W.A. de Jong (left) and J.J. Wezenaar (right)

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Annual Report 1998 Accell Group N.V.

THE PREMIER EUROPEAN CYCLE GROUP

Annual Report 1998
Accell Group N.V.

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Batavus

Modern cycling fun

Quality and reliability; cycling fun for everyone. Innovation in design and technology also contributes to the excellent reputation of Batavus bicycles. The broad and varied range of models is updated and improved every year. Batavus aims exclusively at the bicycle specialist retail trade, also outside The Netherlands.

Be One

Pan-European success

Be One is a young, successful pan-European brand in the mountain bike segment. This is owing to the strong price-quality ratio and a great look. The intensive promotional support, in which sponsoring plays an important role, is internationally appealing.

Koga-Miyata

Exclusivity and prestige

The scientific approach to the bicycle, the crème de la crème for the connoisseur. A trendsetter amongst the leading European bicycle brands. Right from the start, Koga-Miyata developed models for confident bicycle lovers with an eye for exclusivity and prestige. Koga-Miyata enjoys a great deal of interest in The Netherlands, Belgium, Germany, Austria and Switzerland.

Loekie

Contemporary and self-assured

Loekie, the undisputed number 1 in the Dutch children's bicycle market. A wide range of bicycles for children from three to twelve. Bright, modern colours, a contemporary design and special accessories help to make the brand very popular. The attractive price/quality ratio is also a major success factor.

Cool!

European appeal

A new line in European children's bicycles. Cool! has now been introduced in The Netherlands, Germany and France. A brand that once more confirms Accell Group's pioneering role.

Hercules

Extra boost

A strong brand in Germany, which has been given an extra boost within Accell Group. Hercules is synonymous for outstanding quality. With its impressive range of models and design geared to the current market, the brand sets the tone in Germany.

Lapierre

Top sporting image

A well-respected name in the French quality segment of the bicycle specialist retail trade. In recent years, Lapierre has strengthened its image as an ATB and racing bike specialist and has built an outstanding name for itself in competition cycling. With hybrid and children's bicycles, Lapierre is now also penetrating the French mobility and recreation market.

Mercier

Sporting successes

The unforgettable Raymond Poulidor achieved all his greatest successes with Mercier, to which the brand owes a great deal of its brand familiarity and popularity. Mercier has been active in the French market for more than thirty years. Distribution is mainly carried out through hypermarkets, which have obtained a substantial share of the market. Mercier is positioned in the higher segment.

E-GO

A helping hand

Why not make things easier for yourself. The E-GO gives the cyclist a helping hand, with a quiet, environmentally friendly electromotor. The E-GO (Easy-GOing) electro-bike is the bicycle that meets current needs. Maximum ease, maximum mobility.

Accell Group N.V.

Annual Report 1998

Supervisory Board
J.B.Th. Manschot, Chairman
S.W. Douma
D.J. Haank

Executive Board
J.J. Wezenaar, Chairman
W.A. de Jong

Contents

Profile of Accell Group

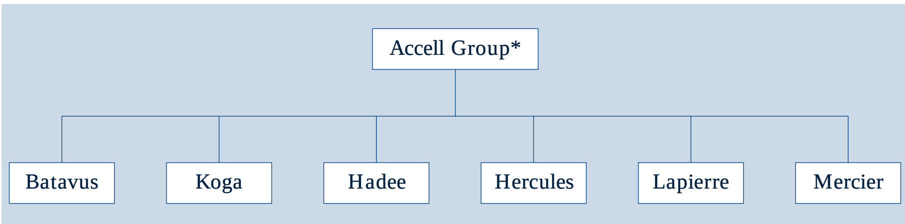
Accell Group N.V. was established on 1 October 1998, and came about due to the demerger of bicycle activities of Atag Holding N.V. On this same date Accell Group was independently listed on the Official Market of Amsterdam Exchanges N.V. in Amsterdam, The Netherlands.

Accell Group

Accell Group is an international group of companies active in design, production, marketing and sales of bicycles. Accell Group concentrates on the consolidation and further development of strong, mainly national brands in the middle and higher segment of the market and the further development of several international brands. Sale of bicycles that Accell Group develops takes place mainly through the bicycle retail specialists channel.

Subsidiary companies

Accell Group has subsidiary companies in The Netherlands (Batavus, Koga, and Hadee), Germany (Hercules) and France (Lapierre and Mercier). There are local sales organisations in Belgium and Denmark.

