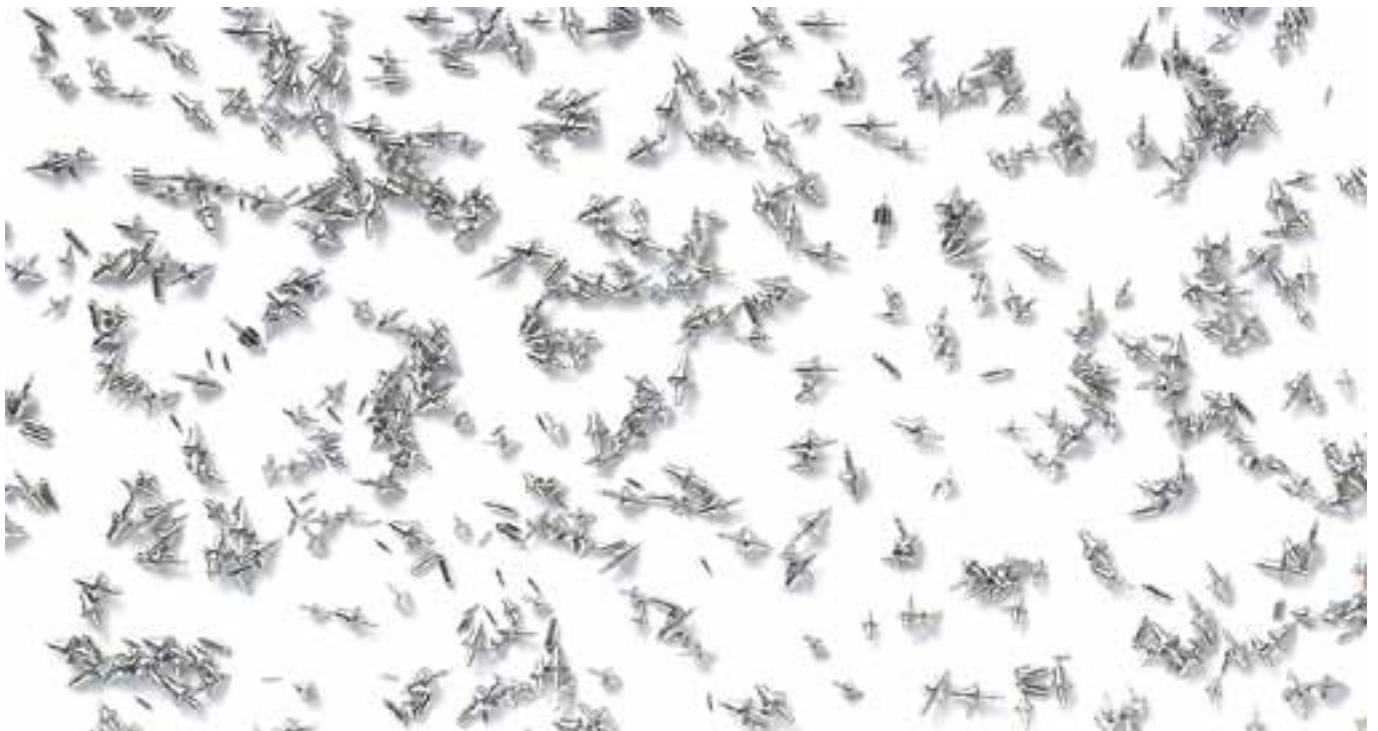




# FINANCIAL STATEMENTS 2010

CONSOLIDATED FINANCIAL STATEMENTS  
FINANCIAL STATEMENTS OF THE HOLDING



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# FINANCIAL REVIEW

## Key financial developments in 2010

- **Gross sales:** Record year for the Swatch Group with Group sales of CHF 6 440 million, an increase at constant exchange rates of 21.8% over 2009 and 12.7% over the previous record year 2008, despite capacity bottlenecks and adverse exchange rates.

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- **Segments:** The extraordinary strength of our brand portfolio was again reflected in an excellent performance by the Watch segment in practically all markets and price segments, with an increase in sales at constant exchange rates of 28.1%.

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- **Operating profit:** Record operating profit of CHF 1 436 million, with an operating margin of 23.5% (versus 17.6% in 2009).

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- **Net income:** Net income of CHF 1 080 million, representing an increase of 41.5% on 2009 and of 6.4% on the record year of 2007, despite currency losses.

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- **Earnings per share:** Basic EPS of CHF 4.05 per registered share (2009: CHF 2.89) and CHF 20.27 per bearer share (2009: CHF 14.47).

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- **Dividend:** Proposed dividend increase of 25%, CHF 5.00 per bearer share (2009: CHF 4.00) and CHF 1.00 per registered share (2009: CHF 0.80).

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- **Outlook:** Promising start to 2011; prospects remain good for the year as a whole, despite the current strength of the Swiss Franc.

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## Financial review

### 1. Operating results

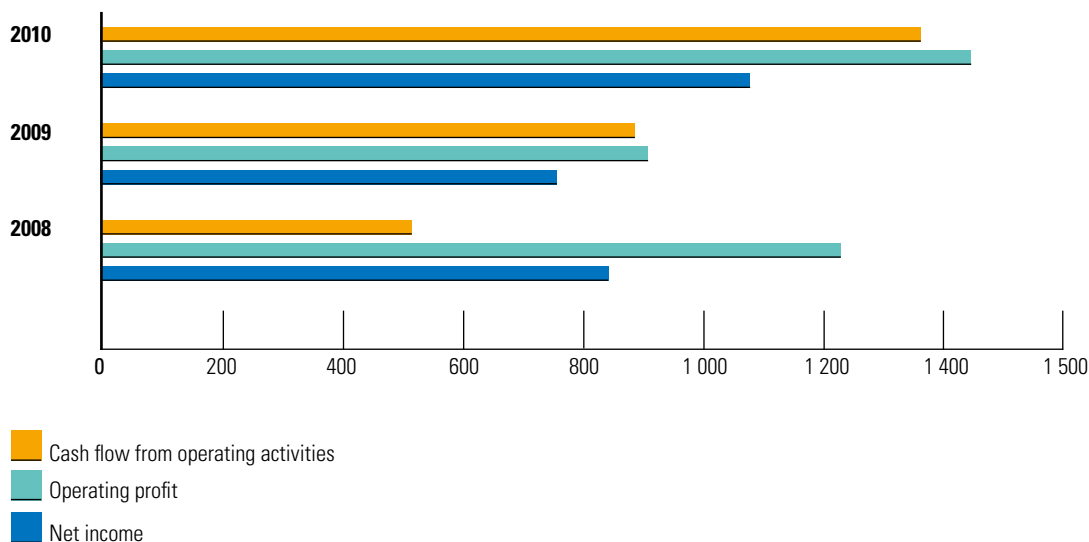
#### Key figures Group

(CHF million)	2010	2009	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>	<b>6 440</b>	5 421	+21.8%	–3.0%	+18.8%
<b>Net sales</b>	<b>6 108</b>	5 142			+18.8%
<b>Operating profit</b>	<b>1 436</b>	903			+59.0%
– in % of net sales	<b>23.5%</b>	17.6%			
<b>Net income</b>	<b>1 080</b>	763			+41.5%
– in % of net sales	<b>17.7%</b>	14.8%			
<b>Equity</b>	<b>7 101</b>	5 981			+18.7%
– as % of total assets	<b>82.4%</b>	77.6%			
<b>Average return on equity (ROE)</b>	<b>16.5%</b>	13.3%			

## FINANCIAL REVIEW

### Performance trends

(CHF million)



During 2010 the Swatch Group set new benchmarks and surpassed all previous records. With an improving economic environment and clear signs of market normalization, gross sales increased by 21.8% to CHF 6 440 million on a currency-adjusted basis. Foreign currencies had an adverse impact on sales of CHF 164 million or –3%, primarily due to the weakness of the Euro and US Dollar during the second half of 2010.

The operating margin rose from 17.6% to a strong 23.5% in the year under review, which corresponds to a record operating profit of CHF 1 436 million (CHF 903 million in 2009). This significant improvement in performance was due not least to generally higher capacity utilization and the Group's usual cost discipline. Despite significant currency losses, net income also rose to a record level of CHF 1 080 million, an increase of 41.5% on 2009.

With equity of CHF 7 101 million, and an equity ratio of 82.4%, the Swatch Group remains extremely solidly financed. In addition to net income, the conversion of the convertible bond in October 2010 totaling CHF 385 million also contributed to this renewed increase in equity. The average return on equity was a considerable 16.5% (13.3% in 2009). Operating cash flow has also increased significantly. The Group can draw on high cash reserves, thus keeping all options open. As a result of the expansion of production capacities as well as the expansion in the retail sector, Swatch Group created 1 600 new jobs during the past year, increasing its number of employees to more than 25 000 worldwide.

The Board of Directors of the Swatch Group will propose the following dividend for 2010 to the Annual General Meeting on 31 May 2011: CHF 5.00 per bearer share and CHF 1.00 per registered share. This increase in the dividend payment to shareholders of 25% versus 2009 is a result of the record results achieved in 2010 and underlines the optimistic outlook for business performance going forward in 2011.

## FINANCIAL REVIEW

### Segment performance

#### Watches & Jewelry

(CHF million)	2010	2009	Change in %		Total	2009
			at constant rates	currency effect		
		restated *				
<b>Gross sales</b>						
– Third parties	<b>5 528</b>	4 440				4 426
– Group	<b>4</b>	4				3
– Total	<b>5 532</b>	4 444	+28.1%	–3.6%	+24.5%	4 429
<b>Net sales</b>	<b>5 225</b>	4 202			+24.3%	4 187
<b>Operating profit</b>	<b>1 221</b>	802			+52.2%	804
– in % of net sales	<b>23.4%</b>	19.1%				19.2%

\* restated following integration of Piguet activities (Production segment) into Manufacture Blancpain (segment Watches & Jewelry)

The Swatch Group delivered another impressive performance in its core Watches and Jewelry segment in the 2010 financial year. Gross sales reached CHF 5 532 million, which at constant exchange rates represents an increase of 28.1% over 2009 and 20.7% over the previous record year of 2008. This performance is again better than the export figures published by the Swiss Watch Federation for 2010. The significant double-digit growth rates were not only achieved for the luxury brands, but across the board in all price segments. All geographic regions contributed to this growth, with Asia clearly leading the way.

The segment's operating profit increased by an above-average 52.2% to CHF 1 221 million, corresponding to an operating margin of 23.4% (versus 19.1% in 2009). In addition to the volume effect, selective price adjustments and various efficiency enhancements were responsible for these margin improvements. However, no cost cutting was made at the expense of marketing activities. These targeted investments in the brands, together with the further expansion of retail activities, will secure the Group's long-term growth.

## FINANCIAL REVIEW

### Production

(CHF million)	2010	2009	Change in %			2009
		restated *	at constant rates	currency effect	Total	as reported
<b>Gross sales</b>						
– Third parties	488	594				608
– Group	1 051	838				881
– Total	1 539	1 432	+7.8%	–0.3%	+7.5%	1 489
<b>Net sales</b>	1 487	1 373			+8.3%	1 429
<b>Operating profit</b>	169	96			+76.0%	94
– in % of net sales	11.4%	7.0%				6.6%

\* restated following integration of Piguet activities (Production segment) into Manufacture Blancpain (segment Watches & Jewelry)

The Production segment generated gross sales of CHF 1 539 million in 2010, an increase of 7.5% versus 2009. The extremely strong growth in the watch segment impacted positively on orders received and sales in the production segment with the usual time lag. This boosted capacity utilization to a greater extent and faster than expected, which in turn led to bottlenecks in certain areas. The Group's clear commitment to preserving jobs worldwide during the financial crisis proved to be very positive, given this strong upturn.

The higher volumes also had a positive effect on the segment's profitability. Operating profit increased by 76% to CHF 169 million, corresponding to an operating margin of 11.4% (versus 7% in 2009). Increased costs for various raw materials prevented an even better performance.

The largely full order books signal further double-digit growth for 2011. Further investments will also be made in order to ensure sufficient production capacities over the mid to long term. Examples of this are the planned new production sites in Boncourt (Canton Jura) and the expansion of production facilities in La Chaux-de-Fonds (Canton Neuchâtel).

