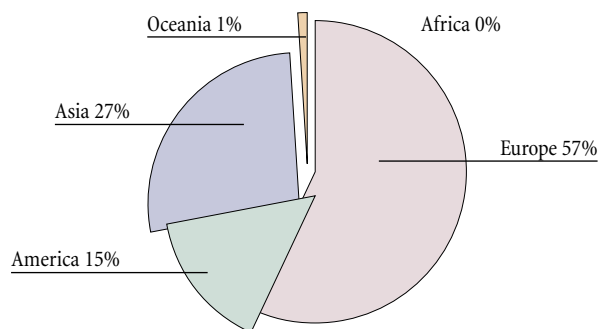
#### Units 1998



#### Values 1999



#### Values 1998



### 2. Material purchases

Material costs rose by only 0.5%, despite a considerable increase in sales volume, with the result that, in percentage of turnover, this item fell from 26.5% in 1998 to 24.0% in 1999. The policy of centralized purchasing and optimization of conditions agreed with our main suppliers has borne fruit.

### 3. Other external charges

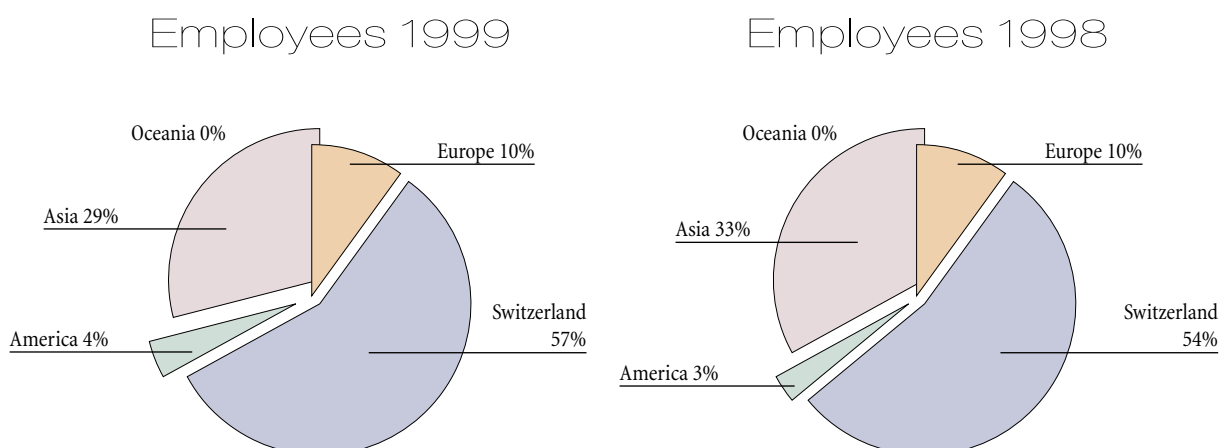
The volume of outsourced production increased only slightly, the Group aiming to utilize all its own production capacity to the full.

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#### 4. Wages, salaries and social security costs

The average number of employees in 1999 was 17 751 (18 262 at the end of 1998). Staff numbers at closure, expressed in number of contracts, totalled 17 719. The number of employees under a Swiss contract rose by 611, of whom 529 are the result of the acquisition of new companies. The drop in the number of employees outside Switzerland corresponded to 707 jobs and affected mainly the production and assembly unit in Thailand. Only 10 employees were added to total staff numbers through the acquisition of companies abroad. These changes resulted in a total staff of 10 162 employees under a Swiss contract and 7 557 abroad. The geographical distribution of staff is shown below:



The split between male and female employees and the year's average number of employees with an employment or apprenticeship contract are as follows:

	1999	1998
Men	8 065	7 676
Women	9 654	10 139
<b>Total as at 31.12.</b>	<b>17 719</b>	<b>17 815</b>
Average over the year	17 751	18 262

Thanks to successful management of the pension fund for the various Swiss companies within the Group it was possible not only to reduce certain premiums for both the employee and the employer but also to make additional equivalent benefit payments to retired employees. Furthermore, as a result of a certain redistribution of elements between salaries and social security costs, the total social security bill for the Group was reduced to 21.2% from 28.1% in 1998. Pension schemes are generally contracted outside the Group with legally independent institutions.

Total staff numbers and total salaries (including social security charges) of the members of the Board of Directors as well as senior managers responsible for the 510 operational units around the world were as follows:

	1999	1998
Number of senior managers	426	420
Total remuneration (in 1,000 CHF)	91 369	82 955

#### 5. Depreciation of fixed assets

Major investments have been made during the past few years. They mainly come under the heading of modernization and extension of production equipment and machinery, as well as necessary replacements due to the fire at the Fontainemelon production unit in 1995. As a result, depreciation of fixed assets amounted to CHF 192 million in 1999.

