



CONSOLIDATED FINANCIAL STATEMENTS  
FINANCIAL STATEMENTS OF THE HOLDING

# FINANCIAL STATEMENTS 2009



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## FINANCIAL REVIEW

### Key financial developments in 2009

- **Gross sales:** Group gross sales of CHF 5 421 million, on comparable basis (excluding 2008 divestments of Sokymat and Michel) -6.3% at constant exchange rates and -8.1% in total lower than in the record year 2008. Record month of December, which also was the best month in 2009.

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- **Segments:** Watch segment sales with a decrease at constant rates of -5.5% largely outperform Swiss Watch Federation export sales (-22.3% in 2009), gaining market shares for the Group in practically all price segments and markets.

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- **Operating profit:** Operating profit reaches CHF 903 million or 17.6% on net sales (versus 21.2% in 2008, with a very strong performance in the second half-year (EBIT margin of over 20%).

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- **Net income:** Net income amounts to CHF 763 million, -8.9% less than in 2008, with 14.8% of net sales the same as in the previous year.

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- **Earnings per share:** Basic EPS of CHF 2.89 per registered share (2008: CHF 3.15) and CHF 14.47 per bearer share (2008: CHF 15.75).

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- **Dividend:** Dividend 2009 proposed: CHF 0.80 per registered share and CHF 4.00 per bearer share.

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- **Outlook:** A good start in 2010, January sales representing the second-best month of January in the history of the Group, with an excellent outlook for the Group for the rest of this year.

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### Financial review

#### 1. Operating results

#### Key figures Group

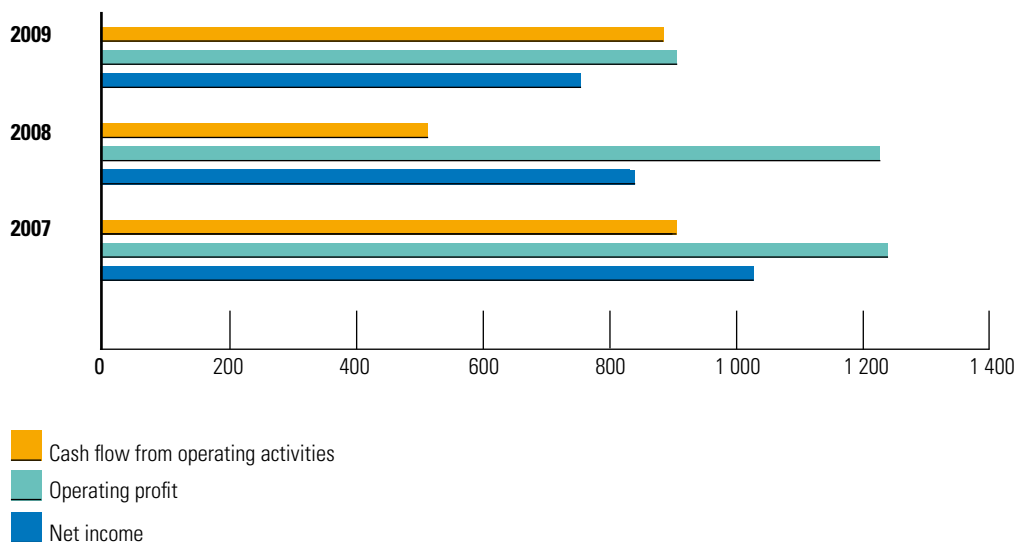
(CHF million)	2009	2008	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales, adjusted<sup>1)</sup></b>	<b>5 421</b>	5 900	-6.3%	-1.8%	-8.1%
<b>Gross sales, as disclosed</b>	<b>5 421</b>	5 966	-7.3%	-1.8%	-9.1%
<b>Net sales</b>	<b>5 142</b>	5 677			-9.4%
<b>Operating profit</b>	<b>903</b>	1 202			-24.9%
– in % of net sales	<b>17.6%</b>	21.2%			
<b>Net income</b>	<b>763</b>	838			-8.9%
– in % of net sales	<b>14.8%</b>	14.8%			
<b>Equity</b>	<b>5 981</b>	5 451			+9.7%
– as % of total assets	<b>77.6%</b>	75.3%			
<b>Average return on equity (ROE)</b>	<b>13.3%</b>	15.5%			

<sup>1)</sup> excluding 2008 divestments of Sokymat and Michel

## FINANCIAL REVIEW

### Performance trends

(CHF million)



After the known market decline in late 2008 and early 2009, with a worldwide recession and a sharp drop in consumer spending, most markets recovered from the financially stressed environment in the second half of the year. The last months of 2009 showed a very positive development, with clear signs of market normalization and increased consumer confidence. To some degree, the economic crisis 2009 has separated the wheat from the chaff. This applies especially to the watch industry, where values such as brand awareness, tradition, history and high-quality products count more than ever. Consumers are looking for value and quality. The Swatch Group, with its large range of products in all price segments, increased its market share in most markets and regions.

In this challenging year, the Group achieved gross sales of CHF 5 421 million, a decrease of only -6.3% on a comparable basis (at constant exchange rates and excluding last year's divestments of Sokymat and Michel). This still represents the third-best result in the Swatch Group history. While the first half year saw a significant decline, sales picked up in the second half and just exceeded – in local currencies – sales of the second half of 2008. Strong Christmas sales clearly beat expectations and December turned out to be the best-ever month of December in terms of sales.

Foreign currencies negatively impacted sales by CHF 105 million or -1.8%, mainly in the second half of 2009. Especially the Euro, the British Pound and the Russian Ruble negatively impacted sales compared to previous year rates. The US Dollar had practically no impact, while the Chinese Yuan and the Japanese Yen influenced sales positively. Increasing watch demand in several markets compensated decreases in other markets and helped the segment Watches & Jewelry to achieve a remarkable result in 2009. The Production and Electronic Systems segments, on the other hand, were confronted with weaker demand and realized lower sales than in the previous year.

After a temporary setback in the first half of 2009, the Group's operating margin improved considerably in the second half year and achieved 17.6% (21.2% in 2008) for the full year. The main driving force was the watch segment, with a very convincing operating margin. Taking into account that foreign currencies as well as the gold price, an important raw material for the Group's watches, did not develop in our favor, this represents a very positive achievement. In addition, the Group preserved jobs for its employees, maintained strong marketing activities and kept investment at a very high level.

Net income decreased by 8.9% to CHF 763 million compared to CHF 838 million in the previous year, and, at 14.8%, the net margin remained at the same level as in 2008. The Group's balance sheet is still solid, with an improved equity ratio of 77.6% as at 31 December 2009 compared to 75.3% in the previous year, and also a much higher cash position. The average return on equity was a remarkable 13.3%.

The Board of Directors of the Swatch Group will propose the following dividend for 2009 to the Annual General Meeting on 12 May 2010: CHF 0.80 per registered share and CHF 4.00 per bearer share.

## FINANCIAL REVIEW

### Segment performance

#### Watches & Jewelry

(CHF million)	2009	2008	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	4 426	4 794			
– Group	3	2			
– Total	4 429	4 796	-5.5%	-2.2%	-7.7%
<b>Net sales</b>	4 187	4 547			-7.9%
<b>Operating profit</b>	804	828			-2.9%
– in % of net sales	19.2%	18.2%			

In 2009, the segment Watches & Jewelry recorded gross sales of CHF 4 429 million, a decrease of only -5.5% at constant rates compared to the record year 2008 (-7.7% in CHF). This performance is substantially better than the export figures published by the Swiss Watch Federation, which means that the Group has once again increased its market shares in several price segments. Sales in the second half of 2009 were almost 5% higher - at constant exchange rates - than in the second half of 2008. This encouraging trend led to a phenomenal record month of December with strong Christmas sales (+28.8% versus 2008).

In the second half of 2009, sales performance strongly improved in many regions, in some cases even exceeding the prior year level. Countries such as Japan, the US and Spain continued to suffer from the difficult economic conditions. However, the Group's presence in all price segments helped to overcome the weaker demand for top luxury products. The middle price range performed very well. The Group's strong brands – starting with Omega – played a leading role in many markets.

The segment's operating margin improved to 19.2% in 2009 (compared to 18.2% in 2008). This increase, achieved in a difficult year 2009, once again shows the Group's strength and dynamics. The higher margins came mainly from improvements by the important brands. Further efficiency increases in logistics and distribution also contributed to this strong increase in profitability.

Retail activities were further expanded in selected locations, seizing opportunities and available space in the different markets. This strategy has begun to pay off with the current recovery of the economic environment, and it will decisively support the Group's long-term growth. Third-party agents and retailers are starting to normalize their reduced stock levels, which will increase the demand at wholesale level in the future.

**FINANCIAL REVIEW****Production**

(CHF million)	2009	2008	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	608	659	–7.6%	–0.1%	–7.7%
– Group	881	1 151	–23.5%		–23.5%
– Total	1 489	1 810	–17.6%	–0.1%	–17.7%
<b>Net sales</b>	1 429	1 742			–18.0%
<b>Operating profit</b>	94	281			–66.5%
– in % of net sales	6.6%	16.1%			

In the Production segment, gross sales decreased in 2009 by -17.7% to CHF 1 489 million. This slowdown manifested itself in the second half of 2009. It is mainly due to the time lag between production and final watch sales, with order cancellations leading to reduced demand for watch movements and components and, in many instances, to a lower capacity utilization. The main reason for the drop in intragroup sales was a change of product mix. In particular, diamonds from Dress Your Body were less in demand than in 2008. Another factor was the shorter processing time of quartz movements for Swatch watches and a simultaneous stock reduction at Swatch brand level. Furthermore, order entries from third parties in 2009 for 2010 for mechanical movements decreased sharply. This trend will soon change in light of the improving market situation.

Segment profitability suffered especially in the second half of 2009, due to lower volumes, a change in product mix and by keeping the cost structure at constant levels. In connection with the clear commitment to preserve jobs for its employees in these difficult economic circumstances, Group management accepted a lower capacity utilization and a temporary decrease of operating margins.

Current order entries picked up in December 2009, which is an encouraging sign for the Production segment mid to long term. The overall improvement in terms of consumer confidence will lead to higher demand, with a certain delay compared to the watch segment. While maintaining the cost structure decreased the short-term profitability, it will pay off in the future. With the anticipated rebound of production volumes, the Group will not be obliged to make further adjustments.

## FINANCIAL REVIEW

### Electronic Systems

(CHF million)	2009	2008	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales, adjusted<sup>1)</sup></b>	<b>394</b>	462	-14.5%	-0.2%	-14.7%
<b>Gross sales, as disclosed</b>					
– Third parties	<b>380</b>	505	-24.6%	-0.2%	-24.8%
– Group	<b>14</b>	25	-44.0%		-44.0%
– Total	<b>394</b>	530	-25.5%	-0.2%	-25.7%
<b>Net sales</b>	<b>391</b>	526			-25.7%
<b>Operating profit</b>	<b>24</b>	104			-76.9%
– in % of net sales	<b>6.1%</b>	19.8%			

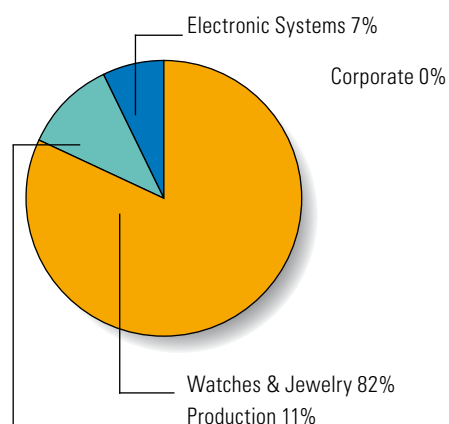
<sup>1)</sup> excluding 2008 divestments of Sokymat and Michel

The market environment for the Electronic Systems segment remained very challenging in 2009. On a comparable basis (at constant exchange rates and excluding previous year divestments of Group companies Sokymat and Michel), segment gross sales decreased by only -14.5% to CHF 394 million. In some cases, due to very low inventory levels of some of the Group's suppliers, not all orders could be delivered to our customers. However, the improving sales trend in the last months of 2009 clearly shows that markets are recovering. Suppliers are regaining confidence and normalizing their stock levels. As a consequence, segment sales and profitability significantly improved in the second half of 2009.

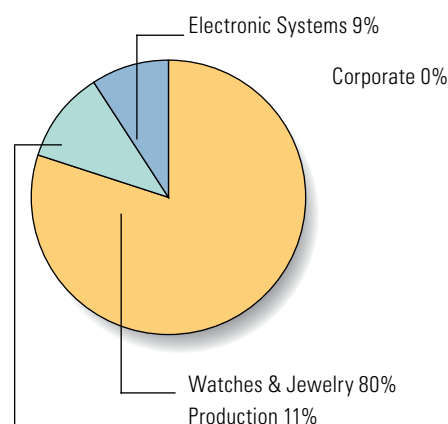
The segment's operating profit reached CHF 24 million in the year under review, which represents an operating margin of 6.1%. In 2008, operating profit included the gains on disposal of Sokymat and Michel amounting to CHF 45 million. In the second half year, the segment's operating margin rose to 10.7%. In early 2010, order entries signal a significantly improving trend in the markets. The announced sale of Microcomponents' step motor activities will further reduce the exposure to the automotive industry.

### Segment share of net sales

2009



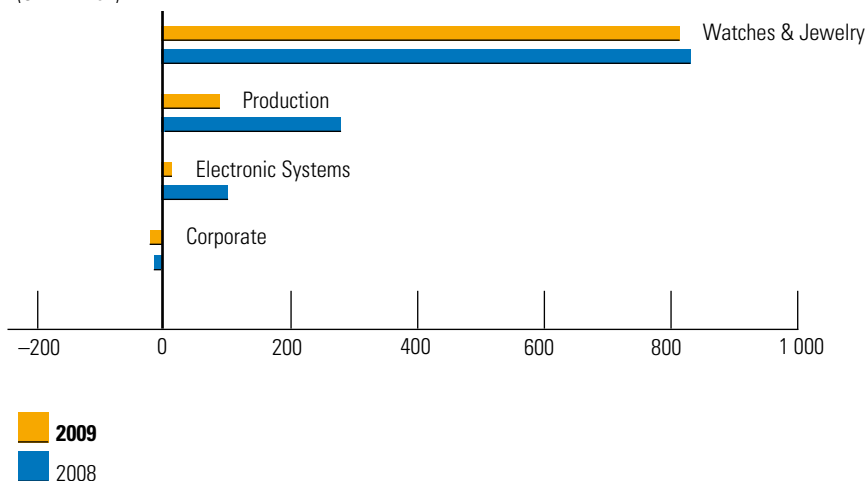
2008



## FINANCIAL REVIEW

### Segment share of operating profit

(CHF million)



### Financial result

An analysis of the net financial result of the Group shows the following:

(CHF million)	2009	2008
Interest income	4	23
Result from marketable securities and derivatives	58	-163
Share of result from associates and joint ventures	5	5
Net currency result	0	-35
Interest expense and other financial expense	-21	-26
<b>Total net financial result</b>	<b>46</b>	<b>-196</b>

In 2009, interest income was down due to less short-term deposits outstanding and lower interest rates. The recovery of financial markets in 2009 led to significant gains on marketable securities. Given that all marketable securities held by the Group are included in the category «fair-value-through-profit-or-loss», the financial result will continue to be volatile in the future and influence the Group's net income.

The general development of foreign currencies, with a weaker Euro and US Dollar as well as a higher Japanese Yen and Chinese Yuan, resulted in a neutral net currency result (compared to a loss in 2008 of CHF 35 million).

### Income tax

An analysis of the income tax charge is set out in Note 7 to the consolidated financial statements. The income tax charge as a percentage of profit before tax was 19.6% in the current year compared to 16.7% in the previous year. The low tax rate of 2008 was influenced by the dissolution of tax provisions following the settlement of tax disputes.

### Proposed dividend

At the General Meeting on 12 May 2010, a dividend for the financial year 2009 of CHF 0.80 (2008: CHF 0.85) for registered shares and CHF 4.00 (2008: CHF 4.25) for bearer shares will be proposed. This dividend, totalling CHF 223 million with a cash-out impact of CHF 210 million, has not been recognized as a liability in the consolidated financial statements at 31 December 2009.

### Earnings per share

Basic earnings per share have decreased in the current year by 8.3% to CHF 2.89 (CHF 3.15 in 2008) for registered shares and CHF 14.47 (CHF 15.75 in 2008) for bearer shares respectively. The decrease in net income compares to a slightly reduced average number of shares. As in previous years, dilution of earnings is not material. Detailed information can be found in Note 8.



## FINANCIAL REVIEW

### 2. Financial condition

#### Liquidity and financial resources

In a challenging year 2009, the Group realized an improved operating cash flow of CHF 890 million (compared to CHF 511 million in 2008). Net investing activities were lower than in 2008, mainly due to lower investments in tangible assets and less purchases of marketable securities. The absence of a further share buyback program in 2009 was the main reason for the reduced cash outflow from financing activities. These factors resulted in an increase in cash and cash equivalents in 2009 of CHF 418 million.

#### Asset and capital structure

The balance sheet continues to remain very solid, with an even stronger equity ratio of 77.6% (compared to 75.3% in 2008). Current liabilities are covered by current assets by a factor of 4.4 (5.5 in 2008).

### 3. Analysis of value added

The breakdown of total operating revenues, more commonly referred to as total Group performance in calculations of value added (using standard methods), is as follows:

(CHF million)	2009		2008	
Overall Group performance	<b>5 435</b>	<b>100.0%</b>	6 696	100.0%
Material and services	<b>2 653</b>	<b>48.8%</b>	3 815	57.0%
Depreciation	<b>220</b>	<b>4.0%</b>	220	3.3%
<b>Net added value</b>	<b>2 562</b>	<b>47.2%</b>	2 661	39.7%
% change	<b>-3.7</b>		-8.0	

The breakdown of value added between the different beneficiaries is as follows:

(CHF million)	2009		2008	
Employees	<b>1 596</b>	<b>62.3%</b>	1 633	61.4%
Public authorities	<b>186</b>	<b>7.3%</b>	168	6.3%
Lenders	<b>18</b>	<b>0.7%</b>	22	0.8%
Shareholders	<b>226</b>	<b>8.8%</b>	226	8.5%
Company	<b>536</b>	<b>20.9%</b>	612	23.0%
<b>Total</b>	<b>2 562</b>	<b>100.0%</b>	2 661	100.0%

### 4. Outlook

With the prospect of a continuous recovery of the economic environment and the new developments realized in the last months, the Group is very confident that further solid organic sales growth will be achieved in the year 2010. A promising trend can be identified, based on the excellent sell-through figures in January 2010 as well as the order entries for the months to come. The positive outlook is also backed by the Group's positioning in all market segments and its broad geographical presence. Consumer spending is expected to see a steady increase in most countries, with a growing middle class mainly in the emerging markets supporting this trend.

A positive impact on sales is also expected from Omega's mission as official timekeeper at the Winter Olympics 2010 in Vancouver. Omega has been appointed the official timekeeper of the Olympic Games until 2020. Furthermore the opening of the Swatch Art Peace Hotel mid 2010 during the World Exhibition in the fantastic place of Shanghai will represent another milestone for the Group. The increased positive results of the Group's research and development activities will also contribute to further sales growth.