## FINANCIAL REVIEW

### Electronic Systems

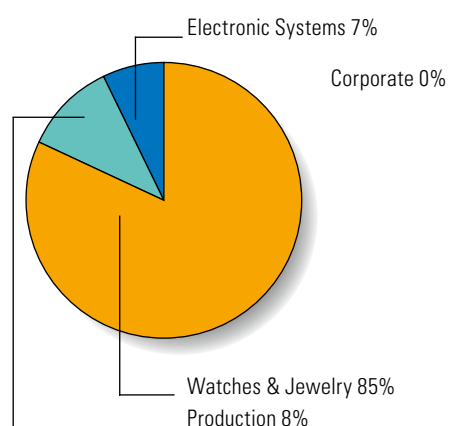
(CHF million)	2010	2009	Change in %		Total
			at constant rates	currency effect	
<b>Gross sales</b>					
– Third parties	416	380			
– Group	24	14			
– Total	440	394	+12.2%	–0.5%	+11.7%
<b>Net sales</b>	436	391			+11.5%
<b>Operating profit</b>	57	24			+137.5%
– in % of net sales	13.1%	6.1%			

The market environment for the electronic systems segment improved during 2010 in the wake of the general economic recovery. The segment's gross sales rose to CHF 440 million, +11.7% versus 2009. With the divestment of the stepping motor manufacturing unit of Microcomponents and the sale of its subsidiary Lasag, the Swatch Group continued its strategy of focusing on core business.

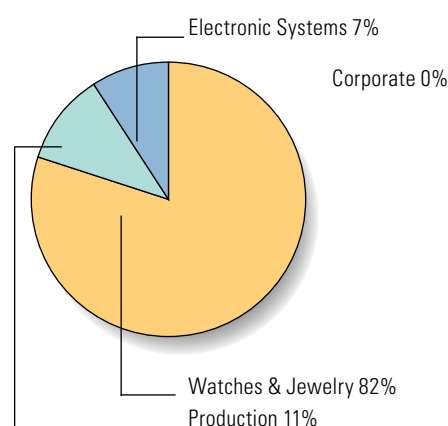
The segment's operating profit reached CHF 57 million in the year under review, which represents an operating margin of 13.1% (versus 6.1% in 2009). The order entries registered at the end of 2010 and the beginning of 2011 mean that further growth can also be expected in the electronic systems segment.

### Segment share of net sales

2010



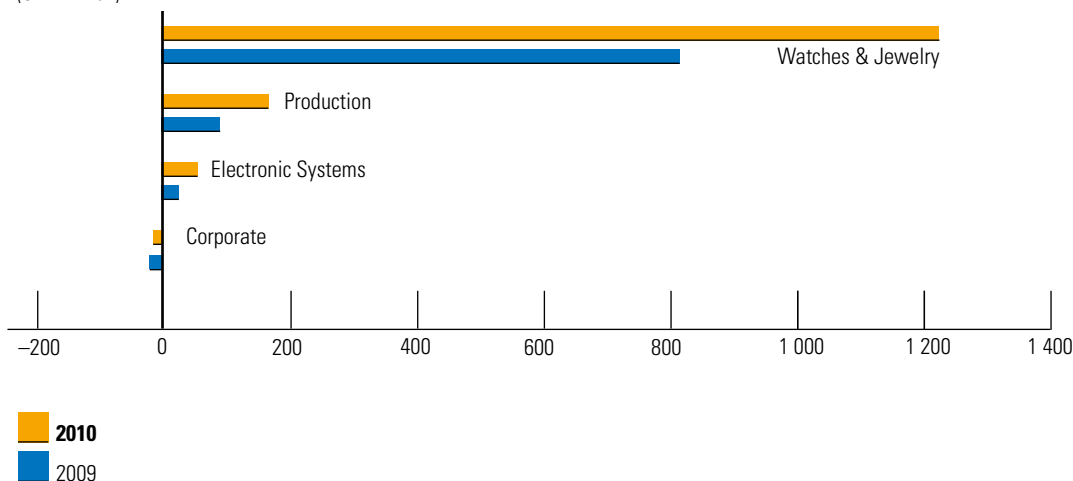
2009



## 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)	2010	2009
Interest income	4	4
Result from marketable securities and derivatives	30	58
Share of result from associates and joint ventures	9	5
Net currency result	-73	0
Interest expense and other financial expense	-8	-21
<b>Total net financial result</b>	<b>-38</b>	<b>46</b>

The extremely volatile foreign currency development in 2010, especially with the weak Euro, US Dollar and other Dollar related currencies, resulted in net currency losses for the Group of CHF 73 million (compared to a neutral net currency result in 2009). Despite a positive result from marketable securities and derivatives of CHF 30 million, a lower interest expense and an improved share of result from associates and joint ventures, the net financial result for the year 2010 was a loss of CHF 38 million. Depending on the foreign currencies and given the fact 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.

### Income tax

An analysis of the income tax charge is set out in Note 7 to the consolidated financial statements. The Group's effective tax rate increased from 19.6% in the previous year to 22.8% in the current year, which is partly due to an increased profitability of various Group companies and to higher income tax rates in certain countries.

### Proposed dividend

At the General Meeting on 31 May 2011, a dividend for the financial year 2010 of CHF 1.00 (2009: CHF 0.80) for registered shares and CHF 5.00 (2009: CHF 4.00) for bearer shares will be proposed. This dividend, totalling CHF 278 million with an expected cash-out impact of CHF 270 million, is not recognized as a liability in the consolidated financial statements at 31 December 2010.

### Earnings per share

Basic earnings per share increased in the current year by 40% to CHF 4.05 (CHF 2.89 in 2009) for registered shares and CHF 20.27 (CHF 14.47 in 2009) for bearer shares respectively. The strong increase in net income compares to a slightly higher average number of shares, which is mainly due to the conversion of the convertible bond into registered shares in October 2010. 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 the record year 2010, the Group realized a strongly improved operating cash flow of CHF 1 353 million (2009: CHF 890 million). Net investing activities were higher than in 2009, mainly due to increased investments in tangible assets, purchases of marketable securities as well as investments in subsidiaries and associates. The dividend was again the main item in the cash flow from financing activities. Overall, the Group's cash position increased in 2010 by CHF 727 million and achieved CHF 1 825 million at year-end.

#### Asset and capital structure

The consolidated balance sheet continues to remain very solid. The record net income as well as the conversion of the convertible bond in October 2010 were the main factors that contributed to a further improvement of the Group's equity ratio to 82.4% (compared to 77.6% in 2009). Current liabilities are covered by current assets by a factor of 6.1 (4.4 in 2009).

### 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)	2010		2009	
Overall Group performance	<b>6 690</b>	<b>100.0%</b>	5 435	100.0%
Material and services	<b>3 431</b>	<b>51.3%</b>	2 653	48.8%
Depreciation	<b>222</b>	<b>3.3%</b>	220	4.0%
<b>Net added value</b>	<b>3 037</b>	<b>45.4%</b>	2 562	47.2%
% change	<b>18.5</b>		-3.7	

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

(CHF million)	2010		2009	
Employees	<b>1 634</b>	<b>53.8%</b>	1 596	62.3%
Public authorities	<b>318</b>	<b>10.5%</b>	186	7.3%
Lenders	<b>5</b>	<b>0.2%</b>	18	0.7%
Shareholders	<b>213</b>	<b>7.0%</b>	226	8.8%
Company	<b>867</b>	<b>28.5%</b>	536	20.9%
<b>Total</b>	<b>3 037</b>	<b>100.0%</b>	2 562	100.0%

### 4. Outlook

The strong uptrend seen in 2010 was confirmed again in January 2011. The current outlook for 2011 appears positive, despite the unfavorable currency constellation at present, particularly the US Dollar and the Euro against the Swiss Franc. The Board of Directors and Executive Group Management Board of the Swatch Group will continue to pursue a clear and healthy organic growth strategy in this very positive environment, with the objective of achieving sales of ten billion Swiss Francs in the medium term.

Thanks to very motivated employees, the strong geographic presence of the brands in all of the world's major markets and its comprehensive coverage of all market price segments, the Group is optimally placed to achieve this goal. In addition, further investments in research and development will generate innovations and products, which can be introduced to the public on an ongoing basis, some as soon as this year's trade fair in Basel. To ensure the continuation of the Group's sustainable growth, further targeted investments will be made in the already comprehensive and efficient distribution network and, as already mentioned, in the expansion of production capacities. Thanks to its very solid starting point as regards equity and liquidity, the Group will be able to exploit interesting opportunities to increase its market share and presence.

## CONSOLIDATED INCOME STATEMENT

	Notes	2010		2009	
		CHF million	%	CHF million	%
Gross sales		6 440	105.4	5 421	105.4
Sales reductions		-332	-5.4	-279	-5.4
<b>Net sales</b>	(5, 6a)	<b>6 108</b>	<b>100.0</b>	5 142	100.0
Other operating income	(6b)	139	2.3	104	2.0
Changes in inventories		197	3.2	9	0.2
Material purchases		-1 471	-24.1	-1 103	-21.4
Personnel expense	(6c)	-1 634	-26.8	-1 596	-31.0
Other operating expenses	(6d)	-1 681	-27.5	-1 433	-27.9
Depreciation, amortization and impairment charges	(10, 11, 12, 18)	-222	-3.6	-220	-4.3
<b>Operating profit</b>		<b>1 436</b>	<b>23.5</b>	903	17.6
Other financial income and expense	(6f)	-42	-0.6	59	1.2
Interest expense	(6f)	-5	-0.1	-18	-0.4
Share of result from associates and joint ventures	(6f, 13)	9	0.1	5	0.1
<b>Profit before taxes</b>		<b>1 398</b>	<b>22.9</b>	949	18.5
Income taxes	(7a)	-318	-5.2	-186	-3.7
<b>Net income</b>		<b>1 080</b>	<b>17.7</b>	763	14.8
Attributable to equity holders of The Swatch Group Ltd		1 074		759	
Attributable to non-controlling interests		6		4	
<b>Earnings per share (EPS) – expressed in CHF per share:</b>	(8)				
<b>Registered shares</b>					
Basic EPS		4.05		2.89	
Diluted EPS		3.97		2.85	
<b>Bearer shares</b>					
Basic EPS		20.27		14.47	
Diluted EPS		19.83		14.26	

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	CHF million	CHF million
<b>Net income</b>	<b>1 080</b>	<b>763</b>
<b>Other comprehensive income</b>		
Currency translation of foreign operations	-138	-16
Income tax relating to currency translation	0	0
<b>Other comprehensive income, net of tax</b>	<b>-138</b>	<b>-16</b>
<b>Total comprehensive income, net of tax</b>	<b>942</b>	<b>747</b>
Attributable to equity holders of The Swatch Group Ltd	936	743
Attributable to non-controlling interests	6	4

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

**CONSOLIDATED BALANCE SHEET**

Assets	Notes	31.12.2010		31.12.2009	
		CHF million	%	CHF million	%
<b>Non-current assets</b>					
Property, plant and equipment	(10)	1 488	17.3	1 460	18.9
Investment property	(11)	41	0.5	39	0.5
Intangible assets	(12)	317	3.7	320	4.2
Investments in associates and joint ventures	(13)	169	1.9	139	1.8
Other non-current assets	(15)	145	1.7	125	1.6
Deferred tax assets	(7d)	219	2.5	209	2.7
<b>Total non-current assets</b>		<b>2 379</b>	<b>27.6</b>	<b>2 292</b>	<b>29.7</b>
<b>Current assets</b>					
Inventories	(16)	2 869	33.3	2 743	35.6
Trade receivables	(17)	716	8.3	761	9.9
Other current assets	(18)	269	3.1	241	3.1
Current income tax assets	(7c)	12	0.2	24	0.3
Marketable securities and derivative financial instruments	(19)	542	6.3	547	7.1
Cash and cash equivalents	(20)	1 827	21.2	1 098	14.3
<b>Total current assets</b>		<b>6 235</b>	<b>72.4</b>	<b>5 414</b>	<b>70.3</b>
<b>Total assets</b>		<b>8 614</b>	<b>100.0</b>	<b>7 706</b>	<b>100.0</b>

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

## CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2010		31.12.2009	
		CHF million	%	CHF million	%
<b>Equity</b>					
Share capital	(21a)	125		125	
Capital reserves		213		213	
Treasury shares	(21b)	-293		-629	
Other reserves	(21c)	-286		-133	
Retained earnings		7 328		6 389	
<b>Equity of The Swatch Group Ltd shareholders</b>		<b>7 087</b>	<b>82.3</b>	5 965	77.4
Non-controlling interests		14	0.1	16	0.2
<b>Total equity</b>		<b>7 101</b>	<b>82.4</b>	5 981	77.6
<b>Non-current liabilities</b>					
Financial debts	(22)	77	0.9	80	1.0
Deferred tax liabilities	(7d)	353	4.1	337	4.4
Retirement benefit obligations	(23)	26	0.3	27	0.4
Provisions	(24)	37	0.4	40	0.5
<b>Total non-current liabilities</b>		<b>493</b>	<b>5.7</b>	484	6.3
<b>Current liabilities</b>					
Trade payables		291	3.4	238	3.1
Other current liabilities	(25)	479	5.6	429	5.5
Financial debts and derivative financial instruments	(22)	31	0.4	438	5.7
Current income tax liabilities	(7c)	156	1.8	76	1.0
Provisions	(24)	63	0.7	60	0.8
<b>Total current liabilities</b>		<b>1 020</b>	<b>11.9</b>	1 241	16.1
<b>Total liabilities</b>		<b>1 513</b>	<b>17.6</b>	1 725	22.4
<b>Total equity and liabilities</b>		<b>8 614</b>	<b>100.0</b>	7 706	100.0