#### 6. Depreciation of current assets

Write-off of obsolete inventories amounted to CHF 12 million in 1999 (CHF 14 million in 1998).

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**7. Other operating expenses** This position, which includes among other things the cost of advertising, maintenance, rent, sales and administration, travel, and research and development, rose by CHF 64 million, or 8.3%, compared with the previous year. In line with increased sales, advertising expense approved by the Group once again rose, the cost of advertising expressed as a percentage of sales falling somewhat, however.

**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 15 million (CHF 16 million in 1998). In 1999 costs directly incurred through research and development throughout the Group amounted to over CHF 105 million. Part of these activities take place in the central laboratories and departments within general services, which carry out preliminary work in connection with promising projects. Other important research and development departments are an integral part of the operational units within the watches (for example at Omega, Rado, Swatch, etc.) and watch production (notably at ETA) divisions, as well as in the electronic systems segment (for example EM Marin, Renata, etc.) and have their own large budgets. The relative costs are included in the operating income for the units concerned. 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 (horology).

**9. Operating income** The fact that operating income increased more quickly than the corresponding expenditure resulted in an operating profit of CHF 511 million, representing a rise of 15.6% over the previous year.

**10. Net financial income** The following breakdown of the positions in the consolidated income statement shows interest income and expenditure as well as the gains and losses resulting from interest income and expenditure:

(in million CHF)	1999			1998		
	Income	Expenses	Net total	Income	Expenses	Net total
Interest income and expenditure	19	-12	7	26	-22	4
Capital gains and losses	85	-20	65	21	0	21
Exchange rate differences	36	-62	-26	26	-31	-5
<b>Total</b>	<b>140</b>	<b>-94</b>	<b>46</b>	<b>73</b>	<b>-53</b>	<b>20</b>

Despite continuously low interest rates in the money markets, net financial income amounted to CHF 46 million, thanks to intensive management of liquid assets and investments, compared with a gain of only CHF 20 million in 1998. This net financial income includes net exchange rate losses of CHF 26 million (CHF 5 million at the end of 1998), of which CHF 23 million was due to the Japanese yen. The fluctuations in the value of the yen taken into account for 2000 will have been largely covered at Group level.

**11. Extraordinary result** Extraordinary expenses were incurred mainly in connection with old litigation and changes in agents (CHF 7 million), as well as the renovation of an old production site. 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.

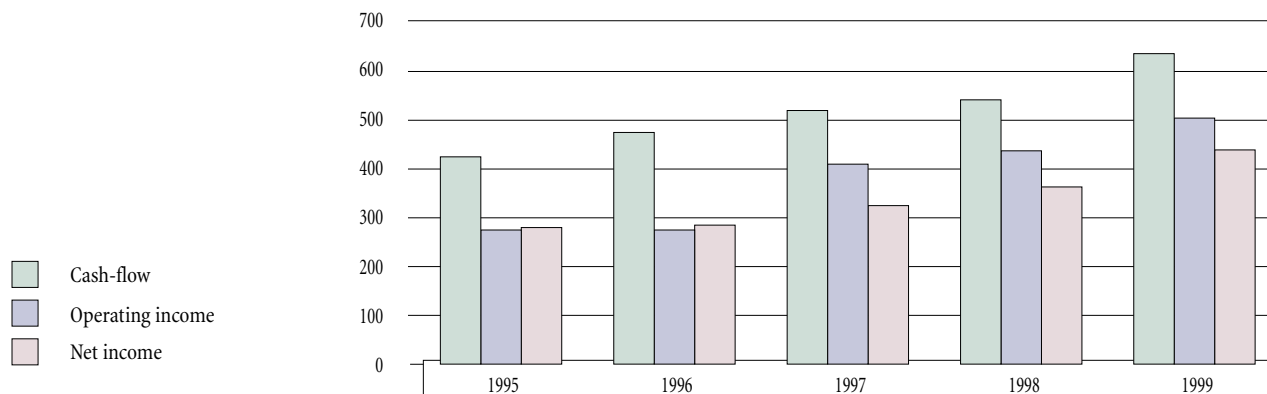
**12. Taxes** Fiscal expenses rose by CHF 23 million, reaching a total of CHF 99 million (CHF 76 million in 1998). This item includes expenses amounting to CHF 76 million in connection with declared tax profits (CHF 65 million in 1998), the part relating to the updating of deferred taxes in conformity with the development of valuation differences during the year under review (CHF 23 million ; CHF 11 million in 1998). The internal rate of tax expenditure thus rose from 17.6% in 1998 to 18.3% in 1999 at a consolidated level.