**CONSOLIDATED INCOME STATEMENT**

	Notes	2009		2008	
		CHF million	%	CHF million	%
Gross sales		5 421	105.4	5 966	105.1
Sales reductions		-279	-5.4	-289	-5.1
<b>Net sales</b>	(5, 6a)	<b>5 142</b>	<b>100.0</b>	5 677	100.0
Other operating income	(6b)	104	2.0	231	4.1
Changes in inventories		9	0.2	513	9.0
Material purchases		-1 103	-21.4	-1 567	-27.6
Personnel expense	(6c)	-1 596	-31.0	-1 633	-28.8
Other operating expenses	(6d)	-1 433	-27.9	-1 799	-31.6
Depreciation, amortization and impairment charges	(10, 11, 12, 18)	-220	-4.3	-220	-3.9
<b>Operating profit</b>		<b>903</b>	<b>17.6</b>	1 202	21.2
Other financial income and expense	(6f)	59	1.2	-179	-3.2
Interest expense	(6f)	-18	-0.4	-22	-0.4
Share of result from associates and joint ventures	(6f, 13)	5	0.1	5	0.1
<b>Profit before taxes</b>		<b>949</b>	<b>18.5</b>	1 006	17.7
Income taxes	(7a)	-186	-3.7	-168	-2.9
<b>Net income</b>		<b>763</b>	<b>14.8</b>	838	14.8
Attributable to equity holders of The Swatch Group Ltd		759		834	
Attributable to non-controlling interests		4		4	
<b>Earnings per share (EPS) – expressed in CHF per share:</b>	(8)				
<b>Registered shares</b>					
Basic EPS		2.89		3.15	
Diluted EPS		2.85		3.10	
<b>Bearer shares</b>					
Basic EPS		14.47		15.75	
Diluted EPS		14.26		15.51	

The accompanying notes form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	2009	2008
	CHF million	CHF million
<b>Net income</b>	<b>763</b>	838
<b>Other comprehensive income</b>		
Currency translation of foreign operations	-16	-95
Income tax relating to currency translation	0	0
Cash flow hedges	0	1
Income tax relating to cash flow hedges	0	0
<b>Other comprehensive income, net of tax</b>	<b>-16</b>	-94
<b>Total comprehensive income, net of tax</b>	<b>747</b>	744
Attributable to equity holders of The Swatch Group Ltd	743	740
Attributable to non-controlling interests	4	4

The accompanying notes form an integral part of the consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

<b>Assets</b>	Notes	<b>31.12.2009</b>		31.12.2008	
		<b>CHF million</b>	<b>%</b>	CHF million	%
<b>Non-current assets</b>					
Property, plant and equipment	(10)	<b>1 460</b>	<b>18.9</b>	1 465	20.2
Investment property	(11)	<b>39</b>	<b>0.5</b>	39	0.5
Intangible assets	(12)	<b>320</b>	<b>4.2</b>	308	4.3
Investments in associates and joint ventures	(13)	<b>139</b>	<b>1.8</b>	127	1.8
Other non-current assets	(15)	<b>125</b>	<b>1.6</b>	113	1.6
Deferred tax assets	(7d)	<b>209</b>	<b>2.7</b>	196	2.7
<b>Total non-current assets</b>		<b>2 292</b>	<b>29.7</b>	2 248	31.1
<b>Current assets</b>					
Inventories	(16)	<b>2 743</b>	<b>35.6</b>	2 738	37.8
Trade receivables	(17)	<b>761</b>	<b>9.9</b>	733	10.1
Other current assets	(18)	<b>241</b>	<b>3.1</b>	283	3.9
Current income tax assets	(7c)	<b>24</b>	<b>0.3</b>	7	0.1
Marketable securities and derivative financial instruments	(19)	<b>547</b>	<b>7.1</b>	546	7.6
Cash and cash equivalents	(20)	<b>1 098</b>	<b>14.3</b>	680	9.4
<b>Total current assets</b>		<b>5 414</b>	<b>70.3</b>	4 987	68.9
<b>Total assets</b>		<b>7 706</b>	<b>100.0</b>	7 235	100.0

The accompanying notes form an integral part of the consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

<b>Equity and liabilities</b>	Notes	<b>31.12.2009</b> <b>CHF million</b>	%	31.12.2008CHF million	%
<b>Equity</b>					
Share capital	(21a)	<b>125</b>		125	
Capital reserves		<b>213</b>		213	
Treasury shares	(21b)	<b>-629</b>		-629	
Other reserves	(21c)	<b>-133</b>		-117	
Retained earnings		<b>6 389</b>		5 844	
<b>Equity of The Swatch Group shareholders</b>		<b>5 965</b>	<b>77.4</b>	5 436	75.1
Non-controlling interests		<b>16</b>	<b>0.2</b>	15	0.2
<b>Total equity</b>		<b>5 981</b>	<b>77.6</b>	5 451	75.3
<b>Non-current liabilities</b>					
Financial debts	(22)	<b>80</b>	<b>1.0</b>	476	6.6
Deferred tax liabilities	(7d)	<b>337</b>	<b>4.4</b>	333	4.6
Retirement benefit obligations	(23)	<b>27</b>	<b>0.4</b>	28	0.4
Provisions	(24)	<b>40</b>	<b>0.5</b>	45	0.6
<b>Total non-current liabilities</b>		<b>484</b>	<b>6.3</b>	882	12.2
<b>Current liabilities</b>					
Trade payables		<b>238</b>	<b>3.1</b>	246	3.4
Other current liabilities	(25)	<b>429</b>	<b>5.5</b>	442	6.1
Financial debts and derivative financial instruments	(22)	<b>438</b>	<b>5.7</b>	53	0.7
Current income tax liabilities	(7c)	<b>76</b>	<b>1.0</b>	98	1.4
Provisions	(24)	<b>60</b>	<b>0.8</b>	63	0.9
<b>Total current liabilities</b>		<b>1 241</b>	<b>16.1</b>	902	12.5
<b>Total liabilities</b>		<b>1 725</b>	<b>22.4</b>	1 784	24.7
<b>Total equity and liabilities</b>		<b>7 706</b>	<b>100.0</b>	7 235	100.0

The accompanying notes form an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	2009 CHF million	2008 CHF million
<b>Operating activities</b>			
Cash generated from operations	(27)	1 136	842
Dividends received from associated companies		2	0
Interest paid		-15	-19
Interest received		4	21
Income tax paid		-237	-333
<b>Cash flow from operating activities</b>		<b>890</b>	<b>511</b>
<b>Investing activities</b>			
Investments in tangible assets	(10, 11)	-220	-305
Proceeds from sale of tangible assets		5	7
Investments in intangible assets	(12)	-25	-19
Proceeds from sale of intangible assets		0	1
Investments in other non-current assets	(15)	-7	-12
Proceeds from sale of other non-current assets		1	1
Acquisition of subsidiaries – net of cash	(14)	-2	-30
Divestments of businesses	(14)	0	105
Investments in associated companies	(13)	-12	-69
Deconsolidation of subsidiaries	(14)	0	-17
Purchase of marketable securities		-149	-353
Sale of marketable securities		174	193
<b>Cash flow from investing activities</b>		<b>-235</b>	<b>-498</b>
<b>Financing activities</b>			
Dividend paid to shareholders		-223	-225
Dividend paid to non-controlling interests		-3	-1
Purchase of treasury shares		0	-361
Sale of treasury shares		1	1
Change in non-current financial debts <sup>1)</sup>		-11	-6
Change in current financial debts <sup>1)</sup>		3	15
Repurchase of convertible bonds		-2	-21
<b>Cash flow from financing activities</b>		<b>-235</b>	<b>-598</b>
<b>Net impact of foreign exchange rate differences on cash</b>		<b>-2</b>	<b>-19</b>
<b>Change in cash and cash equivalents</b>		<b>418</b>	<b>-604</b>
<b>Change in cash and cash equivalents</b>			
– At beginning of year		680	1 284
– At end of year	(20)	1 098	680

The accompanying notes form an integral part of the consolidated financial statements.

<sup>1)</sup> The reclassification of the convertible bond in 2009 from non-current financial debts to current financial debts (see Note 22) does not have any impact on the cash flow.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(CHF million)	Attributable to The Swatch Group Ltd shareholders					Total	Non-controlling interests	Total equity
	Share capital (Note 21)	Capital reserves	Treasury shares (Note 21)	Other reserves (Note 21)	Retained earnings			
<b>Balance at 31.12.2007</b>	<b>129</b>	<b>213</b>	<b>-821</b>	<b>-23</b>	<b>5 812</b>	<b>5 310</b>	<b>19</b>	<b>5 329</b>
<b>Total comprehensive income 2008</b>				-94	834	<b>740</b>	4	<b>744</b>
Dividends paid					-225	<b>-225</b>	-1	<b>-226</b>
Share-based compensation (Note 28):								
– Value of employee services (net of tax)					10	<b>10</b>		<b>10</b>
– Proceeds from shares					1	<b>1</b>		<b>1</b>
Impact of reclassification to associates (Note 13)					-39	<b>-39</b>		<b>-39</b>
Changes in non-controlling interests						<b>0</b>	-7	<b>-7</b>
Share buyback			-361			<b>-361</b>		<b>-361</b>
Share capital reduction	-4		553		-549	<b>0</b>		<b>0</b>
<b>Balance at 31.12.2008</b>	<b>125</b>	<b>213</b>	<b>-629</b>	<b>-117</b>	<b>5 844</b>	<b>5 436</b>	<b>15</b>	<b>5 451</b>
<b>Total comprehensive income 2009</b>				-16	759	<b>743</b>	4	<b>747</b>
Dividends paid					-223	<b>-223</b>	-3	<b>-226</b>
Share-based compensation (Note 28):								
– Value of employee services (net of tax)					8	<b>8</b>		<b>8</b>
– Proceeds from shares					1	<b>1</b>		<b>1</b>
<b>Balance at 31.12.2009</b>	<b>125</b>	<b>213</b>	<b>-629</b>	<b>-133</b>	<b>6 389</b>	<b>5 965</b>	<b>16</b>	<b>5 981</b>

The accompanying notes form an integral part of the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. General information

The Swatch Group Ltd (the Company) and its subsidiaries (collectively the Group) is active worldwide and represented in the finished watches and jewelry sector with 19 brands in all market and price brackets. In addition, it holds an outstanding industrial position with a high degree of verticalization in the sector of watch movements and components production as well as in the electronic systems sector. During the year, no major changes occurred in the Group structure.

The Company is a limited company incorporated and domiciled in Switzerland. Its registered office is located in Neuchâtel, Faubourg de l'Hôpital 3. The administrative headquarters are in Biel, Seedorf 6.

The shares of The Swatch Group Ltd are listed in Switzerland on the Main Market of the SIX Swiss Exchange, under the security numbers 1 225 514 (registered shares) and 1 225 515 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI Extra and SMIM. In addition, Swatch Group shares are also listed on the BX Berne eXchange.

These consolidated financial statements were approved for issue by the Board of Directors on 3 March 2010 and will be submitted to the Annual General Meeting of Shareholders for approval on 12 May 2010.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### a. Basis of preparation

The Group's consolidated financial statements have been prepared on a historical cost basis, except for certain items such as financial instruments at fair value through profit or loss and derivatives, as disclosed in the accounting policies below. The consolidated financial statements are presented in Swiss Francs (CHF) and all values are rounded to the nearest million, unless otherwise stated.

The consolidated financial statements of the Swatch Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The annual closing date for all the individual company accounts is 31 December. For all the companies consolidated, the financial year corresponds to the calendar year.

#### b. Consolidation policy

The subsidiaries are those entities controlled directly or indirectly by The Swatch Group Ltd, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is generally evidenced by the holding of more than one half of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Companies are fully consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Non-controlling interests in equity and net income are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are accounted for as equity transactions provided that control continues.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated in full. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Associates are all entities over which the Group has significant influence but not control. This is generally evidenced when the Group owns 20% to 50% of the voting rights or potential voting rights of the company. Investments in associates are accounted for using the equity method and are initially recognized at cost. Unrealized gains and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the associate. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group's interests in jointly controlled entities (joint ventures) are also reported using the equity method.

At the end of 2009, the Group's consolidated financial statements included 162 legal entities (compared with 161 in the previous year), of which one was a joint venture (one in 2008) and seven were associates (seven in 2008). A full list of consolidated companies is provided in Note 32.

### c. Changes in accounting policies

The Group has adopted those new or amended International Financial Reporting Standards (IFRS) and interpretations (IFRIC) mandatory for accounting periods beginning on or after 1 January 2009. The principal effects of these changes in policies are described below.

#### **IFRS 7 (revised) Financial instruments: Disclosures**

This amendment was issued in March 2009 and is effective from 1 January 2009. It enhances the disclosures about fair value measurement and liquidity risk. The Group has amended its disclosures relating to the financial risk management accordingly (refer to Note 3).

#### **IFRS 8 Operating segments**

As of 1 January 2009, the Group adopted IFRS 8 Operating segments, which replaces IAS 14 Segment Reporting. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any changes in reportable operating segments for the Group, as the segment view is consistent with internal reporting provided to the Management Board. The segment disclosures are shown in Note 5.

#### **IAS 1 (revised) Presentation of financial statements**

The revised standard separates owner and non-owner changes in equity. Therefore, the statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces a statement of comprehensive income, presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group has decided to present two statements.

#### **IAS 23 (amendment) Borrowing costs**

The revised standard requires that borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. The Group has amended its accounting policies accordingly and applied the new requirements as of 1 January 2009. This change had no material impact in the financial year 2009.

#### **Improvements to IFRSs**

In May 2008 the IASB issued its first collection of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Only the following amendments were relevant to the Group:

- IAS 1 Presentation of financial statements: Assets and liabilities classified as held-for-trading in accordance with IAS 39 are not automatically classified as current in the balance sheet. The Group determined that its marketable securities held-for-trading do not need to be reclassified from current to non-current assets.
- IAS 38 Intangible assets: Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. The Group has changed its relevant accounting policy as of 1 January 2009. This amendment did not have a material impact on the Group and did not give rise to a restatement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following amended standards and new interpretations are mandatory for the first time for accounting periods beginning on or after 1 January 2009, but have no material impact or are currently not relevant for the Group:

- Amendments to IFRS 1 First-time adoption of IFRS and IAS 27 Consolidated and separate financial statements (effective from 1 January 2009)
- IFRS 2 (amendment) Share based payments - Vesting conditions and cancellations (effective from 1 January 2009)
- IAS 32 (amendment) Financial instruments: Presentation - Puttable financial instruments and obligations arising on liquidation (effective from 1 January 2009)
- IFRIC 13 Customer loyalty programmes (effective from 1 July 2008)
- IFRIC 15 Agreement for the construction of real estate (effective from 1 January 2009)
- IFRIC 16 Hedges of a net investment in a foreign operation (effective from 1 October 2008)

### **Standards, interpretations and amendments to existing standards that are not yet effective**

Certain new standards, interpretations and amendments to existing standards have been published until the end of 2009 that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but which the Group has not early adopted.

The principal expected effects of these changes are as follows:

### **IFRS 3 (revised) Business combinations and IAS 27 (revised) Consolidated and separate financial statements**

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period of acquisition and future reported results. IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes will affect future acquisitions or loss of control and transactions with non-controlling interests.

### **IFRS 9 Financial instruments**

IFRS 9 was issued in November 2009 and will become effective for financial years beginning on or after 1 January 2013. Early application is permitted. It replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. The Group is currently assessing the impact of the new standard on its consolidated financial statements and a possible early adoption of the standard.

The Group expects that the adoption of the following pronouncements will have no impact on the Group's financial statements in the period of initial application:

- IAS 24 (amendment) Related party disclosures (effective from 1 January 2011)
- IAS 39 (amendment) Financial instruments: Recognition and measurement – Eligible hedged items (effective from 1 July 2009)
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective from 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (effective from 1 July 2009)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (effective from 1 July 2010)
- Improvements to IFRSs 2009 (effective from 1 January 2010)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### d. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. Although the Group's operations are worldwide, the product perspective remains the main managerial focus. This is reflected by the Group's divisional management and organizational structure and the Group's internal financial reporting systems.

The Group's activities are organized into numerous individual business units (Profit Centers) which are aggregated in the following three reportable operating segments:

– Watches & Jewelry	Sale of finished watches and jewelry
– Production	Manufacture of watches, watch movements and jewelry
– Electronic Systems	Design, production and commercialization of electronic components, Sports timing activities

The reportable operating segments derive their revenue mainly from the manufacture and sale of products to third parties or to other segments.

Corporate services do not qualify as segment according to IFRS 8 but are shown separately. They include the activities of the Group's holding, finance, research and development, real estate and several other companies, none of which is of a sufficient size to require separate presentation. Elimination of inter-segment sales, income and expense as well as assets and liabilities is shown in the column «Elimination».

Group Management assesses the performance of the operating segments based on net sales and operating profit. Sales to third-party customers are presented separately from sales to other operating divisions, and internal Group sales are recognized at arm's length. Segment expenses are those that can be directly attributed to the segment.

The assets of the segments mainly consist of land and buildings, equipment and machinery, intangible assets, inventories, trade accounts receivable and cash and cash equivalents. Segment liabilities include operating commitments.

For the geographical presentation, sales are reported according to the destinations that appear on the invoices. Non-current assets presented in the geographical information are broken down by location. They include all non-current assets except deferred tax assets and pension plan assets.

### e. Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Swiss Francs, which is the Company's presentation currency.

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Any gains and losses resulting from these transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges.

Income statements of Group entities with a functional currency different from the Swiss Franc are translated at average exchange rates as an approximation of exchange rates prevailing at the date of the transaction; balance sheets are translated at the year-end exchange rate. All resulting translation differences are recognized as a separate component of equity in other reserves (Note 21).

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on the sale.

In the reporting periods, none of the Group entities has the currency of a hyperinflationary economy.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end rate.

The main exchange rates used are:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2009	31.12.2009	2008	31.12.2008
		CHF	CHF	CHF	CHF
CNY	1	0.1595	0.1521	0.1563	0.1574
EUR	1	1.5122	1.4880	1.5841	1.4940
HKD	1	0.1406	0.1339	0.1390	0.1386
JPY	100	1.1662	1.1215	1.0570	1.1850
USD	1	1.0893	1.0380	1.0817	1.0730

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### f. Revenue recognition

Revenue is recognized as follows:

#### Goods and services

Net sales comprise the fair value for the sale of goods and services, net of value-added tax and sales reductions (such as rebates and discounts). Intercompany sales are eliminated on consolidation.

Revenue is recognized when a Group entity has transferred to the customer the significant risks and rewards of ownership of the products and the collectibility of the related receivables is reasonably assured. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. Revenue from services is recognized in the accounting period in which the service is rendered.

#### Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

#### Dividend income

Dividend income is recognized when the right to receive payment is established.

### g. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

– Furniture, office machinery, motor vehicles	5 to 8 years
– IT equipment and software	3 to 5 years
– Measuring instruments, tools, equipment for non-mechanical processing automation components	5 to 9 years
– Machines and mechanical production systems, workshop equipment	9 to 15 years
– Factories and workshop buildings	30 years
– Administrative buildings	40 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the income statement.

The position «construction in progress» includes buildings under construction, unrecoverable and attributed down payments on land and buildings as well as attributable borrowing costs.

### h. Investment property

Investment properties comprise mainly residential properties. They are held for long-term rental yields and are not occupied by the Group. Some land reserves are held with undetermined use. Investment property is carried at historical cost less accumulated depreciation and any impairment in value. The useful life of residential properties is estimated at 50 years.

Fair values are disclosed in Note 11. They are determined by capitalization of rental income for rented buildings plus an estimated market value of land reserves.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### i. Intangible assets

#### Goodwill

Goodwill represents the excess of the acquisition price over the fair value of the Group's share of net identifiable assets of the acquired company at the date of acquisition. Goodwill is tested annually for impairment and in addition, when indications of impairment exist, and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGU) for the purpose of impairment testing. The CGU represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment (see Note 12).