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Notes	2010 CHF million	2009 CHF million
<b>Operating activities</b>			
Net income		1 080	763
Reversal of non-cash items	(27a)	558	366
Changes in working capital and other items included in operating cash flow	(27b)	-63	7
Dividends received from associated companies		2	2
Interest paid		-5	-15
Interest received		6	4
Income tax paid	(7c)	-225	-237
<b>Cash flow from operating activities</b>		<b>1 353</b>	<b>890</b>
<b>Investing activities</b>			
Investments in tangible assets	(10, 11)	-265	-220
Proceeds from sale of tangible assets		10	5
Investments in intangible assets	(12)	-26	-25
Proceeds from sale of intangible assets		5	0
Investments in other non-current assets	(15)	-10	-7
Proceeds from sale of other non-current assets		4	1
Acquisition of subsidiaries – net of cash	(14)	-4	-2
Divestments of businesses	(14)	12	0
Investments in associated companies and joint ventures	(13)	-30	-12
Purchase of marketable securities		-246	-149
Sale of marketable securities		221	174
<b>Cash flow from investing activities</b>		<b>-329</b>	<b>-235</b>
<b>Financing activities</b>			
Dividend paid to shareholders	(9)	-210	-223
Dividend paid to non-controlling interests		-3	-3
Sale of treasury shares		1	1
Change in non-current financial debts		-5	-11
Change in current financial debts		-27	3
Repurchase of convertible bonds	(22)	0	-2
Repurchase of non-controlling interests	(14)	-5	0
<b>Cash flow from financing activities</b>		<b>-249</b>	<b>-235</b>
<b>Net impact of foreign exchange rate differences on cash</b>		<b>-48</b>	<b>-2</b>
<b>Change in cash and cash equivalents</b>		<b>727</b>	<b>418</b>
<b>Change in cash and cash equivalents</b>			
– At beginning of year		1 098	680
– At end of year	(20)	1 825	1 098

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

**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 31.12.2008</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 sale of 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>
<b>Total comprehensive income 2010</b>				-138	1 074	<b>936</b>	6	<b>942</b>
Dividends paid					-210	<b>-210</b>	-3	<b>-213</b>
Share-based compensation (Note 28):								
– Value of employee services (net of tax)					10	<b>10</b>		<b>10</b>
– Proceeds from sale of shares					1	<b>1</b>		<b>1</b>
Conversion of convertible bond at maturity (Note 22)			336	-15	64	<b>385</b>		<b>385</b>
Changes in non-controlling interests (Note 14)						<b>0</b>	-5	<b>-5</b>
<b>Balance at 31.12.2010</b>	<b>125</b>	<b>213</b>	<b>-293</b>	<b>-286</b>	<b>7 328</b>	<b>7 087</b>	<b>14</b>	<b>7 101</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 by the end of February 2011 and will be submitted to the Annual General Meeting of Shareholders for approval on 31 May 2011.

## 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 acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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 2010, the Group's consolidated financial statements included 159 legal entities (compared with 162 in the previous year), of which two were joint ventures (one in 2009) and seven were associates (seven in 2009). 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 2010. The principal effects of these changes in policies are described below.

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

The revised standards are applicable to business combinations of the Group for which the acquisition date is on or after 1 January 2010. 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. As there were no significant transactions in 2010, the changes did not materially affect the figures of the financial year 2010.

The following amended standards and new interpretations are mandatory for the first time for accounting periods beginning on or after 1 January 2010, but have no material impact or are currently not relevant for the Group:

- 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)
- Improvements to IFRSs 2009 (effective from 1 January 2010)

#### **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 2010 that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but which the Group has not early adopted.

The principal expected effects of these changes are as follows:

#### **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 instruments and the contractual characteristics of the financial instruments. The Group will early adopt this standard on 1 January 2011 without restatement of the prior-year period (in accordance with the transitional requirements of the standard). The impact on the consolidated financial statements will not be significant.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 12 (amendment) Income taxes - Deferred tax: Recovery of underlying assets (effective from 1 January 2012)
- IAS 24 (amendment) Related party disclosures (effective from 1 January 2011)
- IFRIC 14 (amendment) Prepayments of a minimum funding requirement (effective from 1 January 2011)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (effective from 1 July 2010)
- Improvements to IFRSs 2010 - various standards (effective mostly from 1 January 2011)

### 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 other comprehensive income 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 in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The main exchange rates used are:

Currency	Unit	Average rates	Prevailing rates	Average rates	Prevailing rates
		2010	31.12.2010	2009	31.12.2009
		CHF	CHF	CHF	CHF
CNY	1	0.1544	0.1425	0.1595	0.1521
EUR	1	1.3754	1.2540	1.5122	1.4880
HKD	1	0.1345	0.1210	0.1406	0.1339
JPY	100	1.1980	1.1540	1.1662	1.1215
USD	1	1.0443	0.9400	1.0893	1.0380

### 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	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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.

### 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 - for example, goodwill or intangible assets not yet ready for use - are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization as well as tangible 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)	31.12.2010		31.12.2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Security deposits (Note 15)	29	29	28	28
Other financial assets (Note 15)	5	5	5	5
Trade receivables (Note 17)	716	716	761	761
Other current receivables (Note 18)	113	113	87	87
<b>Loans and receivables</b>	<b>863</b>	<b>863</b>	881	881
Marketable securities designated as FVTPL	18	18	16	16
Marketable securities held-for-trading	520	520	528	528
Derivative financial assets	4	4	3	3
<b>Financial assets at fair value (Note 19)</b>	<b>542</b>	<b>542</b>	547	547
Cash and cash equivalents (Note 20)	1 827	1 827	1 098	1 098
<b>Cash and cash equivalents</b>	<b>1 827</b>	<b>1 827</b>	1 098	1 098
<b>Total financial assets</b>	<b>3 232</b>	<b>3 232</b>	2 526	2 526

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(CHF million)	31.12.2010				31.12.2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Marketable securities designated as FVTPL	5	0	13	18	4	0	12	16
Marketable securities held-for-trading	520	0	0	520	528	0	0	528
<b>Marketable securities at fair value</b>	<b>525</b>	<b>0</b>	<b>13</b>	<b>538</b>	532	0	12	544
<b>Derivative financial assets</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>4</b>	0	3	0	3
<b>Financial assets at fair value</b>	<b>525</b>	<b>4</b>	<b>13</b>	<b>542</b>	532	3	12	547

In 2010 and 2009, 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 recognized 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)	31.12.2010		31.12.2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial debts (Note 22)	77	78	80	82
Trade payables	291	291	238	238
Other current payables (Note 25)	101	101	82	82
Current financial debts (Note 22)	31	31	437	445
<b>Financial liabilities measured at amortized cost</b>	<b>500</b>	<b>501</b>	<b>837</b>	<b>847</b>
Derivative financial instruments (Note 22)	0	0	1	1
<b>Financial liabilities at fair value</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Total financial liabilities</b>	<b>500</b>	<b>501</b>	<b>838</b>	<b>848</b>

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 can hedge cash flows of forecasted intragroup transactions. In this case, 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

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

#### 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 substantively 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 substantively 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.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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.

### 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.

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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 may also use 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, derivatives, 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	31.12.2010			31.12.2009		
	Change on	Income statement		Change on	Income statement	
	exchange rate	CHF million		exchange rate	CHF million	
	+ / -	+	-	+ / -	+	-
CNY / CHF	5%	3	-3	5%	1	-2
EUR / CHF	5%	12	-8	5%	10	-7
HKD / CHF	5%	0	0	5%	1	-1
JPY / CHF	5%	1	0	5%	1	1
USD / CHF	5%	5	-5	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. In 2010 and 2009, over 80% of the Group's equity investments were related to shares listed on a main index (SMI/SPI, Dow Jones EURO STOXX 50, S&P 500, Nikkei).

### 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	31.12.2010			31.12.2009		
	Change on index	Income statement		Change on index	Income statement	
	+ / -	CHF million		+ / -	CHF million	
Dow Jones EURO STOXX 50	5%	2	-2	5%	2	-2
SMI + SPI	5%	3	-3	5%	4	-4

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.

### 1.3 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 2010, an increase of interest rates by 100 basis points would have reduced Group profit after tax by CHF 11 million (2009: 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 11 million (2009: CHF 9 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2010, over 95% of investments in bonds were investment grade rated (2009: over 90%). An exception in the overall fixed income management is the high yield portfolio, which amounted to approximately CHF 10 million in 2010 (2009: about CHF 35 million). 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.

### 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)	31.12.2010	31.12.2009
Cash and cash equivalents	1 827	1 098
Marketable securities	538	544
<b>Liquidity reserves</b>	<b>2 365</b>	<b>1 642</b>
Committed credit facilities	405	418
./ Utilized credit facilities	-103	-127
<b>Total liquidity reserves and non-utilized credit facilities</b>	<b>2 667</b>	<b>1 933</b>

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	31	56
Trade payables	291		
Other current payables	101		
Current financial debts	31		
Derivative financial instruments	0		
<b>Total at 31.12.2010</b>	<b>425</b>	<b>31</b>	<b>56</b>
Non-current financial debts	2	5	86
Trade payables	238		
Other current payables	82		
Current financial debts	447		
Derivative financial instruments	1		
Total at 31.12.2009	770	5	86

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### b. Capital management

The primary objective of the Group with regard to capital management is to preserve 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 2010, equity represented 82.4% (31 December 2009: 77.6%) 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 preserve 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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain 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. Actual results may differ from these estimates. Management continuously reviews and - if necessary - adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.

### a. Critical accounting estimates and judgments

The key estimates and assumptions about the future that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described below.

#### Inventory abatements

At 31 December 2010, inventories total CHF 2 869 million, as set out in Note 16. In determining net realizable values of inventory, management needs to assess whether or not inventory abatements are required. Estimates are made for spare parts used in customer service as well as for some watch components and finished goods in order to determine a realistic value for these inventory items. In 2010, the Group recorded write-downs of CHF 24 million. Unexpected changes in fashion, technology and customer needs could lead to situations where the actual inventory abatements would need to be modified.

#### 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. At 31 December 2010, gross trade receivables amounted to CHF 735 million and the allowance for impaired receivables to CHF 19 million (see Note 17). Unexpected financial problems of major customers could lead to a situation where the recorded allowance is insufficient.

#### Impairment of assets

The Group has property, plant and equipment with a carrying value of CHF 1 488 million as disclosed in Note 10, and intangible assets (including goodwill) amounting to CHF 317 million (see Note 12). All of these assets are reviewed for impairment as described in Note 2j. To assess whether any impairment may exist, impairment tests are made based on future cash flows and the economic benefits of the assets. Actual outcomes could vary significantly from such estimates. Changes in factors such as the planned use of fixed assets, technology or market development could lead to different economic values. In the period under review, no significant impairments had to be recorded.

#### Warranty claims

The Group generally offers a two-year warranty for watches. The related provision for anticipated warranty claims amounts to CHF 74 million, as disclosed in Note 24. Management estimates this provision 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. Legal provisions at 31 December 2010 total CHF 7 million (see Note 24). Management estimated the outcome of these lawsuits on the basis of currently available information. However, there are inherent risks within legal claims depending on court and adversary party behaviour and opinion. 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 fully 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.

### 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 and interpretations 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 rely on exogenous factors and therefore include some uncertainties, which in a negative scenario could lead to additional tax liabilities 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.

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

In the process of applying the Group's accounting policies, management may be required to make judgments, apart from those involving estimates, which can have a significant effect on the amounts recognized in the consolidated financial statements. These include, but are not limited to, the following:

#### Consolidation of subsidiaries and associates

The Group sometimes undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other entities. Such transactions include the acquisition of a part or 100% of the equity of other entities (share deal) or the purchase of net assets of other entities (asset deal). In such cases, management makes an assessment as to whether the Group has the right to control or significantly influence the other entities' operations. Based on this judgment, the stake in the new entity can be fully consolidated, considered an associate or treated as a financial investment. In making this judgment, management considers the underlying economic substance of the transaction and not only the contractual terms.