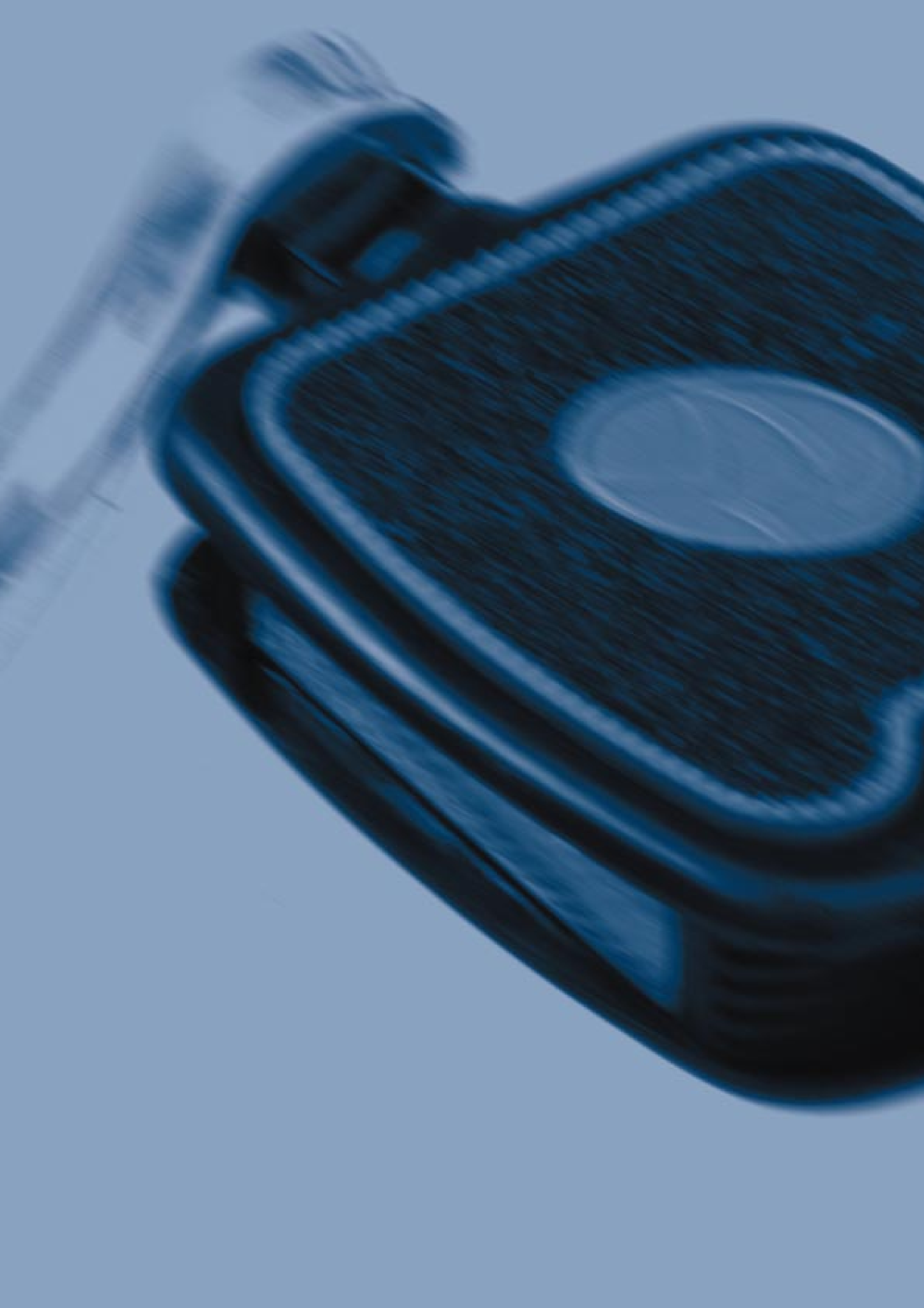


** Accell Group fulfils a holding-function*

Accell Group focuses on the major European cycling countries, i.e. The Netherlands, Belgium, Germany, France, Switzerland, Denmark, Sweden and Austria. Accell Group operates an active local brand policy, which takes advantage of the strongly differentiated bicycle markets in Europe. These brands are Batavus, Koga-Miyata, Hercules, Lapierre and Mercier, Cool! and Loekie for children s and youth bikes. In addition to these brands, the group brands, Be One (mountain bikes) and E-GO (electrically supported bicycles), are sold throughout Europe.

In addition to a strong local brand policy, Accell Group distinguishes itself by means of an efficient logistical organisation. This makes use of a computerised system developed in-house. This system also makes it possible to manage the operating processes with a relatively limited indirect organisation. This achieves, in addition to reliable deliveries, a high degree of flexibility, which means that stocks can remain relatively limited. This is essential for the bicycle industry, considering its seasonal character.

With sales of NLG 329 million in 1998, Accell Group is the third largest bicycle group in Europe. Net profit in the year under review amounted to NLG 9.8 million.



Financial key figures

	(in millions of guilders, unless otherwise stated)			(in millions of euros, unless otherwise stated)		
	1998	1997	1996	1998	1997	1996
		pro forma			pro forma	
Results						
Sales	329.2	302.3	286.9	149.4	137.2	130.2
Operating results	19.3	14.2	17.3	8.8	6.5	7.9
Net profit*	9.8	6.7	7.2	4.5	3.0	3.3
Cash flow	14.5	11.5	12.6	6.6	5.2	5.7
Balance sheet data						
Group equity	43.8	38.0	32.8	19.9	17.2	14.9
Balance sheet total	143.2	132.9	142.7	65.0	60.3	64.8
Capital employed	118.5	101.7	109.4	53.8	46.1	49.6
Investments	3.7	3.3	8.2	1.7	1.5	3.7
Ratios (in %)						
ROCE	16.3	14.0	15.8	16.3	14.0	15.8
ROE	22.5	17.6	22.0	22.5	17.6	22.0
Operating profit/sales	5.9	4.7	6.0	5.9	4.7	6.0
Net profit*/sales	3.0	2.2	2.5	3.0	2.2	2.5
Per share data (x NLG/EUR)						
Net profit	3.56	2.57	2.82	1.62	1.17	1.28
Cash flow	5.25	4.42	4.95	2.38	2.01	2.25
Group equity	15.84	14.58	12.88	7.19	6.62	5.84
Dividend	1.40	PM	PM	0.64	PM	PM

	1998	1997	1996
Number of outstanding shares at year-end	2,762,537	2,603,707	2,544,972
Number of employees	785	758	842

* *From ordinary activities*

Report of the Executive Board

Developments in the markets and in the group companies

General

In 1998, market demand was generally restrained. This was caused by the bad weather conditions in the autumn and the less favourable economic situation in some of the countries that are relevant for us. Based on the market figures known to us, we expect a decrease in the market of some 10% compared to 1997. The greatest decline can be seen in the middle and lower segment of the European market. Volume and price pressure in the higher segment remained relatively limited. Despite these less favourable market conditions, Accell Group managed to achieve an autonomous growth in sales of 9%, thereby further strengthening its market position in Europe.

The Netherlands

Despite some decline in the Dutch market during 1998, mainly due to the bad weather in the autumn, it is still a good market. With sales of roughly 1.2 million bicycles per year, a price level increase of 3 to 5%, a continually increasing brand awareness and the strong position of the specialist retail trade channel (more than 84% of the market), the Dutch market is favourable for our Batavus, Koga-Miyata, Cool!, Loekie and Be One brands. The consumer is buying more bicycles in the more expensive price class. The bicycle is very popular for leisure activities, particularly among older consumers (45 years and up). The expectation is that the over-45 will be less influenced by economic developments. We endeavour to take advantage of demand from this target group, with further product innovation. The company bicycle segment, in which Batavus is the market leader, is still growing. The European brand Be One, represented by Batavus, has now become the second largest brand in the ATB segment of the Benelux market. The growth in the more expensive segment, can compensate for the margin pressure caused by a further concentration in the retail trade, due to purchase combinations and retail chains. Since the end of 1997, Batavus has operated as a supplier of painted frames for Hercules. Additionally, Batavus carries out part of the assembly for Hercules. Partly due to the production for Hercules, Batavus was able to achieve a significant increase in sales. Sales growth for Koga-Miyata, including export, was 20%. The growth in profit was relatively higher.

Hadee, with its Cool! and Loekie brands, occupies a unique position in the European market for children s bicycles. This market behaves like an adult market, with various different segments, price levels, positioning of brands, etc. The higher end of the market for children s bicycles is served by suppliers of top brands to complete their range; the lower end by mass distribution chains, often as a balancing item. The Cool! and Loekie are positioned in the middle segment, which is the largest with regard to volume.

The market share of children s bicycles (as a percentage of the total bicycle market) in the Benelux, Germany and Austria is some 15%; in France 5% and, in Great Britain 35%. As market leader in The Netherlands, Hadee has gradually built up an optimum market position. It is focusing its growth, for the time being, on Germany and France. Roughly 1.1 million children s bicycles are sold annually in the markets relevant for Accell Group. Delivery problems of a major supplier prevented sales in 1998 from reaching initial expectations. As the problems have now been solved, we expect further growth in 1999.