#### Capitalized development costs

Research costs are not capitalized but expensed when incurred. Development costs are capitalized if they can be identified as an intangible asset that is expected to generate future economic benefits, and the cost can be measured reliably. Other development costs are expensed as incurred. Once a product enters into commercial production, the capitalized development costs are amortized on a straight-line bases over the estimated useful life (maximum five years).

#### Other intangible assets

In addition, the heading intangible assets includes:

- Licenses purchased granting rights to use new technologies or software. They are amortized over their useful life.
- Internally developed software and software implementation costs. These costs are recognized as an intangible asset if it is probable that they generate future economic benefits. The costs include software development employee costs and an appropriate portion of related overheads. The capitalized costs are amortized on a straight-line basis over the estimated useful life (maximum five years).
- Key money paid for strategically located retail shops. If their value can be demonstrated by the presence of a market, they are capitalized as intangible assets. They are not amortized but tested for impairment at least annually. On the other hand, key money that is not refundable or refundable only upon certain conditions being met is treated as prepaid rent and included in "Other non-current assets" (see Note 15).
- Customer relationships and unpatented technologies acquired in business combinations. They are amortized over a period of up to 15 years.

### j. Impairment of assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization as well as assets not yet ready for use are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The latter is calculated by estimating the future cash flows generated by the asset and discounting them with a risk-adjusted pre-tax interest rate. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### k. Financial assets

Regular purchases and sales of investments are based on the settlement date principle. Marketable securities are initially recorded at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

The Group classifies its financial assets, principally investments, in the following categories: financial assets at fair value through profit or loss (FVTPL) as well as loans and receivables. The classification depends on the purpose for which the investments were acquired.

#### Financial assets at fair value through profit or loss (FVTPL)

All the Group's current investments are classified as financial assets at fair value. Some of these financial assets have been designated by management as FVTPL. All other investments are classified as financial assets held for trading. A financial asset is classified in this sub-category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are specifically designated as hedges. All realized and unrealized gains and losses arising from changes in the fair value are recognized in the income statement.

The category financial assets at fair value through profit or loss consists of marketable securities and derivative financial instruments.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are measured at cost less appropriate impairment losses.

The category loans and receivables consists of trade receivables, other current receivables, security deposits as well as other financial assets.

#### Summary of financial assets

The following table shows the carrying amount and the fair value of Group assets that are considered as financial assets:

(CHF million)	31.12.2009		31.12.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Security deposits (Note 15)	28	28	23	23
Other financial assets (Note 15)	5	5	5	5
Trade receivables (Note 17)	761	761	733	733
Other current receivables (Note 18)	87	87	185	185
<b>Loans and receivables</b>	<b>881</b>	<b>881</b>	946	946
Marketable securities designated as FVTPL	16	16	15	15
Marketable securities held-for-trading	528	528	515	515
Derivative financial assets	3	3	16	16
<b>Financial assets at fair value (Note 19)</b>	<b>547</b>	<b>547</b>	546	546
Cash and cash equivalents (Note 20)	1 098	1 098	680	680
<b>Cash and cash equivalents</b>	<b>1 098</b>	<b>1 098</b>	680	680
<b>Total financial assets</b>	<b>2 526</b>	<b>2 526</b>	2 172	2 172

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Group applies the following 3-level hierarchy to its financial assets at fair value. The fair value of financial assets that are quoted in active markets (level 1) is determined based on current bid prices. The fair value of unquoted financial assets is determined by valuation models on the basis of observable market data or benchmarking to comparable instruments (level 2). Valuation upon theoretical assumptions is used where market data or benchmarking is not available (level 3), which is the case for the Group's private equity investments.

The following table summarizes the fair value levels of the Group's financial assets at fair value:

(CHF million)	31.12.2009				31.12.2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable securities designated as FVTPL	4	0	12	16	3	0	12	15
Marketable securities held-for-trading	528	0	0	528	515	0	0	515
<b>Marketable securities at fair value</b>	<b>532</b>	<b>0</b>	<b>12</b>	<b>544</b>	518	0	12	530
<b>Derivative financial assets</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>3</b>	0	16	0	16
<b>Financial assets at fair value</b>	<b>532</b>	<b>3</b>	<b>12</b>	<b>547</b>	518	16	12	546

In 2009 and 2008, there were no material purchases, sales or transfers of financial assets at fair value categorized in level 3.

### i. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average price method. Some companies, particularly those in the Production segment, value their inventories using the standard cost method. As these costs are regularly reviewed and adjusted, this method approximates the results of the weighted average price method. The valuation of spare parts for customer service is confined to those units that are considered likely to be used, based on historical demand.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the applicable variable selling expenses.

### m. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

### n. Trade receivables

Trade receivables are recognized and carried at the original invoice amount less an allowance for any impaired receivables, which approximates amortized cost. Provision is made for balances overdue more than 12 months or for receivables where specific risks have been identified. Bad debts are written off when there is objective evidence that the Group will not be able to collect the receivables.

### o. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at banks and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of short-term bank overdrafts.

### p. Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares each with a nominal value of CHF 0.45 and of bearer shares each with a nominal value of CHF 2.25. Other than the higher voting power of registered shares, no differences in terms of shareholder rights exist between the two categories.

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### q. Financial debts

Financial debts are initially recognized at fair value, including transaction costs incurred. Financial debts are subsequently stated at amortized cost.

The fair value of the liability component of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and, in this case, has been recognized and included in equity, net of income tax effects. Transaction costs are apportioned between the liability and equity components of the convertible bonds, based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Financial debts are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### Summary of financial liabilities

The following table shows the carrying amount and the fair value of Group liabilities that are considered as financial liabilities:

(CHF million)	31.12.2009		31.12.2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial debts (Note 22)	80	82	476	490
Trade payables	238	238	246	246
Other current payables (Note 25)	82	82	112	112
Current financial debts (Note 22)	437	445	50	50
<b>Financial liabilities measured at amortized cost</b>	<b>837</b>	<b>847</b>	884	898
Derivative financial instruments (Note 22)	1	1	3	3
<b>Financial liabilities at fair value</b>	<b>1</b>	<b>1</b>	3	3
<b>Total financial liabilities</b>	<b>838</b>	<b>848</b>	887	901

All fair values of the Group's financial liabilities at fair value are based on observable market data (level 2).

### r. Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value and related transaction costs expensed in the income statement. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Certain derivatives can be designated as hedges of a risk associated with a highly probable forecast transaction (cash flow hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### Cash flow hedge

The Group uses cash flow hedge accounting for forecasted intragroup transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement respectively within the financial result.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of derivatives hedging purchases is recognized in the income statement within material purchases.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### Derivatives at fair value through profit or loss

Derivatives not designated as hedging instruments are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognized immediately in the income statement.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### s. Income taxes

#### Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

#### Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. If the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets are recognized for all deductible temporary differences, tax loss carryforwards and tax credits to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### t. Pensions and other post-employment benefits

#### Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Group pension plans in Switzerland are accounted for as defined benefit plans.

Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

The net asset / liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows.

#### Other post-employment benefits

A small number of Group companies provide post-retirement medical care benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, similar to the accounting for defined benefit plans.

#### Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### u. Provisions

Provisions are recognized:

- when the Group has a present legal or constructive obligation as a result of past events
- when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- when a reliable estimate of the amount of the obligation can be made

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

### v. Share-based payment transactions

The Group operates an equity-settled, share-based compensation plan. Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (calculated using the «Black-Scholes» model), excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. Equity increases by the corresponding amounts of employee service cost over the vesting period. The proceeds received net of any transaction cost are credited to equity when the options are exercised.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 8).

### w. Leases

#### Finance leases

A finance lease is where the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the leased item. At the inception of the lease, finance leases are capitalized at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Each lease payment is apportioned between the finance charges and the reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income statement. Capitalized leased assets are depreciated over the shorter of the lease term and the estimated useful life of the asset.

#### Operating leases

An operating lease is where a significant portion of the risks and rewards of ownership are retained by the lessor. Operating lease payments are recognized as expenses in the income statement on a straight-line basis over the lease term.

### x. Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

### y. Comparatives

Certain prior-year figures have been extended from the version presented in the prior year annual report, in order to take into account current year presentational changes. There was no impact on the balance sheet and income statement in the years under review.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Financial risk management

#### a. Financial risk factors

In view of the global and varied nature of its activities, the Group is exposed to financial market risk (including foreign currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, with the aim of minimizing its impact on Group earnings before taxes and net income. In order to hedge exchange rate risk, the Group uses derivative financial instruments such as forward currency contracts or currency options.

Risk management is conducted by the central treasury department (Group Treasury), which follows the directives issued by the Group's management bodies. Risks are assessed in collaboration with the operating units and the hedging methods are decided and implemented under the regular supervision of the Group's Top Management.

#### 1. Market risk

The Group is exposed to market risk, primarily related to foreign exchange, interest rates and the market value of investments of liquid funds. The Group actively monitors these exposures. To manage the volatility relating to these exposures, the Group uses a variety of derivative financial instruments, such as foreign exchange forward contracts or options. The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and market rates of investments of liquid funds. It is the Group's policy and practice to use derivative financial instruments to manage exposures and to enhance the yield on the investment of liquid funds.

#### 1.1 Foreign exchange risk

The Group's consolidated financial statements are published in Swiss Francs. As foreign exchange risks are managed centrally by the treasury department (Group Treasury), the local entities are not significantly exposed to specific foreign exchange risks. The foreign exchange risks arise primarily from fluctuation of currencies against the Swiss Franc, mainly the Euro, the US Dollar, the Chinese Yuan as well as the Japanese Yen. Consequently, the Group may enter into various contracts that reflect the changes in the value of foreign exchange rates to preserve the value of assets, commitments and anticipated transactions. The Group also uses forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies. Group companies enter into special exchange rate agreements with the Group's treasury department guaranteeing a standard exchange rate for a term of one month. The treasury department, for its part, is responsible for hedging net positions in foreign currencies with external counterparties.

#### Sensitivity analysis on foreign exchange risk

Financial instruments affected by foreign exchange risk include trade and other receivables, trade and other payables, financial debts, marketable securities, cash and cash equivalents including third party as well as intercompany transactions.

The size of the exposure sensitive to changes in the exchange rates can fluctuate significantly, so the position at the balance sheet date may not be representative for the financial period on average.

The illustrative effect on earnings after tax that would result from reasonably possible changes in exchange rates can be summarized as follows:

Currency	31.12.2009			31.12.2008		
	Change on	Income statement		Change on	Income statement	
	exchange rate	CHF million		exchange rate	CHF million	
	+ / -	+	-	+ / -	+	-
CNY / CHF	5%	1	-2	5%	5	-3
EUR / CHF	5%	10	-7	5%	12	-1
HKD / CHF	5%	1	-1	5%	-5	3
JPY / CHF	5%	1	1	5%	-5	-1
USD / CHF	5%	3	-3	5%	3	-3

As no items are recognized directly in equity, the illustrative impact on equity of the changes in exchange rates shown above is zero.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1.2 Price risk

#### 1.2.1 Commodities

The Group has a certain exposure to commodity price risk relating to the purchase of precious metals and gems, which are used in its manufacturing processes. The Group does not enter into significant commodity futures, forward and option contracts to manage fluctuations in prices of anticipated purchases.

#### 1.2.2 Equity investment risk

The Group purchases equity instruments as investments of its liquid funds. Such instruments are recognized as marketable securities. Potential investments need to comply with the asset allocation and portfolio limit structure defined by the Group's management bodies. According to its policy, the Group limits its holdings in equity investments to 10% of its liquid funds. They are thoroughly analyzed in respect to their past financial track record (mainly cash flow return on investment), their market potential, their management and their competitors. Call options are written on equities that the Group owns and put options are written on equities that the Group wants to buy and for which cash has been reserved.

#### Sensitivity analysis on equity investment risk

The table below summarizes the impact of increases/decreases of the main equity indexes on the Group's earnings after tax for the year. There is no impact exclusively on equity as none of the equity investments are classified in a financial assets category where the result is recognized directly in equity. The analysis is based on the assumption that the equity indexes had increased/decreased by a certain percentage with all other variables held constant and that all the Group's equity instruments moved according to the historical correlation with the index.

Index	31.12.2009			31.12.2008		
	Change on index	Income statement		Change on index	Income statement	
	+ / -	CHF million		+ / -	CHF million	
Dow Jones	5%	2	-2	5%	1	-1
SMI + SPI	5%	4	-4	5%	3	-3

Earnings after tax for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss.

### 2. Credit risk

Credit risks in respect of customers arise when they may not be able to settle their obligations as agreed. The credit standing of commercial partners defined in the Group's client credit policy is periodically reviewed at Group level. As there is no independent rating for most customers, their credit quality is assessed by local credit control departments taking into account their financial position, past experience and other factors. There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

In the context of securities trading, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. In general, issuer risk is minimized by only buying securities which are investment grade rated. As at 31 December 2009, over 90% of investments in bonds were investment grade rated (2008: over 85%). An exception in the overall fixed income management is the high yield portfolio, which amounted to approximately CHF 35 million in 2009 (2008: about CHF 40 million). In 2009 and 2008, over 80% of the Group's equity investments were related to shares listed on a main index (SMI/SPI, Dow Jones, S&P 500, Nikkei). The Group's management regularly monitors strict compliance with these directives.

Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit standings are usually at least A-. Exposure to this type of risk is closely monitored by Group management and is contained within strict and pre-determined limits.

Given the very high standards of creditworthiness applied to the commercial and financial partners, the default risks to which the Group is exposed are estimated to be limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. Liquidity risk

Liquidity risk is defined as the risk that the Group could not be able to meet its financial obligations on time. The close monitoring of liquidity at Group level and of the allocation of resources allows the Group's treasury department to maintain adequate levels of liquidity at all times. In order to meet any exceptional liquidity requirements, the Group maintains lines of credit with a number of financial institutions.

As at the balance sheet date, the available liquidity can be summarized as follows:

(CHF million)	31.12.2009	31.12.2008
Cash and cash equivalents	1 098	680
Marketable securities	544	530
<b>Liquidity reserves</b>	<b>1 642</b>	1 210
Committed credit facilities	418	613
./ Utilized credit facilities	-127	-137
<b>Total liquidity reserves and non-utilized credit facilities</b>	<b>1 933</b>	1 686

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

(CHF million)	less than 1 year	1–5 years	over 5 years
Non-current financial debts	2	5	86
Trade payables	238		
Other current payables	82		
Current financial debts	447		
Derivative financial instruments	521		
<b>Total at 31.12.2009</b>	<b>1 290</b>	<b>5</b>	<b>86</b>
Non-current financial debts	12	402	98
Trade payables	246		
Other current payables	112		
Current financial debts	50		
Derivative financial instruments	565		
Total at 31.12.2008	985	402	98

### 4. Interest rate risk

Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group manages its net exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio.

Due to a comfortable liquidity situation and, as most of the financial debts are issued at fixed rates, interest rate fluctuations do not have a major impact on the Group's financial results.

In the context of balance sheet liabilities management, the Group has not used interest rate swaps during the two years under review, and there are no outstanding positions relating to interest rate swaps in the Group's financial statements.

#### Sensitivity analysis on bond investment risk

Changes in the market interest rates affect the fair value of bond securities classified in the category financial assets at fair value through profit or loss. The sensitivity analysis presented below is based on the assumption that the interest rates had increased/decreased by 100 basis points for all currencies with all other variables held constant.

At 31 December 2009, an increase of interest rates by 100 basis points would have reduced Group profit after tax by CHF 9 million (2008: CHF 9 million). On the other hand, a decrease of interest rates by 100 basis points would have increased Group profit after tax by CHF 9 million (2008: CHF 9 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b. Capital management

The primary objective of the Group's management is to maintain a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. As at 31 December 2009, equity represented 77.6% (31 December 2008: 75.3%) of total assets.

The Group's Top Management reviews the capital structure of the Group and the equity of its subsidiaries on a regular basis. As part of the review, management considers the evolution of the capital structure and the risks associated with each of its classes.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new debt or redeem existing debt. There were no changes in the Group's approach to capital management during the year. Neither The Swatch Group Ltd nor any of its subsidiaries are subject to externally imposed capital requirements.

### 4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### a. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are stated below.

#### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use and therefore of the expected future cash flows of the cash-generating units to which the goodwill is allocated. Furthermore, a suitable discount rate is applied in order to calculate the present value of those cash flows. More details are given in Note 12.

#### Taxes and duties

The Group is subject to various taxes, levies and duties in numerous jurisdictions. In this respect the Group and its subsidiary companies are regularly exposed to audits by the various governmental bodies and authorities, where the outcome of findings particularly in the area of transfer pricing depends very often on individual judgments. Considerable judgment is required in determining tax provisions. Liabilities for anticipated tax audit issues are recognized based on estimates of whether additional taxes will be due. These estimates could prove to be too pessimistic, or in a negative scenario, additional tax liabilities would have to be recorded in the future.

Furthermore, the capitalization of deferred tax assets is based on assumptions about the future profitability of certain Group companies. There is an inherent risk that these estimates made by management may turn out to be too optimistic or too pessimistic.

#### Allowance for impaired receivables

To cover any shortfalls from current trade receivables, the Group records an allowance for impaired receivables based on historical information and on estimates in regard to the solvency of customers. Unexpected financial problems of major customers could lead to the situation where the recorded allowance is insufficient.

#### Warranty claims

The Group generally offers a two-year warranty for watches. Management estimates the related provision for future warranty claims mainly based on historical warranty claim statistics. Factors that could impact these estimates include the success of the Group's quality initiatives, parts and labour costs as well as customer behaviour. Any material change of these factors could result in higher or lower warranty costs for the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Legal claims

Some Group companies are involved in litigation and disputes arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of facts known at the time of closing the books and recorded adequate provisions in line with IAS 37. However, there is an inherent risk that legal claims from adversary parties are successful and may cause a significant future liability. Moreover, the Group being listed on the Swiss Stock Exchange also finds itself under permanent review regarding the observation of all rules and regulations. Despite the considerable effort to comply with the increasing number of laws, rules and regulations at all times and on all levels in all countries in which the Group develops activities, there remains a certain risk of oversight which could impact future earnings.

### Other factors

The Group and its management is extremely sensitive to all sorts of risks of a globally operating Group with more than 160 affiliated companies in more than 30 countries around the globe. Despite considerable effort in assessing and managing risks on a constant basis, there are many imponderables which could develop a negative impact on the result of a future period.

### b. Critical judgments in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

#### Inventory abatements

In determining net realizable values of inventory, management had to use judgment as to whether or not inventory abatements are necessary. Especially for spare parts used in customer service, but also for some watch components and finished goods, judgment calls were made in order to determine a realistic value for these inventory items. Unexpected changes in fashion, technology and customer needs could lead to situations where the actual inventory abatements would need to be increased.