#### Business combinations

Where the Group acquires control of another business, the consideration transferred needs to be allocated to the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business, with any residual recorded as goodwill. This process requires an assessment of the fair value of items such as intangible assets, contingencies or existing tax losses. In all cases, management makes an assessment based on the underlying economic substance of the items in question, and not only on the contractual terms, in order to fairly present these items.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5. Segment information

### a. Operating segment information

#### Income statement

2010 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
– Third parties	5 528	488	416	8		6 440
– Group	4	1 051	24	3	–1 082	0
<b>Gross sales</b>	<b>5 532</b>	<b>1 539</b>	<b>440</b>	<b>11</b>	<b>–1 082</b>	<b>6 440</b>
– Third parties	5 221	467	412	8		6 108
– Group	4	1 020	24	3	–1 051	0
<b>Net sales</b>	<b>5 225</b>	<b>1 487</b>	<b>436</b>	<b>11</b>	<b>–1 051</b>	<b>6 108</b>
<b>Operating profit</b>	<b>1 221</b>	<b>169</b>	<b>57</b>	<b>–11</b>		<b>1 436</b>
– As a % of net sales	23.4	11.4	13.1			23.5
– As a % of total	85.0	11.8	4.0	–0.8		100.0

2009 (CHF million)	Watches & Jewelry *	Production *	Electronic Systems	Corporate	Elimination	Total
– Third parties	4 440	594	380	7		5 421
– Group	4	838	14	4	–860	0
<b>Gross sales</b>	<b>4 444</b>	<b>1 432</b>	<b>394</b>	<b>11</b>	<b>–860</b>	<b>5 421</b>
– Third parties	4 198	562	377	5		5 142
– Group	4	811	14	4	–833	0
<b>Net sales</b>	<b>4 202</b>	<b>1 373</b>	<b>391</b>	<b>9</b>	<b>–833</b>	<b>5 142</b>
<b>Operating profit</b>	<b>802</b>	<b>96</b>	<b>24</b>	<b>–19</b>		<b>903</b>
– As a % of net sales	19.1	7.0	6.1			17.6
– As a % of total	88.8	10.6	2.7	–2.1		100.0

\* restated following integration of Piguët activities (Production segment) into Manufacture Blancpain (segment Watches & Jewelry)

#### Balance sheet and other information

2010 (CHF million)	Watches & Jewelry	Production	Electronic Systems	Corporate	Elimination	Total
<b>Balance sheet</b>						
– Segment assets	5 057	1 701	623	3 095	–2 031	8 445
– Equity in associated companies and joint ventures	5			164		169
<b>Total assets</b>	<b>5 062</b>	<b>1 701</b>	<b>623</b>	<b>3 259</b>	<b>–2 031</b>	<b>8 614</b>
<b>Total liabilities</b>	<b>–1 761</b>	<b>–586</b>	<b>–99</b>	<b>–1 098</b>	<b>2 031</b>	<b>–1 513</b>
<b>Net assets</b>	<b>3 301</b>	<b>1 115</b>	<b>524</b>	<b>2 161</b>	<b>0</b>	<b>7 101</b>

#### Other information

Capital expenditure	131	126	10	24		291
Depreciation on tangible assets	–64	–106	–29	–7		–206
Amortization on intangible assets	–9	–4	–2	–1		–16
Impairment charges	0	0	0	0		0
Interest income	4	0	0	12	–12	4
Interest expenses	–11	–3	–1	–2	12	–5
Share of result from associates and joint ventures	1	0	0	8		9
Income taxes	–268	–37	–7	–6		–318



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2009 (CHF million)	Watches & Jewelry *	Production *	Electronic Systems	Corporate	Elimination	Total
<b>Balance sheet</b>						
– Segment assets	4 517	1 568	695	2 523	–1 736	7 567
– Equity in associated companies and joint ventures				139		139
<b>Total assets</b>	<b>4 517</b>	<b>1 568</b>	<b>695</b>	<b>2 662</b>	<b>–1 736</b>	<b>7 706</b>
<b>Total liabilities</b>	<b>–1 609</b>	<b>–530</b>	<b>–153</b>	<b>–1 169</b>	<b>1 736</b>	<b>–1 725</b>
<b>Net assets</b>	<b>2 908</b>	<b>1 038</b>	<b>542</b>	<b>1 493</b>	<b>0</b>	<b>5 981</b>
<b>Other information</b>						
Capital expenditure	84	116	24	25		249
Depreciation on tangible assets	–64	–106	–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

\* restated following integration of Piguet activities (Production segment) into Manufacture Blancpain (segment Watches & Jewelry)

### b. Information on geographical regions

(CHF million)	2010		2009	
	Net sales	Non-current assets	Net sales	Non-current assets
Switzerland	892	1 417	914	1 378
Other Europe	1 520	229	1 412	259
<b>Total Europe</b>	<b>2 412</b>	<b>1 646</b>	<b>2 326</b>	<b>1 637</b>
Greater China	2 037	156	1 430	121
Other Asia	1 062	234	843	236
<b>Total Asia</b>	<b>3 099</b>	<b>390</b>	<b>2 273</b>	<b>357</b>
Total America	478	31	424	20
Total Oceania	70	2	71	2
Total Africa	49	3	48	3
<b>Total</b>	<b>6 108</b>	<b>2 072</b>	<b>5 142</b>	<b>2 019</b>

Non current assets under the caption "Other Asia" include CHF 197 million (previous year CHF 197 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>2010</b>	2009
	Sale of goods	<b>6 052</b>	5 109
	Rendering of services	<b>56</b>	33
	<b>Total net sales</b>	<b>6 108</b>	5 142

**b. Other operating income** In 2010, other operating income amounted to CHF 139 million (2009: CHF 104 million). The increase is mainly due to the timekeeping services rendered in 2010 for the Olympics.

<b>c. Personnel expense</b>	(CHF million)	<b>2010</b>	2009
	Wages and salaries	<b>1 355</b>	1 316
	Social security costs	<b>220</b>	213
	Share-based compensation (Note 28)	<b>10</b>	8
	Pension costs – defined benefit plans (Note 23)	<b>43</b>	53
	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>1 634</b>	1 596

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

(Unaudited)	<b>2010</b>	2009
<b>Average annual headcount</b>	<b>24 240</b>	23 727
<b>Total headcount at 31 December</b>	<b>25 197</b>	23 562
Men	<b>11 276</b>	10 703
Women	<b>13 921</b>	12 859
Swiss contracts	<b>13 357</b>	12 766
Non-Swiss contracts	<b>11 840</b>	10 796

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>2010</b>	2009
	Marketing, sales and administration	<b>863</b>	775
	Subcontracting and other direct costs of sales	<b>281</b>	250
	Maintenance, rents and energy	<b>426</b>	374
	Other operating expenses	<b>111</b>	34
	<b>Total other operating expenses</b>	<b>1 681</b>	1 433

**e. Research and development costs** Research and development (R&D) costs amounted to CHF 151 million in 2010, representing 2.5% of net sales (compared with CHF 149 million or 2.9% in 2009).

<b>f. Net financial result</b>	(CHF million)	<b>2010</b>	2009
	Interest income	<b>4</b>	4
	Result from marketable securities designated as FVTPL	<b>2</b>	–3
	Result from marketable securities held-for-trading and derivatives	<b>28</b>	61
	Net currency result	<b>–73</b>	0
	Other financial expense	<b>–3</b>	–3
	<b>Other financial income and expense</b>	<b>–42</b>	59
	Interest on convertible bond	<b>0</b>	–13
	Other interest	<b>–5</b>	–5
	<b>Interest expense</b>	<b>–5</b>	–18
	<b>Share of result from associates and joint ventures</b>	<b>9</b>	5
	<b>Net financial result</b>	<b>–38</b>	46

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7. Income taxes

a. Income tax expenses	(CHF million)	2010	2009
Current income taxes		320	199
Adjustments recognized for current income taxes of prior periods		1	-2
Deferred taxes		-3	-11
<b>Total income taxes</b>		<b>318</b>	<b>186</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.

	2010	2009
	%	%
Group's average expected tax rate	21.4	19.6
Tax effect of:		
– Change in the applicable tax rate on temporary differences	-0.1	-0.1
– Recognition of tax losses not recognized in prior years	0.0	0.0
– Utilization of previously unrecognized tax losses	-0.1	-0.1
– Unrecognized current year tax losses	1.0	1.2
– Non-taxable income	-0.2	-0.3
– Non-tax-deductible expenses	0.7	0.3
– Items taxable at reduced rates	-0.4	-0.4
– Adjustments recognized for current taxes of prior periods	0.1	-0.2
– Other items	0.4	-0.4
<b>Group's effective tax rate</b>	<b>22.8</b>	<b>19.6</b>

### c. Current income tax

(CHF million)	2010	2009
<b>Net current income tax liability</b>		
<b>Balance at 1 January</b>	-52	-91
Recognized in income statement	-321	-197
Recognized in equity	0	-1
Income taxes paid	225	237
Translation differences	4	0
<b>Balance at 31 December</b>	<b>-144</b>	<b>-52</b>
thereof current income tax assets	12	24
thereof current income tax liabilities	-156	-76

### 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)	2010	2009
<b>Net deferred tax liability</b>		
<b>Balance at 1 January</b>	-128	-137
Recognized in income statement	3	11
Recognized in equity	0	0
Business combinations (Note 14)	0	0
Divestment of businesses (Note 14)	0	0
Translation differences	-9	-2
<b>Balance at 31 December</b>	<b>-134</b>	<b>-128</b>
thereof deferred tax assets	219	209
thereof deferred tax liabilities	-353	-337

## 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 828 million (previous year: CHF 766 million).

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

Source (CHF million)	31.12.2010			31.12.2009		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	157	-224	-67	152	-218	-66
Trade and other receivables	4	-13	-9	4	-11	-7
Property, plant and equipment	11	-80	-69	13	-78	-65
Intangible assets	3	-7	-4	6	-6	0
Provisions	6	-20	-14	6	-17	-11
Retirement benefit obligations	3	-19	-16	3	-13	-10
Tax losses	33		33	37		37
Other	26	-14	12	21	-27	-6
<b>Total deferred tax assets (liabilities)</b>	<b>243</b>	<b>-377</b>	<b>-134</b>	<b>242</b>	<b>-370</b>	<b>-128</b>
Deferred tax assets on the balance sheet			219			209
Deferred tax liabilities on the balance sheet			-353			-337

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 2010
One year	4	0	4
Two years	12	0	12
Three years	16	2	18
Four years	32	10	42
Five years	22	17	39
Six years	14	27	41
More than six years	125	64	189
<b>Total at 31.12.2010</b>	<b>225</b>	<b>120</b>	<b>345</b>

(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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. Earnings per share

### a. Basic

	2010	2009
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 074	759
Percentage of registered shares outstanding in comparison with the share capital outstanding	42.7%	42.1%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	57.3%	57.9%
<b>Registered shares</b>		
Net income attributable to registered shareholders (CHF million)	459	320
Average number of shares outstanding	113 103 548	110 446 207
<b>Basic earnings per share (in CHF)</b>	<b>4.05</b>	<b>2.89</b>
<b>Bearer shares</b>		
Net income attributable to bearer shareholders (CHF million)	615	439
Average number of shares outstanding	30 335 000	30 335 000
<b>Basic earnings per share (in CHF)</b>	<b>20.27</b>	<b>14.47</b>

### b. Diluted

	2010	2009
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	1 074	759
Interest expense on convertible debt (CHF million)	0	13
<b>Net income used to determine diluted EPS (CHF million)</b>	<b>1 074</b>	<b>772</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)	473	340
Average number of shares outstanding – basic (as above)	113 103 548	110 446 207
Potentially dilutive number of shares from convertible bond	5 804 783	8 398 368
Potentially dilutive number of shares from options outstanding	218 081	198 511
Average number of shares outstanding – diluted	119 126 412	119 043 086
<b>Diluted earnings per share (in CHF)</b>	<b>3.97</b>	<b>2.85</b>
<b>Bearer shares</b>		
Net income attributable to bearer shareholders (CHF million)	601	432
Average number of shares outstanding	30 335 000	30 335 000
<b>Diluted earnings per share (in CHF)</b>	<b>19.83</b>	<b>14.26</b>

## 9. Dividends paid and proposed

On 12 May 2010, the Annual General Meeting approved the distribution of a dividend of CHF 0.80 per registered share and CHF 4.00 per bearer share. The distribution to holders of outstanding shares totaled CHF 210 million (2009: CHF 223 million) and has been recorded against retained earnings in 2010.

At the Annual General Meeting on 31 May 2011, payment of the following dividends for 2010 will be proposed:

	Registered	Bearer
Dividend per share	CHF 1.00	CHF 5.00
Total dividend	CHF 124 045 000	CHF 154 200 000

The financial statements ending 31 December 2010 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2011.