**13. Net income and cash-flow** After deduction of minority interests, the consolidated net result for 1999 increased by 23.5% over the net result for 1998, reaching CHF 441 million. The changes made in the scope of consolidation between 1998 and 1999 had no

# Consolidated Financial Statements

## Appendix

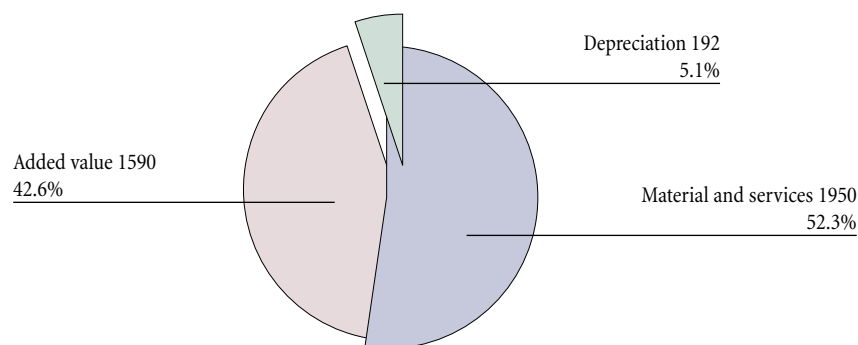
material effect on the annual results, being under 2%. After deduction of minority interests, cash-flow rose by 16.0% to reach an amount of CHF 645 million. Developments in the results and cash-flow can be visualized as follows for the past 5 years:



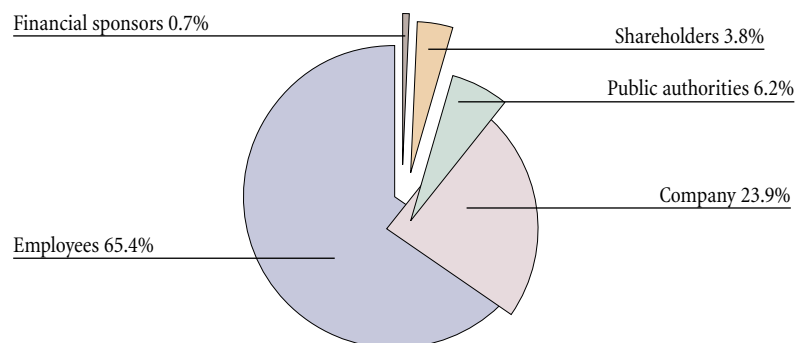
#### 14. Analysis of added value

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

(in million CHF)	1999	1998
Overall Group performance	3 732	3 469
– materials and services	1 950	1 812
– depreciation	192	185
= <b>net added value</b>	<b>1 590</b>	1 472
% variation	<b>+8.0%</b>	



The allocation of added value among the different beneficiaries at the end of 1999 was as follows:



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### Notes on the consolidated balance sheet

The balance sheet total increased by CHF 312 million to reach CHF 4.5 billion. Shareholders' equity fell by CHF 121 million, taking into account the capital reduction through the re-purchase of own shares, and amounted to CHF 2.9 billion at the end of 1999, representing 64% of the total balance sheet (72% at the end of 1998).

#### 15. Fixed assets

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

Intangible assets included CHF 23 million development costs incurred in connection with the automobile project, of which the CHF15 million accrued during 1999 are being amortized over a period of 3 years. The remaining CHF 20 million is made up essentially of recoverable key-money paid to obtain strategic locations for Swatch Stores.

The goodwill paid for the purchase of new companies included in the scope of the consolidation amounts to CHF 140 million and has been directly deducted from shareholders' equity. The theoretical impact (on shareholders' equity as well as net income) of the capitalization of this goodwill and the amortization based on a 5-year period is as follows:

	million CHF
Goodwill 1999 deducted from shareholders' equity	140
Theoretical amortization for the year not taken into account	-28
<b>Theoretical increase in shareholders' equity at 31.12.99</b>	<b>112</b>

Adjusted shareholders' equity and net income would be as follows:

	million CHF
Shareholders' equity	2 971
Net income	413

Machinery leased by the Group has been capitalized on the balance sheet if its unit value exceeds CHF 50 000, if the duration of the leasing contract is longer than 3 years and if the object can be purchased upon expiry of the contract. At the end of 1999, only small contracts of this type were still valid, representing a total of CHF 165 000 in all.

#### Property insurance

Fixed assets were insured as follows:

(in million CHF)	1999	1998
Real estate	1 267	1 246
Machinery and equipment	2 685	2 472
<b>Total insurance value</b>	<b>3 952</b>	<b>3 718</b>

It should be pointed out that the net value of the fixed assets (including land) on the balance sheet as per 31.12.99 represents only 25.4% of the insurance value.

#### 16. Inventories

Inventories remained stable compared with the previous year at CHF 1.1 billion, despite a considerable rise in sales. Efforts made by Logistics to utilize existing stocks as efficiently as possible led to a reduction in stocks and work in progress expressed in number of days.