Germany

The German market is estimated to have declined in 1998 by 10% in volume, to roughly 3.8 million bicycles. The decline is mainly in the non-dealer segment of the market (– 50% market share). The German specialist retail trade, however, also declined in volume in 1998. The economic situation and the very bad weather conditions, particularly in the autumn, were the causes of the decline. A positive point is that the average price level remained stable in 1998, particularly in the higher market segment where Accell Group is mainly active. Accell Group has also observed that service and quality are becoming increasingly important within the German specialist retail trade and that the specialist retail trade is becoming more brand-conscious. This is a positive development. Despite the unfavourable market conditions in 1998, Hercules was able to hold its position extremely well. A survey has shown that Hercules has again achieved a leading position within the German specialist retail trade. Sales rose by roughly 20% in 1998. The second reorganisation, implemented in 1997, definitely paid off in 1998. Costs have decreased drastically. Production cooperation with Batavus is going well and has led to further cost savings. Due to the very bad weather conditions in the second half of the year, the sales increase in this period was smaller than expected. This led to the year still being closed with a slight loss. Nevertheless, 1998 shows a significant improvement compared to 1997. The excellent reception of the new collection, the healthy order book for 1999 and the appreciation of the Hercules brand within the specialist retail trade, support our forecast of a positive development of Hercules in the years to come.

France

The French market was also under pressure in 1998. A total decrease in volume of approximately 15% was caused partly by the bad weather conditions and partly by decreased consumer sales for outdoor activities in general. However, a positive development can be seen in the racing bike segment and a shift from the cheap mountain bike to more city bike models. Interest in the BMX segment (off-road bicycles) is also growing. Lapierre is cashing in on this market development by offering more exclusivity in niche markets, in combination with an above-average service and a high degree of flexibility. In addition, Lapierre is further extending its dealer network. The after market (accessories) is expanded further. Despite the difficult market conditions, Lapierre was able to increase its sales by 6%, with a satisfactory profitability.

Mercier was also able to strengthen its position in a rather difficult market segment, the mass distribution chains, with an increase in sales of more than 10%, in relation to 1997, also with a satisfactory profitability. Mercier was able to achieve this by means of distinctive design, a carefully built-up relationship with customers, flexible distribution and competitive pricing. This policy will be continued in 1999. In addition, growth possibilities outside France in the same distribution channels are being looked into.

Explanation of the figures

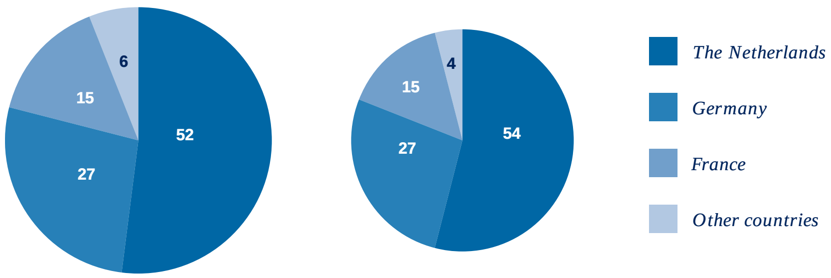
Results

The 1998 net profit amounted to NLG 9.8 million, an increase of more than 47% compared to 1997. The operating profit was NLG 19.3 million (+36%) and amounted to 5.9% of sales.

Sales — geographical —

In comparison with 1997, sales in 1998 increased by approximately 9%. Sales growth was achieved entirely autonomously. In The Netherlands, Batavus and Koga-Miyata, in particular, were able to further improve their market positions. An active volume policy enabled Hercules to make a major contribution to sales growth in Germany. Sales in France increased by more than 7%. Despite a roughly 15% lower market, our group companies were able to maintain their positions. Sales in the rest of the countries in the European Union increased significantly, mainly due to the strong developments at Batavus independent sales companies in Belgium and Denmark. During the first six months of the year, Hadee s sales were slightly under pressure, as a result of supply problems. In the second half of the year, the original market position was regained.

Summary of sales development by country:

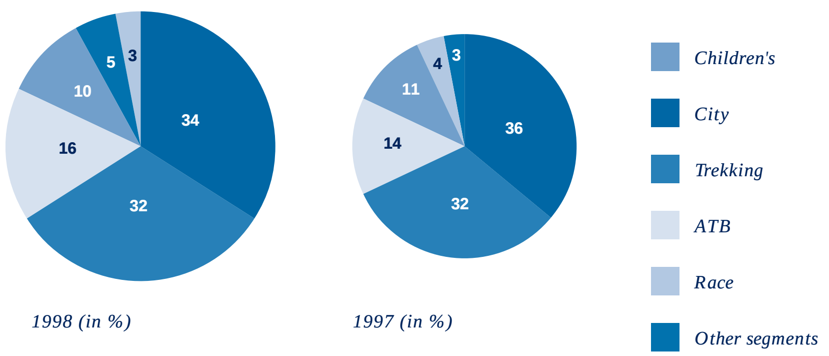


1998 (in %) *1997 (in %)*

Sales — segment —

Sales growth in 1998 was mainly due to the trekking and ATB segment. The trekking segment is very important for our group, where our specialist expertise regarding these products comes to the forefront. Our local brands take optimal advantage of the specific requirements in the European bicycle markets.

The division of sales by segment



1998 (in %) *1997 (in %)*

Personnel

The number of employees increased by 27 to 785. This includes 180 employees with a temporary employment contract. The bicycle market is characterised by a seasonal pattern, which is why Accell Group strongly emphasises the need for the greatest possible flexibility with regard to personnel and costs.

The development in the number of employees:

1998	1997	1996
785	758	842

Costs

The cost structure in the bicycle industry is determined, to a great extent, by material costs. For 1998, this consolidated cost item amounted to more than 63% of sales of Accell Group (1997: 66%). On the one hand, the decrease was due to the composition of the range and, on the other hand, we were able to slightly improve our margins in less favourable market conditions.

Personnel costs rose by almost 5%, to NLG 58 million. Measures to improve efficiency enabled us to limit the cost increase relative to sales increase. The impact of the reorganisation at Hercules, in 1997, was also noticeable. The item Other operating expenses increased considerably in 1998, to what is nevertheless a normal level for our activity. Due to exceptional influences in 1996 and 1997, as a result of the reorganisations at Hercules, the amounts are not comparable. The costs are largely variable. Over the next few years, we expect a stabilisation at roughly the current relative level. The level of the net financial expense was in line with previous years.

Balance sheet

The balance sheet total increased by approximately 8%, to NLG 143.2 million. This is a very low level for our industry (43% of sales), and points to an efficient use of assets. In 1998, investments amounted to NLG 3.7 million. These investments relate mainly to a large number of relatively smaller replacement investments. Stocks increased by approximately 33%, to NLG 71 million. As a result of the bad weather conditions, there was some restraint in our markets in purchasing (winter) stocks. However, we expect this to return to a normal level in the course of the first six months of 1999. The item Receivables decreased to NLG 45 million, primarily as a result of the final settlement of fiscal positions with regard to the demerger of Atag Holding N.V., realised in October 1998. Solvency (group equity as a percentage of the balance sheet total) amounted to 30.6%. Our objective is to finally achieve a solvency of 35 to 40%.