# 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 2010</b>	<b>1 130</b>	<b>2 715</b>	<b>392</b>	<b>9</b>	<b>4 246</b>
Translation differences	-3	-31	-12		-46
Business combinations (Note 14)		1			1
Divestments of businesses (Note 14)		-9	-1		-10
Additions	33	169	37	15	254
Disposals	-4	-58	-19		-81
Derecognized items <sup>1)</sup>	-13	-230	-46		-289
Transfers	2	-4	11	-10	-1
<b>Historical cost, 31 December 2010</b>	<b>1 145</b>	<b>2 553</b>	<b>362</b>	<b>14</b>	<b>4 074</b>
<b>Accumulated depreciation, 1 January 2010</b>	<b>-507</b>	<b>-2 024</b>	<b>-255</b>	<b>0</b>	<b>-2 786</b>
Translation differences	2	23	9		34
Annual depreciation	-23	-147	-35		-205
Impairment					0
Depreciation on disposals		57	18		75
Depreciation on divestments of businesses		7	1		8
Depreciation on derecognized items <sup>1)</sup>	13	230	46		289
Transfers		3	-4		-1
<b>Accumulated depreciation, 31 December 2010</b>	<b>-515</b>	<b>-1 851</b>	<b>-220</b>	<b>0</b>	<b>-2 586</b>
<b>Net book value, 31 December 2010</b>	<b>630</b>	<b>702</b>	<b>142</b>	<b>14</b>	<b>1 488</b>

<sup>1)</sup> During the course of process improvements in the area of property, plant and equipment, fully depreciated and physically disposed of items still disclosed in historical cost and accumulated depreciation were identified. This issue has been resolved by a one-time derecognition of historical cost and accumulated depreciation in 2010. The derecognition does not affect either net book values or profit or loss.

Insured value	<b>5 183</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>81</b>

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

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>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. Investment property

(CHF million)	2010	2009
<b>Historical cost, 1 January</b>	<b>68</b>	67
Additions	1	0
Disposals	-7	0
Transfers	1	1
<b>Historical cost, 31 December</b>	<b>63</b>	68
<b>Accumulated depreciation, 1 January</b>	<b>-29</b>	-28
Annual depreciation	-1	-1
Impairment	0	0
Depreciation on disposals	7	0
Transfers	1	0
<b>Accumulated depreciation, 31 December</b>	<b>-22</b>	-29
<b>Net book value, 31 December</b>	<b>41</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 77 million at 31 December 2010 compared to CHF 76 million at 31 December 2009. 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 2010</b>	<b>206</b>	<b>53</b>	<b>163</b>	<b>422</b>
Translation differences	-2	-1	-11	-14
Business combinations (Note 14)	3			3
Divestments of businesses (Note 14)		-1	-1	-2
Additions		12	14	26
Disposals		-4	-8	-12
Transfers				0
<b>Historical cost, 31 December 2010</b>	<b>207</b>	<b>59</b>	<b>157</b>	<b>423</b>
<b>Accumulated amortization, 1 January 2010</b>	<b>0</b>	<b>-18</b>	<b>-84</b>	<b>-102</b>
Translation differences			3	3
Annual amortization		-6	-10	-16
Impairment				0
Amortization on disposals		3	4	7
Amortization on divestments of businesses		1	1	2
Transfers				0
<b>Accumulated amortization, 31 December 2010</b>	<b>0</b>	<b>-20</b>	<b>-86</b>	<b>-106</b>
<b>Net book value, 31 December 2010</b>	<b>207</b>	<b>39</b>	<b>71</b>	<b>317</b>

	Goodwill	Capitalized development costs	Other intangible assets	Total
(CHF million)				
Historical cost, 1 January 2009	204	44	168	416
Translation differences				0
Business combinations (Note 14)	2			2
Additions		13	12	25
Disposals		-4	-19	-23
Transfers			2	2
Historical cost, 31 December 2009	206	53	163	422
Accumulated amortization, 1 January 2009	0	-17	-91	-108
Translation differences				0
Annual amortization		-3	-10	-13
Impairment				0
Amortization on disposals		2	19	21
Transfers			-2	-2
Accumulated amortization, 31 December 2009	0	-18	-84	-102
<b>Net book value, 31 December 2009</b>	<b>206</b>	<b>35</b>	<b>79</b>	<b>320</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)	31.12.2010	31.12.2009
Watches & Jewelry	159	159
Production	38	36
Electronic Systems	10	11
<b>Total</b>	<b>207</b>	<b>206</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

	2010			2009		
	Watches & Jewelry	Production	Electronic Systems	Watches & Jewelry	Production	Electronic Systems
Estimated growth rate beyond five-year period	1%	0.5%	0%	1%	0.5%	0%
Expected gross margin	51%-62%	26%-29%	32%-35%	48%-62%	27%-30%	31%-35%
Pre-tax discount rate	8.6%	9.9%	10.3%	8.8%	9.6%	9.9%

No impairment charge for goodwill had to be recorded in 2010 and 2009. 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)	2010	2009
<b>Balance at 1 January</b>	<b>139</b>	<b>127</b>
Share of result from associates and joint ventures	9	5
Dividends received	-2	-2
Investments	28	12
Translation differences	-5	-3
<b>Balance at 31 December</b>	<b>169</b>	<b>139</b>

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

Despite having less than 20% of the voting power of Hengdeli Holdings and Rivoli Group LLC (Dubai), the Swatch Group can exercise significant influence due to representation on the Board of Directors, access to current financial information and the strategic character of the investment. Therefore, these two investments are considered as associates.

Investments in 2010 relate in part to an increase in the stake in Hengdeli Holdings from 8.92% in 2009 to 9.05%. In addition, in the period under review, the Group participated in a capital increase of the associate Belenos Clean Power Holding Ltd. Furthermore, the Group acquired a 50% stake of Beijing Xin Yu Heng Rui Watch & Clock Ltd, a real estate company located in Beijing (China). This participation meets the criteria of a joint venture.

At 31 December 2010, the fair value of the investment in Hengdeli Holdings was CHF 225 million (2009: CHF 140 million). Sales to and purchases from associates and joint ventures amounted to CHF 584 million (2009: CHF 398 million) and CHF 10 million (2009: CHF 6 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)	31.12.2010	31.12.2009
Assets	162	112
Liabilities	70	42
Revenues	167	133
Net income	9	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

In 2010, the Group did not enter in any significant business combinations. In July 2010, the business activities of Tanzarella Ltd, a small entity in Southern Switzerland active in the assembly of watch movements, have been acquired. Net assets were transferred into the newly founded company Assemti Ltd.

At the end of March 2009, the Group had 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.

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date, as well as the consideration paid and the goodwill arising on acquisitions:

(CHF million)	Notes	2010 Fair value	2009 Fair value
Property, plant and equipment	(10)	1	0
Intangible assets	(12)	0	0
Other non-current assets	(15)	0	0
Current assets		1	5
Cash and cash equivalents		0	2
Provisions	(24)	0	0
Deferred tax liabilities	(7d)	0	0
Other non-current liabilities		0	-3
Current liabilities		-2	-2
<b>Net assets acquired</b>		<b>0</b>	<b>2</b>
Goodwill (capitalized)	(12)	3	2
<b>Total purchase consideration</b>		<b>3</b>	<b>4</b>
Cash and cash equivalents acquired		0	-2
Consideration payable		0	0
Consideration paid for prior year acquisitions		1	0
<b>Cash outflow on acquisitions</b>		<b>4</b>	<b>2</b>

The total purchase consideration basically represented the cash payments made to the vendors. The acquisition-related costs of less than CHF 1 million were charged to the income statement (included in other operating expenses). In 2009, the costs directly attributable to the acquisitions were below CHF 1 million.

The goodwill arising from the 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. None of the goodwill recognized is expected to be deductible for income tax purposes.

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 (2009: below CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2010 (1 January 2009), the Group's revenue would not have been different (2009: CHF 2 million higher), and the impact on profit would have been less than CHF 1 million (2009: less than CHF 1 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Divestment of businesses

In 2010, the Group sold the step motor activities of Microcomponents Ltd and the Group company Lasag Ltd for a total consideration of CHF 12 million. The profit realized on these divestments amounted to CHF 2 million, it was included in other operating income.

No businesses had been divested in 2009.

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

(CHF million)	Notes	2010	2009
Property, plant and equipment	(10)	2	0
Intangible assets	(12)	0	0
Goodwill	(12)	0	0
Current assets		24	0
Cash and cash equivalents		0	0
Provisions	(24)	0	0
Deferred tax liabilities	(7d)	0	0
Other non-current liabilities		0	0
Current liabilities		-16	0
<b>Net assets disposed of</b>		<b>10</b>	<b>0</b>
Accumulated currency translation gains recognized in equity		0	0
Profit on divestment of businesses		2	0
<b>Total disposal consideration</b>		<b>12</b>	<b>0</b>
Cash and cash equivalents disposed of		0	0
<b>Net Cash inflow on divestment</b>		<b>12</b>	<b>0</b>

### Repurchase of non-controlling interests

In July 2010 the Group acquired the remaining 5 percent interest in its subsidiaries in Singapore and Malaysia for a total consideration of CHF 5 million in cash, increasing its ownership from 95 to 100 percent. The resulting difference amounted to less than CHF 1 million and was recognized in equity.

## 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 2010</b>	<b>28</b>	<b>28</b>	<b>5</b>	<b>64</b>	<b>125</b>
Translation differences	-3	-2			-5
Additions	5	4	1	23	33
Disposals	-2	-1	-1		-4
Transfers to "Other current assets"	-4				-4
<b>Balance at 31 December 2010</b>	<b>24</b>	<b>29</b>	<b>5</b>	<b>87</b>	<b>145</b>
Term 1–5 years	21	25	5		51
Term >5 years	3	4		87	94
<b>Balance at 31 December 2010</b>	<b>24</b>	<b>29</b>	<b>5</b>	<b>87</b>	<b>145</b>

(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
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>

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)	31.12.2010	31.12.2009
Raw materials	226	219
Work in progress	383	287
Semi-finished goods	1 141	1 084
Finished goods	950	985
Spare parts for customer service	169	168
<b>Total inventories</b>	<b>2 869</b>	<b>2 743</b>

The cost of inventories recognized as an expense in 2010 amounted to CHF 2 577 million (2009: CHF 2 316 million). Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2010, the Group recognized write-downs of CHF 26 million (previous year: CHF 17 million) and reversals of write-downs of CHF 2 million (previous year: CHF 4 million). The net impact of these adjustments was a charge to the income statement of CHF 24 million (2009: CHF 13 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. Trade receivables

(CHF million)	31.12.2010	31.12.2009
Trade receivables – gross	735	780
Allowance for impaired receivables	-19	-19
<b>Total trade receivables – net</b>	<b>716</b>	<b>761</b>

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

(CHF million)	2010	2009
<b>Balance at 1 January</b>	<b>-19</b>	<b>-23</b>
Translation differences	1	0
Utilization	2	6
Reversal	2	3
Creation	-5	-5
<b>Balance at 31 December</b>	<b>-19</b>	<b>-19</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)	31.12.2010	31.12.2009
<b>Neither past due nor impaired</b>	<b>625</b>	<b>649</b>
<3 months	81	97
3–6 months	6	10
6–12 months	3	5
>12 months	1	0
<b>Total past due but not impaired</b>	<b>91</b>	<b>112</b>
<b>Total trade receivables</b>	<b>716</b>	<b>761</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)	31.12.2010	31.12.2009
CHF	198	181
CNY	64	86
EUR	181	204
HKD	51	43
JPY	21	26
USD	65	77
Other currencies	136	144
<b>Total trade receivables – net</b>	<b>716</b>	<b>761</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)	31.12.2010	31.12.2009
<b>Other current receivables</b>		
VAT to be refunded	96	47
Other receivables	17	40
<b>Total other current receivables</b>	<b>113</b>	<b>87</b>
<b>Prepayments</b>		
Key money	6	10
Other prepayments and accrued income	150	144
<b>Total prepayments</b>	<b>156</b>	<b>154</b>
<b>Total other current assets</b>	<b>269</b>	<b>241</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 2009). Except for prepayments, other current assets are considered as financial instruments.

