FINANCIAL STATEMENTS 2011

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE HOLDING

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Financial review

Key financial developments in 2011

– Gross sales: Gross sales exceed CHF 7 billion for the first time to CHF 7 143 million, an increase of +21.7% over 2010 at constant exchange rates.

– Segments: Excellent performance with double-digit growth in the Watches & Jewelry segment as well as in the Production segment.

– Operating profit: Operating profit of CHF 1 614 million, an increase of +12.4% on 2010. Operating margin increases from 23.5% to a strong 23.9% despite the negative currency environment and the sharp rise in commodity prices.

– Net income: Net income up +18.1% to CHF 1 276 million.

– Earnings per share: Basic EPS of CHF 4.70 per registered share (2010: CHF 4.05) and CHF 23.50 per bearer share (2010: CHF 20.27).

– Equity: Equity over CHF 8 billion for the first time, equal to an equity ratio of 82.3%.

– Dividend: Proposed dividend increase of 15%, CHF 5.75 per bearer share (2010: CHF 5.00) and CHF 1.15 per registered share (2010: CHF 1.00).

– Headcount: More than 2 800 new jobs created in 2011 alone.

– Outlook: Another successful start in January 2012 with double-digit growth in the segment Watches & Jewelry despite a high basis of comparison from the previous year.

Financial review

1. Operating results

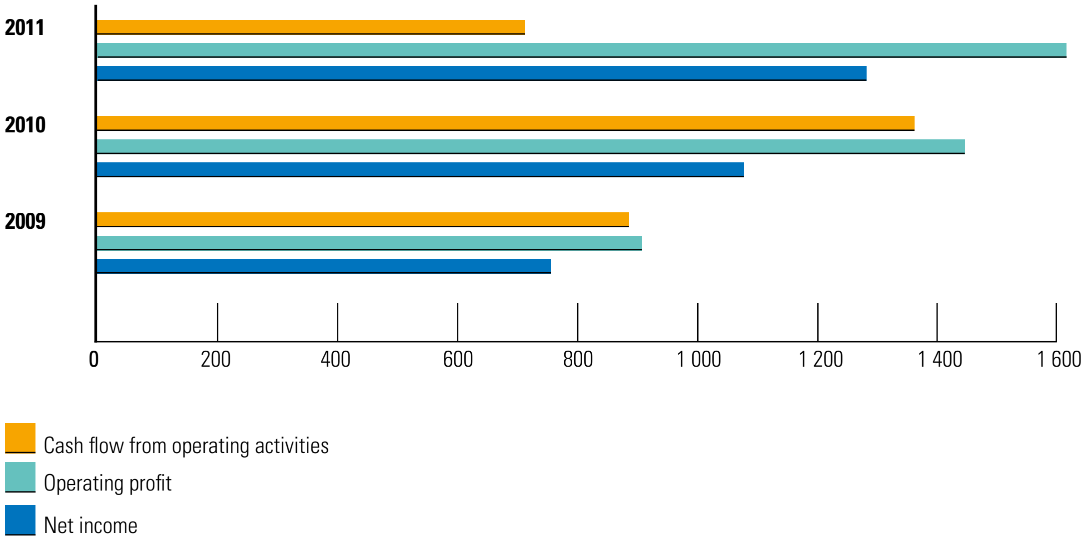
Key figures Group

(CHF million)	**2011**	2010	**Change in %** at constant rates	**Change in %** currency effect	**Change in %** Total
Gross sales	**7 143**	6 440	+21.7%	–10.8%	+10.9%
Net sales	**6 764**	6 108			+10.7%
Operating profit	**1 614**	1 436			+12.4%
– in % of net sales	**23.9%**	23.5%			
Net income	**1 276**	1 080			+18.1%
– in % of net sales	**18.9%**	17.7%			
Equity	**8 071**	7 101			+13.7%
– as % of total assets	**82.3%**	82.4%			
Average return on equity (ROE)	**16.8%**	16.5%			

Financial review

Performance trends

(CHF million)



For 2011, the Swatch Group has record numbers at all levels to post once again. Despite the ongoing difficult currency environment gross sales were up 21.7% on a currency-adjusted basis to CHF 7 143 million. The continued weakness in the euro and the dollar during the year had a major negative impact on sales of about CHF 700 million.

Improvements in efficiency and the Group's traditionally strong cost controls helped increase its operating profit for the year under review by 12.4% to CHF 1 614 million, despite an unfavorable trend in foreign currencies and the sharp rise in the price of gold and diamonds, two important commodities for us. The operating margin of 23.9% was able to beat the good level from the prior year. Overall, the Group posted record results, with its net income up 18.1% over the prior year to CHF 1 276 million.

Equity of CHF 8 071 million, with an equity ratio of 82.3%, confirms the continuity of the Group's extremely solid financing. The average return on equity was a considerable 16.8% (16.5% in 2010). The Swatch Group generated an operating cash flow of CHF 705 million despite an increase in inventories, for the expansion of the own distribution network on the one hand, and for strategic commodities such as precious metals and diamonds on the other hand. Furthermore, approximately CHF 580 million have been used for investments. During the year under review, the Swatch Group created more than 2 800 new jobs, which raised the number of employees worldwide to over 28 000.

The Board of Directors of the Swatch Group will propose the following dividend for 2011 to the Annual General Meeting on 16 May 2012: CHF 5.75 per bearer share and CHF 1.15 per registered share. This increase in the dividend payment to shareholders of 15% versus the previous year is a result of the record results achieved in 2011 and underscores the optimistic outlook for business performance going forward in 2012.