#### Impairment of assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Management determines the amount of impairment losses by applying judgment in regard to the recoverable amount and the future use of an impaired asset. If external factors such as market, technology, etc. change in a way not anticipated by management, there is a risk that additional impairment losses will have to be recorded.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. Segment information

#### a. Operating segment information

#### Income statement

2009 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	4 426	608	380	7		5 421
– Group	3	881	14	4	–902	0
<b>Gross sales</b>	<b>4 429</b>	<b>1 489</b>	<b>394</b>	<b>11</b>	<b>–902</b>	<b>5 421</b>
– Third parties	4 184	576	377	5		5 142
– Group	3	853	14	4	–874	0
<b>Net sales</b>	<b>4 187</b>	<b>1 429</b>	<b>391</b>	<b>9</b>	<b>–874</b>	<b>5 142</b>
<b>Operating profit</b>	<b>804</b>	<b>94</b>	<b>24</b>	<b>–19</b>		<b>903</b>
– As a % of net sales	19.2	6.6	6.1			17.6
– As a % of total	89.0	10.4	2.7	–2.1		100.0

2008 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	4 794	659	505	8		5 966
– Group	2	1 151	25	4	–1 182	0
<b>Gross sales</b>	<b>4 796</b>	<b>1 810</b>	<b>530</b>	<b>12</b>	<b>–1 182</b>	<b>5 966</b>
– Third parties	4 545	624	501	7		5 677
– Group	2	1 118	25	4	–1 149	0
<b>Net sales</b>	<b>4 547</b>	<b>1 742</b>	<b>526</b>	<b>11</b>	<b>–1 149</b>	<b>5 677</b>
<b>Operating profit</b>	<b>828</b>	<b>281</b>	<b>104</b>	<b>–11</b>		<b>1 202</b>
– As a % of net sales	18.2	16.1	19.8			21.2
– As a % of total	68.9	23.4	8.6	–0.9		100.0

#### Balance sheet and other information

2009 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
<b>Balance sheet</b>						
– Segment assets	4 428	1 660	695	2 523	–1 739	7 567
– Equity in associated companies and joint ventures				139		139
<b>Total assets</b>	<b>4 428</b>	<b>1 660</b>	<b>695</b>	<b>2 662</b>	<b>–1 739</b>	<b>7 706</b>
<b>Total liabilities</b>	<b>–1 566</b>	<b>–576</b>	<b>–153</b>	<b>–1 169</b>	<b>1 739</b>	<b>–1 725</b>
<b>Net assets</b>	<b>2 862</b>	<b>1 084</b>	<b>542</b>	<b>1 493</b>	<b>0</b>	<b>5 981</b>
<b>Other information</b>						
Capital expenditure	82	118	24	25		249
Depreciation on tangible assets	–61	–109	–31	–6		–207
Amortization on intangible assets	–5	–4	–3	–1		–13
Impairment charges	0	0	0	0		0
Interest income	3	1	0	15	–15	4
Interest expenses	–14	–4	–1	–14	15	–18
Share of result from associates and joint ventures				5		5
Income taxes	–161	–16	–2	–7		–186



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

2008 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
<b>Balance sheet</b>						
– Segment assets	4 208	1 720	721	2 266	–1 807	7 108
– Equity in associated companies and joint ventures				127		127
<b>Total assets</b>	<b>4 208</b>	<b>1 720</b>	<b>721</b>	<b>2 393</b>	<b>–1 807</b>	<b>7 235</b>
<b>Total liabilities</b>	<b>–1 659</b>	<b>–639</b>	<b>–180</b>	<b>–1 113</b>	<b>1 807</b>	<b>–1 784</b>
<b>Net assets</b>	<b>2 549</b>	<b>1 081</b>	<b>541</b>	<b>1 280</b>	<b>0</b>	<b>5 451</b>
<b>Other information</b>						
Capital expenditure	101	152	59	19		331
Depreciation on tangible assets	–59	–105	–36	–4		–204
Amortization on intangible assets	–5	–5	–4	0		–14
Impairment charges	0	–1	–1	0		–2
Interest income	10	3	6	49	–45	23
Interest expenses	–26	–10	–3	–28	45	–22
Share of result from associates and joint ventures				5		5
Income taxes	–172	–53	–5	62		–168

**b. Information on  
geographical regions**

(CHF million)	2009		2008	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	<b>914</b>	<b>1 378</b>	958	1 410
Other Europe	<b>1 412</b>	<b>259</b>	1 734	231
<b>Total Europe</b>	<b>2 326</b>	<b>1 637</b>	2 692	1 641
Greater China	<b>1 430</b>	<b>121</b>	1 315	91
Other Asia	<b>843</b>	<b>236</b>	1 006	254
<b>Total Asia</b>	<b>2 273</b>	<b>357</b>	2 321	345
Total America	<b>424</b>	<b>20</b>	545	16
Total Oceania	<b>71</b>	<b>2</b>	71	2
Total Africa	<b>48</b>	<b>3</b>	48	
<b>Total</b>	<b>5 142</b>	<b>2 019</b>	5 677	2 004

Non current assets under the caption "Other Asia" include CHF 197 million (previous year CHF 210 million) relating to Japan, consisting mainly of the investment in the N. G. Hayek Building in Tokyo.

**c. Significant customers**

The Group has a large number of customers; no single external customer accounts for more than 10% of the Group's net sales.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. Revenues and expenses

<b>a. Analysis of sales revenue</b>	(CHF million)	<b>2009</b>	2008
Sales of goods		<b>5 109</b>	5 651
Rendering of services		<b>33</b>	26
<b>Total net sales</b>		<b>5 142</b>	5 677

**b. Other operating income** In 2009, other operating income amounted to CHF 104 million (2008: CHF 231 million). The decrease is mainly due to the absence of timekeeping services rendered in 2008 for the Olympics, but also to gains on disposal of businesses in 2008 as set out in Note 14.

<b>c. Personnel expense</b>	(CHF million)	<b>2009</b>	2008
Wages and salaries		<b>1 316</b>	1 369
Social security costs		<b>213</b>	223
Share-based compensation (Note 28)		<b>8</b>	10
Pension costs – defined benefit plans (Note 23)		<b>53</b>	25
Pension costs – defined contribution plans (Note 23)		<b>6</b>	6
Other post-employment benefits (Note 23)		<b>0</b>	0
<b>Total personnel expense</b>		<b>1 596</b>	1 633

The development of the headcount is summarized in the following table:

(Unaudited)	<b>2009</b>	2008
<b>Average annual headcount</b>	<b>23 727</b>	24 269
<b>Total headcount at 31 December</b>	<b>23 562</b>	24 270
Men	<b>10 703</b>	10 937
Women	<b>12 859</b>	13 333
Swiss contracts	<b>12 766</b>	13 189
Non-Swiss contracts	<b>10 796</b>	11 081

Headcount is expressed as the number of employment contracts. The number of employees includes home workers, trainees and auxiliary staff.

<b>d. Other operating expenses</b>	(CHF million)	<b>2009</b>	2008
Marketing, sales and administration		<b>775</b>	924
Subcontracting and other direct costs of sales		<b>250</b>	348
Maintenance, rents and energy		<b>374</b>	396
Other operating expenses		<b>34</b>	131
<b>Total other operating expenses</b>		<b>1 433</b>	1 799

**e. Research and development costs** Research and development (R&D) costs amounted to CHF 149 million in 2009, representing 2.9% of net sales (compared with CHF 161 million or 2.8% in 2008).

<b>f. Net financial result</b>	(CHF million)	<b>2009</b>	2008
Interest income		<b>4</b>	23
Result from marketable securities designated as FVTPL		<b>-3</b>	-5
Result from marketable securities held-for-trading and derivatives		<b>61</b>	-158
Net currency result		<b>0</b>	-35
Other financial expense		<b>-3</b>	-4
<b>Other financial income and expense</b>		<b>59</b>	-179
Interest on convertible bond		<b>-13</b>	-14
Other interest		<b>-5</b>	-8
<b>Interest expense</b>		<b>-18</b>	-22
<b>Share of result from associates and joint ventures</b>		<b>5</b>	5
<b>Net financial result</b>		<b>46</b>	-196

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7. Income taxes**

a. Income tax expenses	(CHF million)	2009	2008
Current income taxes		199	228
Adjustments recognized for current income taxes of prior periods		-2	1
Deferred taxes		-11	-61
<b>Total income taxes</b>		<b>186</b>	<b>168</b>

**b. Reconciliation of the Group's effective tax rate** Since the Group operates worldwide, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of tax rates in the relevant tax jurisdictions.

	2009	2008
	%	%
Group's average expected tax rate	19.6	21.2
Tax effect of:		
– Change in the applicable tax rate on temporary differences	-0.1	-0.8
– Recognition of tax losses not recognized in prior years	0.0	0.0
– Utilization of previously unrecognized tax losses	-0.1	0.0
– Unrecognized current year tax losses	1.2	0.3
– Non-taxable income	-0.3	-0.6
– Non-tax-deductible expenses	0.3	1.2
– Items taxable at reduced rates	-0.4	-1.1
– Adjustments recognized for current taxes of prior periods	-0.2	0.1
– Other items	-0.4	-3.6
<b>Group's effective tax rate</b>	<b>19.6</b>	<b>16.7</b>

In 2008, other items included a tax effect of -6.7% following the settlement of tax disputes and +2.5% relating to a reversal of unrecognized deferred taxes on IC participations and loans in application of IAS 12.39.

c. Current income tax	(CHF million)	2009	2008
<b>Net current income tax liability</b>			
<b>Balance at 1 January</b>		-91	-198
Recognized in income statement		-197	-229
Recognized in equity		-1	1
Income taxes paid		237	333
Change in scope of consolidation		0	0
Translation differences		0	2
<b>Balance at 31 December</b>		<b>-52</b>	<b>-91</b>
thereof current income tax assets		24	7
thereof current income tax liabilities		-76	-98

**d. Deferred tax** Deferred tax assets and liabilities are offset within legal entities when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

The position of net deferred tax liability can be reconciled as follows:

	(CHF million)	2009	2008
<b>Net deferred tax liability</b>			
<b>Balance at 1 January</b>		-137	-194
Recognized in income statement		11	61
Recognized in equity		0	0
Business combinations (Note 14)		0	-3
Divestment of businesses (Note 14)		0	3
Translation differences		-2	-4
<b>Balance at 31 December</b>		<b>-128</b>	<b>-137</b>
thereof deferred tax assets		209	196
thereof deferred tax liabilities		-337	-333

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets resulting from deductible temporary differences, tax credits or tax loss carryforwards are recognized only to the extent that realization of the related tax benefit is probable. Temporary differences associated with investments in subsidiaries, for which no deferred tax liabilities have been recognized, as the differences are permanent in nature, amounted to CHF 766 million (previous year: CHF 717 million).

The deferred tax assets and liabilities relate to the following balance sheet items:

Source (CHF million)	31.12.2009			31.12.2008		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	152	-218	-66	148	-222	-74
Trade and other receivables	4	-11	-7	4	-13	-9
Property, plant and equipment	13	-78	-65	17	-75	-58
Intangible assets	6	-6	0	2	-5	-3
Provisions	6	-17	-11	6	-16	-10
Retirement benefit obligations	3	-13	-10	4	-10	-6
Tax losses	37		37	25		25
Other	21	-27	-6	21	-23	-2
<b>Total deferred tax assets (liabilities)</b>	<b>242</b>	<b>-370</b>	<b>-128</b>	<b>227</b>	<b>-364</b>	<b>-137</b>
Deferred tax assets on the balance sheet			209			196
Deferred tax liabilities on the balance sheet			-337			-333

The gross value of unused tax loss carryforwards which have, or have not, been recognized as deferred tax assets, with their expiry dates is as follows:

(CHF million)	Not recognized	Recognized	Total 2009
One year	10	3	13
Two years	7	3	10
Three years	12	4	16
Four years	15	2	17
Five years	25	25	50
Six years	16	12	28
More than six years	65	79	144
<b>Total at 31.12.2009</b>	<b>150</b>	<b>128</b>	<b>278</b>

(CHF million)	Not recognized	Recognized	Total 2008
One year	4	4	8
Two years	8	5	13
Three years	7	4	11
Four years	12	1	13
Five years	15	2	17
Six years	23	5	28
More than six years	63	58	121
<b>Total at 31.12.2008</b>	<b>132</b>	<b>79</b>	<b>211</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****8. Earnings per share****a. Basic**

	2009	2008
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	759	834
Percentage of registered shares outstanding in comparison with the share capital outstanding	42.1%	42.2%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	57.9%	57.8%
<b>Registered shares</b>		
Net income attributable to registered shareholders (CHF million)	320	352
Average number of shares outstanding	110 446 207	111 605 632
<b>Basic earnings per share (in CHF)</b>	<b>2.89</b>	<b>3.15</b>
<b>Bearer shares</b>		
Net income attributable to bearer shareholders (CHF million)	439	482
Average number of shares outstanding	30 335 000	30 596 542
<b>Basic earnings per share (in CHF)</b>	<b>14.47</b>	<b>15.75</b>

**b. Diluted**

	2009	2008
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	759	834
Interest expense on convertible debt (CHF million)	13	14
<b>Net income used to determine diluted EPS (CHF million)</b>	<b>772</b>	<b>848</b>
Percentage of diluted registered shares in comparison with the diluted share capital outstanding	44.0%	44.0%
Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding	56.0%	56.0%
<b>Registered shares</b>		
Net income attributable to registered shareholders (CHF million)	340	373
Average number of shares outstanding – basic (as above)	110 446 207	111 605 632
Potentially dilutive number of shares from convertible bond	8 398 368	8 398 368
Potentially dilutive number of shares from options outstanding	198 511	199 642
Average number of shares outstanding – diluted	119 043 086	120 203 642
<b>Diluted earnings per share (in CHF)</b>	<b>2.85</b>	<b>3.10</b>
<b>Bearer shares</b>		
Net income attributable to bearer shareholders (CHF million)	432	475
Average number of shares outstanding	30 335 000	30 596 542
<b>Diluted earnings per share (in CHF)</b>	<b>14.26</b>	<b>15.51</b>

**9. Dividends paid and proposed**

On 15 May 2009, the Annual General Meeting approved the distribution of a dividend of CHF 0.85 per registered share and CHF 4.25 per bearer share. The distribution to holders of outstanding shares totaled CHF 223 million (2008: CHF 225 million) and has been recorded against retained earnings in 2009.

At the Annual General Meeting on 12 May 2010, payment of the following dividends for 2009 will be proposed:

	Registered	Bearer
Dividend per share	CHF 0.80	CHF 4.00
Total dividend	CHF 99 236 000	CHF 123 360 000

The financial statements ending 31 December 2009 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 10. Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
(CHF million)					
<b>Historical cost, 1 January 2009</b>	<b>1 084</b>	<b>2 626</b>	<b>393</b>	<b>31</b>	<b>4 134</b>
Translation differences	-11	-1	-1		-13
Business combinations (Note 14)					0
Divestments of businesses (Note 14)					0
Additions	31	147	33	6	217
Disposals	-1	-71	-17		-89
Transfers	27	14	-16	-28	-3
<b>Historical cost, 31 December 2009</b>	<b>1 130</b>	<b>2 715</b>	<b>392</b>	<b>9</b>	<b>4 246</b>
<b>Accumulated depreciation, 1 January 2009</b>	<b>-482</b>	<b>-1 938</b>	<b>-248</b>	<b>-1</b>	<b>-2 669</b>
Translation differences	1	1	1		3
Annual depreciation	-25	-147	-34		-206
Impairment					0
Depreciation on disposals		68	15		83
Depreciation on divestments of businesses					0
Transfers	-1	-8	11	1	3
<b>Accumulated depreciation, 31 December 2009</b>	<b>-507</b>	<b>-2 024</b>	<b>-255</b>	<b>0</b>	<b>-2 786</b>
<b>Net book value, 31 December 2009</b>	<b>623</b>	<b>691</b>	<b>137</b>	<b>9</b>	<b>1 460</b>

Insured value					<b>5 002</b>
Net book value of property, plant and equipment under finance lease contracts					<b>0</b>
Total non-current assets pledged to guarantee the commitments of Group companies					<b>83</b>

	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
(CHF million)					
Historical cost, 1 January 2008	986	2 569	387	53	3 995
Translation differences	22	-38	-14		-30
Business combinations (Note 14)	16	14	1		31
Divestments of businesses (Note 14)	-2	-60	-2		-64
Additions	22	206	40	26	294
Disposals		-74	-18		-92
Transfers	40	9	-1	-48	0
Historical cost, 31 December 2008	1 084	2 626	393	31	4 134
Accumulated depreciation, 1 January 2008	-463	-1 932	-242	-1	-2 638
Translation differences	3	30	10		43
Annual depreciation	-22	-147	-33		-202
Impairment		-1			-1
Depreciation on disposals		69	16		85
Depreciation on divestments of businesses		43	1		44
Transfers					0
Accumulated depreciation, 31 December 2008	-482	-1 938	-248	-1	-2 669
Net book value, 31 December 2008	602	688	145	30	1 465
Insured value					4 832
Net book value of property, plant and equipment under finance lease contracts					1
Total non-current assets pledged to guarantee the commitments of Group companies					94

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****11. Investment property**

(CHF million)	2009	2008
<b>Historical cost, 1 January</b>	<b>67</b>	60
Additions	0	7
Disposals	0	0
Transfers	1	0
<b>Historical cost, 31 December</b>	<b>68</b>	67
<b>Accumulated depreciation, 1 January</b>	<b>-28</b>	-26
Annual depreciation	-1	-2
Impairment	0	0
Depreciation on disposals	0	0
Transfers	0	0
<b>Accumulated depreciation, 31 December</b>	<b>-29</b>	-28
<b>Net book value, 31 December</b>	<b>39</b>	39
Rental income	4	4
Direct operating expenses arising from investment properties that generated rental income	-3	-3
Direct operating expenses arising from investment properties that did not generate rental income	0	0

Based on capitalized rental income for rented buildings plus an estimated market value for land reserves, the fair value of the investment properties is estimated at CHF 76 million at 31 December 2009 compared to CHF 68 million at 31 December 2008. No external independent valuation has been performed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12. Intangible assets

	Goodwill	Capitalized development costs	Other intangible assets	Total
(CHF million)				
<b>Historical cost, 1 January 2009</b>	<b>204</b>	<b>44</b>	<b>168</b>	<b>416</b>
Translation differences				0
Business combinations (Note 14)	2			2
Divestments of businesses (Note 14)				0
Additions		13	12	25
Disposals		-4	-19	-23
Transfers			2	2
<b>Historical cost, 31 December 2009</b>	<b>206</b>	<b>53</b>	<b>163</b>	<b>422</b>
<b>Accumulated amortization, 1 January 2009</b>	<b>0</b>	<b>-17</b>	<b>-91</b>	<b>-108</b>
Translation differences				0
Annual amortization		-3	-10	-13
Impairment				0
Amortization on disposals		2	19	21
Amortization on divestments of businesses				0
Transfers			-2	-2
<b>Accumulated amortization, 31 December 2009</b>	<b>0</b>	<b>-18</b>	<b>-84</b>	<b>-102</b>
<b>Net book value, 31 December 2009</b>	<b>206</b>	<b>35</b>	<b>79</b>	<b>320</b>

	Goodwill	Capitalized development costs	Other intangible assets	Total
(CHF million)				
Historical cost, 1 January 2008	232	33	170	435
Translation differences	-1		-8	-9
Business combinations (Note 14)	6	2	4	12
Divestments of businesses (Note 14)	-33		-3	-36
Additions		10	9	19
Disposals		-1	-4	-5
Transfers				0
Historical cost, 31 December 2008	204	44	168	416
<b>Accumulated amortization, 1 January 2008</b>	<b>0</b>	<b>-12</b>	<b>-89</b>	<b>-101</b>
Translation differences			2	2
Annual amortization		-6	-8	-14
Impairment			-1	-1
Amortization on disposals		1	3	4
Amortization on divestments of businesses			2	2
Transfers				0
<b>Accumulated amortization, 31 December 2008</b>	<b>0</b>	<b>-17</b>	<b>-91</b>	<b>-108</b>
<b>Net book value, 31 December 2008</b>	<b>204</b>	<b>27</b>	<b>77</b>	<b>308</b>

There are no accumulated impairment losses in goodwill. Within intangible assets, only goodwill is assumed to have an indefinite life.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Goodwill impairment testing

Goodwill is allocated to the Group's cash-generating units (CGUs), which correspond to the profit centers for the segment «Watches & Jewelry» and the reportable segments for the business segments «Production» and «Electronic Systems». A segment-level summary of the goodwill allocation is presented below:

(CHF million)	31.12.2009	31.12.2008
Watches & Jewelry	159	157
Production	36	36
Electronic Systems	11	11
<b>Total</b>	<b>206</b>	<b>204</b>

The recoverable amount of a cash-generating unit is determined based on value-in-use calculations. These calculations use cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using a steady growth rate. The discount rates used are derived from a capital asset pricing model using data from Swiss capital markets and reflect specific risks relating to the relevant segments. This is then adjusted to a pre-tax rate.