### 19. Marketable securities and derivative financial instruments

(CHF million)	31.12.2010	31.12.2009
Equity securities	105	138
Bond securities	390	365
Investment funds and other investments	25	25
<b>Marketable securities held-for-trading</b>	<b>520</b>	<b>528</b>
<b>Marketable securities designated as FVTPL</b>	<b>18</b>	<b>16</b>
<b>Derivative financial instruments</b>	<b>4</b>	<b>3</b>
<b>Total marketable securities and derivative financial instruments</b>	<b>542</b>	<b>547</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	31.12.2010			31.12.2009		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
(CHF million)						
Forward foreign exchange rate contracts	311	4	0	521	3	-1
Currency options	0	0	0	0	0	0
Options on equity securities	0	0	0	0	0	0
<b>Total trading</b>	<b>311</b>	<b>4</b>	<b>0</b>	<b>521</b>	<b>3</b>	<b>-1</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>311</b>	<b>4</b>	<b>0</b>	<b>521</b>	<b>3</b>	<b>-1</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At the end of 2009 and 2010, no hedges were outstanding. No amounts were recycled from equity as a result of the application of hedge accounting. 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)	2010							Total
	EUR	JPY	HKD	USD	SGD	CNY	Other	
Forward foreign exchange contracts	176	54	0	18	0	0	63	311
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>176</b>	<b>54</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>311</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>176</b>	<b>54</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>311</b>

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>

At 31 December 2010, 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)	31.12.2010	31.12.2009
Current accounts and liquid assets	639	388
Short-term deposits with financial institutions	1 188	710
<b>Total</b>	<b>1 827</b>	<b>1 098</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)	31.12.2010	31.12.2009
Cash and cash equivalents	1 827	1 098
Current account overdrafts (Note 22)	-2	0
<b>Total</b>	<b>1 825</b>	<b>1 098</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
31.12.2007	128 100 000 at CHF 0.45	31 660 000 at CHF 2.25	128 880 000.00
Cancellation <sup>1)</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
31.12.2009	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2010</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 21 May 2008.

At year-end 2010 as well as 2009, 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 31.12.2008</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>
Acquisitions	0	0	0	0	0
Disposals <sup>1)</sup>	-230 822	0	0	0	0
Cancellations	0	0	0	0	0
Conversions	-7 895 551	-336	0	0	-336
<b>Balance at 31.12.2010</b>	<b>5 358 056</b>	<b>161</b>	<b>505 000</b>	<b>132</b>	<b>293</b>

<sup>1)</sup> The disposals relate mainly to 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)	31.12.2010	31.12.2009
Equity component of convertible bond	0	15
Translation differences	-286	-148
<b>Total other reserves</b>	<b>-286</b>	<b>-133</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. Financial debts and derivative financial instruments

(CHF million)	31.12.2010	31.12.2009
Other non-current debt	77	80
<b>Total non-current financial debts</b>	<b>77</b>	<b>80</b>
Current account overdrafts	2	0
Short-term leasing commitments	0	0
Short-term bank debt	29	52
Convertible bond	0	385
<b>Total current financial debts</b>	<b>31</b>	<b>437</b>
Derivative financial instruments	0	1
<b>Total current financial debts and derivative financial instruments</b>	<b>31</b>	<b>438</b>
<b>Total financial debts</b>	<b>108</b>	<b>518</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 31.12.2010</b>	<b>31</b>	<b>25</b>	<b>52</b>	<b>108</b>
At 31.12.2009	438	0	80	518

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

(CHF million)	31.12.2010	31.12.2009
Swiss Franc (CHF)	15	389
Japanese Yen (JPY)	89	107
Euro (EUR)	1	3
Other currencies	3	19
<b>Total</b>	<b>108</b>	<b>518</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, with a coupon of 2.625% and a nominal value of CHF 5 000 per bond, for a total of CHF 412 million. In prior years, the Group repurchased convertible bonds with a value of CHF 24 million. At maturity date, the remaining liability was settled by the conversion of 7 895 551 registered shares in the amount of CHF 387 million (conversion price of CHF 49.00 per share) and by a cash payment of CHF 1 million.

Additionally, costs directly attributable to the convertible bond in the amount of CHF 2 million have been recognized through equity. Therefore, the total equity impact of the conversion amounts to CHF 385 million (refer to the consolidated statement of changes in equity).

The convertible bond was recognized as follows:

(CHF million)	2010	2009
<b>Liability component at 1 January</b>	<b>385</b>	<b>384</b>
Coupon interest at market rate	3	13
Coupon interest at 2.625%	0	-10
Partial repurchase of convertible bonds against cash	0	-2
Conversion into registered shares	-387	0
Settlement in cash at maturity date	-1	0
<b>Liability component at 31 December</b>	<b>0</b>	<b>385</b>

## 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, 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)	2010	2009
Present value of funded obligations	-3 543	-3 228
Fair value of plan assets	3 299	3 171
<b>Excess of assets/(liabilities) at 31 December</b>	<b>-244</b>	<b>-57</b>
Present value of unfunded obligations	-12	-14
Unrecognized actuarial loss	322	111
Unrecognized past-service cost	0	0
<b>Net asset / (liability) in the balance sheet at 31 December</b>	<b>66</b>	<b>40</b>

#### Periodic pension cost for defined benefit plans

(CHF million)	2010	2009
Current service cost	-128	-123
Interest cost	-104	-101
Expected return on plan assets	134	119
Actuarial gains/(losses)	-1	-3
Past-service cost	0	0
Employee contributions	56	56
Gains/(losses) on curtailment	0	-1
<b>Total periodic pension cost</b>	<b>-43</b>	<b>-53</b>

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

(CHF million)	2010	2009
<b>1 January</b>	<b>3 171</b>	<b>2 814</b>
Expected return on plan assets	134	119
Actuarial gains/(losses)	42	289
Exchange differences	-5	0
Employer contributions	67	68
Employee contributions	56	56
Benefits paid	-166	-175
<b>31 December</b>	<b>3 299</b>	<b>3 171</b>

Pension plan assets include the company's registered shares with a fair value of CHF 507 million (2009: CHF 280 million) and the company's bearer shares with a fair value of below CHF 1 million (2009: CHF 53 million). Furthermore, buildings occupied by the Group amounting to CHF 12 million (previous year CHF 12 million) were included in the pension plan assets.

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 176 million (2009: gain of CHF 408 million). The Group expects to contribute CHF 68 million to its post-employment benefit plans in 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Asset allocation of plan assets

	31.12.2010		31.12.2009	
	CHF million	%	CHF million	%
Equity	1 236	37.5	1 036	32.7
Bonds	1 002	30.4	1 156	36.5
Real estate	612	18.5	591	18.6
Other assets	449	13.6	388	12.2
<b>Total</b>	<b>3 299</b>	<b>100.0</b>	<b>3 171</b>	<b>100.0</b>

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

(CHF million)	2010	2009
<b>1 January</b>	<b>-3 242</b>	<b>-3 139</b>
Current service cost	-128	-124
Interest cost	-104	-101
Actuarial gains/(losses)	-257	-55
Exchange differences	9	1
Benefits paid	167	177
Curtailments	0	-1
Settlements	0	0
<b>31 December</b>	<b>-3 555</b>	<b>-3 242</b>

### Principal actuarial assumptions used

	2010	2009
	%	%
	Weighted average	Weighted average
Discount rate	2.75	3.25
Expected return on plan assets	4.25	4.25
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)	2010	2009	2008	2007	2006
Present value of defined benefit obligation	-3 555	-3 242	-3 139	-3 282	-3 106
Fair value of plan assets	3 299	3 171	2 814	3 590	3 464
<b>Over/(under) funding</b>	<b>-256</b>	<b>-71</b>	<b>-325</b>	<b>308</b>	<b>358</b>
Experience adjustments on plan liabilities - loss / (gain)	8	6	29	133	70
Experience adjustments on plan assets - gain / (loss)	42	289	-872	39	130

#### 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 2010 of CHF 3 million (2009: 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2010, these liabilities amounted to CHF 5 million (31 December 2009: CHF 3 million).

### d. Reconciliation

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

(CHF million)	31.12.2010	31.12.2009
Defined benefit plan asset	87	64
<b>Total pension asset (Note 15)</b>	<b>87</b>	<b>64</b>
Defined benefit plan liability	-21	-24
Other post-employment benefit obligations	-5	-3
<b>Total retirement benefit obligations</b>	<b>-26</b>	<b>-27</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 2010, these contributions amounted to CHF 6 million (CHF 6 million in 2009).

## 24. Provisions

(CHF million)	Warranties	Litigation	Other	Total
<b>Balance at 31.12.2008</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 31.12.2009</b>	<b>71</b>	<b>9</b>	<b>20</b>	<b>100</b>
Current provisions	50	3	7	60
Non-current provisions	21	6	13	40
Translation differences	-6		-2	-8
Additional provisions	75	3	7	85
Reversal of provisions	-8	-2	-3	-13
Acquisitions / divestments				0
Provisions used during the year	-58	-3	-3	-64
<b>Balance at 31.12.2010</b>	<b>74</b>	<b>7</b>	<b>19</b>	<b>100</b>
Current provisions	51	4	8	63
Non-current provisions	23	3	11	37

### 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 anticipated 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 currently available information and recorded adequate provisions. However, there are inherent risks within legal claims depending on court and adversary party behaviour and opinion that may 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)	31.12.2010	31.12.2009
Advance payments	15	12
VAT due	16	13
Other payables	70	57
<b>Total other current payables</b>	<b>101</b>	<b>82</b>
<b>Accrued expenses and deferred income</b>	<b>378</b>	<b>347</b>
<b>Total other current liabilities</b>	<b>479</b>	<b>429</b>

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 2010, 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-2009).

Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 29 million at 31 December 2010 (CHF 28 million at end-2009).

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

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

(CHF million)	31.12.2010	31.12.2009
Less than 1 year	164	149
Between 1 and 5 years	374	357
Over 5 years	221	229
<b>Total</b>	<b>759</b>	<b>735</b>
Proportion of contracts with renewal option (% of total amount)	59.3	65.6
Maximum risk (% of total amount)	93.8	93.5

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 2010. Leasing costs amounting to CHF 163 million were recognized in the 2010 income statement (CHF 152 million in 2009). 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 2010, amounted to CHF 30 million (CHF 7 million in the previous year).

#### c. Contingent assets and liabilities

Some Group companies have contingent liabilities in respect of legal claims arising from the ordinary course of business and they may be liable to pay compensation. It is not expected that any material liabilities will arise from these contingent liabilities other than those provided for (see Note 24b).

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. Details to the consolidated statement of cash flows

#### a. Non-cash items

(CHF million)	Notes	2010	2009
<b>Reversal of non-cash items</b>			
Share of result from associates and joint ventures	(13)	-9	-5
Income taxes	(7a)	318	186
Depreciation of tangible assets	(10, 11)	206	207
Amortization of intangible assets	(12)	16	13
Divestment gain from disposal of subsidiaries	(14)	-2	0
Profit on sale of fixed assets		-6	-2
Loss on sale of fixed assets		2	2
Fair value gains on marketable securities		-20	-66
Fair value losses on marketable securities		54	33
Interest income	(6f)	-4	-4
Interest expense	(6f)	5	18
Expenses for equity-settled equity compensation plan	(28)	10	8
Changes in provisions		10	-8
Changes in pensions and other retirement benefits		-22	-16
<b>Total</b>		<b>558</b>	<b>366</b>

#### b. Changes in working capital

(CHF million)	Notes	2010	2009
<b>Changes in working capital and other items included in cash flow from operating activities</b>			
Inventories		-198	-12
Trade and other receivables		-51	15
Trade payables and other current liabilities		141	-3
Other items included in cash flow from operating activities		45	7
<b>Total</b>		<b>-63</b>	<b>7</b>

### 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 2010, this portfolio comprised 2 125 677 registered shares (2 356 309 at the end of 2009). In 2010, 230 632 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:

	2010	2009
	Options	Options
Options outstanding at 1 January	221 928	218 570
Granted	244 450	221 590
Forfeited or lapsed	-2 674	-2 502
Exercised	-230 632	-215 730
<b>Options outstanding at 31 December</b>	<b>233 072</b>	<b>221 928</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Expiry date	Share options	
	31.12.2010	31.12.2009
2010		148 470
2011	153 141	73 458
2012	79 931	
<b>Total</b>	<b>233 072</b>	221 928

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 2010 and 2009 was based:

	2010		2009	
	Tranche exercisable in 1 year	Tranche exercisable in 2 years	Tranche exercisable in 1 year	Tranche exercisable in 2 years
Grant date	13 July 2010	13 July 2010	10 July 2009	10 July 2009
Expiration date	13 July 2011	13 July 2012	10 July 2010	10 July 2011
Closing share price on grant date	CHF 58.30	CHF 58.30	CHF 33.70	CHF 33.70
Exercise price	CHF 4.00	CHF 4.00	CHF 4.00	CHF 4.00
Volatility	38.6%	38.6%	37.0%	37.0%
Expected dividend yield	CHF 1.00	CHF 1.00	CHF 0.80	CHF 0.80
Risk-free interest rate	0.42%	0.65%	0.35%	0.83%
Market value of option at grant date	CHF 53.32	CHF 52.35	CHF 28.91	CHF 28.17

The first tranche that was immediately exercisable had the same assumptions as shown above (2010: grant date 13 July 2010, share price at grant date CHF 58.30, exercise price CHF 4.00; 2009: grant date 10 July 2009, share price at grant date CHF 33.70, exercise price CHF 4.00). The weighted average share price at exercise date was CHF 61.54 in 2010 (2009: CHF 44.84).