Financial review

Segment performance

Watches & Jewelry

(CHF million)	**2011**	2010 restated *	**Change in % at constant rates**	**currency effect**	**Total**	2010 as reported
Gross sales						
– Third parties	**6 309**	5 528				5 528
– Group	**3**	4				4
– Total	**6 312**	5 532	+26.1%	–12.0%	+14.1%	5 532
Net sales	**5 953**	5 225			+13.9%	5 225
Operating profit	**1 352**	1 247			+8.4%	1 221
– in % of net sales	**22.7%**	23.9%				23.4%

* restated following changes in Group structure and retroactive adjustments to segment information

The Swatch Group's core Watches & Jewelry segment was up again strongly in 2011. Gross sales reached CHF 6 312 million, an increase at constant exchange rates of 26.1% over 2010. The strength of the Group's brands was noticeable not only in Greater China, but in all other regions as well, and in the very strong growth rates across all price segments, which have been leading to major capacity bottlenecks at times.

In addition to the very difficult currency environment, the rise in prices for commodities important to us, such as gold and diamonds, had a negative impact on margins. Despite this situation, the Swatch Group has maintained, in the interest of expanding market share, its long-term policy of not implementing short-term price increases. For the same reason marketing activities have been intensified in all price segments and brands. Despite this, the segment's operating profit increased by 8.4% to CHF 1 352 million, which represents an operating margin of 22.7%.

Financial review

Production

(CHF million)	**2011**	2010	**Change in %**			2010
		restated *	**at constant rates**	**currency effect**	**Total**	as reported
Gross sales						
– Third parties	**518**	488				488
– Group	**1 497**	1 032				1 051
– Total	**2 015**	1 520	+33.0%	–0.4%	+32.6%	1 539
Net sales	**1 972**	1 468			+34.3%	1 487
Operating profit	**322**	196			+64.3%	169
– in % of net sales	**16.3%**	13.4%				11.4%

* restated following changes in Group structure and retroactive adjustments to segment information

The huge increase in demand for various components during the year under review boosted gross sales in the Production segment by 32.6% over the prior year to CHF 2 015 million. Production capacities were expanded further. However, because of the constantly increasing demand for components in certain Production sectors, it was not possible to eliminate bottlenecks.

Thanks to high utilization and the traditionally strict cost controls, the segment's profitability was increased. Operating profit increased by 64.3% to CHF 322 million, corresponding to an operating margin of 16.3% (versus 13.4% in 2010). The increase came despite sharp price increases for many commodities.

We expect growth to continue in 2012. To meet this growth, the Swatch Group will continue to invest heavily in its production capacities in Switzerland.

Financial review

Electronic Systems

(CHF million)	**2011**	2010 restated *	Change in % at constant rates	Change in % currency effect	Change in % Total	2010 as reported
Gross sales						
– Third parties	**308**	416				416
– Group	**28**	24				24
– Total	**336**	440	–16.3%	–7.3%	–23.6%	440
Net sales	**334**	436			–23.4%	436
Operating profit	**13**	61			–78.7%	57
– in % of net sales	**3.9%**	14.0%				13.1%

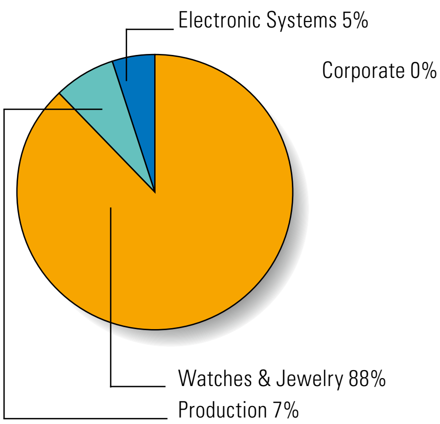
* restated following retroactive adjustments to segment information

The market environment for the Electronic Systems segment in 2011 was characterized by the strong overvaluation of the Swiss franc and the weakening in certain key markets. International competitors had a clear USD cost advantage, which we were not able to make up for through higher production volume. Nevertheless, the segment finished the year with gross sales of CHF 336 million, which represents a decrease of 16.3% at constant exchange rates.

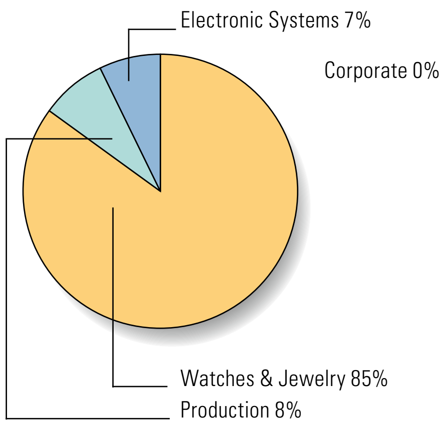
Profitability suffered under the difficult economic environment. The segment's operating profit reached CHF 13 million in the year under review, which represents an operating margin of 3.9% (versus 14% in 2010). The segment should return to a growth path soon thanks to the currently positive order entries and a modest rebound in the USD.