# Consolidated Financial Statements

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### Movements in Fixed Assets

<i>a) Acquisition values</i>	Historical acquisition value	Currency diff.	Acqu. val. 31.12.1998 ajust. as of	Investments	Capitalized expenditures	Disinvestments (sales)	*) Transfers	Historical acquisition value
(in million CHF)	31.12.98	Bal 99/98	31.12.99	1999	1999	1999	1999	31.12.99
Capitalized development expenses	49		49	1	15		4	69
Other intangible assets	24		24	11	3		-3	35
<b>Total intangible assets</b>	<b>73</b>		<b>73</b>	<b>12</b>	<b>18</b>		<b>1</b>	<b>104</b>
Land and buildings	636	2	638	7			9	654
Plant and machinery	1 736	11	1 747	105	25	-79	88	1 886
Other fixtures and fittings	177	4	181	26	3	-10	17	217
Advances and construction in progress	55		55	18	3		-67	9
<b>Total tangible assets</b>	<b>2 604</b>	<b>17</b>	<b>2 621</b>	<b>156</b>	<b>31</b>	<b>-89</b>	<b>47</b>	<b>2 766</b>
Long-term loans	2		2				11	13
Investments	1		1					1
<b>Total financial assets</b>	<b>3</b>		<b>3</b>				<b>11</b>	<b>14</b>
<b>Total fixed assets</b>	<b>2 680</b>	<b>17</b>	<b>2 697</b>	<b>168</b>	<b>49</b>	<b>-89</b>	<b>59</b>	<b>2 884</b>

<i>b) Net balance sheet values</i>	Historical acquisition value	Depreciation year to date	Currency diff.	Deprec. on disinvest./ transfers	Depreciation	Depreciation ytd	Net balance sheet value	Net balance sheet value
(in million CHF)	31.12.99	31.12.98	Bal 99/98	1999	1999	31.12.99	31.12.98	31.12.99
Capitalized development expenses	69	-29		-2	-10	-41	20	28
Other intangible assets	35	-16		-2	-2	-20	8	15
<b>Total intangible assets</b>	<b>104</b>	<b>-45</b>		<b>-4</b>	<b>-12</b>	<b>-61</b>	<b>28</b>	<b>43</b>
Land and buildings	654	-365	-1	-3	-15	-384	271	270
Plant and machinery	1 886	-1 128	-6	49	-143	-1 228	608	658
Other fixtures and fittings	217	-127	-2	3	-22	-148	50	69
Advances and constructions in progress	9	-1				-1	54	8
<b>Total tangible assets</b>	<b>2 766</b>	<b>-1 621</b>	<b>-9</b>	<b>49</b>	<b>-180</b>	<b>-1 761</b>	<b>983</b>	<b>1 005</b>
Long-term loans	13						2	13
Investments	1						1	1
<b>Total financial assets</b>	<b>14</b>						<b>3</b>	<b>14</b>
<b>Total fixed assets</b>	<b>2 884</b>	<b>-1 666</b>	<b>-9</b>	<b>45</b>	<b>-192</b>	<b>-1 822</b>	<b>1 014</b>	<b>1 062</b>

\*) The heading "Transfers" includes entries and exits from the area of consolidation as well as transfers between different categories of balance sheet positions.

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### 17. Trade receivables

Payment of trade receivables from sales and services remained stable. Calculated on the basis of effective monthly sales, the corresponding ratio fell to 52 days at the end of 1999 (54 days at the end of 1998).

Trade receivables and bad debt provisions developed as follows:

(in million CHF)	1999	1998
Receivables	674	572
Bad debt provision	-16	-18
<b>Net receivables</b>	<b>658</b>	<b>554</b>

The bad debt provision represented 2.4% of trade receivables and covered all identified risks at closure.

### 18.1 Other receivables, prepayments and accruals

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

(in million CHF)	1999	1998
Advances	32	22
VAT to be recovered	132	91
Other taxes to be recovered	44	39
Defined financial expenses	16	2
Prepaid advertising	2	1
Misc. receivables and other defined prepayments	134	130
<b>Total other receivables, prepayments and accruals</b>	<b>360</b>	<b>285</b>

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

The entire amount of CHF 360 billion shown on the balance sheet as at 31.12.98 was the result of a share cancellation in compliance with the decision taken by the Annual General Meeting of shareholders held on June 23, 1999. No new shares were purchased through the 2nd line during the year under review.

### 19. 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. Own shares reserved for converting the convertible bond have been valued by limiting the profit to the conversion rate and taking into account only the part relative to the linear distribution over the potential duration of the bond. The value of the shares reserved for the Option Plan entered the previous year has been maintained. The 1999 consolidated development of the Swatch Group share portfolio can be summarized as follows:

	Registered shares		Bearer shares		Total million CHF
	1000 units	million CHF	1000 units	million CHF	
As at 1.1.1999	2 648	461	60	52	513
Purchases	325	78			78
Sales	-978	-198	-60	-52	-250
Adapt. val.		1			1
<b>As at 31.12.1999</b>	<b>1 995</b>	<b>342</b>	<b>0</b>	<b>0</b>	<b>342</b>

The other marketable securities include only equities amounting to CHF 235 million.