The personnel expense recorded in the 2010 income statement as a result of applying IFRS 2 calculation amounted to CHF 10 million (2009: CHF 8 million).

## 29. Related party transactions

### a. Principal shareholders

On 31 December 2010, the Hayek Pool and its related companies, institutions and individuals held 64 385 225 registered shares and 1 025 bearer shares, equivalent to 41.6% of the shares issued (previous year: 41.0%) of The Swatch Group Ltd, which is the parent company of the Group.

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.8% of the shares issued. At the end of year 2009, the group of Mr. N. G. Hayek and related parties controlled 40.2% of the shares issued. Mrs. Esther Grether's group controlled 7.2% of the shares issued (compared with 7.5% a year earlier).

In 2010, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 10.1 million to the Swatch Group (compared with CHF 9.4 million in 2009). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	2010	2009
Audit, feasibility studies and process optimization	3.0	3.0
Provision of managers and filling important, vacant functions	1.1	1.3
Project management in the construction sector	3.6	3.0
Support for projects in the materials and surface treatment technology sector	0.5	0.2
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	1.5
<b>Total</b>	<b>10.1</b>	<b>9.4</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)	2010	2009
Short-term employee benefits	26.6	26.2
– of which in salaries	8.6	9.3
– of which in bonus	17.9	16.8
– of which in other benefits	0.1	0.1
Post-employment benefits	0.8	0.8
Termination benefits	0.0	0.0
Share-based compensation	6.8	5.0
<b>Total</b>	<b>34.2</b>	<b>32.0</b>

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

### c. Share ownership

At 31 December 2010, 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 56 293 903 registered shares and 590 bearer shares, representing 36.4% of the voting rights (previous year: 36.4%).

In addition, at 31 December 2010, all the non-executive members of the Board of Directors as well as the persons close to them held 11 101 700 registered shares and 114 000 bearer shares, representing 7.2% of the voting rights (previous year: 8.7%).

### 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 2010 and 2009, 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 2010, one loan to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 2.6% 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)	2010		2009	
	Purchases	Sales	Purchases	Sales
Associates and joint ventures	10	584	6	398
Other related parties	0	0	0	0

At the end of 2010, receivables from related parties amounted to CHF 55 million (2009: CHF 57 million), and payables to related parties were CHF 5 million (2009: CHF 3 million). In addition, in 2010 the Group held guarantees from associated companies in the amount of CHF 47 million (2009: CHF 7 million). Furthermore, at 31 December 2010 the Group had granted loans to related parties in the amount of USD 1 million (2009: 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)

2010	Function	Compensation for functions in the BoD <sup>1)</sup>	Base compen- sation for executive function <sup>1)</sup>	Bonus <sup>2)</sup>	Other compen- sation <sup>3)</sup>	Total <sup>4)</sup>
Name		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Dr. h.c. Nicolas G. Hayek <sup>5)</sup>	Chairman & Delegate		350 946	835 000	116 722	1 302 668
Nayla Hayek <sup>6)</sup>	Chairwoman	145 845	751 566	1 300 000	877 605	3 075 016
Dr. Peter Gross	Vice-Chairman	115 060				115 060
Esther Grether	Member	104 518				104 518
Georges Nicolas Hayek <sup>7)</sup>	Member	65 893				65 893
Prof. Dr. h.c. Claude Nicollier	Member	104 518				104 518
Johann N. Schneider-Ammann <sup>8)</sup>	Member	88 896				88 896
Dr. Jean-Pierre Roth <sup>9)</sup>	Member	65 323				65 323
Ernst Tanner	Member	106 667				106 667
<b>Total</b>		<b>796 720</b>	<b>1 102 512</b>	<b>2 135 000</b>	<b>994 327</b>	<b>5 028 559</b>

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

<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 2010, 15 000 share options with a value of CHF 816 045 were granted to Mrs. N. Hayek (2009: 10 000 share options with a value of CHF 325 895), 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.

<sup>5)</sup> BoD Chairman until June 2010 (†).

<sup>6)</sup> BoD Chairwoman as of July 2010.

<sup>7)</sup> BoD Member as of May 2010. The compensation for his executive functions is included in Note 30 b.

<sup>8)</sup> BoD Member until October 2010.

<sup>9)</sup> BoD Member as of May 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2010	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)
Georges Nicolas Hayek	MB President / CEO	1 471 561	3 200 000	23 500	1 278 468	61 560	6 011 589
Total other members		5 276 878	12 506 000	122 450	6 661 613	714 894	25 159 385
<b>Total</b>		<b>6 748 439</b>	<b>15 706 000</b>	<b>145 950</b>	<b>7 940 081</b>	<b>776 454</b>	<b>31 170 974</b>

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)
Georges Nicolas Hayek	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>

In 2010, total salaries and bonuses paid to Group Management (including CEO) amounted to CHF 22 454 439 or 4.25% higher than the previous year, but 0.4% and 1.8% lower than 2008 and 2007 respectively.

<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.

The increase in CHF is mainly due to the higher average value per option, which was CHF 54.40 in 2010 compared to CHF 32.63 in 2009.

<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 2010 and 2009, 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 2010, 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 2.6% existed (unchanged to previous year).

In 2010 and 2009, 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 2010 and 2009, 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)	
		2010	2009	2010	2009	2010	2009
Dr. h.c. Nicolas G. Hayek <sup>1)</sup>	BoD Chairman & Delegate		55 704 144		550		
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144		550			
Nayla Hayek <sup>2)</sup>	BoD Chairwoman	14 876	6 543			13 334	6 667
Dr. Peter Gross	BoD Vice-Chairman	7 200	21 200				
Esther Grether	BoD Member	11 094 500	11 454 500	112 000	112 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member						
Dr. Jean-Pierre Roth <sup>3)</sup>	BoD Member						
Johann N. Schneider-Ammann <sup>4)</sup>	BoD Member		1 827 372				
Ernst Tanner	BoD Member			2 000	2 000		
Georges Nicolas Hayek <sup>5)</sup>	BoD Member / CEO	71 363	55 249			23 001	22 001
Arlette E. Emch	MB Member	47 334	37 334			15 000	15 000
Florence Ollivier-Lamarque	MB Member	44 000	44 216			11 002	11 002
Dr. Mougahed Darwish	MB Member	50 470	69 470			6 000	6 000
Marc A. Hayek	MB Member	46 233	36 900			9 667	9 000
Dr. Hanspeter Rentsch	MB Member / CLO	95 022	138 988			18 202	18 202
Roland Streule	MB Member	24 466	33 216			7 001	7 335
François Thiébaud	MB Member	62 458	53 125			9 667	9 000
Dr. Thierry Kenel	EMB Member / CFO	8 586	5 302			5 668	1 452
Matthias Breschan	EMB Member					1 834	1 500
Pierre-André Bühler	EMB Member	9 068	9 345			4 000	2 668
Yann Gamard	EMB Member					5 002	5 002
Walter von Känel	EMB Member	21 309	17 643	40	40	4 084	3 500
Thomas Meier	EMB Member		2 900			1 400	1 300
Kevin Rollenhagen	EMB Member	29 483	23 482			6 667	5 668
Rudolf Semrad <sup>6)</sup>	EMB Member		12 601				2 100
Dr. Peter Steiger	EMB Member	43 591	40 924			5 834	5 501
Stephen Urquhart	EMB Member	21 500	17 351			6 168	5 501
<b>Total</b>		<b>67 395 603</b>	<b>69 611 805</b>	<b>114 590</b>	<b>114 590</b>	<b>153 531</b>	<b>138 399</b>

<sup>1)</sup>BoD Chairman until June 2010 (†).

<sup>2)</sup>BoD Chairwoman as of July 2010.

<sup>3)</sup>BoD Member as of May 2010.

<sup>4)</sup>BoD Member until October 2010.

<sup>5)</sup>BoD Member as of May 2010.

<sup>6)</sup>EMB Member until April 2010.

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 the community of heirs of N. G. Hayek and Mrs. E. Grether, 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 2010, either directly or through share options, more than 1% of the outstanding Swatch Group shares (as of 31 December 2009: Mr. Nicolas G. Hayek, Mrs. E. Grether and Mr. J. N. Schneider-Ammann).

### 31. Events after the balance sheet date

On 19 January 2011, the Group finalized the acquisition of Novi SA, a manufacturer of finished watches and assembler of watch movements with 133 employees in the canton of Jura (Switzerland). The purchase price allocation is expected to be completed in the first half of 2011. The impact on the Group's financial statements will not be material.

There were no other significant events after the balance sheet date.

## 32. THE SWATCH GROUP COMPANIES – AS AT 31.12.2010

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			▼
Assemti SA, Locarno	Assembly	CHF 0.10	100	●	▲
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 42.00	42	○	▼
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	●	▲
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	●	▲
Hamilton International AG, Bienne	Watches	CHF 3.00	100	●	■
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100	●	▼
Jaquet Droz Les Boutiques SA, La Chaux-de-Fonds	Retail	CHF 0.10	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 30.00	100	●	▲
Manufacture Ruedin SA, Bassecour	Watch cases	CHF 2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF 0.48	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 Prêlet 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, St-Imier	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 6.00	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	●	▼
The Swatch Group Services SA, Bienne	Logistics, distribution and services	CHF 1.00	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	●	▲
Vica Sàrl, Paudex	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	Retail	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	●	■
The Swatch Group (Deutschland) Les Boutiques GmbH, Eschborn	Retail	EUR 0.20	100	●	■
Union Uhrenfabrik GmbH, Glashütte	Watches	EUR 0.10	100	●	■

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

## 32. THE SWATCH GROUP COMPANIES – AS AT 31.12.2010

Company name, Registered offices	Field of Activity	Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
<b>Austria</b>					
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR 0.04	100	●	■
<b>Belgium</b>					
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR 1.75	100	●	■
The Swatch Group Participation SA, Anderlecht	Holding	EUR 2.09	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	●	▲
SAS Centre Européen de Service Horloger, Besançon	Customer service	EUR 0.70	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 16.00	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 2.25	100	●	■
The Swatch Group (France) SAS, Paris	Distribution	EUR 15.00	100	●	■
The Swatch Group (France) Les Boutiques, Paris	Retail	EUR 45.13	100	●	■
<b>Great Britain</b>					
The Swatch Group (UK) Ltd, London	Distribution	GBP 2.00	100	●	■
The Swatch Group (UK) Les Boutiques Ltd, London	Retail	GBP 0.00	100	●	■
<b>Greece</b>					
Alkioni SA, Athens	Retail	EUR 0.10	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	●	■
<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 1 636.23	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>					
SGA Administração de Imóveis SA, Manaus	Inactive	BRL 4.93	100	●	■
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL 14.05	100	●	■
SMH do Brasil Administração de Bens Ltda, São Paulo	Inactive	BRL 2.74	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-swatch-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 31.12.2010

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>					
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50	○	■
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.20	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 48.37	100	●	■
Shanghai Swatch Art Centre Co. Ltd., Shanghai	Retail / art center	CNY 148.41	90	●	■
SMH Les Boutiques (Shanghai) Co. Ltd, Shanghai	Retail	CNY 99.69	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	●	■
Techdura 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	●	■
Zhuhai 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	100	●	■
<b>Singapore</b>					
The Swatch Group S.E.A. (S) Pte Ltd, Singapore	Distribution	SGD 4.00	100	●	■
The Swatch Group S.E.A. Retail Pte Ltd, Singapore	Retail	SGD 0.50	100	●	■
<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	●	■
<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 consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 160 to 212), for the year ended 31 December 2010.