Segment share of net sales

2011



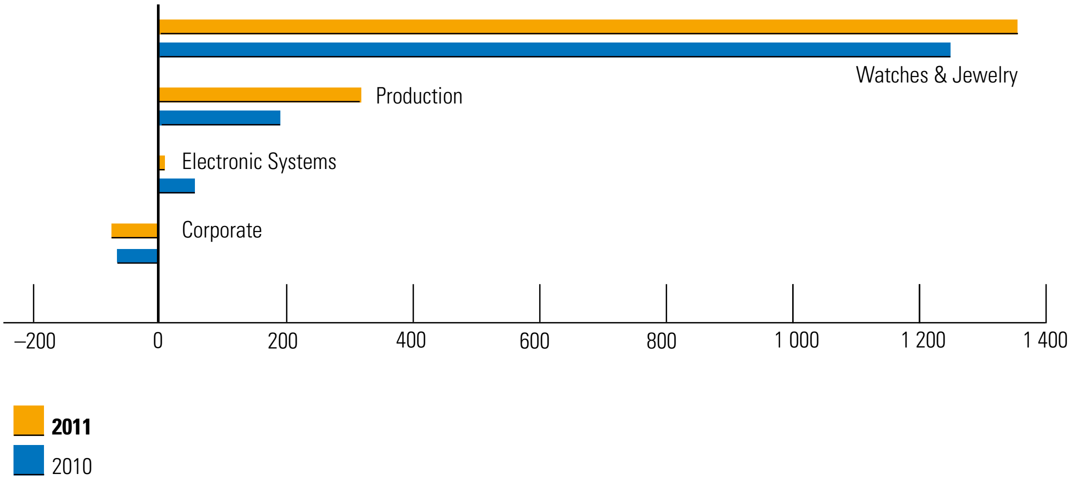
2010



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)	**2011**	2010
Interest income	**7**	4
Result from marketable securities at fair value and derivatives	**–4**	30
Net result from investment property	**5**	0
Share of result from associates and joint ventures	**6**	9
Net currency result	**–10**	–73
Interest expense and other financial expense	**–7**	–8
Total net financial result	**–3**	–38

Due to the ongoing volatile foreign currency development in 2011, especially with the weak Euro, US Dollar and other Dollar related currencies, the Group recorded net currency losses of CHF 10 million (compared to CHF 73 million in 2010). The result from marketable securities and derivatives was a loss of CHF 4 million (compared to a gain of CHF 30 million in the previous year). Overall, the net financial result for the year 2011 was a loss of CHF 3 million, which is significantly better than in 2010. 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 decreased from 22.8% in the previous year to 20.8% in the current year, which is partly due to lower income tax rates in certain countries.

Proposed dividend

At the General Meeting on 16 May 2012, a dividend for the financial year 2011 of CHF 1.15 (2010: CHF 1.00) for registered shares and of CHF 5.75 (2010: CHF 5.00) for bearer shares will be proposed. This dividend, totalling CHF 320 million with an expected cash-out impact in 2012 of CHF 310 million, is not recognized as a liability in the consolidated financial statements at 31 December 2011.

Earnings per share

Basic earnings per share increased in the current year by 16% to CHF 4.70 (CHF 4.05 in 2010) for registered shares and CHF 23.50 (CHF 20.27 in 2010) for bearer shares respectively. The solid increase in net income compares to a practically unchanged average number of shares outstanding. 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 2011, the Group realized an operating cash flow of CHF 705 million (2010: CHF 1 353 million). The decrease was partly due to a higher net working capital. Net investing activities were higher than in 2010, mainly due to increased investments in tangible and other non-current assets. The dividend was again the main item in the cash flow from financing activities. Overall, the Group's cash position decreased in 2011 by CHF 209 million and achieved CHF 1 616 million at year-end.

Asset and capital structure

The consolidated balance sheet continues to remain very solid. Group equity exceeded the mark of CHF 8 billion for the first time, with the Group's equity ratio remaining at a level 82.3% (compared to 82.4% in 2010). Current liabilities are covered by current assets by a factor of 6.2 (6.1 in 2010).

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)	**2011**		2010	
Overall Group performance	**7 686**	**100.0%**	6 690	100.0%
Material and services	**–4 025**	**–52.3%**	–3 431	–51.3%
Depreciation	**–229**	**–3.0%**	–222	–3.3%
Net added value	**3 432**	**44.7%**	3 037	45.4%
% change	**13.0**		18.5	

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

(CHF million)	**2011**		2010	
Employees	**1 818**	**53.0%**	1 634	53.8%
Public authorities	**335**	**9.7%**	318	10.5%
Lenders	**3**	**0.1%**	5	0.2%
Shareholders	**274**	**8.0%**	213	7.0%
Company	**1 002**	**29.2%**	867	28.5%
Total	**3 432**	**100.0%**	3 037	100.0%

4. Outlook

The Swatch Group is well prepared for the future and is maintaining its clear and healthy long-term growth strategy. We expect growth to continue in 2012, although this is more and more challenging due to the high benchmark. The Swatch Group will also continue to make targeted investments in 2012 in its worldwide distribution network and in its production capacities in Switzerland across all segments, despite the strong Swiss franc.