Objectives and strategy

In 1998, Accell Group had set itself the target, in addition to recovering net income, of creating strong initial positions for the existing group companies. With an increase in sales of 9% and an increase in net income of 47%, we achieved this, despite the less favourable market conditions.

Our successful company strategy is based on the use and continual improvement of our high standard of expertise in all primary processes, with a specific emphasis on innovation, logistical planning, marketing and sales. Design and distinctive product specifications, geared to the local market, are central to the product development. When making the decision whether to carry out activities in-house or to outsource, Accell Group s primary consideration is the choice of solution that makes the best contribution to the distinctive characteristics of Accell Group products, with regard to efficiency, quality, flexibility and reliability. As the activities are increasingly outsourced, the more important the management of the flow of goods becomes. In-house bicycle production takes place efficiently, with the support of a computerised system, developed in-house, that meets the specific requirements of the bicycle industry. Core elements of the marketing and sales activities are aimed at the business-to-business customer and the end user: strong brands, added value in products and services and the development of long-term relationships. Accell Group follows an active local brand policy.

The success of the group is based partly on strong national brands, which are established in specific national markets. Competition in the middle and higher segment of the market is based less on price and more on quality and service, which means that better margins can generally be achieved. Our brand policy takes advantage of the strongly differentiated bicycle market in Europe. In addition, wherever desirable and possible, we take initiatives on a European level. Examples of this are the international brands, Be One and E-GO.

In the coming years, we will focus our attention on further strengthening our market positions in countries where there is room for branded bicycles in the middle and higher segment of the market. These bicycles are usually sold through the bicycle specialist retail trade. The segment selected by Accell Group is less volatile, owing to the fact that the end users have a high preference for strong brands and demonstrate a commitment to the products they buy. There is more room in this segment to develop and make optimum use of distinctive capabilities, enabling higher margins to be achieved. A further strengthening of our European market position will initially be aimed at the German-speaking countries and Scandinavia. In addition to autonomous growth, we are striving for growth through acquisitions that fit into our marketing and sales policy. In 1999, we will also pay strict attention to the further promotion of the synergy between the companies, particularly in the area of production, purchasing, development and marketing.

In order to further strengthen the distinctive character of the Accell brands and our position in relation to the competition, we aim to introduce several innovations into the market in 1999. Finally, in 1999, we expect to reap the fruits of a project started in 1998. This gears the organisation and process management at Batavus more efficiently to the size of the company formed by the production cooperation with Hercules. Batavus fulfils a key role in production within Accell Group. We expect to be able to realise the necessary efficiency improvements.

Prospects

For 1999, we are assuming that the situation in our markets will remain unchanged. Based on our strategy, we expect to be able to further strengthen our positions in a number of markets, particularly in Germany, Belgium and Scandinavia.
In the long run, we are allowing for growth of the European market, particularly in the middle and higher market segment. More leisure time for the consumer, growth of the older consumers target group, concern for health, increasing traffic and increasing interest in the bicycle from European governments are positive developments for our product. With demand stabilising in some markets, our prospects for 1999 are positive. Our group companies have created strong initial positions, enabling them to further increase their market share. We therefore expect an increase of sales and profit in 1999.

Heerenveen, 11 February 1999

J.J. Wezenaar, Chairman
W.A. de Jong

Recommendations of the Peters Commission with regard to corporate governance

With regard to the 40 recommendations drawn up by the Peters Commission, the Executive Board and the Supervisory Board (in this context jointly referred to as: company management) confirm that nearly all the recommendations have been, or will be, adopted. The view of the company management per recommendation is as follows:

Recommendations 1 to 14

The company management endorses these recommendations and meets the requirements set out in these recommendations.

Recommendation 15

The establishment of a remuneration, nomination and audit committee within the Supervisory Board

The Supervisory Board currently has no separate committees, nor does it intend to establish any such committees.

Recommendations 16 to 21

The company management endorses these recommendations and meets the requirements set out in these recommendations.

Recommendations 22 and 23

These recommendations will be endorsed on condition that the anonymity of the individual members and any former members of management is guaranteed.

Recommendation 24

Personnel option scheme

The company has an option scheme for the Executive Board and some top management positions.

Recommendations 25 to 28

The company management endorses these recommendations and meets the requirements set out in these recommendations.

Recommendation 29

Summary of the influence of investors based on six checkpoints

The company management will continually provide (timely) information to investors with regard to the strategic policy of the company regarding growth perspective, the business sectors in which the company is active, the risk profile and the targeted profit level, as well as with regard to major changes in the nature and size of the company. Much attention was paid to these matters in the Introduction Memorandum and Prospectus. The company management spent a great deal of time on and a great deal of attention to investor relations and will continue to do so. The company management is of the opinion that investors can exercise sufficient influence with regard to the remaining matters mentioned in the check points and sees no reason to terminate the policy that they wish to follow, as is set out in the articles of association. The company management therefore feels that the dividend policy is primarily the business of the company management. It is, after all, responsible for financing with internal and external capital. The basic principle of the dividend policy to be operated is clearly stated in the Introduction Memorandum and Prospectus.

The General Meeting of Shareholders granted the company management the authority, for a limited period, with regard to the size and composition of the share capital and the priority rights. Since, in the opinion of the company management, this authority is required for a policy aimed at autonomous growth and growth through acquisitions and cooperation, the company management sees no reason for a change of this policy. This equally applies to its authority with regard to a change in the articles of association. Authority to approve the annual accounts is with the General Meeting of Shareholders, without restriction.

Recommendation 30

Request for the inclusion of agenda points from investors

This recommendation is endorsed with regard to investors who, jointly or severally, represent 1% or more of the issued share capital.

Recommendation 31

Quality/specialisation investment analysis

This recommendation is endorsed.

Recommendation 32

Proxy solicitation

The company management is aware that work is being done to set up such a system. It follows the developments with interest.

Recommendation 33

Bids for shareholdings of > 50%

This recommendation has been accepted for notification.

Recommendation 34

Reporting recommendations in the annual report

This recommendation is endorsed.

Recommendation 35

Verification by auditor

The Supervisory Board is of the opinion that the auditor has no role here.

Recommendations 36 to 39

The company management endorses these recommendations and meets the requirements set out in these recommendations.

Recommendation 40

Purchase of own shares

The company management is in favour of the possibility to purchase own shares without fiscal encumbrances.

Report of the Supervisory Board

To the Shareholders

On behalf of the Supervisory Board I hereby present you with the annual accounts, as drawn up by the Executive Board. These were adopted by us on 11 February 1999. The annual accounts were audited by Deloitte & Touche Registeraccountants, who issued an unqualified auditors report. The auditors report is included on page 40 of this annual report.

We advise you to approve the annual accounts, including the proposal of profit appropriation and to discharge the Executive Board of responsibility in respect of its management and the Supervisory Board of responsibility in respect of its supervisory activities.