### 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 2010 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, 28 February 2011



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## INCOME STATEMENT OF THE HOLDING

	Notes	2010 CHF million	2009 CHF million
Income from investments in subsidiaries	(1)	621	479
Financial income	(2)	41	45
Other income		17	10
<b>Total income</b>		<b>679</b>	<b>534</b>
Personnel expense		-49	-48
General expense		-18	-12
Depreciation and impairment		-23	-33
Interest expense	(3)	-2	-7
Exchange differences and other financial expenses	(4)	-4	1
Taxes		-2	-2
<b>Total expenses</b>		<b>-98</b>	<b>-101</b>
<b>Net income</b>		<b>581</b>	<b>433</b>

## BALANCE SHEET OF THE HOLDING

Assets	Notes	31.12.2010 CHF million	%	31.12.2009 CHF million	%
<b>Non-current assets</b>					
Property, plant and equipment		11	0.4	14	0.5
Financial assets					
– Long-term loans to Group companies		81	2.8	120	4.3
– Investments in subsidiaries	(5)	2 091	72.0	2 063	74.2
<b>Total non-current assets</b>		<b>2 183</b>	<b>75.2</b>	2 197	79.0
<b>Current assets</b>					
Receivables from Group companies		55	1.9	47	1.7
Other receivables and accrued income		56	2.0	37	1.3
Marketable securities and precious metals	(6)	563	19.4	469	16.9
Cash and cash equivalents		44	1.5	30	1.1
<b>Total current assets</b>		<b>718</b>	<b>24.8</b>	583	21.0
<b>Total assets</b>		<b>2 901</b>	<b>100.0</b>	2 780	100.0

## BALANCE SHEET OF THE HOLDING

Equity and liabilities	Notes	31.12.2010		31.12.2009	
		CHF million	%	CHF million	%
<b>Equity</b>					
Share capital		125	4.3	125	4.5
General reserve		67	2.3	67	2.4
Reserve for treasury shares		293	10.1	629	22.6
Special reserve		1 573	54.2	1 007	36.2
– Profit brought forward		27		33	
– Net profit for the year		581		433	
Available earnings		608	21.0	466	16.8
<b>Total equity</b>	(7)	<b>2 666</b>	<b>91.9</b>	2 294	82.5
<b>Liabilities</b>					
Provisions		147	5.1	155	5.6
Payables to Group companies		57	2.0	307	11.1
Other liabilities		4	0.1	4	0.1
Accrued expenses		27	0.9	20	0.7
<b>Total liabilities</b>		<b>235</b>	<b>8.1</b>	486	17.5
<b>Total equity and liabilities</b>		<b>2 901</b>	<b>100.0</b>	2 780	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>2010</b>	2009
	Dividends	<b>564</b>	431
	Other income	<b>57</b>	48
	<b>Total</b>	<b>621</b>	479

This item includes dividends from Group companies and other income from investments in subsidiaries as well as management fees from Group companies.

<b>2. Financial income</b>	(CHF million)	<b>2010</b>	2009
	Interest income	<b>4</b>	4
	Income and gains on securities	<b>37</b>	41
	<b>Total</b>	<b>41</b>	45

The company recorded capital gains on its investment portfolio of CHF 37 million. This figure was partly offset by losses of CHF 11 million (see Note 4).

**3. Interest expense** In 2010, interest expense decreased by CHF 5 million compared with 2009. The lower interest expense reflects the decrease of the average amount of borrowings.

**4. Exchange differences and other financial expenses** Thanks to currency hedging contracts taken out to protect the Group's companies, the currency translation item was positive by CHF 7 million (2009: CHF 7 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 11 million (2009: CHF 6 million).

**5. Investments in subsidiaries** The list of 158 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 72.0% of total assets at 31 December 2010 versus 74.2% at end-2009. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 091 million at end-2010. This amount corresponds to consolidated investments and investments in associates, and is CHF 28 million higher than in 2009.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Marketable securities and precious metals

(CHF million)	31.12.2010	31.12.2009
Marketable securities	265	227
Own shares	225	225
Precious metals	73	17
<b>Total</b>	<b>563</b>	<b>469</b>

Marketable securities increased in 2010 by CHF 38 million, mainly due to new investments. 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. The item "Precious metals" consists mainly of a strategic long position in gold.

### 7. Equity

The total value of treasury shares held by The Swatch Group Ltd and its subsidiaries at 31 December 2010 corresponded to 2.9% (versus 5.8% at end-2009) of the nominal value of total share capital.

See table on page 220 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 31.12.2009</b>	<b>125</b>	<b>67</b>	<b>629</b>	<b>1 007</b>	<b>466</b>	<b>2 294</b>
Allocated in 2010				230	-230	0
Dividend paid out					-210	-210
Transfer			-336	336	1	1
Net income for the year					581	581
<b>Balance at 31.12.2010</b>	<b>125</b>	<b>67</b>	<b>293</b>	<b>1 573</b>	<b>608</b>	<b>2 666</b>

Compared with end-2009, equity increased by CHF 372 million to CHF 2 666 million in 2010. In percentage of total assets the equity ratio increased to 91.9% at 31 December 2010 (versus 82.5% in the previous year). CHF 336 million have been transferred to the special reserve after conversion of the convertible bond.

#### Share capital

At 31 December 2010, 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
31.12.2009	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
<b>31.12.2010</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>

#### Principal shareholders at 31 December 2010

At 31 December 2010, the Hayek Pool, its related companies, institutions and individuals held 64 385 225 registered shares and 1 025 bearer shares, equivalent to 41.6% of the shares issued at this date (previous year: 41.0%). The Hayek Pool comprises the following members:

Name/Company	Location	Beneficial owners
Community of heirs of N.G. Hayek represented by Marianne Hayek		Community of heirs of N. G. Hayek
WAT Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Ammann Group Holding AG	c/o Ernst & Young AG, Bern	Descendants U. Ammann-Schellenberg sen.
Swatch Group Pension Fund	Neuchâtel	–

## NOTES TO THE FINANCIAL STATEMENTS

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	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	–
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ernst & Young AG, Bern	Represented by Daniela Schneider <sup>1)</sup>
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	–
Wohlfahrtsstiftung der Renata AG	Itingen	–
Fonds de prévoyance d'Universo SA	Neuchâtel	–

<sup>1)</sup> since 1.11.2010 (until 31.10.2010 J.N. Schneider-Ammann)

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 40.8% of the shares issued at end-2010 (40.2% of the shares issued were controlled by the group of Mr. N. G. Hayek at end-2009). Mrs. Esther Grether's group controlled 7.2% of the shares issued (compared with 7.5% a year earlier). At 31 December 2010, 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 293 million on 31 December 2010 (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 2010 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity <sup>1)</sup>	Quantity
<b>The Swatch Group Ltd</b>		
Balance at 31.12.2009	5 086 061	505 000
Acquisitions in 2010		
Disposals in 2010 <sup>2)</sup>	– 230 822	
Cancellations in 2010		
<b>Balance at 31.12.2010</b>	<b>4 855 239</b>	<b>505 000</b>
<b>Other consolidated companies</b>		
Balance at 31.12.2009	8 398 368	0
Acquisitions in 2010		
Conversions in 2010	– 7 895 551	
<b>Balance at 31.12.2010</b>	<b>502 817</b>	<b>0</b>
<b>Total balance at 31.12.2010</b>	<b>5 358 056</b>	<b>505 000</b>

<sup>1)</sup> of which at 31 December 2010 a total of 2 125 677 registered shares were reserved for the management stock option plan (2 356 309 registered shares in 2009).

<sup>2)</sup> The disposals in 2010 related mainly to the management stock option plan.

### Available earnings

In compliance with the resolution approved at the Annual General Meeting of 12 May 2010, a dividend of CHF 0.80 per registered share and of CHF 4.00 per bearer share was appropriated from available earnings as at 31 December 2009. The total dividend amount paid to shareholders in 2010 came to CHF 88 514 576 on the registered shares and CHF 121 340 000 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 12 741 424, thus constituted an integral part of equity at 31 December 2010. Finally, CHF 230 million was appropriated from available earnings at 31 December 2009 and allocated to the special reserve.

## NOTES TO THE FINANCIAL STATEMENTS

### Off-balance-sheet items

#### Contingent liabilities

At end-2010, guarantees provided by The Swatch Group Ltd amounted to CHF 582 000 (compared with CHF 422 992 400 a year earlier). This item relates to a guarantee of GBP 400 000 to cover a lease commitment taken out by one of the Group's companies (unchanged to 2009). In the prior year, a guarantee of CHF 422 322 400 was given relating to a convertible bond issued by The Swatch Group Finance (Luxembourg) SA. The guarantee ended at maturity date (15 October 2010).

#### Fire insurance values

At 31 December 2010, the fire insurance value of property, plant and equipment amounted to CHF 39 273 700 (CHF 40 995 100 at end-2009).

#### Assets pledged

None of the company's assets are pledged.

#### Commitments

Other commitments entered into by the company and open at 31 December 2010 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 2010.

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	307	264	571	4	2	6	0	-9	-9
Options	0	0	0	0	0	0	0	0	0
<b>Total at 31.12.2010</b>	<b>307</b>	<b>264</b>	<b>571</b>	<b>4</b>	<b>2</b>	<b>6</b>	<b>0</b>	<b>-9</b>	<b>-9</b>
Total at 31.12.2009	454	271	725	3	1	4	-1	-3	-4

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2010 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2010 relate to 31 positions held in precious metals and in foreign currencies (previous year: 30). 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 2010, there was no option outstanding (none in the previous year).

### Liabilities to pension plans

The balance sheet as at end-2010 contained a liability of CHF 269 359 to pension plans (no liability to pension in 2009).

### 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:

	2010	2009
	CHF	CHF
Net income for the year	581 132 549	432 821 927
Profit brought forward from previous year	26 464 284	33 496 933
<b>Available earnings</b>	<b>607 596 833</b>	466 318 860
Allocation to special reserve	–300 000 000	–230 000 000
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		–99 236 000
– CHF 4.00 per bearer share with a par value of CHF 2.25		–123 360 000
Payment on share capital of CHF 125 210 250.00 <sup>1)</sup> of a 2010 dividend, i.e.:		
– CHF 1.00 per registered share with a par value of CHF 0.45	–124 045 000	
– CHF 5.00 per bearer share with a par value of CHF 2.25	–154 200 000	
Dividends not paid out on own shares held by the Group <sup>2)</sup>		12 741 424
<b>Balance carried forward</b>	<b>29 351 833</b>	26 464 284

<sup>1)</sup> It is planned not to pay dividends on own shares held by the Group.

<sup>2)</sup> Based on the decision of the Annual General Meeting of 12 May 2010, 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, which comprise the income statement, balance sheet and notes (pages 215 to 221), for the year ended 31 December 2010.

### 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 2010 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, 28 February 2011

## THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding/ Average share capital	2010 basic	2009 basic	2008 basic	2007 basic	2006 basic
Number of registered shares of CHF 0.45	113 103 548	110 446 207	111 605 632	115 882 234	118 110 673
Number of bearer shares of CHF 2.25	30 335 000	30 335 000	30 596 542	31 485 875	31 981 500
Total average number of shares outstanding	143 438 548	140 781 207	142 202 174	147 368 109	150 092 173
Share capital registered shares of CHF 0.45	50 896 597	49 700 793	50 222 534	52 147 005	53 149 803
Share capital bearer shares of CHF 2.25	68 253 750	68 253 750	68 842 220	70 843 219	71 958 375
Total average share capital	119 150 347	117 954 543	119 064 754	122 990 224	125 108 178

Key data per registered share (nom CHF 0.45) in CHF	2010	2009	2008	2007	2006
Consolidated net income	4.05	2.89	3.15	3.70	2.97
Cash flow from operating activities	5.11	3.39	1.93	3.20	3.18
Consolidated shareholders' equity	26.77	22.74	20.55	19.43	17.83
Dividend	1.00 <sup>1)</sup>	0.80	0.85	0.85	0.70

Key data per bearer share (nom CHF 2.25) in CHF	2010	2009	2008	2007	2006
Consolidated net income	20.27	14.47	15.75	18.49	14.87
Cash flow from operating activities	25.55	16.99	9.67	16.01	15.89
Consolidated shareholders' equity	133.83	113.85	102.73	97.13	89.17
Dividend	5.00 <sup>1)</sup>	4.00	4.25	4.25	3.50

Stock price of registered shares (adjusted)		2010	2009	2008	2007	2006
High		78.50	51.70	66.75	76.50	54.95
Low		50.40	23.05	23.20	53.90	38.50
	31.12.	75.40	49.40	28.50	66.85	54.50

Stock price of bearer shares (adjusted)		2010	2009	2008	2007	2006
High		434.80	268.75	340.00	397.00	274.00
Low		262.20	118.50	115.50	266.25	184.10
	31.12.	416.80	261.90	145.80	341.25	269.25

Market capitalization (CHF million)		2010	2009	2008	2007	2006
	31.12.	22 207	14 205	8 032	19 367	15 882

Key ratios (year-end)		2010	2009	2008	2007	2006
Average return on equity	%	16.5	13.3	15.5	19.7	17.3
Dividend yield registered shares	%	1.3	1.6	3.0	1.3	1.3
Dividend yield bearer shares	%	1.2	1.5	2.9	1.2	1.3
Price/earnings ratio – registered shares		18.6	17.1	9.0	18.1	18.3
Price/earnings ratio – bearer shares		20.6	18.1	9.3	18.5	18.1

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

<sup>1)</sup>Board of Directors' proposal.

### Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2010)