Consolidated income statement

		2011		2010	
	Notes	**CHF million**	**%**	CHF million	%
Gross sales		**7 143**	**105.6**	6 440	105.4
Sales reductions		**–379**	**–5.6**	–332	–5.4
Net sales	(5, 6a)	**6 764**	**100.0**	6 108	100.0
Other operating income	(6b)	**88**	**1.3**	139	2.3
Changes in inventories		**799**	**11.8**	197	3.2
Material purchases		**–2 221**	**–32.8**	–1 471	–24.1
Personnel expense	(6c)	**–1 818**	**–26.9**	–1 634	–26.8
Other operating expenses	(6d)	**–1 769**	**–26.1**	–1 681	–27.5
Depreciation, amortization and impairment charges	(10, 11, 12, 18)	**–229**	**–3.4**	–222	–3.6
Operating profit		**1 614**	**23.9**	1 436	23.5
Other financial income and expense	(6f)	**–6**	**–0.1**	–42	–0.6
Interest expense	(6f)	**–3**	**–0.1**	–5	–0.1
Share of result from associates and joint ventures	(6f, 13)	**6**	**0.1**	9	0.1
Profit before taxes		**1 611**	**23.8**	1 398	22.9
Income taxes	(7a)	**–335**	**–4.9**	–318	–5.2
Net income		**1 276**	**18.9**	1 080	17.7
Attributable to equity holders of The Swatch Group Ltd		**1 269**		1 074	
Attributable to non-controlling interests		**7**		6	
Earnings per share (EPS) – expressed in CHF per share:	(8)				
Registered shares					
Basic EPS		**4.70**		4.05	
Diluted EPS		**4.70**		3.97	
Bearer shares					
Basic EPS		**23.50**		20.27	
Diluted EPS		**23.48**		19.83	

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

Consolidated statement of comprehensive income

	2011 CHF million	2010 CHF million
Net income	**1 276**	1 080
Other comprehensive income		
Currency translation of foreign operations	**6**	–138
Income tax relating to currency translation	**–**	–
Other comprehensive income, net of tax	**6**	–138
Total comprehensive income, net of tax	**1 282**	942
Attributable to equity holders of The Swatch Group Ltd	**1 275**	936
Attributable to non-controlling interests	**7**	6

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

Consolidated balance sheet

		31.12.2011		31.12.2010	
Assets	Notes	**CHF million**	**%**	CHF million	%
Non-current assets					
Property, plant and equipment	(10)	**1 665**	**17.0**	1 488	17.3
Investment property	(11)	**31**	**0.3**	41	0.5
Intangible assets	(12)	**328**	**3.3**	317	3.7
Investments in associates and joint ventures	(13)	**191**	**1.9**	169	1.9
Other non-current assets	(15)	**253**	**2.6**	145	1.7
Deferred tax assets	(7d)	**241**	**2.5**	219	2.5
Total non-current assets		**2 709**	**27.6**	2 379	27.6
Current assets					
Inventories	(16)	**3 671**	**37.4**	2 869	33.3
Trade receivables	(17)	**894**	**9.1**	716	8.3
Other current assets	(18)	**338**	**3.5**	269	3.1
Current income tax assets	(7c)	**24**	**0.3**	12	0.2
Marketable securities and derivative financial instruments	(19)	**553**	**5.6**	542	6.3
Cash and cash equivalents	(20)	**1 616**	**16.5**	1 827	21.2
Total current assets		**7 096**	**72.4**	6 235	72.4
Total assets		**9 805**	**100.0**	8 614	100.0

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

Consolidated balance sheet

Equity and liabilities	Notes	31.12.2011 CHF million	%	31.12.2010 CHF million	%
Equity					
Share capital	(21a)	**125**		125	
Treasury shares	(21b)	**–347**		–293	
Other reserves	(21c)	**–280**		–286	
Retained earnings		**8 556**		7 541	
Equity of The Swatch Group Ltd shareholders		**8 054**	**82.1**	7 087	82.3
Non-controlling interests		**17**	**0.2**	14	0.1
Total equity		**8 071**	**82.3**	7 101	82.4
Non-current liabilities					
Financial debts	(22)	**73**	**0.8**	77	0.9
Other liabilities	(25)	**21**	**0.2**	0	0.0
Deferred tax liabilities	(7d)	**429**	**4.4**	353	4.1
Retirement benefit obligations	(23)	**23**	**0.2**	26	0.3
Provisions	(24)	**37**	**0.4**	37	0.4
Total non-current liabilities		**583**	**6.0**	493	5.7
Current liabilities					
Trade payables		**400**	**4.1**	291	3.4
Financial debts and derivative financial instruments	(22)	**18**	**0.2**	31	0.4
Other liabilities	(25)	**545**	**5.5**	479	5.6
Current income tax liabilities	(7c)	**122**	**1.2**	156	1.8
Provisions	(24)	**66**	**0.7**	63	0.7
Total current liabilities		**1 151**	**11.7**	1 020	11.9
Total liabilities		**1 734**	**17.7**	1 513	17.6
Total equity and liabilities		**9 805**	**100.0**	8 614	100.0