### Ranges of key assumptions used

	2009			2008		
	Watches & Jewelry	Production	Electronic Systems	Watches & Jewelry	Production	Electronic Systems
Estimated growth rate beyond five-year period	1%	0.50%	0%	1%	0.50%	0%
Expected gross margin	48%-62%	27%-30%	31%-35%	56%-64%	26%-30%	31%-35%
Pre-tax discount rate	8.8%	9.6%	9.9%	9.1%	10.2%	10.5%

No impairment charge for goodwill had to be recorded in 2009 and 2008. Management estimates that any reasonably possible change in any of the key assumptions would not cause that the recoverable amount falls below the carrying value of goodwill.

## 13. Investments in associates and joint ventures

(CHF million)	2009	2008
<b>Balance at 1 January</b>	<b>127</b>	<b>6</b>
Share of result from associates and joint ventures	5	5
Dividends received	-2	0
Investments	12	69
Reclassifications	0	45
Translation differences	-3	2
<b>Balance at 31 December</b>	<b>139</b>	<b>127</b>

All associates and joint ventures are recognized using the equity method. They have been listed in Note 32.

The investment in 2009 relates to an increase in the stake in Hengdeli Holdings (formerly Xinyu Hengdeli) from 8.09% in 2008 to 8.92%.

The investments in 2008 related to the acquired stake in Rivoli Group LLC (Dubai), one of the leading lifestyle luxury goods retailers in the GCC (Gulf Cooperation Council) region. Despite having less than 20% of the voting power, the Swatch Group can exercise significant influence due to the representation on the Board of Directors, the access to current financial information and the strategic character of the investment. Due to this significant influence, the investment in Rivoli is considered as an associate.

The reclassifications in 2008 mainly related to the stake in Hengdeli Holdings which was transferred from marketable securities into associates. As of 9 July 2008, the Group obtained significant influence following a decisive change in Hengdeli's Board of Directors and a closer strategic partnership between the two parties. The reclassification as of 9 July 2008 was done at original cost value with the difference to the current fair value being recognized in equity.

Furthermore, the company François Golay SA was reclassified out of investments in associates in 2008 due to its full consolidation (acquisition of the remaining 65% of the shares, refer to Note 14 Business Combinations). Also, the Group's share in Belenos Clean Power Holding SA was reduced to below 50% in 2008; since then, the company is considered as an associate.

At 31 December 2009, the fair value of the investment in Hengdeli Holdings was CHF 140 million (2008: CHF 33 million). Sales to and purchases from associates and joint ventures amounted to CHF 398 million (2008: CHF 159 million) and CHF 6 million (2008: CHF 9 million) respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following amounts represent the Group's share of assets, liabilities, revenues and net income of associates and joint ventures:

(CHF million)	31.12.2009	31.12.2008
Assets	112	100
Liabilities	42	44
Revenues	133	61
Net income	5	5

At the balance sheet date, contingent liabilities of associates and joint ventures amounted to CHF 1 million (previous year: CHF 1 million).

### 14. Business combinations

At the end of March 2009, the Group acquired the remaining 90% of the issued capital of Swiss Precision Watches (Pty) Ltd, a watch distribution company domiciled in Johannesburg (South Africa). The company was subsequently renamed The Swatch Group (South Africa) (Pty) Ltd.

In January 2008, the Group had acquired the business activities of the company H. Moebius & Sohn, Allschwil (Switzerland), a supplier of classic and synthetic oils, lubricants and epilam coatings. In March 2008, another minor transaction involved the acquisition of 100% of the issued capital of Vica Sàrl, Lausanne (Switzerland). In June 2008, the Group had acquired the remaining 65% of François Golay SA, Le Brassus (Switzerland), a developer of high-quality wheels and other watch components. On 4 November 2008, the Group finalized the purchase of the watch components division of Burri AG in Moutier (Switzerland). All acquisitions have been accounted for using the purchase method of accounting.

The identifiable assets and liabilities acquired in the transactions, the goodwill arising and the cash outflow on acquisitions were as follows:

(CHF million)	Notes	2009		2008	
		Fair value	Acquiree's carrying amount	Fair value	Acquiree's carrying amount
Property, plant and equipment	(10)	0	0	31	24
Intangible assets	(12)	0	0	6	0
Other non-current assets	(15)	0	0	0	0
Current assets		5	5	4	4
Cash and cash equivalents		2	2	0	0
Provisions	(24)	0	0	-1	-1
Deferred tax liabilities	(7d)	0	0	-3	0
Other non-current liabilities		-3	-3	-3	-3
Current liabilities		-2	-2	-1	-1
Previously held interests		0		-5	
<b>Net assets acquired</b>		<b>2</b>	<b>2</b>	<b>28</b>	<b>23</b>
Goodwill (capitalized)	(12)	2		6	
Negative Goodwill (recognized in P&L)		0		-3	
<b>Total purchase consideration</b>		<b>4</b>		<b>31</b>	
Cash and cash equivalents acquired		-2		0	
Consideration payable		0		-1	
<b>Cash outflow on acquisitions</b>		<b>2</b>		<b>30</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The total acquisition cost basically represented the cash payments made to the vendors. The costs directly attributable to the acquisitions were below CHF 1 million (2008: below CHF 1 million).

The goodwill arising from these acquisitions is attributable to the expected operating synergies from the combinations, the acquired know-how and the extended production capacity in the Group's core business. In the case of François Golay SA, the fair values of net assets acquired were in excess of the consideration paid. The resulting negative goodwill of CHF 3 million was recognized in the income statement 2008 within other operating income.

The operating results contributed by the acquired entities in the period between the date of acquisition and the balance sheet date were below CHF 1 million (2008: CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2009 (1 January 2008), the Group's revenue would have been CHF 2 million (2008: CHF 7 million) higher, and the impact on profit would have been less than CHF 1 million (2008: CHF 1 million).

### Divestment of businesses

No businesses were divested in 2009. The announced sale of Microcomponents' step motor activities will be effective in the first half-year 2010.

In 2008, the Group had sold the Group companies Sokymat Automotive GmbH (Germany) and Michel Präzisionstechnik AG (Switzerland) for a total consideration of CHF 109 million. The profit realized on these divestments amounted to CHF 45 million, it was included in 2008 in other operating income.

The net assets disposed of and the net cash inflow on divestments were as follows:

(CHF million)	Notes	2009	2008
Property, plant and equipment	(10)	0	20
Intangible assets	(12)	0	1
Goodwill	(12)	0	33
Current assets		0	21
Cash and cash equivalents		0	4
Provisions	(24)	0	0
Deferred tax liabilities	(7d)	0	-3
Other non-current liabilities		0	-1
Current liabilities		0	-11
<b>Net assets disposed of</b>		<b>0</b>	<b>64</b>
Accumulated currency translation gains recognized in equity		0	0
Profit on divestment of businesses		0	45
<b>Total disposal consideration</b>		<b>0</b>	<b>109</b>
Cash and cash equivalents disposed of		0	-4
<b>Net Cash inflow on divestment</b>		<b>0</b>	<b>105</b>

Furthermore, the participation in Belenos Clean Power Holding SA was reduced in 2008 to below 50% and reclassified to associates (refer to Note 13). The cash impact on deconsolidation was a decrease in cash and cash equivalents of CHF 17 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. Other non-current assets

(CHF million)	Key money	Security deposits	Other financial assets	Pension assets	Total
<b>Balance at 1 January 2009</b>	<b>37</b>	<b>23</b>	<b>5</b>	<b>48</b>	<b>113</b>
Translation differences		-1			-1
Business combinations (Note 14)					0
Additions		7		16	23
Disposals		-1			-1
Transfers to "Other current assets"	-9				-9
<b>Balance at 31 December 2009</b>	<b>28</b>	<b>28</b>	<b>5</b>	<b>64</b>	<b>125</b>
Term 1–5 years	24	24	5		53
Term >5 years	4	4		64	72
<b>Balance at 31 December 2009</b>	<b>28</b>	<b>28</b>	<b>5</b>	<b>64</b>	<b>125</b>

(CHF million)	Key money	Security deposits	Other financial assets	Pension assets	Total
Balance at 1 January 2008	48	17	5	0	70
Translation differences	-4				-4
Business combinations (Note 14)					0
Additions	4	7		48	59
Disposals		-1			-1
Transfers to "Other current assets"	-11				-11
Balance at 31 December 2008	37	23	5	48	113
Term 1–5 years	29	17	5		51
Term >5 years	8	6		48	62
Balance at 31 December 2008	37	23	5	48	113

Security deposits as well as other financial assets are considered as financial instruments (category loans and receivables). Key money that the Group pays when renting shops in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain. The non-current portion is recognized under «Other non-current assets», while the current component is transferred to «Other current assets». Detail to the pension assets can be found in Note 23.

### 16. Inventories

(CHF million)	31.12.2009	31.12.2008
Raw materials	219	226
Work in progress	287	334
Semi-finished goods	1 084	1 028
Finished goods	985	999
Spare parts for customer service	168	151
<b>Total inventories</b>	<b>2 743</b>	<b>2 738</b>

The cost of inventories recognized as an expense in 2009 amounted to CHF 2 316 million (2008: CHF 2 426 million). Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2009, the Group recognized write-downs of CHF 17 million (previous year: CHF 22 million) and reversals of write-downs of CHF 4 million (previous year: CHF 3 million). The net impact of these adjustments was a charge to the income statement of CHF 13 million (2008: CHF 19 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****17. Trade receivables**

(CHF million)	31.12.2009	31.12.2008
Trade receivables – gross	780	756
Allowance for impaired receivables	-19	-23
<b>Total trade receivables – net</b>	<b>761</b>	<b>733</b>

The evolution of the allowance for impaired receivables can be summarized as follows:

(CHF million)	2009	2008
<b>Balance at 1 January</b>	<b>-23</b>	<b>-21</b>
Translation differences	0	0
Utilization	6	3
Reversal	3	4
Creation	-5	-9
<b>Balance at 31 December</b>	<b>-19</b>	<b>-23</b>

The individually impaired receivables mainly relate to amounts overdue more than 12 months and to customers with solvency risks.

The following table provides details of the age of trade receivables that are past due but not impaired:

(CHF million)	31.12.2009	31.12.2008
<b>Neither past due nor impaired</b>	<b>649</b>	<b>537</b>
<3 months	97	171
3–6 months	10	18
6–12 months	5	7
<b>Total past due but not impaired</b>	<b>112</b>	<b>196</b>
<b>Total trade receivables</b>	<b>761</b>	<b>733</b>

Based on past experience with the quality of trade receivables, no material increase in credit losses is expected.

Net trade receivables are recognized in the following major currencies:

(CHF million)	31.12.2009	31.12.2008
CHF	181	213
CNY	86	38
EUR	204	211
HKD	43	27
JPY	26	37
USD	77	87
Other currencies	144	120
<b>Total trade receivables – net</b>	<b>761</b>	<b>733</b>

Invoices are essentially issued in the currency of the primary economic environment in which the entity operates.

The maximum exposure to credit risk at the balance sheet date is the fair value of trade receivables. The Group does not hold any collateral as security.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. Other current assets

(CHF million)	31.12.2009	31.12.2008
<b>Other current receivables</b>		
VAT to be refunded	47	108
Other receivables	40	77
<b>Total other current receivables</b>	<b>87</b>	<b>185</b>
<b>Prepayments</b>		
Key money	10	10
Other prepayments and accrued income	144	88
<b>Total prepayments</b>	<b>154</b>	<b>98</b>
<b>Total other current assets</b>	<b>241</b>	<b>283</b>

Current income tax assets are reported on a separate balance sheet line and are also included in Note 7 Income taxes. No impairments were recognized on other receivables (none in 2008). Except for prepayments, other current assets are considered as financial instruments.

### 19. Marketable securities and derivative financial instruments

(CHF million)	31.12.2009	31.12.2008
Equity securities	138	106
Bond securities	365	378
Investment funds and other investments	25	31
<b>Marketable securities held-for-trading</b>	<b>528</b>	<b>515</b>
<b>Marketable securities designated as FVTPL</b>	<b>16</b>	<b>15</b>
<b>Derivative financial instruments</b>	<b>3</b>	<b>16</b>
<b>Total marketable securities and derivative financial instruments</b>	<b>547</b>	<b>546</b>

All marketable securities and derivative financial assets are classified in the category «financial assets at fair value through profit or loss». Changes in fair values are recorded in the income statement (see Note 6f).

The table below gives an overview of the contract values and fair values of derivative financial instruments by type of contract.

Type	31.12.2009			31.12.2008		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
(CHF million)						
Forward foreign exchange rate contracts	521	3	-1	565	16	-3
Currency options	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0
<b>Total trading</b>	<b>521</b>	<b>3</b>	<b>-1</b>	<b>565</b>	<b>16</b>	<b>-3</b>
Forward foreign exchange rate contracts	0	0	0	0	0	0
Currency options	0	0	0	0	0	0
<b>Total hedge accounting</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>521</b>	<b>3</b>	<b>-1</b>	<b>565</b>	<b>16</b>	<b>-3</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

At the end of 2008 and 2009, no hedges were outstanding. In 2008, CHF 1 million was recycled from equity as a result of the application of hedge accounting. The impact on the income statement 2008 was a gain of CHF 3 million. The derivative financial liabilities are included in current financial debts.

The detail by currency of the contract values of derivative financial instruments can be summarized as follows:

Type (CHF million)	2009							Total
	EUR	JPY	HKD	USD	SGD	CNY	Other	
Forward foreign exchange contracts	229	70	0	72	27	49	74	521
Currency options	0	0	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0	0	0
<b>Total trading</b>	<b>229</b>	<b>70</b>	<b>0</b>	<b>72</b>	<b>27</b>	<b>49</b>	<b>74</b>	<b>521</b>
Forward foreign exchange contracts	0	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0	0
<b>Total hedge accounting</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>229</b>	<b>70</b>	<b>0</b>	<b>72</b>	<b>27</b>	<b>49</b>	<b>74</b>	<b>521</b>

Type (CHF million)	2008							Total
	EUR	JPY	HKD	USD	SGD	CNY	Other	
Forward foreign exchange contracts	270	126	58	18	33	15	45	565
Currency options	0	0	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0	0	0
<b>Total trading</b>	<b>270</b>	<b>126</b>	<b>58</b>	<b>18</b>	<b>33</b>	<b>15</b>	<b>45</b>	<b>565</b>
Forward foreign exchange contracts	0	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0	0
<b>Total hedge accounting</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>270</b>	<b>126</b>	<b>58</b>	<b>18</b>	<b>33</b>	<b>15</b>	<b>45</b>	<b>565</b>

At 31 December 2009, the contracts have a term of up to one year. The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

**20. Cash and cash equivalents**

(CHF million)	31.12.2009	31.12.2008
Current accounts and liquid assets	388	378
Short-term deposits with financial institutions	710	302
<b>Total</b>	<b>1 098</b>	<b>680</b>

The average yield on short-term bank deposits corresponds to the average interest rate on an investment on the money markets with a term of up to three months.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include the following items:

(CHF million)	31.12.2009	31.12.2008
Cash and cash equivalents	1 098	680
Current account overdrafts (Note 22)	0	0
<b>Total</b>	<b>1 098</b>	<b>680</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. Share capital and reserves

#### a. Share capital

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

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2006	131 530 000 at CHF 0.45	32 364 000 at CHF 2.25	132 007 500.00
Cancellation <sup>1)</sup>	-3 430 000 at CHF 0.45	-704 000 at CHF 2.25	-3 127 500.00
31.12.2007	128 100 000 at CHF 0.45	31 660 000 at CHF 2.25	128 880 000.00
Cancellation <sup>2)</sup>	-4 055 000 at CHF 0.45	-820 000 at CHF 2.25	-3 669 750.00
31.12.2008	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2009</b>	<b>124 045 000 at CHF 0.45</b>	<b>30 840 000 at CHF 2.25</b>	<b>125 210 250.00</b>

<sup>1)</sup> Buyback of shares on the Group's 2<sup>nd</sup> trading line and cancellation following the decision of the AGM of 11 May 2007.

<sup>2)</sup> Buyback of shares on the Group's 2<sup>nd</sup> trading line and cancellation following the decision of the AGM of 21 May 2008.

At year-end 2009 as well as 2008, there was no authorized or conditional capital. All issued shares are fully paid. No benefit certificates exist. In accordance with the articles of incorporation of the Swatch Group, the Board of Directors shall refuse a registered share ownership of more than 5% per shareholder. In exceptional cases, the Board of Directors may consent to an exception to this rule.

#### b. Treasury shares

Changes in shares of The Swatch Group Ltd held by the Group (treasury shares) are presented in the following table:

	Registered shares		Bearer shares		Total
	Quantity	Value	Quantity	Value	
	CHF million		CHF million		CHF million
<b>Balance at 31.12.2007</b>	<b>14 506 894</b>	<b>588</b>	<b>660 000</b>	<b>233</b>	<b>821</b>
Acquisitions	3 470 000	181	665 000	180	361
Disposals <sup>1)</sup>	-221 735	0	0	0	0
Cancellations	-4 055 000	-272	-820 000	-281	-553
<b>Balance at 31.12.2008</b>	<b>13 700 159</b>	<b>497</b>	<b>505 000</b>	<b>132</b>	<b>629</b>
Acquisitions	0	0	0	0	0
Disposals <sup>1)</sup>	-215 730	0	0	0	0
Cancellations	0	0	0	0	0
<b>Balance at 31.12.2009</b>	<b>13 484 429</b>	<b>497</b>	<b>505 000</b>	<b>132</b>	<b>629</b>

<sup>1)</sup> Exercised in relation with the employee stock option plan. Details to the share options issued in connection with the employee stock option plan are given in Note 28.

Treasury shares are recognized in the consolidated financial statements at their historical cost. The value of these shares is charged against consolidated equity.

#### c. Other reserves

(CHF million)	31.12.2009	31.12.2008
Equity component of convertible bond	15	15
Translation differences	-148	-132
<b>Total other reserves</b>	<b>-133</b>	<b>-117</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****22. Financial debts and derivative financial instruments**

(CHF million)	31.12.2009	31.12.2008
Convertible bond	0	384
Other non-current debt	80	92
<b>Total non-current financial debts</b>	<b>80</b>	<b>476</b>
Current account overdrafts	0	0
Short-term leasing commitments	0	0
Short-term bank debt	52	50
Convertible bond	385	0
<b>Total current financial debts</b>	<b>437</b>	<b>50</b>
Derivative financial instruments	1	3
<b>Total current financial debts and derivative financial instruments</b>	<b>438</b>	<b>53</b>
<b>Total financial debts</b>	<b>518</b>	<b>529</b>

The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates. The contractual repricing dates at the balance sheet date are as follows:

(CHF million)	less than 1 year	1–5 years	over 5 years	Total
<b>At 31.12.2009</b>	<b>438</b>	<b>0</b>	<b>80</b>	<b>518</b>
At 31.12.2008	53	386	90	529

The carrying amounts of the Swatch Group's financial debts are denominated in the following currencies:

(CHF million)	31.12.2009	31.12.2008
Swiss Franc (CHF)	389	389
Japanese Yen (JPY)	107	114
Euro (EUR)	3	4
Other currencies	19	22
<b>Total</b>	<b>518</b>	<b>529</b>

**Convertible bond**

On 15 October 2003, The Swatch Group Finance (Luxembourg) SA issued convertible bonds valid from 15 October 2003 to 15 October 2010 and with a coupon of 2.625%, for a total of CHF 411 600 000. During the conversion period, these bonds with a nominal value of CHF 5 000 may be converted into registered shares of The Swatch Group Ltd at CHF 49.00 each.