Since the establishment of the company, Accell Group N.V., and the stock exchange introduction on 1 October 1998, the Supervisory Board has met three times. In these meetings, the budgets and the strategy of the company, in particular, were discussed and reported on in writing by the Executive Board. As the Central Works Council was established at the beginning of 1999, no consultation has yet taken place. It is intended to meet twice a year. As you can read elsewhere in the annual report, the majority of the Recommendations of the Peters Commission with regard to corporate governance have been accepted. Attention will be given to this in our future meetings.

When Accell Group was introduced, it was announced that the Chairman of the Executive Board, Mr. Wezenaar, will retire soon after the demerger, due to his age. In this respect, Mr. R.J. Takens (44) will be taking up the position of member of the Executive Board of Accell Group from 1 January 1999. He will, at the same time, fulfil the function of Managing Director of Batavus, as successor to Mr. De Jong, who will once more focus on his function as Chief Financial Officer of Accell Group. The plan is for Mr. Takens to succeed Mr. Wezenaar as of 1 September 1999. Partly because of his considerable experience and expertise, we intend to appoint Mr. Wezenaar as Supervisory Board Member of the company from 1 September 1999.

Finally, the Supervisory Board would like to express its appreciation for the way in which the Executive Board and all employees have, throughout the year, realised the progress of the company.

On behalf of the Supervisory Board,
J.B.Th. Manschot, Chairman

Financial statements 1998

Consolidated balance sheet as at 31 December 1998

After appropriation of profit (in thousands of guilders)

	1998	1997 *pro forma*
ASSETS		
Fixed assets		
Tangible fixed assets (1)	26,659	27,732
	26,659	27,732
Current assets		
Stocks (2)	71,476	53,874
Receivables (3)	44,966	51,281
Cash	62	36
	116,504	105,191
Total assets	143,163	132,923

(The numbers refer to the notes on page 29)

	1998	1997 *pro forma*
LIABILITIES		
Group equity (4)	43,770	37,955
	43,770	37,955
Deferred investment premiums	639	695
Provisions (5)	10,929	11,894
Long-term liabilities (6)	32,140	21,019
Current liabilities (7)	55,685	61,360
Total liabilities	143,163	132,923

(The numbers refer to the notes on page 29)

Consolidated profit and loss account for 1998

(in thousands of guilders)

	1998	1997 *pro forma*
Sales (8)	329,240	302,306
Other operating income (9)	614	- 565
Net sales	329,854	301,741
Costs of goods sold	208,521	198,337
Personnel costs (10)	58,030	55,399
Depreciation (11)	4,674	4,826
Other operating expenses	39,325	28,951
	310,550	287,513
Operating profit	19,304	14,228
Net financial income and expense	- 3,697	- 3,930
Profit on ordinary actvities before taxes	15,607	10,298
Taxes	- 5,771	- 3,619
Net profit*	9,836	6,679

** Net profit for 1997 refers to the pro forma results from ordinary activities after taxes. Extraordinary expenses for 1997 were NLG 4,165,000 after taxes.*

Consolidated cash flow statement

(in thousands of guilders)

	1998	1997 *pro forma*
Cash flow from operating activities		
Net profit (from ordinary activities)	9,836	6,679
Extraordinary expenses (after tax)	—	- 4,165
Depreciation	4,730	4,878
Movements in investment grants	- 56	- 52
Movements in provisions	- 965	- 3,745
Movements in stocks	- 17,602	9,281
Movements in receivables	6,315	- 8,632
Movements in current liabilities	- 3,724	3,073
Net cash flow from operating activities	- 1,466	7,317
Cash flow from investments		
Investments in tangible fixed assets	- 3,772	- 3,268
Disposals fixed assets	84	7,502
Other transactions	31	15
Net cash flow from investments	- 3,657	4,249
Cash flow from financing activities		
Long-term liabilities contracted	30,000	975
Repayments of long-term liabilities	- 18,879	—
Loan conversions	—	3,000
Movements in bank overdraft	- 1,951	- 15,212
Dividend payments	- 3,934	—
Other movements	- 87	- 345
Net cash flow from financing activities	5,149	- 11,582
Solvency		
Total net cash flow	26	- 16
Position cash as at 1 January	36	52
Position cash as at 31 December	62	36

Accounting policies

General principles for the compilation of the consolidated annual accounts

Demerger of activities

Accell Group N.V. originates from the demerger of bicycle activities of Atag Holding N.V. This demerger was legally realised on 1 October 1998, with effect retroactively as of 1 January 1998. The first financial year of Accell Group runs from 1 January 1998 to 31 December 1998. For the purpose of insight into the annual accounts, the pro forma figures for the bicycle division for 1997 have been included in the profit and loss account, as comparative pro forma figures. The corresponding figures in the balance sheet are the assets and liabilities as they were included in the demerger.

Group hierarchy

Accell Group N.V. heads a group of legal entities. A summary of the details required on the basis of articles 2:379 and 2:414 of the Dutch Civil Code is included in the cover page of this annual report.

Consolidation

The financial details of the companies belonging to the group are incorporated in the consolidated annual accounts of Accell Group N.V. The consolidated annual accounts are drawn up using the principles for the valuation and determination of the results of Accell Group N.V.
The financial details of the group companies are included in their entirety in the consolidated annual accounts with the exception of intercompany transactions and balances. Third party interests in the capital and in the results of group companies are individually stated in the consolidated annual accounts. The results of newly acquired subsidiaries are consolidated from the time of acquisition. The results of demerged subsidiaries are incorporated in the consolidation up until the date of disposal in the case of demerger or direct sale. Results of subsidiaries for which the decision to liquidate has been made, are consolidated from 1 January of the year in which this decision was made. The goodwill is charged directly to the group equity. The financial details of Accell Group N.V. are incorporated in the consolidated annual accounts so that, using article 2:402 of the Dutch Civil Code, we have sufficed with an abridged profit and loss account in the company annual accounts.

General

The valuation of assets and liabilities is carried out on the basis of historic cost. Unless stated with the relevant item, the assets and liabilities are included against nominal value. Income and expenditure are charged to the year to which they relate. Profits are only included insofar as they have been realised. Losses and risks originating from before the end of the year under review will be taken into consideration in the year in question.

Foreign currency translation

Receivable, payables and other liabilities in foreign currencies are converted at the rate of exchange ruling on the balance sheet date, unless the exchange rate risk is covered, in which case, valuation is made against contracted forward rates. Transactions in foreign currencies during the period under review are incorporated in the annual accounts at the rate on the date of settlement. The exchange rate differences arising from the translation on the balance sheet date are included in the profit and loss account. The rate of exchange on the balance sheet date is used for the translation of the annual accounts of the group companies outside The Netherlands and non-consolidated subsidiaries. Any currency translation differences arising will be debited or credited directly to the group equity.

Valuation principles for assets and liabilities and for the determination of the results

The main principles are as follows:

Tangible fixed assets

The tangible fixed assets are stated at cost accumulated depreciation calculated on the basis of the estimated useful economic life of the asset concerned. If any, the residual value of the asset will be taken into account.