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

Consolidated statement of cash flows

	Notes	2011 CHF million		2010 CHF million	
Operating activities					
Net income		**1 276**		1 080	
Reversal of non-cash items	(27a)	**598**		558	
Changes in working capital and other items included in operating cash flow	(27b)	**−855**		−63	
Dividends received from associated companies	(13)	**8**		2	
Interest paid		**−4**		−5	
Interest received		**7**		6	
Income tax paid	(7c)	**−325**		−225	
Cash flow from operating activities			**705**		1 353
Investing activities					
Investments in tangible assets	(10, 11)	**−365**		−265	
Proceeds from sale of tangible assets		**17**		10	
Investments in intangible assets	(12)	**−28**		−26	
Proceeds from sale of intangible assets		**–**		5	
Investments in other non-current assets	(15)	**−122**		−10	
Proceeds from sale of other non-current assets		**2**		4	
Acquisition of subsidiaries – net of cash	(14)	**−7**		−4	
Divestments of businesses	(14)	**–**		12	
Investments in associated companies and joint ventures	(13)	**−24**		−30	
Divestments of associated companies and joint ventures		**2**		–	
Purchase of marketable securities		**−229**		−246	
Sale of marketable securities		**193**		221	
Cash flow from investing activities			**−561**		−329
Financing activities					
Dividend paid to shareholders	(9)	**−270**		−210	
Dividend paid to non-controlling interests		**−4**		−3	
Purchase of treasury shares	(21b)	**−54**		–	
Sale of treasury shares		**1**		1	
Change in non-current financial debts		**−8**		−5	
Change in current financial debts		**−15**		−27	
Repurchase of non-controlling interests	(14)	**–**		−5	
Cash flow from financing activities			**−350**		−249
Net impact of foreign exchange rate differences on cash			**−3**		−48
Change in cash and cash equivalents			**−209**		727
Change in cash and cash equivalents					
– At beginning of year		**1 825**		1 098	
– At end of year	(20)	**1 616**	**−209**	1 825	727

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 Share capital (Note 21)	Treasury shares (Note 21)	Other reserves (Note 21)	Retained earnings[1]	Total	Non-controlling interests	Total equity
Balance at 31.12.2009	**125**	**–629**	**–133**	**6 602**	**5 965**	**16**	**5 981**
Total comprehensive income 2010			**–138**	**1 074**	**936**	**6**	**942**
Dividends paid				–210	**–210**	–3	**–213**
Share-based compensation (Note 28):							
– Value of employee services (net of tax)				10	**10**		**10**
– Proceeds from sale of shares				1	**1**		**1**
Conversion of convertible bond at maturity (Note 22)		336	–15	64	**385**		**385**
Changes in non-controlling interests (Note 14)					**0**	–5	**–5**
Balance at 31.12.2010	**125**	**–293**	**–286**	**7 541**	**7 087**	**14**	**7 101**
Total comprehensive income 2011			**6**	**1 269**	**1 275**	**7**	**1 282**
Dividends paid				–270	**–270**	–4	**–274**
Share-based compensation (Note 28):							
– Value of employee services (net of tax)				15	**15**		**15**
– Proceeds from sale of shares				1	**1**		**1**
Repurchase of treasury shares		–54			**–54**		**–54**
Balance at 31.12.2011	**125**	**–347**	**–280**	**8 556**	**8 054**	**17**	**8 071**

[1] Historical capital reserves amounting to CHF 213 million were reclassified retroactively as at 31.12.2009 into retained earnings.

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 vertical integration 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 headquartears are in Biel, Seevorstadt 6.
The shares of The Swatch Group Ltd are listed in Switzerland on the Main Market of the SIX Swiss Exchange, under the security numbers 1 225 514 (registered shares) and 1 225 515 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI Extra and SMIM. In addition, Swatch Group shares are also listed on the BX Berne eXchange.
These consolidated financial statements were approved for issue by the Board of Directors on 17 February 2012 and will be submitted to the Annual General Meeting of Shareholders for approval on 16 May 2012.

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). 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.

Notes to the consolidated financial statements

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.
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 2011, the Group's consolidated financial statements included 155 legal entities (compared with 159 in the previous year), of which one was a joint venture (two in 2010) and seven were associates (seven in 2010). 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 2011. The principal effects of these changes in policies are described below.

IFRS 9 Financial instruments
IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. The new standard was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements.
Adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group adopted this standard early, on 1 January 2011, with retrospective application. As all the Group's investments are classified as financial assets at fair value through profit or loss (FVTPL) and none of the Group's financial liabilities are designated as at FVTPL, the early adoption has no impact in terms of valuation on the consolidated income statement and balance sheet at 31 December 2010 and 2011. The only effect resulting from the assessment of financial instruments at the date of initial application of IFRS 9 (1 January 2010) was the reclassification of financial assets previously designated at FVTPL in the category financial assets at fair value, within marketable securities (Note 19).

The following amended standards and new interpretations are mandatory for the first time for accounting periods beginning on or after 1 January 2011, but have no material impact or are currently not relevant for the Group:

- 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 (effective from 1 January 2011)

Notes to the consolidated financial statements

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 2011 that are mandatory for the Group's accounting periods beginning on or after 1 January 2012 or later periods, but which the Group has not early adopted.

The principal expected effects of these changes are as follows:

IAS 19 (amendment) Employee benefits (effective from 1 January 2013)
The main change of the amended IAS 19 is the elimination of the corridor approach, with all actuarial gains and losses immediately recognized in other comprehensive income. Interest cost and expected return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability/asset. Also, disclosure requirements have been substantially expanded. The revised standard will have to be applied retrospectively. The Group is currently analyzing the impact of the revised standard on the financial statements. The restatement of 2012 figures will have a negative impact on Group equity, as the currently unrecognized actuarial losses will be recognized as pension liabilities in the balance sheet and charged to equity. Going forward, there will be an increased volatility of the balance sheet and other comprehensive income. Pension costs are expected to increase.