### 20. Liquid funds

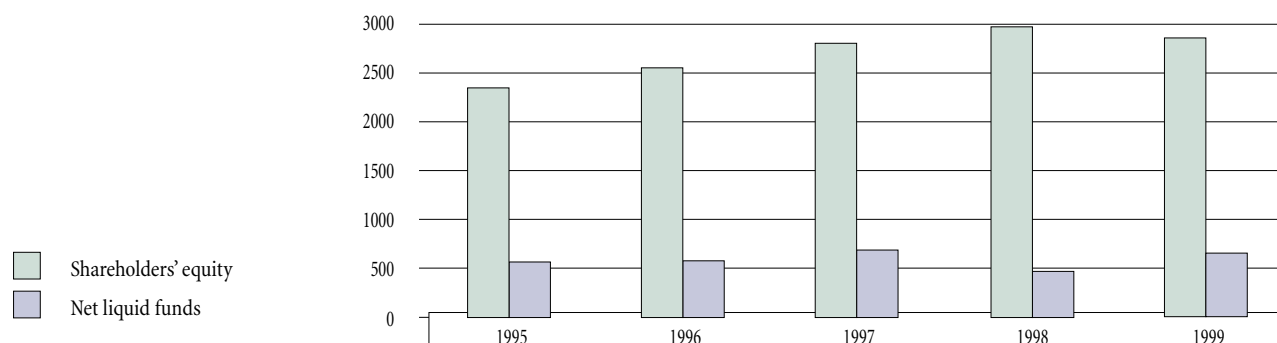
Liquid funds rose by CHF 564 million, totalling CHF 712 million at year end. Investments were made in the money markets in Swiss francs and other hard currencies. This position also includes investments in bonds totalling CHF 291 million as well as in gold to the value of CHF 18 million, aimed at covering the short-term needs of our manufacturing units which utilize gold in their products.

Net liquid funds, comprising total liquid funds and securities minus bank and bond debts, rose by CHF 160 million to reach a total of CHF 615 million.

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



### 21. Shareholders' equity

Consolidated shareholders' equity fell by CHF 121 million and constituted 64% of the total balance sheet, or CHF 2859 million at the end of the year (72% or CHF 2980 million at the end of 1998). This drop is mainly the result of the reduction in share capital achieved by cancelling shares repurchased through the 2nd line (CHF 360 million) and the amortization of goodwill on the purchase of new companies (CHF 140 million).

The development of consolidated shareholders' equity can be summarized as follows (in million CHF):

(in million CHF)	Share capital	Capital reserves	Own share reserves	Profit reserves	Total shareholders' equity
As at 1. 1. 1999	329	213	873	1 565	2 980
Capital reduction	-17			-343	-360
Dividend payment				-61	-61
Net income 1999				441	441
Adaptation of own shares reserve			-531	531	0
Goodwill conc. acquisitions				-140	-140
Exchange rate difference on pseudo shareholders' equity Brazil				-4	-4
Exchange rate difference & other				3	3
<b>As at 31.12.1999</b>	<b>312</b>	<b>213</b>	<b>342</b>	<b>1 992</b>	<b>2 859</b>

### 22. Provisions

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

The fiscal provisions include a provision of CHF 240 million for taxes on undisclosed reserves (CHF 203 million at the end of 1998), as well as a provision of CHF 2 million for withholding tax on dividends (unchanged from 1998).

Other provisions amount to CHF 153 million (CHF 126 million at the end of 1998) and are reserved principally to cover risks attached to reorganization of markets and deferred expenses.

### 23. Long-term debts

Long-term debts increased by CHF 385 million mainly due to the issue of a convertible bond to the value of CHF 400 million by The Swatch Group Ltd.

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The Group has two outstanding bond issues initially totalling CHF 500 million, the details of which are given below:

### Issued by The Swatch Group Finance (Luxembourg) Ltd

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

At the end of 1999, a total of 1328 bonds representing a par value of CHF 6.64 million were exchanged for 30 544 shares in The Swatch Group Ltd.

### Issued by The Swatch Group Ltd, Biel

Convertible bond at 0.5% to the value of CHF 400 million, 1999–29.3.2006, quoted on the Swiss Stock Exchange, security no. 495 599, callable under the conditions indicated in the appendix to the financial statements for the Holding.

The consolidated balance sheet for 1999 includes only the CHF 400 million convertible bond mentioned above as a liability exceeding 5 years.

The Group has taken no loans from the Swatch Group Pension Fund nor from any other Group funds.