The bond issue has been split into an equity and a liability component, recognized on the balance sheet under the corresponding headings. The fair value of the liability component, initially recognized as non-current debt, was determined by reference to the market rate (3.248% per year) of an equivalent non-convertible bond. The residual value (the conversion option) was recognized as equity. In 2009, the liability component was reclassified from non-current to current financial debts.

Until conversion or redemption of the bond issue, the liability component and all related adjustments will be accounted for using the effective interest rate method. The equity portion was determined at the time of issue and will not be modified at a later date.

The convertible bond is recognized as follows:

(CHF million)	2009	2008
<b>Liability component at 1 January</b>	<b>384</b>	<b>402</b>
Coupon interest at market rate	13	14
Coupon interest at 2.625%	-10	-11
Partial repurchase of convertible bonds against cash	-2	-21
<b>Liability component at 31 December</b>	<b>385</b>	<b>384</b>

In 2009, the Group repurchased 400 convertible bonds with a total nominal value of CHF 2 million at a price of 101.00%. The realized loss relating to the liability component of less than CHF 1 million was recognized within financial expense.

In 2009 and 2008, no bonds had been converted. The closing rate of the convertible bond on the Swiss Stock Exchange SIX at end-2009 was 109.05% (101.10% at end-2008).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Retirement benefit obligations

#### a. Defined benefit plans

The Group has numerous independent pension plans. Defined benefit pension plans cover a significant number of the Group's employees. The Group's Swiss pension fund is also treated as a defined benefit pension plan. Other defined benefit plans are located in Japan, Korea, Italy, Taiwan, Malaysia, Germany, UK and the USA. The defined benefit obligations and related assets are reassessed annually by independent actuaries. The following is a summary of the status of the Group's defined benefit pension plans:

(CHF million)	2009	2008
Present value of funded obligations	-3 228	-3 124
Fair value of plan assets	3 171	2 814
<b>Excess of assets/(liabilities) at 31 December</b>	<b>-57</b>	<b>-310</b>
Present value of unfunded obligations	-14	-15
Unrecognized actuarial loss	111	348
Unrecognized past-service cost	0	0
Unrecognized surplus due to asset ceiling	0	0
<b>Net asset / (liability) in the balance sheet at 31 December</b>	<b>40</b>	<b>23</b>

#### Periodic pension cost for defined benefit plans

(CHF million)	2009	2008
Current service cost	-123	-114
Interest cost	-101	-105
Expected return on plan assets	119	144
Actuarial gains/(losses)	-3	-340
Past-service cost	0	0
Employee contributions	56	54
Gains/(losses) on curtailment	-1	0
Impact of asset ceiling	0	336
<b>Total periodic pension cost</b>	<b>-53</b>	<b>-25</b>

#### Movement in the fair value of plan assets

(CHF million)	2009	2008
<b>1 January</b>	<b>2 814</b>	<b>3 590</b>
Expected return on plan assets	119	144
Actuarial gains/(losses)	289	-872
Exchange differences	0	-7
Employer contributions	68	66
Employee contributions	56	54
Effect of acquisitions or divestments	0	0
Benefits paid	-175	-161
<b>31 December</b>	<b>3 171</b>	<b>2 814</b>

Pension plan assets include the company's registered shares with a fair value of CHF 280 million (2008: CHF 162 million) and the company's bearer shares with a fair value of CHF 53 million (2008: CHF 29 million). Furthermore, buildings occupied by the Group amounting to CHF 12 million (previous year CHF 12 million) were included in the pension plan assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The actual return on plan assets was a gain of CHF 408 million (2008: loss of CHF 728 million). The Group expects to contribute CHF 69 million to its post-employment benefit plans in 2010.

### Asset allocation of plan assets

	31.12.2009		31.12.2008	
	CHF million	%	CHF million	%
Equity	1 036	32.7	826	29.4
Bonds	1 156	36.5	1 163	41.3
Real estate	591	18.6	607	21.6
Other assets	388	12.2	218	7.7
<b>Total</b>	<b>3 171</b>	<b>100.0</b>	<b>2 814</b>	<b>100.0</b>

### Movement in the present value of defined benefit obligation

(CHF million)	2009	2008
<b>1 January</b>	<b>-3 139</b>	<b>-3 282</b>
Current service cost	-124	-114
Interest cost	-101	-105
Actuarial gains/(losses)	-55	188
Exchange differences	1	12
Benefits paid	177	162
Effect of acquisitions or divestments	0	0
Curtailments	-1	0
Settlements	0	0
<b>31 December</b>	<b>-3 242</b>	<b>-3 139</b>

### Principal actuarial assumptions used

	2009	2008
	%	%
	Weighted average	Weighted average
Discount rate	3.25	3.25
Expected return on plan assets	4.25	4.00
Expected rates of salary increases (incl. inflation)	2.00	2.00
Future pension increases due to inflation	0	0

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

### Defined benefit plans: summary

(CHF million)	2009	2008	2007	2006	2005
Present value of defined benefit obligation	-3 242	-3 139	-3 282	-3 106	-2 997
Fair value of plan assets	3 171	2 814	3 590	3 464	3 255
<b>Over/(under) funding</b>	<b>-71</b>	<b>-325</b>	<b>308</b>	<b>358</b>	<b>258</b>
Experience adjustments on plan liabilities - loss / (gain)	6	29	133	70	56
Experience adjustments on plan assets - gain / (loss)	289	-872	39	130	237

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**b. Post-employment medical benefits plan** The Group operates a post-employment medical scheme in the USA. It represents a defined benefit obligation at 31 December 2009 of CHF 3 million (2008: CHF 3 million). This plan is included in the defined benefit obligations presented above. The method of accounting and the frequency of valuation are similar to those used for benefit pension schemes. A one percentage point increase or decrease in assumed medical cost trend rates would lead to an absolutely insignificant change in the defined benefit obligation.

**c. Other post-employment benefit obligations** In addition to the defined benefit pension plans, the Group has liabilities for other post-employment benefits for employees working abroad. At 31 December 2009, these liabilities amounted to CHF 3 million (31 December 2008: CHF 3 million).

**d. Reconciliation** The reconciliation of the balance sheet amount of pension assets and retirement benefit obligations is as follows:

(CHF million)	31.12.2009	31.12.2008
Defined benefit plan asset	64	48
<b>Total pension asset (Note 15)</b>	<b>64</b>	<b>48</b>
Defined benefit plan liability	-24	-25
Other post-employment benefit obligations	-3	-3
<b>Total retirement benefit obligations</b>	<b>-27</b>	<b>-28</b>

**e. Defined contribution plans** Amounts recognized in the consolidated income statement relating to contributions to defined contribution plans represent the employer's contributions and are calculated according to the regulations of various pension institutions. In 2009, these contributions amounted to CHF 6 million (CHF 6 million in 2008).

### 24. Provisions

(CHF million)	Warranties	Litigation	Other	Total
<b>Balance at 1 January 2009</b>	<b>77</b>	<b>11</b>	<b>20</b>	<b>108</b>
Translation differences				0
Additional provisions	67	2	5	74
Reversal of provisions	-3	-2	-3	-8
Acquisitions / divestments				0
Provisions used during the year	-70	-2	-2	-74
<b>Balance at 31 December 2009</b>	<b>71</b>	<b>9</b>	<b>20</b>	<b>100</b>

#### Analysis of total provisions

(CHF million)	31.12.2009	31.12.2008
Non-current provisions	40	45
Current provisions	60	63
<b>Total</b>	<b>100</b>	<b>108</b>

**a. Warranty** In the majority of cases, the Group offers a two-year warranty covering the repairs or replacement of products that do not perform to customers' satisfaction. The provision made at year-end to cover future warranty costs is based on past experience with respect to the volume of repairs and returns.

**b. Legal risks** Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of facts known at the time of closing the books and recorded adequate provisions in line with IAS 37. However, there is an inherent risk that legal claims from adversary parties are successful and cause a significant outflow of economic benefits.

**c. Other** Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****25. Other current liabilities**

(CHF million)	31.12.2009	31.12.2008
Advance payments	12	15
VAT due	13	20
Other payables	57	77
<b>Total other current payables</b>	<b>82</b>	112
<b>Accrued expenses and deferred income</b>	<b>347</b>	330
<b>Total other current liabilities</b>	<b>429</b>	442

Current income tax liabilities are reported on a separate balance sheet line and are also included in Note 7 Income taxes. Except for accrued expenses and deferred income, other current liabilities are considered as financial instruments.

**26. Commitments and contingencies****a. Guarantees and sureties**

At 31 December 2009, guarantees to third parties as security for commitments of Group companies amounted to less than CHF 1 million (less than CHF 1 million at end-2008).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 28 million at 31 December 2009 (CHF 23 million at end-2008). This increase is due to cash deposits in favor of landlords (retail business rental contracts).

**b. Leasing, rental and other commitments**

Operating leasing commitments for the Group not recognized in the balance sheet are as follows:

(CHF million)	31.12.2009	31.12.2008
Less than 1 year	149	129
Between 1 and 5 years	357	299
Over 5 years	229	246
<b>Total</b>	<b>735</b>	674
Proportion of contracts with renewal option (% of total amount)	65.6	68.5
Maximum risk (% of total amount)	93.5	91.6

The figures in the preceding table include all rental contracts for buildings, a major part of which relate to the Group's retail business, and to all other standard rental contracts existing at 31 December 2009. Leasing costs amounting to CHF 152 million were recognized in the 2009 income statement (CHF 129 million in 2008). A sublease clause is included in a large number of rental contracts for retail shops. Moreover, if the need arises, the Group may negotiate early termination of a lease contract with exit terms considerably more favorable than the payment of the entire commitment specified in the initial contract. The maximum risk as disclosed above considers any exit clauses and potential related penalties.

Other commitments relating to investments in tangible fixed assets entered into by the Group, and ongoing at 31 December 2009, amounted to CHF 7 million (CHF 4 million in the previous year).

**c. Contingent assets and liabilities**

Some Group companies are involved in litigation and disputes arising from the ordinary course of business and they may be liable to pay compensation. The effect of these lawsuits, not all of which are covered by insurance, on future operations and earnings is not predictable.

In some cases the Group is defending its rights where there is also an inherent chance of inflows of economic benefits if the cases are successful.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. Cash generated from operations

(CHF million)	Notes	2009	2008
<b>Net income</b>		<b>763</b>	838
Share of result from associates and joint ventures	(13)	-5	-5
Income taxes	(7a)	186	168
Depreciation of tangible assets	(10, 11)	207	204
Amortization of intangible assets	(12)	13	14
Impairment charge	(10, 12, 18)	0	2
Divestment gain from disposal of subsidiaries	(14)	0	-45
Profit on sale of fixed assets		-2	-3
Loss on sale of fixed assets		2	2
Fair value gains on marketable securities		-66	-31
Fair value losses on marketable securities		33	218
Interest income	(6f)	-4	-23
Interest expense	(6f)	18	22
Expenses for equity-settled equity compensation plan	(28)	8	10
Changes in working capital (without liquid funds):			
– Inventories		-12	-514
– Trade and other receivables		15	184
– Trade payables and other current liabilities		-3	-172
Changes in provisions		-8	-8
Changes in pensions and other retirement benefits		-16	-42
Other non cash items		7	23
<b>Cash generated from operations</b>		<b>1 136</b>	842

### 28. Employee stock option plan

When the Hayek Pool acquired control of the Swatch Group, a block of shares was reserved in 1986 for an equity-settled management stock option plan.

Under the terms of this plan, share options are granted to managers and employees who distinguished themselves by a particular strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months (European style). Options are conditional on the employee completing the service until the respective date of exercise. Options are not transferable and only exercisable by the employee. The Group has no legal or constructive obligation to repurchase or settle the options in cash. A tranche of treasury shares has been specifically reserved for this stock option plan. No new shares were issued under this plan. When the options are exercised, Group equity increases by the corresponding amounts.

At the end of 2009, this portfolio comprised 2 356 309 registered shares (2 572 039 at the end of 2008). In 2009, 215 730 registered shares were exercised at a preferential price of CHF 4.00 per registered share.

Movements in the number of share options outstanding were as follows:

	2009	2008
	Options	Options
Options outstanding at 1 January	218 570	206 328
Granted	221 590	234 217
Forfeited or lapsed	-2 502	-252
Exercised	-215 730	-221 723
<b>Options outstanding at 31 December</b>	<b>221 928</b>	218 570

All options included in the table above have an exercise price of CHF 4.00.

Share options outstanding at the end of the year have the following expiry date:

Expiry date	Share options	
	31.12.2009	31.12.2008
2009		140 369
2010	148 470	78 201
2011	73 458	
<b>Total</b>	<b>221 928</b>	218 570

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the options granted during the period was determined by using the Black-Scholes option pricing model. The expected volatility has been set by reference to the implied volatility of options available on Swatch Group shares in the open market, as well as historical patterns of volatility. The following table shows the assumptions on which the valuation of share options granted in 2009 and 2008 was based:

	2009		2008	
	Tranche exercisable in 1 year	Tranche exercisable in 2 years	Tranche exercisable in 1 year	Tranche exercisable in 2 years
Grant date	10 July 2009	10 July 2009	10 July 2008	10 July 2008
Expiration date	10 July 2010	10 July 2011	10 July 2009	10 July 2010
Closing share price on grant date	CHF 33.70	CHF 33.70	CHF 43.65	CHF 43.65
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Volatility	37.0%	37.0%	24.0%	24.0%
Expected dividend yield	CHF 0.80	CHF 0.80	CHF 0.85	CHF 0.85
Risk-free interest rate	0.35%	0.83%	3.16%	3.20%
Market value of option at grant date	CHF 28.91	CHF 28.17	CHF 38.93	CHF 39.05

The first tranche that was immediately exercisable had the same assumptions as shown above (2009: grant date 10 July 2009, share price at grant date CHF 33.70, exercise price CHF 4.00; 2008: grant date 10 July 2008, share price at grant date CHF 43.65, exercise price CHF 4.00). The weighted average share price at exercise date was CHF 44.84 in 2009 (2008: CHF 38.39).

The personnel expense recorded in the 2009 income statement as a result of applying IFRS 2 calculation amounted to CHF 8 million (2008: CHF 10 million).

### 29. Related party transactions

#### a. Principal shareholders

On 31 December 2009, the Hayek Pool and its related companies, institutions and individuals held 63 301 445 registered shares and 201 325 bearer shares, equivalent to 41.0% of the shares issued (previous year: 40.7%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of Mr N. G. Hayek and related parties controlled in total 40.2% of the shares issued compared with 40.0% at the end of year 2008.

As of the same date, Mrs Esther Grether's group controlled 7.5% of the shares issued (compared with 7.5% a year earlier).

In 2009, the Hayek Group, owned by Mr. N. G. Hayek, invoiced an amount of CHF 9.4 million to the Swatch Group (compared with CHF 10.0 million in 2008). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2009	2008
Audit, feasibility studies and process optimization	3.0	2.7
Provision of managers and filling important, vacant functions	1.3	0.7
Project management in the construction sector	3.0	3.5
Support for projects in the materials and surface treatment technology sector	0.2	0.6
Leasing a store in the center of Cannes (France) in a building of a subsidiary of the Hayek Group	0.4	0.4
Various services relating to the assessment of investment projects, cost control, IT consulting, etc.	1.5	2.1
<b>Total</b>	<b>9.4</b>	<b>10.0</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b. Key management personnel

In addition to the members of the Board of Directors, the members of the Group Management Board and of the Extended Management Board are considered as key management personnel (according to IAS 24.9).

The total compensation of key management personnel using IAS 19 and IFRS 2 rules for accounting for share-based compensation was as follows:

(CHF million)	2009	2008
Short-term employee benefits	<b>26.2</b>	27.1
– of which in salaries	<b>9.3</b>	9.3
– of which in bonus	<b>16.8</b>	17.7
– of which in other benefits	<b>0.1</b>	0.1
Post-employment benefits	<b>0.8</b>	0.8
Termination benefits	<b>0.0</b>	0.0
Share-based compensation	<b>5.0</b>	6.4
<b>Total</b>	<b>32.0</b>	34.3

No remuneration was paid to former members of management bodies for their former functions.

### c. Share ownership

At 31 December 2009, the executive members of the Board of Directors and the members of the Management Board of the company as well as the persons close to them held directly or indirectly a total of 56 308 733 registered shares and 590 bearer shares, representing 36.4% of the voting rights (previous year: 36.1%).

In addition, at 31 December 2009, all the non-executive members of the Board of Directors as well as the persons close to them held 13 303 072 registered shares and 114 000 bearer shares, representing 8.7% of the voting rights (previous year: 8.6%).

### d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swatch Group Pension Fund for the construction or acquisition of property in Switzerland (primary residence). The conditions for these mortgage loans are set by the Swatch Group Pension Fund Foundation Board. These conditions are applied in the same manner to all employees.

In 2009 and 2008, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2009, one loan to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 3.0% existed (unchanged from previous year).

### e. Associated companies and other related parties

The Group has transactions with associates, joint ventures and other related parties. A listing of the associated companies and joint ventures is included in the list of the Swatch Group companies (Note 32).

(CHF million)	2009		2008	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	<b>6</b>	<b>398</b>	9	159
Other related parties	<b>0</b>	<b>0</b>	0	0

At the end of 2009, receivables from related parties amounted to CHF 57 million (2008: CHF 35 million), and payables to related parties were CHF 3 million (unchanged from previous year). In addition, in 2009 the Group held a guarantee from an associated company in the amount of CHF 7 million (2008: CHF 20 million). Furthermore, at 31 December 2009 the Group had granted loans to related parties in the amount of USD 1 million (2008: USD 1 million) with an interest rate of 3.25%.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****30. Management compensation disclosures (required by Swiss Law)**

This note has been prepared in accordance with the requirements of articles 663b and 663c al. 3 of the Swiss Code of Obligations (SCO). It differs in several aspects from the compensation disclosures given in Note 29, mainly due to different valuation and expense recognition rules applied.

**Compensation to Board of Directors and Group Management (Art. 663b SCO)****a. Board of Directors (BoD)**

2009 Name	Function	Compensation	Base compen-	Bonus <sup>2)</sup>	Other	Total <sup>4)</sup>
		for functions in the BoD <sup>1)</sup>	sation for executive function <sup>1)</sup>		compen- sation <sup>3)</sup>	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Dr. h.c. Nicolas G. Hayek	BoD Chairman & Delegate		701 892	1 670 000		2 371 892
Dr. Peter Gross	BoD Member	114 957				114 957
Esther Grether	BoD Member	104 425				104 425
Nayla Hayek	BoD Member	105 318	501 564	1 000 000	387 455	1 994 337
Prof. Dr. h.c. Claude Nicollier	BoD Member	106 440				106 440
Johann N. Schneider-Ammann	BoD Member	106 440				106 440
Ernst Tanner	BoD Member	106 440				106 440
<b>Total</b>		<b>644 020</b>	<b>1 203 456</b>	<b>2 670 000</b>	<b>387 455</b>	<b>4 904 931</b>

2008 Name	Function	Compensation	Base compen-	Bonus <sup>2)</sup>	Other	Total <sup>4)</sup>
		for functions in the BoD <sup>1)</sup>	sation for executive function <sup>1)</sup>		compen- sation <sup>3)</sup>	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Dr. h.c. Nicolas G. Hayek	BoD Chairman & Delegate		701 892	1 770 000		2 471 892
Dr. Peter Gross	BoD Member	114 957				114 957
Esther Grether	BoD Member	104 425				104 425
Nayla Hayek	BoD Member	105 318	501 564	860 000	59 700	1 526 582
Prof. Dr. h.c. Claude Nicollier	BoD Member	79 830				79 830
Johann N. Schneider-Ammann	BoD Member	106 440				106 440
Ernst Tanner	BoD Member	106 440				106 440
<b>Total</b>		<b>617 410</b>	<b>1 203 456</b>	<b>2 630 000</b>	<b>59 700</b>	<b>4 510 566</b>

<sup>1)</sup> Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred.