IFRS 10 Consolidated financial statements, IFRS 11 Joint arrangements, IFRS 12 Disclosures of interests in other entities, IAS 27 (revised) Separate financial statements, IAS 28 (revised) Investments in associates and joint ventures (effective from 1 January 2013)
These new and revised standards relate to the IASB project on consolidation, which was finalized in May 2011. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation of all types of entities. It replaces IAS 27 Consolidated and separate financial statements and SIC-12 Consolidation – Special purpose entities. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. It supersedes IAS 31 Interests in joint ventures and SIC-13 Jointly controlled entities. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 Separate financial statements and IAS 28 Investments in associates and joint ventures. The new requirements are effective for financial years beginning on or after 1 January 2013. The Group is currently analyzing the impact of these changes, but does not expect any major impact on its financial statements. The accounting for joint ventures will not change, as the Group already accounts for joint ventures using the equity method.

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:

- IFRS 7 (amendment) Financial instruments: Disclosures – Transfer of financial assets (effective from 1 July 2011)
- IFRS 13 Fair value measurement (effective from 1 January 2013)
- IAS 1 (amendment) Financial statement presentation – Other comprehensive income (effective from 1 July 2012)
- IAS 12 (amendment) Income taxes – Deferred tax: Recovery of underlying assets (effective from 1 January 2012)

Notes to the consolidated financial statements

d. Segment reporting

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

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

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

The reportable operating segments derive their revenue mainly from the manufacture and sale of products to third parties or to other segments.
Corporate services do not qualify as segment according to IFRS 8 but are shown separately. They include the activities of the Group's holding, finance, research and development, real estate and several other companies. None of these activities are 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. Centralized costs relating to Group Management, Corporate Communication, Group Human Resources, Corporate Finance, Treasury, Tax and Legal Services are not reallocated to the operating segments and remain in «Corporate».
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.

Notes to the consolidated financial statements

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.

The main exchange rates used are:

Currency	Unit	**Average rates**	**Prevailing rates**	Average rates	Prevailing rates
		2011	**31.12.2011**	2010	31.12.2010
		CHF	**CHF**	CHF	CHF
CNY	1	**0.1376**	**0.1497**	0.1544	0.1425
EUR	1	**1.2383**	**1.2190**	1.3754	1.2540
HKD	1	**0.1140**	**0.1213**	0.1345	0.1210
JPY	100	**1.1163**	**1.2160**	1.1980	1.1540
USD	1	**0.8874**	**0.9425**	1.0443	0.9400

f. Revenue recognition

Revenue is recognized as follows:

Goods and services
The Group records invoiced gross amounts for the sale of goods and services, net of value-added tax, as gross sales. Any differences between the gross sales price invoiced and the net sales price actually agreed to be paid, such as rebates and other discounts, are recorded as sales reductions. Net sales comprise the fair value for the sale of goods and services and represent revenue.
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.

Notes to the consolidated financial statements

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.

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).

Notes to the consolidated financial statements

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 (maximum five years).
– 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 with definite useful life and amortized to the expected residual value. 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).

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 (FVTPL). Financial assets carried at FVTPL 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 as well as financial assets at amortized cost. The classification depends on the Group's business model for managing the investments and the contractual cash flow characteristics of the financial assets.

Financial assets at amortized cost

A financial asset is classified as measured at amortized cost if both of the two following criteria are met: the financial asset is held within a business model whose objective is to hold these assets to collect contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
This category consists of trade receivables, other current receivables, security deposits as well as other financial assets.

Financial assets at fair value

If either of the two criteria for financial assets at amortized cost are not met, the financial asset is classified as measured at FVTPL. All realized and unrealized gains and losses arising from changes in the fair value are recognized in the income statement. This category consists of marketable securities and derivative financial instruments.
The Group has not designated any investment as measured at FVTPL to eliminate or significantly reduce an accounting mismatch.

Notes to the consolidated financial statements

l. 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 net 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.

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.

Notes to the consolidated financial statements

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.

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.

Notes to the consolidated financial statements

t. Pensions and other post-employment benefits

Pension obligations

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

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

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

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

Other post-employment benefits

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

Termination benefits

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

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.

Notes to the consolidated financial statements

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).

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. The changes in the segment structure with an impact on comparative segment information are described in Note 5a.

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:

	31.12.2011			31.12.2010		
	Change on exchange rate	**Income statement CHF million**		Change on exchange rate	Income statement CHF million	
Currency	**+ / -**	**+**	**–**	+ / -	+	–
CNY / CHF	**5%**	**2**	**–4**	5%	3	–3
EUR / CHF	**5%**	**7**	**–7**	5%	12	–8
HKD / CHF	**5%**	**0**	**0**	5%	0	0
JPY / CHF	**5%**	**–1**	**0**	5%	1	0
USD / CHF	**5%**	**–1**	**–1**	5%	5	–5

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 15% 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 2011, over 90% (2010: 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.

	31.12.2011			31.12.2010		
	Change on index	**Income statement CHF million**		Change on index	Income statement CHF million	
Index	**+ / -**	**+**	**–**	+ / -	+	–
Dow Jones EURO STOXX 50	**5%**	**1**	**–1**	5%	2	–2
SMI + SPI	**5%**	**3**	**–3**	5%	3	–3

Earnings after tax for the year would increase/decrease as a result of gains/losses on equity securities measured 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 measured 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 2011, an increase of interest rates by 100 basis points would have reduced Group profit after tax by CHF 9 million (2010: CHF 11 million). On the other hand, a decrease of interest rates by 100 basis points would have increased Group profit after tax by CHF 9 million (2010: CHF 11 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 2011, over 99% of investments in bonds were investment grade rated (2010: over 95%). An exception in the overall fixed income management is the high yield portfolio in liquidation, which amounted to less than CHF 1 million in 2011 (2010: about CHF 10 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)	**31.12.2011**	31.12.2010
Cash and cash equivalents	**1 616**	1 827
Marketable securities	**553**	538
Liquidity reserves	**2 169**	2 365
Committed credit facilities	**392**	405
./. Utilized credit facilities	**–83**	–103
Total liquidity reserves and undrawn credit facilities	**2 478**	2 667