Financial fixed assets

Interests in companies over whose commercial and financial policy the group exercises a significant influence are shown at net asset value. This value is determined using the accounting policies applied by Accell Group. Interests in companies where the group does not exercise a significant influence are stated at cost. The valuation of participating interests takes into account permanent impairment in value, if any.

Stocks

Stocks are valued at cost after deducting provisions for obsolescence, if this is deemed necessary.

Receivables

The provision for collection risks is deducted from the receivables.

Provisions

No specific asset-related provisions are made. General provisions are made to cover the commitments and risks arising from business operations.

Pensions

The provision for pensions is based on actuarial calculations and is stated at discounted value.

Deferred taxation

The provision for deferred taxation includes those temporary timing differences in tax liability caused by differences between the commercial and fiscal valuation of assets and liabilities. The provision calculated at the current rate at the end of the year.

Deferred investments premiums

Investment premiums are released to the profit and loss account over the term of the depreciation of the asset concerned, from the moment the asset is put into use.

Sales

Sales represent the net amounts charged to customers in respect of services rendered and goods supplied in the period under review, excluding taxes.

Extraordinary income and charges

Extraordinary income and charges are those resulting from events outside the group s normal business activities.

Taxes

Taxes are calculated on the results as determined in accordance with the accounting policies as stated above. Taxes due are calculated using current fiscal regulations. Taxation on extraordinary income is calculated at the current rate.

Principles of the cash flow statement

General

The cash flow statement is compiled according to the indirect method. The funds in the cash flow statement consist of cash. Cash flow in foreign currency is converted against the rate of exchange current on the balance sheet date. Income and expenditure with regard to interest and tax on profits are included under the cash flow from operating activities. Dividends to be paid out are included in the cash flow from financing activities. Transactions where no exchange of cash occurs, including financial leasing, are not included in the cash flow statement.

Composition of liquid resources

This item consists entirely of cash in hand and at the bank and is immediately freely available.

Explanation of the cash flow

Investments in tangible fixed assets include only those investments for which funds have been used in 1998. The investments mainly relate to replacements. The cash flow with regard to financing activities includes the redemption of a long-term loan of NLG 18.9 million, which mainly concerned a repayment to Atag Holding N.V. and which arose from the demerger realised on 1 October 1998.

Notes to the consolidated financial statements

(in thousands of guilders, unless otherwise stated)

1. TANGIBLE FIXED ASSETS

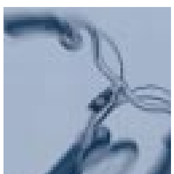
	Land and buildings	*Machinery, installations and other fixed assets*	*Total tangible fixed assets*
Net book value as at 1 January 1998	17,058	10,674	27,732
Additions	273	3,499	3,772
Disposals	- 27	- 65	- 92
Depreciation	- 1,257	- 3,473	- 4,730
Various movements	29	- 52	- 23
Net book value as at 31 December 1998	16,076	10,583	26,659

Position as at 31 December 1998

Book value	25,634	46,019	71,653
Accumulated depreciation	- 9,558	- 35,436	- 44,994
Net book value as at 31 December 1998	16,076	10,583	26,659

The following depreciation percentages apply to the fixed assets:

Land	*0%*
Buildings	*3-5%*
Machinery, installations and other fixed assets	*10-15%*



2. STOCKS

	1998	1997 *pro forma*
Raw materials and consumables	39,996	30,279
Work in progress	5,671	5,046
Finished goods	25,809	18,549
	71,476	53,874

3. RECEIVABLES

Trade debtors	41,391	39,954
Other debtors, prepayments and accrued income	3,575	11,327
	44,966	51,281

The receivables are considered current.

4. GROUP EQUITY

See notes to the company balance sheet.

5. PROVISIONS

Pensions	5,432	5,240
Deferred taxes	1,197	1,353
Guarantee commitments	1,429	1,449
Other provisions*	2,871	3,852
	10,929	11,894

The provisions are predominately of a long-term nature.

The other provisions primarily concern provisions for major maintenance and reorganisations.

* *The decline of the item Other provisions mainly concerns the costs of reorganisation in Germany.*

6. LONG-TERM LIABILITIES

	Outstanding	*Due within*	*Remaining*	*Term*
				< 5 years
Roll-over loans *	30,000	—	30,000	30,000
Other loans *	2,140	527	1,613	1,613
	32,140	527	31,613	31,613

** With the exception of some conditions of a general nature, no securities have been given with regard to bank credit. The rate of interest is variable.*

7. CURRENT LIABILITIES

	1998	1997
		pro forma
Bank Loans *	31,130	33,081
Creditors	8,218	15,799
Dividends	3,934	—
Taxes and social security contribution	8,846	2,244
Other creditors and accrued charges	3,557	10,236
	55,685	61,360

** With the exception of some conditions of a general nature, no securities have been given with regard to bank credit. The rate of interest is variable.*

Additional information based on current valuations

The determination of assets and results based on current value leads to a different outcome than which is included in the annual accounts. The influence of the price changes is calculated as follows. The current value of the land is estimated on the basis of quotations from external sources. The current value of the company buildings is determined on the basis of valuations made by independent valuers. The current value of stocks is almost the same as the valuation in the balance sheet. A reserve is created for deferred tax liabilities on the valuation adjustments calculated in this way, calculated on the basis of the nominal applicable rate. Application of the above leads to a group equity, based on current value, that is approximately NLG 8.3 million higher than the capital in the consolidated balance sheet at 31 December 1998. The adjustment of the 1998 results as a result of higher depreciation based on current value comes to approximately NLG 1.2 million after deduction of taxes.

8. SALES

The distribution of sales covering The Netherlands, Germany, France, the remaining EU countries and the rest of Europe is as follows.

	1998	1997 *pro forma*
The Netherlands	171,159	164,454
Germany	89,693	81,622
France	48,833	45,527
Rest of EU	18,752	10,346
Remainder	803	357
	329,240	302,306

9. OTHER OPERATING INCOME

This concerns the share of costs from stock movements.

10. PERSONNEL COSTS

Wages and salaries	43,273	42,385
Social security contributions	10,835	9,987
Pension costs	2,370	2,071
Profit sharing scheme	1,552	956
	58,030	55,399

In accordance with the provisions of Article 2:383, Section 1 of the Dutch Civil Code, we hereby declare that the following have been charged to the company in the year under review:

— as directors remuneration NLG 826,000

— as Supervisory Board member s remuneration NLG 19,200 (as of 1 October 1998)

No remuneration was paid to former directors or former Supervisory Board members.

The average number of employees was 785 (1997: 758).