#### 24. Short-term debts

Short-term debts fell by CHF 23 million to CHF 674 million and can be broken down as follows:

(in million CHF)	1999	1998
Debts to banks	144	252
Debts and deferred charges on purchases and services	236	197
Salaries and social security costs	63	55
Sales reductions	19	11
Advertising	55	33
VAT due	29	18
Taxes	32	30
Advances received	3	8
Other debts and deferred charges	93	93
<b>Total short-term debts</b>	<b>674</b>	<b>697</b>

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 accrued taxes for the current year for certain subsidiaries. These positions fell by CHF 5 million to a total of CHF 172 million at the end of 1999.

#### 25. Contingent liabilities

As at the end of 1998, the consolidated accounts at the end of 1999 included no guarantees or securities.

#### 26. Derivative financial instruments

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

### Gold and currencies

Derivative instruments in the gold and in the currency market are valued at market prices. Transactions unfinished as at 31.12.99 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 105 of the appendix to the annual financial statements 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.

# Consolidated Financial Statements

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### 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 bond 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 bond on which the transactions with third parties are based.

### Segment information

#### *Finished watches*

In the finished watches sector there was growth in all price-segments during the year under review. The rate of growth of 9.2% seen during the first six months more than doubled during the second half of the year to reach 18.9%. The brands in the prestige and luxury ranges enjoyed considerable growth due to the significant stimulation resulting from the acquisition of Breguet. At Omega and Longines, sales rose considerably. As for Rado, this brand managed to overcome its short period of weakness in the previous year.

In the middle range, turnover rose appreciably, in particular at Calvin Klein (cK) and Tissot.

In the low range, Swatch established a strong foothold in new market niches thanks to both the launch of the Swatch .beat, the watch which shows universal internet time, and the opening of new points of sales. Flik Flak achieved a more modest growth rate, while sales in the private label sector fell.

The operating result increased dramatically thanks to a rise in turnover with a less-than-proportional rise in marketing expenditure as well as indirect costs.

#### *Manufacture of watches, movements and watch components*

During the first half of the year this sector suffered as a result of the price wars and developments in the Hong Kong market for low-price movements. It also felt the effects of a temporary drop in orders from the Group's own brands as they concentrated on optimizing worldwide inventories.

Thanks to extraordinary efforts, structural adjustments and improvements in planning and production procedures, the negative situation which reigned during the first six months of 1999 was corrected, and the second half of the year saw a positive although modest operating result. It should be emphasized, however, that the full effects of the measures taken will only be felt in the year 2000. Contributory factors will include not only a rise in demand for Swiss-made movements from third parties and our own brands, but also a degree of stabilization of the Asian market for low-price movements, even though at a modest level.

#### *Electronic systems*

Among other things, 1998 was marked by the effects of the development costs reinvoiced in the amount of CHF 55 million to the Group's ex-partner in the MCC-Mercedes joint venture, in connection with the hybrid engine designed initially for the smart car. As far as the operating result is concerned, the sum of CHF 27 million can be offset in comparison with the previous year. Excluding this particular factor, turnover for this segment rose by 15.3%. At the same time, a comparable figure for the operating result for 1998 is around CHF 93 million or 28.4%. The net drop in the volume of goods supplied by Renata and EM Marin to the low-price movement sector, where production was severely curbed, resulted in freeing up of production capacity, which was partially used to fill orders for third parties, although this involved some prior development and transformation work which slightly compromised the normally good profit margin in this sector.

At Renata the focus is on the project involving rechargeable lithium-ion batteries for mobile telephones. Initial turnover figures in this highly-promising field are expected in the second half of 2000. This project also involves certain preliminary expenditure which should, however, lead to a strong growth rate at a later date. In addition, the Group is expanding production capacity at Micro Crystal in order to meet the enormous demand from manufacturers of mobile telephones.

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### General services

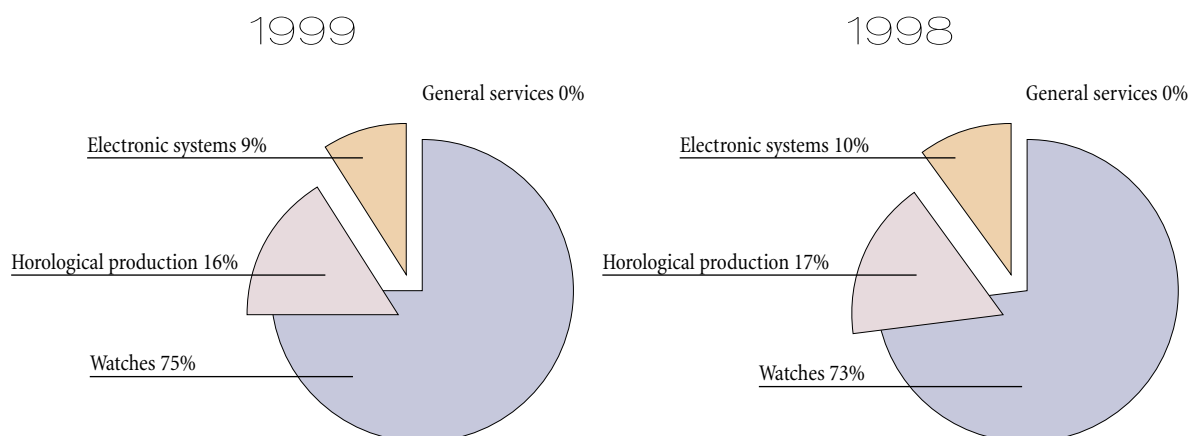
This sector includes essentially research and development activities in the central R+D departments and laboratories of the Group. The preliminary services provided by this sector have been considerably expanded in connection with a number of promising projects, which will have a positive effect on future launches.