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**	**30**	**51**
Trade payables	**400**	**–**	**–**
Other payables	**103**	**–**	**–**
Current financial debts	**14**	**–**	**–**
Derivative financial instruments	**4**	**–**	**–**
Total at 31.12.2011	**523**	**30**	**51**
Non-current financial debts	2	31	56
Trade payables	291	–	–
Other payables	101	–	–
Current financial debts	31	–	–
Derivative financial instruments	0	–	–
Total at 31.12.2010	425	31	56

Notes to the consolidated financial statements

b. Fair value disclosures

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

(CHF million)	**31.12.2011 Carrying amount**	**31.12.2011 Fair value**	31.12.2010 Carrying amount	31.12.2010 Fair value
Security deposits (Note 15)	**37**	**37**	29	29
Other financial assets (Note 15)	**116**	**116**	5	5
Trade receivables (Note 17)	**894**	**894**	716	716
Other current receivables (Note 18)	**148**	**148**	113	113
Financial assets at amortized cost	**1 195**	**1 195**	863	863
Marketable securities at fair value	**553**	**553**	538	538
Derivative financial assets	**0**	**0**	4	4
Financial assets at fair value (Note 19)	**553**	**553**	542	542
Cash and cash equivalents (Note 20)	**1 616**	**1 616**	1 827	1 827
Cash and cash equivalents	**1 616**	**1 616**	1 827	1 827
Total financial assets	**3 364**	**3 364**	3 232	3 232
Non-current financial debts (Note 22)	**73**	**77**	77	78
Trade payables	**400**	**400**	291	291
Other payables (Note 25)	**103**	**103**	101	101
Current financial debts (Note 22)	**14**	**14**	31	31
Financial liabilities at amortized cost	**590**	**594**	500	501
Derivative financial instruments (Note 22)	**4**	**4**	0	0
Financial liabilities at fair value	**4**	**4**	0	0
Total financial liabilities	**594**	**598**	500	501

The Group has established the following fair value hierarchy that reflects the significance of inputs used in making the fair value measurements:

- Level 1: quoted prices in active markets for identical assets and liabilities
- Level 2: observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3: unobservable inputs

The following table summarizes the Group's financial assets and liabilities at fair value, by valuation method:

	31.12.2011				31.12.2010			
(CHF million)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Marketable securities at fair value	**537**	**–**	**16**	**553**	525	–	13	538
Derivative financial assets	**–**	**0**	**–**	**0**	–	4	–	4
Financial assets at fair value	**537**	**0**	**16**	**553**	525	4	13	542
Derivative financial instruments	**–**	**4**	**–**	**4**	–	0	–	0
Financial liabilities at fair value	**–**	**4**	**–**	**4**	–	0	–	0

Financial assets at fair value categorized in level 3 consist of the Group's private equity investments. In 2011 and 2010, there were no material purchases, sales or transfers in this category.

Notes to the consolidated financial statements

c. 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 2011, equity represented 82.3% (31 December 2010: 82.4%) 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 2011, inventories total CHF 3 671 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 2011, the Group recorded write-downs of CHF 40 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 2011, gross trade receivables amounted to CHF 912 million and the allowance for impaired receivables to CHF 18 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 1 665 million as disclosed in Note 10, and intangible assets (including goodwill) amounting to CHF 328 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 80 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

Pension benefits
The present value of the Group's pension obligations depends on a number of factors that are determined on an actuarial basis using various assumptions. The assumptions used in determining the net cost for pensions include the discount rate, expected rate of return on plan assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions would impact the carrying amount of pension obligations. Due to the long-term nature of the pension plans, such estimates are subject to significant uncertainty.

Legal claims
Some Group companies are involved in litigation and disputes arising from the ordinary course of their business. Legal provisions at 31 December 2011 total CHF 6 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.

Notes to the consolidated financial statements

5. Segment information

a. Restatement of segment information

In the period under review, in connection with an optimization of corporate structures, Manufacture Favre et Perret SA was absorbed by Montres Breguet SA. This resulted in a transfer of the activities of Manufacture Favre et Perret SA from the Production segment to the Watches & Jewelry segment.
Furthermore, in order to provide a more transparent presentation of the economic performance of the operating segments in the internal reporting system and a better benchmark to the most important competitors, Group Management decided that centralized costs are no longer allocated to the operating segments, but remain as unallocated amounts in «Corporate».