<sup>2)</sup> Cash bonuses according to the accrual principle.

<sup>3)</sup> Other compensation includes pension benefits and share options. In 2009, 10 000 share options with a value of CHF 325 895 were granted (none in 2008), according to the conditions described in Note 28 Employee stock option plan. Each option gives the right to conversion in one registered share.

<sup>4)</sup> All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b. Management Board (MB) and Extended Management Board (EMB)

2009	Function	Salaries <sup>1)</sup>	Bonus <sup>2)</sup>	Share options <sup>3)</sup>	Share options <sup>3)</sup>	Other compensation <sup>4)</sup>	Total <sup>5)</sup>
Name		(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
Nick Hayek Jr.	MB President / CEO	1 471 561	2 900 000	22 000	716 975	61 560	5 150 096
Total other members		5 928 726	11 238 000	111 350	3 633 798	837 012	21 637 536
<b>Total</b>		<b>7 400 287</b>	<b>14 138 000</b>	<b>133 350</b>	<b>4 350 773</b>	<b>898 572</b>	<b>26 787 632</b>

2008	Function	Salaries <sup>1)</sup>	Bonus <sup>2)</sup>	Share options <sup>3)</sup>	Share options <sup>3)</sup>	Other compensation <sup>4)</sup>	Total <sup>5)</sup>
Name		(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
Nick Hayek Jr.	MB President / CEO	1 471 561	3 000 000	22 000	853 380	59 700	5 384 641
Total other members		5 998 112	12 066 350	127 000	4 926 334	791 574	23 782 370
<b>Total</b>		<b>7 469 673</b>	<b>15 066 350</b>	<b>149 000</b>	<b>5 779 714</b>	<b>851 274</b>	<b>29 167 011</b>

<sup>1)</sup>Total annual base compensation paid in cash, not including any reimbursement for travel and other business expenses incurred.

<sup>2)</sup>Cash bonuses according to the accrual principle.

<sup>3)</sup>Share options granted in the years under review, according to the conditions described in Note 28 Employee stock option plan. For the valuation of the share options, tax values were used for the part exercised in the current year. The options exercisable in the following years were valued using the Black Scholes method. Each option gives the right to conversion in one registered share.

<sup>4)</sup>Other salary elements such as pension benefits, company cars and other benefits.

<sup>5)</sup>All amounts are gross amounts (i.e. including social security due by the employee). The employer's share of social security contributions is not included.

### c. Loans and other payments to Board of Directors and Group Management

In 2009 and 2008, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. At the end of 2009, one loan granted by the Group's Pension Fund to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 3.0% existed (unchanged to previous year).

In 2009 and 2008, no compensation other than mentioned in the compensation tables above was accorded to current or former members of the Board of Directors, Management Board and Extended Board or to persons closely linked to them.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****Ownership of Swatch Group shares and options by Board of Directors and Group Management**

As of 31 December 2009 and 2008, the members of the Board of Directors, the Management Board and the Extended Management Board, including persons closely linked to them, held the following number of Swatch Group shares and options:

Name	Function	Registered Shares (number)		Bearer Shares (number)		Options (number)	
		2009	2008	2009	2008	2009	2008
Dr. h.c. Nicolas G. Hayek	BoD Chairman & Delegate	55 704 144	55 385 823	550	550		
Dr. Peter Gross	BoD Member	21 200	22 200				
Esther Grether	BoD Member	11 454 500	11 472 380	112 000	112 000		
Nayla Hayek	BoD Member	6 543	3 210				6 667
Prof. Dr. h.c. Claude Nicollier	BoD Member						
Johann N. Schneider-Ammann	BoD Member	1 827 372	1 627 372				
Ernst Tanner	BoD Member			2 000	2 000		
Nick Hayek Jr.	MB President/CEO	55 249	38 083			22 001	20 167
Arlette E. Emch	MB Member	37 334	23 584			15 000	13 750
Florence Ollivier-Lamarque	MB Member	44 216	36 334			11 002	10 084
Dr. Mougahed Darwish	MB Member	69 470	63 470			6 000	6 000
Edgar Geiser <sup>1)</sup>	MB Member/CFO		27 946				16 684
Marc A. Hayek	MB Member	36 900	28 400			9 000	8 500
Dr. Hanspeter Rentsch	MB Member/CLO	138 988	124 306			18 202	16 684
Roland Streule	MB Member	33 216	25 633			7 335	7 668
François Thiébaud	MB Member	53 125	45 250			9 000	7 875
Dr. Thierry Kenel <sup>2)</sup>	EMB Member/CFO	5 302				1 452	
Matthias Breschan	EMB Member		4 250			1 500	1 375
Pierre-André Bühler	EMB Member	9 345	7 640			2 668	1 773
Manuel Emch <sup>3)</sup>	EMB Member		3 234				1 450
Yann Gamard	EMB Member					5 002	4 709
Walter von Känel	EMB Member	17 643	14 454	40	40	3 500	2 939
Thomas Meier	EMB Member	2 900	1 500			1 300	1 500
Kevin Rollenhagen	EMB Member	23 482	18 766			5 668	4 384
Rudolf Semrad	EMB Member	12 601	15 501			2 100	2 100
Dr. Peter Steiger	EMB Member	40 924	35 883			5 501	5 042
Stephen Urquhart	EMB Member	17 351	15 481			5 501	5 441
<b>Total</b>		<b>69 611 805</b>	<b>69 040 700</b>	<b>114 590</b>	<b>114 590</b>	<b>138 399</b>	<b>138 125</b>

<sup>1)</sup> Member of MB until September 2009.

<sup>2)</sup> Member of EMB as of April 2009.

<sup>3)</sup> Member of EMB until September 2009.

Mr. H.P. Rentsch, member of the Management Board, holds CHF 0.1 million of The Swatch Group Finance (Luxembourg) SA 2003-2010 2.625% convertible bonds giving rise to 2040 registered shares if converted (unchanged from previous year).

The terms of the share options are disclosed in Note 28. Each option gives the right to conversion in one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 29 Related party transactions. Except for Mr. Nicolas G. Hayek, Mrs. E. Grether and Mr. J. N. Schneider-Ammann, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of 31 December 2009 and 2008, either directly or through share options, more than 1% of the outstanding Swatch Group shares.

**31. Events after the balance sheet date**

There were no significant events after the balance sheet date.

## 32. THE SWATCH GROUP COMPANIES – AS AT 31.12.2009

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>Europe</b>					
<b>Switzerland</b>					
The Swatch Group SA, Neuchâtel	Holding	CHF 125.21			▼
Asulab SA, La Tène	Research and development	CHF 0.10	100	●	▼
Atlantic Immobilien AG Bettlach, Bettlach	Real estate	CHF 0.70	100	●	▼
Belenos Clean Power Holding SA, Bienne	Holding	CHF 21.00	41	○	▼
Blancpain SA, Le Chenit	Watches	CHF 0.10	100	●	■
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100	●	■
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100	●	■
Certina AG, Le Locle	Watches	CHF 3.50	100	●	■
Cité du Temps SA, Genève	Communication	CHF 0.10	100	●	▼
cK Watch & Jewelry Co., Ltd., Bienne	Watches	CHF 5.00	90	●	■
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100	●	▲
Compagnie des Montres Longines, Francillon SA, Saint-Imier	Watches	CHF 10.00	100	●	■
Danyack SA, La Chaux-de-Fonds	Real estate	CHF 0.06	29	○	▼
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100	●	▼
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100	●	▲
Distico SA, Torricella-Taverne	Distribution	CHF 3.00	100	●	■
Dress your body SA, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100	●	▲
Dress Your Body Manufacture Genevoise SA, Plan-les-Ouates	Jewelry	CHF 0.60	100	●	▲
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100	●	◆
Endura AG, Bienne	Watches	CHF 2.00	100	●	■
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100	●	■
François Golay SA, Le Chenit	Manufacture of watch wheels	CHF 0.10	100	●	▲
Frédéric Piguet SA, Le Chenit	Movements	CHF 0.30	100	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	■
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Indexor SA, La Chaux-de-Fonds	Watch dial indexes	CHF 0.10	100	●	▲
Jaquet Droz Les Boutiques SA, La Chaux-de-Fonds	Retail	CHF 0.10	100	●	■
Lasag AG, Thun	Lasers for industrial applications	CHF 1.00	100	●	◆
Le Foyer SA, Saint-Imier	Real estate	CHF 0.13	100	●	◆
Léon Hatot Les Boutiques SA, Auvornier	Retail	CHF 0.10	100	●	■
Léon Hatot SA, Auvornier	Watches	CHF 0.10	100	●	■
Louis Jeanneret-Wespy SA, La Chaux-de-Fonds	Real estate	CHF 0.05	100	●	▼
Maeder-Leschot SA, Bienne	Real estate	CHF 0.70	100	●	▼
Manufacture Favre et Perret SA, La Chaux-de-Fonds	Watch cases	CHF 0.60	100	●	▲
Manufacture Ruedin SA, Bassecourt	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 0.48	100	●	▲
Meseltron SA, Corcelles-Cormondrèche	Real estate	CHF 2.00	100	●	▼
Microcomponents AG, Grenchen	Components for the automobile industry	CHF 11.00	100	●	◆
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100	●	◆
Mido AG, Le Locle	Watches	CHF 1.20	100	●	■
MOM le Prélet SA, Les Geneveys-sur-Coffrane	Watch dials	CHF 0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100	●	■
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100	●	■
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF 4.00	100	●	▲
Omega Electronics AG, Bienne	Inactive	CHF 1.50	100	●	▼
Omega SA, Bienne	Watches	CHF 50.00	100	●	■
Oscilloquartz SA, Neuchâtel	High-stability frequency sources	CHF 2.00	100	●	◆
Rado Uhren AG, Lengnau	Watches	CHF 2.00	100	●	■
Record Watch Co. SA, Tramelan	Inactive	CHF 0.10	100	●	▼
Renata AG, Itingen	Miniature batteries	CHF 0.50	100	●	◆
Rubattel et Weyermann SA, La Chaux-de-Fonds	Watch dials	CHF 0.15	100	●	▲
S.I. Grand-Cernil 2, Les Brenets, SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. Grand-Cernil 3, Les Brenets, SA, Les Brenets	Real estate	CHF 0.12	100	●	▼
S.I. Les Corbes SA, Savagnier	Real estate	CHF 0.10	34	○	▼
S.I. L'Etang SA, Les Brenets, Les Brenets	Real estate	CHF 0.05	100	●	▼
S.I. Rue de la Gare 2, Les Brenets, SA, Les Brenets	Real estate	CHF 0.24	100	●	▼
SSIH Management Services AG, Bienne	Services and licences	CHF 0.05	100	●	▼
Swatch AG, Bienne	Watches	CHF 2.00	100	●	■
Swatch Retail AG, Bienne	Retail	CHF 2.00	100	●	■
Swiss Timing Ltd, Corgémont	Sports timing & information display systems	CHF 2.00	100	●	◆
Technocorp Holding SA, Le Locle	Holding	CHF 6.00	100	●	◆
Terbival SA, Courchapoix	Watch case polishing	CHF 0.10	45	○	▲
The Swatch Group Assembly SA, Genestrerio	Assembly	CHF 4.00	100	●	▲
The Swatch Group Distribution SA, Bienne	Logistics and distribution	CHF 1.00	100	●	■
The Swatch Group Far East Distribution Ltd, Bienne	Distribution	CHF 0.10	100	●	■
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80	●	▼
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100	●	■
The Swatch Group Management Services SA, Bienne	Services and licences	CHF 0.05	100	●	▼
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100	●	▼
Tiffany Watch Co. Ltd, Bienne	Watches	CHF 20.00	100	●	■
Time Flagship AG, Zürich	Retail	CHF 6.00	100	●	■
Tissot SA, Le Locle	Watches	CHF 5.00	100	●	■
Universo SA, La Chaux-de-Fonds	Watch hands	CHF 0.67	100	●	▲
Valdar SA, Le Chenit	Watch components	CHF 0.05	100	●	▲
Vica Sàrl, Lausanne	Watches	CHF 0.20	100	●	■
<b>Germany</b>					
Altweiler Grundstücks-GmbH, Lörrach	Real estate	EUR 0.03	95	●	▲
Deutsche Zifferblatt Manufaktur GmbH, Pforzheim	Watch dials	EUR 0.10	100	●	▼
Glashütter Uhrenbetrieb GmbH, Glashütte	Watches	EUR 0.51	100	●	■
ST Innovation GmbH, Leipzig	Sports timing technology & equipment	EUR 0.05	100	●	◆
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR 3.47	100	●	◆
Swiss Prestige Uhren Handel GmbH, Eschborn	Inactive	EUR 0.08	100	●	■
The Swatch Group Customer Service (Europe) GmbH, Glashütte	Customer service	EUR 0.50	100	●	■
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution	EUR 1.28	100	●	■

Legend: ● Fully consolidated ○ Equity method ■ Watches & Jewelry ▲ Production ◆ Electronic Systems ▼ Corporate

## 32. THE SWATCH GROUP COMPANIES – AS AT 31.12.2009

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn Union Uhrenfabrik GmbH, Glashütte	Retail Watches	EUR 0.20 EUR 0.10	100 100	● ●	■ ■
<b>Austria</b>					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR 0.04	100	●	■
<b>Belgium</b>					
The Swatch Group (Belgium) SA, Anderlecht The Swatch Group Participation SA, Anderlecht	Distribution Holding	EUR 1.75 EUR 2.09	100 100	● ●	■ ▼
<b>Spain</b>					
The Swatch Group (España) SA, Alcobendas	Distribution	EUR 0.45	100	●	■
<b>France</b>					
Breguet, Paris	Inactive	EUR 0.04	100	●	■
Fabrique de Fournitures de Bonnétage FFB, Villers-le-Lac	Watch components and precision parts	EUR 0.29	100	●	▲
Frésard Composants, Charquemont	Watch components	EUR 1.80	100	●	▲
Société Européenne de Fabrication d'Ebauches d'Annemasse (SEFEA), Annemasse	Watch components and electronic assembly	EUR 0.67	100	●	▲
Tech Airport Développement, Paris	Retail	EUR 0.30	100	●	■
Tech Airport Holding, Paris	Holding	EUR 10.00	100	●	■
Tech Airport Nice, Paris	Retail	EUR 5.00	100	●	■
Tech Airport Orly, Paris	Retail	EUR 1.00	100	●	■
Tech Airport Roissy, Paris	Retail	EUR 3.80	100	●	■
The Swatch Group (France) SAS, Paris	Distribution	EUR 15.00	100	●	■
The Swatch Group (France) Les Boutiques, Paris	Retail	EUR 34.93	100	●	■
Universo France, Besançon	Watch hands	EUR 1.00	100	●	▲
<b>Great Britain</b>					
The Swatch Group (UK) Ltd, London	Distribution	GBP 2.00	100	●	■
<b>Greece</b>					
Alkioni SA, Athens	Retail	EUR 0.06	100	●	■
The Swatch Group (Greece) SA, Athens	Distribution	EUR 0.06	100	●	■
<b>Italy</b>					
Lascor S.p.A, Sesto Calende	Watch cases and bracelets	EUR 1.00	100	●	▲
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR 0.01	100	●	■
The Swatch Group (Italia) S.p.A., Rozzano	Distribution	EUR 23.00	100	●	■
The Swatch Group (Italia) Les Boutiques S.p.A. in liquidazione, Rozzano	In liquidation	EUR 0.12	100	●	■
<b>Luxembourg</b>					
The Swatch Group Finance (Luxembourg) SA, Alzingen	Finance company	CHF 1 000.00	100	●	▼
The Swatch Group Financial Services (Luxembourg) SA, Alzingen	Finance company	EUR 5.00	100	●	▼
The Swatch Group Re (Luxembourg) SA, Alzingen	Reinsurance	EUR 1.23	100	●	▼
<b>Netherlands</b>					
The Swatch Group (Netherlands) BV, Maastricht	Distribution	EUR 0.70	100	●	■
<b>Poland</b>					
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN 5.00	100	●	■
<b>Portugal</b>					
The Swatch Group (Europa) – Sociedade Unipessoal SA, Funchal	Distribution	EUR 24.14	100	●	■
The Swatch Group (Europa II) Retail – Sociedade Unipessoal SA, Funchal	Retail	EUR 0.10	100	●	■
<b>Russia</b>					
Swiss Watch Le Prestige 000 Russia, Moscow	Distribution	RUB 0.20	100	●	■
The Swatch Group (RUS) 000, Moscow	Distribution	RUB 1 265.22	100	●	■
<b>Sweden</b>					
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK 0.50	100	●	■
<b>Czech Republic</b>					
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK 2.01	51	●	◆
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK 0.10	80	●	◆
<b>Africa</b>					
<b>South Africa</b>					
The Swatch Group (South Africa) (Proprietary) Ltd, Sandton	Distribution	ZAR 0.00	100	●	■
<b>America</b>					
<b>Brazil</b>					
The Swatch Group do Amazonas SA, Manaus	Inactive	BRL 4.93	100	●	■
The Swatch Group do Brasil Ltda, São Paulo	Customer service	BRL 14.05	100	●	■
<b>Canada</b>					
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD 4.50	100	●	■
<b>United States</b>					
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100	●	◆
e-swath-us Inc., Wilmington, Delaware	e-Commerce	USD 0.00	100	●	■
HiPoint Technology Inc., Colorado Springs	Microelectronics	USD 0.17	25	○	◆
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 168.90	100	●	■
The Swatch Group Les Boutiques (U.S.) Inc., Wilmington, Delaware	Retail	USD 0.00	100	●	■
Time Sales Inc., Dover, Delaware	Retail	USD 1.00	50	○	■

Legend: ● Fully consolidated ○ Equity method ■ Watches & Jewelry ▲ Production ◆ Electronic Systems ▼ Corporate

## 32. THE SWATCH GROUP COMPANIES – AS AT 31.12.2009

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consoli- dation	Segment
<b>Mexico</b>					
Prestadora de Servicios Relojeros SA de CV, Mexico DF	Watch services	MXN 1.50	100	●	■
The Swatch Group Mexico SA de CV, Mexico DF	Distribution	MXN 43.65	100	●	■
<b>Panama</b>					
The Swatch Group Panama SA, Panama City	Commercial services	USD 0.01	100	●	■
<b>Asia</b>					
<b>Greater China</b>					
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 19.34	9	○	■
Lanco Watches Ltd, Hong Kong	Inactive	USD 0.07	100	●	■
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP 1.50	100	●	■
Shanghai Ruihengqi Watch Commerce Co. Ltd., Shanghai	Retail	CNY 30.00	50	●	■
Shanghai Rui Jing Retail Co., Ltd., Shanghai	Retail	CNY 20.25	100	●	■
Shanghai Rui Wan Retail Co. Ltd., Shanghai	Retail	CNY 4.00	100	●	■
Shanghai SMH Watch Service Center Co. Ltd, Shanghai	Customer service	CNY 21.06	100	●	■
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Real estate	CNY 148.41	90	●	▼
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 88.77	100	●	■
SMH Swiss Watch Trading (Shanghai) Co. Ltd, Shanghai	Distribution	CNY 7.12	90	●	■
SMH Technical Services (Shenzhen) Co. Ltd., Shenzhen	Commercial services	CNY 10.45	100	●	■
The Swatch Group (Asia) Inc. Ltd, Hong Kong	Commercial services	HKD 0.00	100	●	■
The Swatch Group (China) Ltd, Shanghai	Distribution	CNY 14.88	100	●	■
The Swatch Group (Hong Kong) Ltd, Hong Kong	Distribution	HKD 5.00	100	●	■
The Swatch Group (Taiwan) Ltd, Taipei	Distribution	TWD 28.00	100	●	■
Zuhai SMH Watchmaking Co. Ltd, Zhuhai	Components	CNY 74.57	100	●	▲
<b>South Korea</b>					
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW 4 300.00	100	●	■
<b>United Arab Emirates</b>					
Rivoli Investments L.L.C., Dubai	Retail	AED 24.02	15	○	■
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED 0.30	49	●	■
<b>India</b>					
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR 1 030.00	100	●	■
<b>Japan</b>					
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY 3 700.00	100	●	■
<b>Malaysia</b>					
Micromechanics (M) Sdn Bhd, Ipoh	Assembly, watch components	MYR 35.00	100	●	▲
Swiss Luxury Watch & Jewelry Sdn Bhd, Kuala Lumpur	Retail	MYR 7.00	51	●	■
The Swatch Group (Malaysia) Sdn Bhd, Kuala Lumpur	Distribution	MYR 0.50	95	●	■
<b>Singapore</b>					
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution	SGD 4.00	95	●	■
<b>Thailand</b>					
ETA (Thailand) Co. Ltd, Samut Prakan	Movements and components	THB 504.50	100	●	▲
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB 400.00	100	●	■
Wachirapani Co. Ltd in Liquidation, Bangkok	In liquidation	THB 3.06	49	●	▼
<b>Oceania</b>					
<b>Australia</b>					
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD 0.40	100	●	■

## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

### Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of The Swatch Group Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, statement of cash flows, statement of changes in equity and notes (pages 152 to 204), for the year ended 31 December 2009.

#### Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Thomas Brüderlin  
Audit expert  
Auditor in charge



Roy Bächinger  
Audit expert

Basel, 3 March 2010



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**INCOME STATEMENT OF THE HOLDING**

		2009	2008
	Notes	CHF million	CHF million
Income from investments in subsidiaries	(1)	479	851
Financial income	(2)	45	30
Other income		10	10
<b>Total income</b>		<b>534</b>	<b>891</b>
Personnel expense		-48	-46
General expense		-12	-14
Depreciation and impairment		-33	-5
Interest expense	(3)	-7	-29
Exchange differences and other financial expenses	(4)	1	-124
Taxes		-2	-1
<b>Total expenses</b>		<b>-101</b>	<b>-219</b>
<b>Net income</b>		<b>433</b>	<b>672</b>

**BALANCE SHEET OF THE HOLDING**

Assets	Notes	31.12.2009 CHF million	%	31.12.2008 CHF million	%
<b>Non-current assets</b>					
Property, plant and equipment		14	0.5	12	0.4
Financial assets					
– Long-term loans to Group companies		120	4.3	159	5.4
– Investments in subsidiaries	(5)	2 063	74.2	2 045	70.0
<b>Total non-current assets</b>		<b>2 197</b>	<b>79.0</b>	2 216	75.9
<b>Current assets</b>					
Receivables from Group companies		47	1.7	108	3.7
Other receivables and accrued income		37	1.3	23	0.8
Marketable securities and precious metals	(6)	469	16.9	513	17.6
Cash and cash equivalents		30	1.1	60	2.1
<b>Total current assets</b>		<b>583</b>	<b>21.0</b>	704	24.1
<b>Total assets</b>		<b>2 780</b>	<b>100.0</b>	2 920	100.0

**BALANCE SHEET OF THE HOLDING**

<b>Equity and liabilities</b>	Notes	<b>31.12.2009</b>		31.12.2008	
		<b>CHF million</b>	<b>%</b>	CHF million	%
<b>Equity</b>					
Share capital		125	4.5	125	4.3
General reserve		67	2.4	67	2.3
Reserve for treasury shares		629	22.6	629	21.5
Special reserve		1 007	36.2	557	19.1
– Profit brought forward		33		34	
– Net profit for the year		433		672	
Available earnings		466	16.8	706	24.2
<b>Total equity</b>	(7)	<b>2 294</b>	<b>82.5</b>	2 084	71.4
<b>Liabilities</b>					
Provisions		155	5.6	141	4.8
Payables to Group companies		307	11.1	652	22.3
Other liabilities		4	0.1	7	0.2
Accrued expenses		20	0.7	36	1.2
<b>Total liabilities</b>		<b>486</b>	<b>17.5</b>	836	28.6
<b>Total equity and liabilities</b>		<b>2 780</b>	<b>100.0</b>	2 920	100.0

## NOTES TO THE FINANCIAL STATEMENTS

### General

The financial statements of The Swatch Group Ltd comply with the requirements of the Swiss law for companies, the Code of Obligations (SCO).

### Risk management

The Board of Directors, the Executive Group Management Board as well as all key members of The Swatch Group Ltd have always considered the aspect of risk monitoring in their regular entrepreneurial function and in their decisions. Their constant process relating to all aspects of the business also includes a close attention to any impacts on the financial reporting. For this purpose, appropriate tools and measures are in place which permit a pro-active and constant flow of information, building the basis for timely decisions as required in a dynamic environment.

### Valuation principles

On the balance sheet, assets and liabilities are recorded at net realizable values. Exceptions to this rule are investments in subsidiaries, which are shown at their acquisition cost less appropriate write-downs, and treasury shares reserved for the management stock option plan as well as shares bought back by the company that are shown at lower of cost or market. All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

### Details to specific items

<b>1. Income from investments in subsidiaries</b>	(CHF million)	<b>2009</b>	2008
	Dividends	<b>431</b>	730
	Other income	<b>48</b>	121
	<b>Total</b>	<b>479</b>	851

This item includes dividends from Group companies and other income from investments in subsidiaries as well as management fees from Group companies. In 2008 a gain of CHF 65 million was realized relating to the sale of two Group companies.

<b>2. Financial income</b>	(CHF million)	<b>2009</b>	2008
	Interest income	<b>4</b>	9
	Income and gains on securities	<b>41</b>	21
	<b>Total</b>	<b>45</b>	30

The decrease of interest income is mainly due to lower interest rates. The company recorded capital gains on its investment portfolio of CHF 41 million. This figure was partly offset by losses of CHF 6 million (see Note 4).

**3. Interest expense** In 2009, interest expense decreased by CHF 22 million compared with 2008. The lower interest expense reflects the decrease of the average amount of borrowings.

**4. Exchange differences and other financial expenses** This item decreased by CHF 125 million compared with the previous year. Thanks to currency hedging contracts taken out to protect the Group's companies, the currency translation item was positive by CHF 7 million (2008: CHF 14 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 6 million (2008: CHF 138 million).

**5. Investments in subsidiaries** The list of 161 legal entities, including minority investments, held directly or indirectly by the company and consolidated at Swatch Group level, is published in Note 32 of the consolidated financial statements in this report. Investments in subsidiaries accounted for 74.2% of total assets at 31 December 2009 versus 70.0% at end-2008. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 063 million at end-2009. This amount corresponds to consolidated investments and investments in associates, and is CHF 18 million higher than in 2008.

**NOTES TO THE FINANCIAL STATEMENTS****6. Marketable securities  
and precious metals**

(CHF million)	31.12.2009	31.12.2008
Marketable securities	227	201
Own shares	225	225
Precious metals	17	87
<b>Total</b>	<b>469</b>	<b>513</b>

Marketable securities increased in 2009 by CHF 26 million, mainly thanks to unrealized fair value gains. The position "Own shares" includes the treasury shares bought back in 2008 as well as the registered treasury shares destined for the special management stock option plan.

**7. Equity**

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2009 corresponded to 5.8% (versus 5.8% at end-2008) of the nominal value of total share capital.

See table on page 212 showing changes in The Swatch Group Ltd's treasury stock.

The table below shows the changes in equity:

(CHF million)	Share capital	General reserve	Reserve for treasury shares	Special reserve	Available earnings	Total equity
<b>Balance at 31.12.2008</b>	<b>125</b>	<b>67</b>	<b>629</b>	<b>557</b>	<b>706</b>	<b>2 084</b>
Allocated in 2009				450	-450	0
Dividend paid out					-223	-223
Net income for the year					433	433
<b>Balance at 31.12.2009</b>	<b>125</b>	<b>67</b>	<b>629</b>	<b>1 007</b>	<b>466</b>	<b>2 294</b>

Compared with end-2008, equity increased by CHF 210 million to CHF 2 294 million in 2009. In percentage of total assets the equity ratio increased to 82.5% at 31 December 2009 (versus 71.4% in the previous year).

**Share capital**

At 31 December 2009, share capital consisted of 124 045 000 registered shares each with a nominal value of CHF 0.45, and of 30 840 000 bearer shares each with a nominal value of CHF 2.25 (unchanged from the previous year).

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2008	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2009</b>	<b>124 045 000 at CHF 0.45</b>	<b>30 840 000 at CHF 2.25</b>	<b>125 210 250.00</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Principal shareholders at 31 December 2009

At 31 December 2009, the Hayek Pool, its related companies, institutions and individuals held 63 301 445 registered shares and 201 325 bearer shares, equivalent to 41.0% of the shares issued at this date (previous year: 40.7%). The Hayek Pool comprises the following members:

Name/Company	Location	Beneficial owners
Mr. N. G. Hayek	Meisterschwanden	N. G. Hayek
WAT Holding AG	Meisterschwanden	N. G. Hayek
Ammann Group Holding AG	c/o Ernst & Young AG, Bern	J.N. Schneider-Ammann and Ammann families
Swatch Group Pension Fund	Neuchâtel	–

The companies, institutions and individuals associated with the Hayek Pool, but which do not formally belong to the Hayek Pool are as follows:

Name/Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	N. G. Hayek
Mr N. G. Hayek and family members		N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	–
Families Ammann (pension funds, foundations and individuals, Madisa AG)	c/o Ernst & Young AG, Bern	Represented by J. N. Schneider-Ammann
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	–
Wohlfahrtsstiftung der Renata AG	Ittingen	–
Fonds de prévoyance d'Universo SA	Neuchâtel	–

In the context of the pool, the group of Mr. N. G. Hayek and related parties controlled in total 40.2% of the shares issued at end-2009 (40.0% at end-2008), of which 4.8% were represented by the Hayek Pool (4.5% at end-2008).

At the same date, Mrs. Esther Grether's group controlled 7.5% of the shares issued (compared with 7.5% a year earlier).

At 31 December 2009, the Swatch Group was not aware of any other group or individual shareholder having an interest of more than 5% of the total share capital.

### Reserve for treasury shares

The reserve for treasury shares was valued using the weighted average purchase price method. On the Holding balance sheet, it amounted to CHF 629 million on 31 December 2009 (previous year CHF 629 million), and thereby covers the treasury shares recognized as assets on the balance sheets of Group companies at year-end.

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed in 2009 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity*	Quantity
<b>The Swatch Group Ltd</b>		
Balance at 31.12.2008	5 301 791	505 000
Acquisitions in 2009	0	0
Disposals in 2009	-215 730	0
Cancellations in 2009	0	0
<b>Balance at 31.12.2009</b>	<b>5 086 061</b>	<b>505 000</b>
<b>Other consolidated companies</b>		
Balance at 31.12.2008	8 398 368	0
Acquisitions in 2009	0	0
Conversions in 2009	0	0
<b>Balance at 31.12.2009</b>	<b>8 398 368</b>	<b>0</b>
<b>Total balance at 31.12.2009</b>	<b>13 484 429</b>	<b>505 000</b>

\*of which at 31 December 2009 2 356 309 registered shares were reserved for the management stock option plan (2 572 039 registered shares in 2008).

The movements in 2009 related exclusively to the management stock option plan.

## NOTES TO THE FINANCIAL STATEMENTS

### Available earnings

In compliance with the resolution approved at the Annual General Meeting of 15 May 2009, a dividend of CHF 0.85 per registered share and of CHF 4.25 per bearer share was appropriated from available earnings as at 31 December 2008. The total dividend amount paid to shareholders in 2009 came to CHF 93 793 115 on the registered shares and CHF 128 923 750 on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned AGM, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 13 791 385, thus constituted an integral part of equity at 31 December 2009. Finally, CHF 450 million was appropriated from available earnings at 31 December 2008 and allocated to the special reserve.

### Off-balance-sheet items

#### Contingent liabilities

At end-2009, guarantees provided by The Swatch Group Ltd amounted to CHF 422 992 400 (compared with CHF 433 752 000 a year earlier). This item includes:

- A guarantee of CHF 422 322 400 (vs. CHF 433 124 800 in 2008) relating to the convertible bond of CHF 411 600 000 at 2.625%, issued by The Swatch Group Finance (Luxembourg) SA on 15 October 2003 and maturing on 15 October 2010. At end-2009, 16 of these bonds with a nominal value of CHF 5 000 each had been converted into shares (same situation at end-2008).
- As in 2008, a guarantee of GBP 400 000 (equivalent to CHF 670 000 at 31 December 2009; CHF 627 200 at 31 December 2008) to cover a commitment relating to a lease taken out by one of the Group's companies.

#### Fire insurance values

At 31 December 2009, the fire insurance value of property, plant and equipment amounted to CHF 40 995 100 (CHF 37 586 500 at end-2008).

#### Assets pledged

None of the company's assets are pledged.

#### Commitments

Other commitments entered into by the company and open at 31 December 2009 amounted to CHF 1 million (versus CHF 1 million in the previous year), corresponding to investment commitments in financial assets.

#### Financial derivative instruments

The following table shows the contract and replacement values of derivative financial instruments at 31 December 2009.

Type	Contract value			Positive replacement value			Negative replacement value		
	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
(CHF million)									
Forward contracts	454	271	725	3	1	4	-1	-3	-4
Options			0			0			0
<b>Total at 31.12.2009</b>	<b>454</b>	<b>271</b>	<b>725</b>	<b>3</b>	<b>1</b>	<b>4</b>	<b>-1</b>	<b>-3</b>	<b>-4</b>
Total at 31.12.2008	546	391	937	15	3	18	-3	-17	-20

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2009 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2009 relate to 30 positions held in precious metals and in foreign currencies (previous year: 16). Intra-Group contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intra-group financial transactions. At 31 December 2009, there was no option outstanding (none in the previous year).

### Liabilities to pension plans

The balance sheet as at end-2009 contained no liability to pension plans (no liability to pension in 2008).

### Management compensation disclosures

The disclosures required by the Swiss Code of Obligations on management compensation are shown in Note 30 of the consolidated financial statements.

**PROPOSED APPROPRIATION OF AVAILABLE EARNINGS**

The Board of Directors proposes to the Annual General Meeting that available earnings be appropriated as follows:

	2009	2008
	CHF	CHF
Net income for the year	<b>432 821 927</b>	671 900 167
Profit brought forward from previous year	<b>33 496 933</b>	34 313 631
<b>Available earnings</b>	<b>466 318 860</b>	706 213 798
Allocation to special reserve	<b>-230 000 000</b>	-450 000 000
Payment on share capital of CHF 125 210 250.00 of a 2008 dividend, i.e.:		
– CHF 0.85 per registered share with a par value of CHF 0.45		-105 438 250
– CHF 4.25 per bearer share with a par value of CHF 2.25		-131 070 000
Payment on share capital of CHF 125 210 250.00* of a 2009 dividend, i.e.:		
– CHF 0.80 per registered share with a par value of CHF 0.45	<b>-99 236 000</b>	
– CHF 4.00 per bearer share with a par value of CHF 2.25	<b>-123 360 000</b>	
Dividends not paid out on own shares held by the Group **		13 791 385
<b>Balance carried forward</b>	<b>13 722 860</b>	33 496 933

\* It is planned not to pay dividends on own shares held by the Group.

\*\* Based on the decision of the Annual General Meeting of 15 May 2009, the dividend due on own shares held by the Group was not paid out.



## REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING OF THE SWATCH GROUP LTD, NEUCHÂTEL

### Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of The Swatch Group Ltd, Neuchâtel, which comprise the balance sheet, income statement and notes (pages 207 to 213), for the year ended 31 December 2009.

#### Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

### Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Thomas Brüderlin  
Audit expert  
Auditor in charge



Roy Bächinger  
Audit expert

Basel, 3 March 2010

## THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding/ Average share capital	2009 basic	2008 basic	2007 basic	2006 basic	2005 basic
Number of registered shares of CHF 0.45	110 446 207	111 605 632	115 882 234	118 110 673	122 004 798
Number of bearer shares of CHF 2.25	30 335 000	30 596 542	31 485 875	31 981 500	32 788 496
Total average number of shares outstanding	140 781 207	142 202 174	147 368 109	150 092 173	154 793 294
Share capital registered shares of CHF 0.45	49 700 793	50 222 534	52 147 005	53 149 803	54 902 159
Share capital bearer shares of CHF 2.25	68 253 750	68 842 220	70 843 219	71 958 375	73 774 116
Total average share capital	117 954 543	119 064 754	122 990 224	125 108 178	128 676 275

Key data per registered share (nom CHF 0.45) in CHF	2009	2008	2007	2006	2005
Consolidated net income	2.89	3.15	3.70	2.97	2.15
Cash flow from operating activities	3.39	1.93	3.20	3.18	2.76
Consolidated shareholders' equity	22.74	20.55	19.43	17.83	16.02
Dividend	0.80*	0.85	0.85	0.70	0.50

Key data per bearer share (nom CHF 2.25) in CHF	2009	2008	2007	2006	2005
Consolidated net income	14.47	15.75	18.49	14.87	10.74
Cash flow from operating activities	16.99	9.67	16.01	15.89	13.82
Consolidated shareholders' equity	113.85	102.73	97.13	89.17	80.09
Dividend	4.00*	4.25	4.25	3.50	2.50

Stock price of registered shares (adjusted)		2009	2008	2007	2006	2005
		High	51.70	66.75	76.50	54.95
	Low	23.05	23.20	53.90	38.50	30.90
	31.12	49.40	28.50	66.85	54.50	39.75

Stock price of bearer shares (adjusted)		2009	2008	2007	2006	2005
		High	268.75	340.00	397.00	274.00
	Low	118.50	115.50	266.25	184.10	152.40
	31.12	261.90	145.80	341.25	269.25	195.00

Market capitalization (CHF million)	31.12.	2009	2008	2007	2006	2005
		14 205	8 032	19 367	15 882	11 809

Key ratios (year-end)		2009	2008	2007	2006	2005
Average return on equity	%	13.30	15.50	19.70	17.30	14.00
Dividend yield registered shares	%	1.60	3.00	1.30	1.30	1.30
Dividend yield bearer shares	%	1.50	2.90	1.20	1.30	1.30
Price/earnings ratio – registered shares		17.10	9.00	18.10	18.30	18.50
Price/earnings ratio – bearer shares		18.10	9.30	18.50	18.10	18.20

Securities	Securities no.	Reuters Symbol
The Swatch Group Ltd registered shares	1 225 514	UHRN.S
The Swatch Group Ltd bearer shares	1 225 515	UHR.VX

The securities are listed on the Swiss Stock Exchange (SIX) and on the BX Berne eXchange

\* Board of Directors' proposal.

### Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2009)