Other major research and development departments are an integral part of the operational units of the brands that manufacture finished watches (e.g. Omega, Rado, Swatch, etc.) and watches, movements and watch components, as well as the electronic systems sector. These departments are allotted a large budget and annual expenditure has already been included in the operational operating results for the corresponding areas.

### Gross sales

(in million CHF)	1999			1998		
	Third	Group	Total	Third	Group	Total
Watches	2 729	0	2 729	2 385	0	2 385
Horological production	575	615	1 190	560	686	1 246
Electronic systems	320	57	377	323	59	382
General services	2	10	12	1	10	11
Adjustments	0	-682	-682	0	-755	-755
<b>Total</b>	<b>3 626</b>	<b>0</b>	<b>3 626</b>	<b>3 269</b>	<b>0</b>	<b>3 269</b>

### Proportion of consolidated gross sales represented by each segment



### EBITDA

The EBITDA (earnings before interest, taxes, depreciation and amortization) is as follows for the various segments:

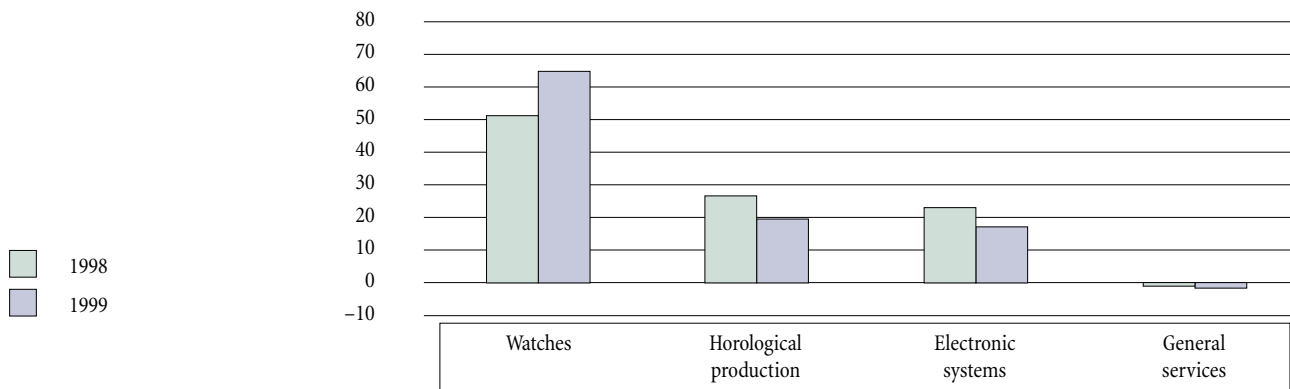
	1999			1998 *)		
	million CHF	in % of sales	of total	million CHF	in % of sales	of total
Watches	464	17.0%	64.9%	329	13.8%	51.3%
Horological production	140	11.8%	19.6%	171	13.7%	26.7%
Electronic systems	123	32.6%	17.2%	148	38.7%	23.1%
General services	-12		-1.7%	-7		-1.1%
<b>Total</b>	<b>715</b>	<b>19.7%</b>	<b>100.0%</b>	<b>641</b>	<b>19.6%</b>	<b>100.0%</b>

\*) The variance to the operating cash-flow by segment reported in the 1998 annual report is due to the specific treatment of depreciation on current assets.