11. DEPRECIATION

Tangible fixed assets	4,730	4,878
Investment premiums	- 56	- 52
	4,674	4,826

Company balance sheet as at 31 December 1998

After profit appropriation (in thousands of guilders)

	1998	1997 *pro forma*
ASSETS		
Fixed assets		
Tangible fixed assets	—	—
Financial fixed assets [a)]	89,280	70,255
Current assets	—	458
Total assets	89,280	70,713

(The letters refer to the notes on pages 36 and 37)

	1998	1997 *pro forma*
LIABILITIES		
Group equity [b)]		
Issued share capital	276	276
Share premium account	20,259	20,200
Other reserves	23,235	17,479
	43,770	37,955
Current liabilities		
Dividends	3,934	2,995
Amounts owed to group companies	1,306	14,448
Banks	35,016	13,240
Other liabilities	5,254	2,075
	45,510	32,758
Total liabilities	89,280	70,713

(The letters refer to the notes on pages 36 and 37)

Company profit and loss account for 1998

(in thousands of guilders)

	1998	1997 *pro forma*
Results from participations after taxes	10,065	6,635
Other results	- 229	- 44
Net profit*	9,836	6,679

** Net profit for 1997 is the pro forma result from ordinary activities after taxes.*
Extraordinary expenses in 1997 were NLG 4,165,000 after taxes.

Supervisory Board

J.B.Th. Manschot, Chairman

S.W. Douma

D.J. Haank

Executive Board

J.J. Wezenaar, Chairman

W.A. de Jong

Heerenveen, 11 February 1999

Notes to the company balance sheet

(in thousands of guilders)

A. FINANCIAL FIXED ASSETS

	1998	1997 *pro forma*
Participating interest		
Position as at 1 January	47,895	40,110
Results	10,065	6,538
	57,960	46,648
Investments/disposals	—	- 6,751
Participating interest	—	- 654
Other movements	- 2,255	8,652
Positions as at 31 December	55,745	47,895
Receivables from group companies		
Position as at 1 January	22,360	56,176
Loans granted	22,209	—
Repayment	- 11,034	- 33,816
Position as at 31 December	33,535	22,360
Total financial fixed assets	89,280	70,255

Liabilities not included in the balance sheet

The legal entity is part of the Accell Group N.V. fiscal entity and by virtue of this is liable for taxes payable by the fiscal entity as a whole.

The company has financial obligations with regard to long-term commitments arising from lease-agreements concerning IT equipment and vehicles. The total outstanding amount of these agreements is NLG 2,158,000 and will be fully paid within 5 years. NLG 1,025,000 will be paid within 1 year.

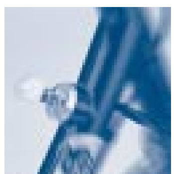
B. GROUP EQUITY

The company s authorised share capital amounts to NLG 1,300,000, divided into 5,500,000 ordinary shares Accell Group, 1,000,000 preference shares F and 6,500,000 preference shares B, each with a nominal value of NLG 0.10. Of these, 2,762,537 are issued and paid up ordinary shares, so that the outstanding share capital is NLG 276,253.70.

Issued share capital	
Position as at 1 October 1998	276
Movements	—
Position as at 31 December 1998	276
Share premium account	
Position as at 1 October 1998	20,259
Movements	—
Position as at 31 December 1998	20,259
Other provisions	
Position as at 1 October 1998	17,420
Results for the 1998 financial year	9,836
Proposed dividend for 1998	- 3,934
Other movements	- 87
Postions as at 31 December 1998	23,235
Total group equity	43,770

Option scheme

There is an option scheme for members of the Executive Board, aimed at strengthening involvement in the company in the long term. This option scheme was introduced during the year under review. The number of options to be granted is fixed by the Executive Board, subject to approval of the Supervisory Board. Options granted in this way have a term of 3 years. The combined securities holdings of the Executive Board of Accell Group at the end of 1998 consisted of 33,450 option rights to shares as well as 2,036 shares. In the year under review, a total of 22,000 options were granted against an exercise price of NLG 33.76 and with a term of 3 years. The combined securities holdings of the Supervisory Board at the end of 1998 consisted of 6,500 option rights to shares as well as 23,319 shares. The outstanding option rights for the Executive Board and the Supervisory Board at the end of 1998, with the exception of option rights granted in the year under review, consist of rights of its legal predecessor, Atag Holding N.V. After the demerger, on 1 October 1998, no rights or remuneration were granted or was paid to the holders of options on Atag Holding N.V., now Atag Group N.V., at the expense of Accell Group, although the existing rights also include the right to simultaneously acquire or receive shares in Accell Group.



Other information

Provisions of the articles of association regarding profit appropriation

Article 26 (partial)

Clause 4

The Executive Board has, subject to approval of the Supervisory Board, the authority to determine which part of the profit shall be reserved, after payment of dividends to the holders of both preference shares B and preference shares F.

Clause 5

The profit, after reservation in accordance with the previous clause, is available to the General Shareholders Meeting.

The appropriation of profit has been incorporated in the balance sheet in accordance with Article 26 of the Articles of Association.

Dividend proposal

Dividend to be paid in cash of NLG 1.40 per ordinary share of NLG 0.10 nominal value, or a dividend in shares debited to the share premium reserve, of which the final percentage will be announced one week before the shareholders meeting.

Accell Group Preferential Shares Foundation

(Stichting Preferente Aandelen Accell Group) Accell Group Preference Shares Foundation is incorporated under Dutch law and is registered, in accordance with the Articles of Association in Heerenveen. An agreement has been reached with the foundation on the basis of which preference shares B can be issued to the corporation. At present, no preference shares B in the capital of the company have been issued.

The Board of the foundation consists of two management members A, Messrs. *H.J.M.N. Honee* and *B. van der Meer* and one management member B, *G.F.W.M. Pikkemaat*.

According to the joint opinion of the company and the Board of the foundation, the foundation is independent from the company in accordance with appendix X of the Listing and Issuing rules of Amsterdam Exchanges N.V.

Background information on members of the Supervisory Board of Accell Group N.V.

J.B.Th. Manschot (56)

Nationality: Dutch
Former chairman of the Board of Directors of Atag Holding N.V.
Major other positions:
— member of the Supervisory Board of Atag Group N.V.;
— member of the Supervisory Board of Stork N.V.;
— member of the Supervisory Board of Nedcon Group N.V.;
— chairman of the Supervisory Board of Ubbink N.V.
First appointment: 1998.
Current term: 1998 — 2002.

S.W. Douma (56)

Nationality: Dutch
Professor of business economics at the Catholic University of Brabant.
Additional positions:
— member of the Supervisory Board of Atag Group N.V.
— chairman of the Supervisory Board of Univ Verzekeringen
First appointment: 1998.
Current term: 1998 — 2002.

D.J. Haank (45)

Nationality: Dutch
Chief Executive Officer of Elsevier Science B.V., Reed Elsevier division.
First appointment: 1998.
Current term: 1998 — 2002.