# Consolidated Financial Statements

## Appendix

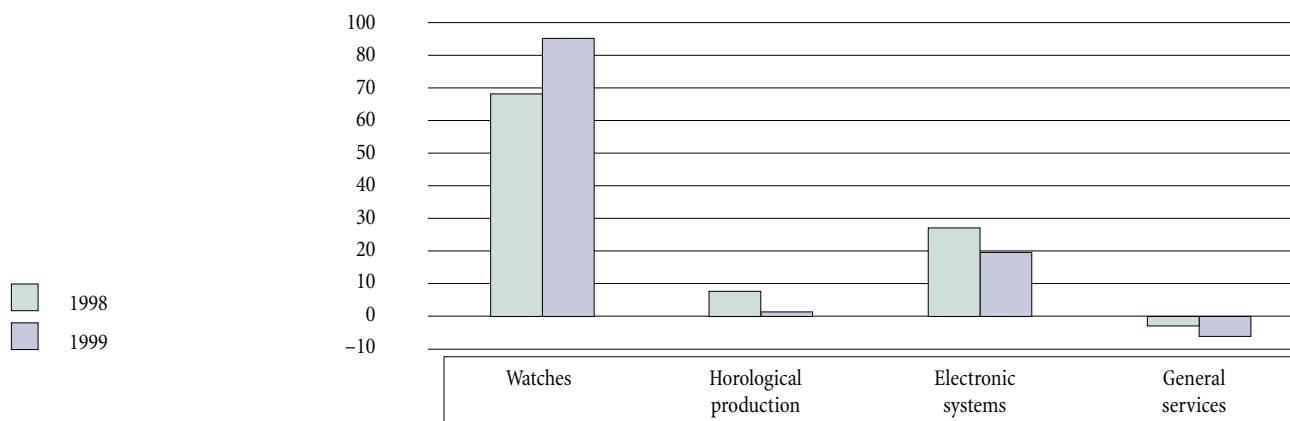
### Proportion of EBITDA per segment



### Operating result

	1999			1998		
	million CHF	in % of sales	of total	million CHF	in % of sales	of total
Watches	435	15.9%	85.1%	301	12.6%	68.1%
Horological production	7	0.6%	1.4%	34	2.7%	7.7%
Electronic systems	100	26.5%	19.6%	120	31.4%	27.1%
General services	-31		-6.1%	-13		-2.9%
<b>Total</b>	<b>511</b>	<b>14.1%</b>	<b>100.0%</b>	<b>442</b>	<b>13.5%</b>	<b>100.0%</b>

### Proportion of operating result per segment



### Total assets

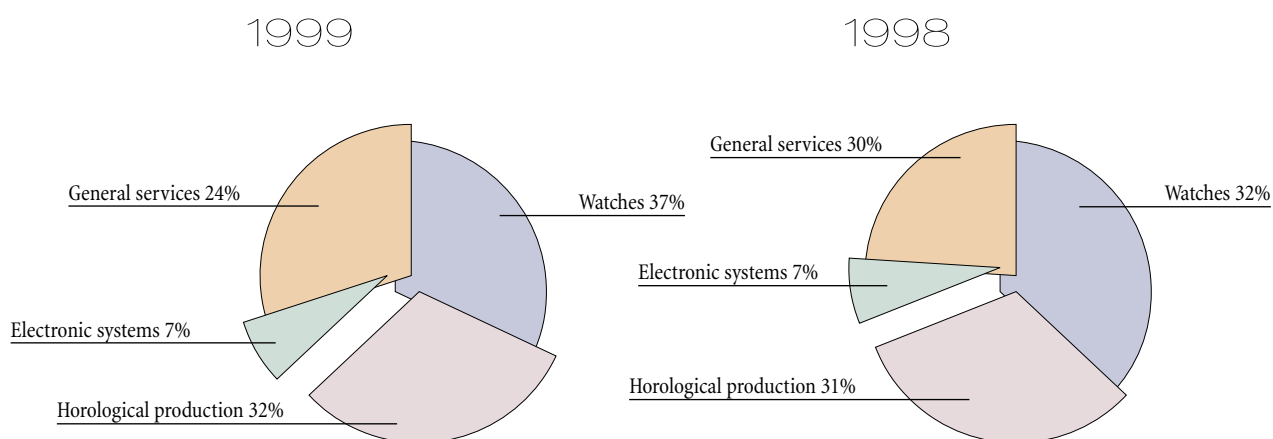
	1999		1998	
	million CHF	in % of totals	million CHF	in % of totals
Watches	1 693	37.8%	1 487	35.7%
Horological production	1 219	27.2%	1 200	28.8%
Electronic systems	274	6.1%	290	7.0%
General services	1 292	28.9%	1 189	28.5%
<b>Total</b>	<b>4 478</b>	<b>100.0%</b>	<b>4 166</b>	<b>100.0%</b>

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<i>Total net assets</i>	1999		1998	
	million CHF	in % of totals	million CHF	in % of totals
Watches	1 073	37.4%	941	31.5%
Horological production	905	31.5%	920	30.8%
Electronic systems	202	7.0%	224	7.5%
General services	692	24.1%	901	30.2%
<b>Total</b>	<b>2 872</b>	<b>100.0%</b>	<b>2 986</b>	<b>100.0%</b>

### *Proportion of net assets per segment*



# Consolidated Financial Statements

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 77 to 99) of The Swatch Group Ltd. for the year ended 31 December 1999.

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 Exchange.

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

PricewaterhouseCoopers AG

P. Sütterlin

A. Stotz

Basel, 16 March 2000