Auditor s report

Introduction

We have audited the 1998 financial statements of Accell Group N.V. in Heerenveen. These financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in The Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements of Accell Group N.V. give a true and fair view of the financial position of the company as of 31 December 1998 and of the result for the year then ended in accordance with accounting principles generally accepted in The Netherlands and comply with legal requirements for financial statements as included in Part 9, Book 2 of The Netherlands Civil Code.

Amersfoort, 11 February 1999
Deloitte & Touche Registeraccountants

Risk factors

In addition to several general risk factors, such as the influence of weather, dependency on suppliers, product liability and environmental aspects, the following risks also play a role.

Currency and interest risks

The treasury activities of Accell Group are integrated at some larger group companies, under the supervision of the financial department. The treasury activities are not seen as a separate profit centre. Part of the components used by our group are purchased in foreign currencies, mainly U.S. dollars and yen. The strategy of Accell Group is aimed at minimising currency risks. It is therefore also our policy to hedge our requirements for these currencies to a large extent per bicycle season (September through August). Therefore, when setting our sales prices we also take into account, as far as commercially possible, the average hedged forward rates. In addition to controlling currency risks, several methods are employed for controlling interest risks. Financing is done mainly in the Euro currency and is principally short-term. A substantial part of the interest rates is hedged annually beforehand.

Financial derivatives are only used when there is an underlying commercial basis.

Introduction of the euro

The phased introduction of the euro will have consequences for Accell Group. The introduction of the euro within Accell Group is being coordinated centrally. The introduction of the euro is expected to lead to several modifications of our ERP system. The costs incurred in this will be debited to the profit and loss account. As far as we can judge, the introduction of the euro into our computerised system will not lead to any significant extra costs.

The millennium problem

Accell Group has developed a computer system in-house, which is already functioning at all its group companies. The IT Support Department of Accell Group already began at an early stage with making our corporate ERP system and the relevant infrastructure millennium-proof. All our applications were prepared for the year 2000 at the end of 1997.

Financial overview

(in millions of guilders, unless otherwise stated)

	1998	1997	1996	1995
		pro forma		
Sales	329.2	302.3	286.9	211.2
Personnel costs	58.0	55.4	57.8	33.9
Operating profit	19.3	14.2	17.3	15.3
Interest	3.7	3.9	4.1	1.9
Taxes	5.8	3.6	6.0	4.2
Net profit*	9.8	6.7	7.2	9.2
Depreciation	4.7	4.8	5.4	3.5
Cash flow	14.5	11.5	12.6	12.7
Investments	3.7	3.3	8.2	8.1
Balance sheet total	143.2	132.9	142.7	130.1
Fixed assets	26.7	27.7	35.2	33.3
Capital employed	118.5	101.7	109.4	88.6
Group equity	43.8	38.0	32.8	25.8
Provisions	10.9	11.9	15.6	17.0
Employees (average)	785	758	842	578
Per share data				
Group equity	15.84	14.58	12.88	10.45
Cash flow	5.25	4.42	4.95	5.14
Net profit*	3.56	2.57	2.82	3.73
Dividend	1.40	PM	PM	PM
Ratios (in %)				
ROCE	16.29	13.96	15.81	17.27
ROE	22.37	17.63	21.95	35.66
Operating profit/sales	5.86	4.70	6.00	7.24
Net profit*/sales	2.98	2.22	2.51	4.36
Cash flow/sales	4.40	3.80	4.39	6.01
Balance sheet total/sales	43.50	43.96	49.74	61.60
Solvency	30.59	28.59	22.99	19.83
Pay-out ratio	40.03	PM	PM	PM
Number of shares issued				
at year-end	2,762,537	2,603,707	2,544,972	2.469.264

** Net profit from ordinary activities*

(in millions of euros, unless otherwise stated)

	1998	1997	1996	1995
			pro forma	
Sales	149.4	137.2	130.2	95.8
Personnel costs	26.3	25.1	26.2	15.4
Operating results	8.8	6.4	7.9	6.9
Interest	1.7	1.8	1.9	0.9
Taxes	2.6	1.6	2.7	1.9
Net profit*	4.4	3.0	3.3	4.2
Depreciation	2.1	2.2	2.5	1.6
Cash flow	6.6	5.2	5.7	5.8
Investments	1.7	1.5	3.7	3.7
Balance sheet total	65.0	60.3	64.8	59.0
Fixed assets	12.1	12.6	16.7	16.0
Capital employed	53.8	46.1	49.6	40.2
Group equity	19.9	17.2	14.9	11.7
Provisions	4.9	5.4	7.1	7.7
Employees (average)	785	758	842	578
Per share data				
Group equity	7.19	6.62	5.84	4.74
Cash flow	2.38	2.00	2.25	2.25
Net profit*	1.62	1.17	1.28	1.69
Dividend	0.64	PM	PM	PM
Ratios (in %)				
ROCE	16.29	13.96	15.81	17.27
ROE	22.37	17.63	21.95	35.66
Operating profit/sales	5.86	4.70	6.00	7.24
Net profit*/sales	2.98	2.22	2.51	4.36
Cash flow/sales	4.40	3.80	4.39	6.01
Balance sheet total/sales	43.50	43.96	49.74	61.60
Solvency	30.59	28.59	22.99	19.83
Pay-out ratio	40.03	PM	PM	PM
Number of shares issued at year-end	2,762,537	2,603,707	2,544,972	2,469,264

** Net profit from ordinary activities*

The Accell Group share

Accell Group N.V. has been listed on the AEX-Stock Exchange since 1 October 1998. On 31 December 1998, 2,762,537 ordinary shares with a nominal value of NLG 0.10 were issued.

Major holdings based on the Major Holdings in Listed Companies Disclosure Act

Based on the above-mentioned act, the following announcements have been made:

ABN AMRO Small Companies Netherlands Fund N.V.

Aegon N.V.

B.V. Algemene Holding and Financierings Maatschappij

AMEV/VSB 1990 N.V.

Darlin N.V.

Share option scheme

When the company was introduced on the Stock Exchange, the Supervisory Board introduced a share option scheme for the Executive Board of Accell Group (see page 37).

Sales in shares in the Accell Group during 1998

	Number*	highest price	lowest price	closing price
October	446.792	32.90	22.00	25.60
November	501.472	31.50	24.50	30.70
December	204.578	31.00	23.40	26.50
Total	1.152.842	32.90	22.00	26.50

** Double counting*

Dividend policy

Accell Group aims to pursue a stable dividend policy geared at payment of approximately 40% of the net profit.
The Executive Board proposed to offer shareholders in Accell Group an optional stock dividend.

Important dates in 1999

General Meeting of Shareholders 14:30 hrs, 9 April 1999
The Golden Tulip Tjaarda Oranjewoud Hotel, The Netherlands
Koningin Julianaweg 68, 8453 WH Oranjewoud.
There will also be an opportunity to visit the factories.

Publication of the half-yearly results 15 July 1999

Colophon

Coordination, production and distribution

De Bussy Amsterdam BV, Amsterdam, in cooperation with Concepts Design, Amsterdam (design).

' Accell Group N.V., Heerenveen, March 1999