The adjustments have the following impact on the operating profit of the various segments:

2010 (CHF million)	**Watches & Jewelry**	**Production**	**Electronic Systems**	**Corporate**	**Total**
Operating profit as reported	**1 221**	**169**	**57**	**–11**	**1 436**
Absorption of Favre et Perret by Montres Breguet	–11	11	–	–	–
Allocation of corporate costs	37	16	4	–57	–
Operating profit restated	**1 247**	**196**	**61**	**–68**	**1 436**

As a result of the absorption of Manufacture Favre et Perret SA by Montres Breguet SA, there was an immaterial shift in segment sales, segment assets and segment liabilities from the Production to the Watches & Jewelry segment. The segment information for 2010 has been adjusted accordingly. The consolidated figures for the Group have not been affected by these changes.

b. Operating segment information

Income statement

2011 (CHF million)	**Watches & Jewelry**	**Production**	**Electronic Systems**	**Corporate**	**Elimination**	**Total**
– Third parties	**6 309**	**518**	**308**	**8**		**7 143**
– Group	**3**	**1 497**	**28**	**4**	**–1 532**	**–**
Gross sales	**6 312**	**2 015**	**336**	**12**	**–1 532**	**7 143**
– Third parties	**5 950**	**500**	**306**	**8**		**6 764**
– Group	**3**	**1 472**	**28**	**4**	**–1 507**	**–**
Net sales	**5 953**	**1 972**	**334**	**12**	**–1 507**	**6 764**
Operating profit	**1 352**	**322**	**13**	**–73**	**–**	**1 614**
– As a % of net sales	**22.7**	**16.3**	**3.9**			**23.9**
– As a % of total	**83.8**	**19.9**	**0.8**	**–4.5**		**100.0**

2010 (CHF million)	Watches & Jewelry[1)]	Production[1)]	Electronic Systems	Corporate	Elimination	Total
– Third parties	5 528	488	416	8		6 440
– Group[1)]	4	1 032	24	3	–1 063	–
Gross sales	5 532	1 520	440	11	–1 063	6 440
– Third parties	5 221	467	412	8		6 108
– Group[1)]	4	1 001	24	3	–1 032	–
Net sales	5 225	1 468	436	11	–1 032	6 108
Operating profit[1)]	1 247	196	61	–68	–	1 436
– As a % of net sales	23.9	13.4	14.0			23.5
– As a % of total	86.8	13.7	4.2	–4.7		100.0

[1)] restated following changes in Group structure and retroactive adjustments to segment information (refer to Note 5a)

Notes to the consolidated financial statements

Balance sheet and other information

2011 (CHF million)	**Watches & Jewelry**	**Production**	**Electronic Systems**	**Corporate**	**Elimination**	**Total**
Balance sheet						
– Segment assets	**5 774**	**1 920**	**582**	**3 213**	**–1 875**	**9 614**
– Equity in associated companies and joint ventures	**6**	**0**	**–**	**185**		**191**
Total assets	**5 780**	**1 920**	**582**	**3 398**	**–1 875**	**9 805**
Total liabilities	**–2 013**	**–669**	**–108**	**–819**	**1 875**	**–1 734**
Net assets	**3 767**	**1 251**	**474**	**2 579**	**–**	**8 071**
Other information						
Investments in tangible assets	**125**	**229**	**9**	**13**		**376**
Investments in intangible assets	**17**	**3**	**3**	**5**		**28**
Investments in other non-current assets	**14**	**0**	**0**	**112**		**126**
Depreciation on tangible assets	**–67**	**–107**	**–29**	**–7**		**–210**
Amortization on intangible assets	**–10**	**–5**	**–2**	**–2**		**–19**
Impairment charges	**–**	**–**	**–**	**–**		**–**
Interest income	**4**	**0**	**1**	**17**	**–15**	**7**
Interest expenses	**–11**	**–4**	**0**	**–3**	**15**	**–3**
Share of result from associates and joint ventures	**1**	**0**	**–**	**5**		**6**
Income taxes	**–272**	**–59**	**–1**	**–3**		**–335**

2010 (CHF million)	Watches & Jewelry[1]	Production[1]	Electronic Systems	Corporate	Elimination	Total
Balance sheet						
– Segment assets	5 117	1 639	623	3 095	–2 029	8 445
– Equity in associated companies and joint ventures	5	0	–	164		169
Total assets	5 122	1 639	623	3 259	–2 029	8 614
Total liabilities	–1 803	–542	–99	–1 098	2 029	–1 513
Net assets	3 319	1 097	524	2 161	–	7 101
Other information						
Investments in tangible assets	102	121	9	23		255
Investments in intangible assets	21	3	1	1		26
Investments in other non-current assets	10	0	–	0		10
Depreciation on tangible assets	–65	–105	–29	–7		–206
Amortization on intangible assets	–9	–4	–2	–1		–16
Impairment charges	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	–	8		9
Income taxes	–268	–37	–7	–6		–318

[1] restated following changes in Group structure and retroactive adjustments to segment information (refer to Note 5a)

Notes to the consolidated financial statements

c. Information on geographical regions

	2011		2010	
(CHF million)	**Net sales**	**Non-current assets**	Net sales	Non-current assets
Switzerland	**902**	**1 566**	892	1 417
Other Europe	**1 561**	**249**	1 520	229
Total Europe	**2 463**	**1 815**	2 412	1 646
Greater China	**2 569**	**282**	2 037	156
Other Asia	**1 083**	**236**	1 062	234
Total Asia	**3 652**	**518**	3 099	390
Total America	**535**	**51**	478	31
Total Oceania	**73**	**4**	70	2
Total Africa	**41**	**3**	49	3
Total	**6 764**	**2 391**	6 108	2 072

Non current assets under the caption “Other Asia” include CHF 204 million (previous year: CHF 197 million) relating to Japan, consisting mainly of the investment in the N. G. Hayek Building in Tokyo.

d. Significant customers

The Group has a large number of customers worldwide. In 2011, one specific external customer of the Watches & Jewelry segment accounted for 10.8% of the Group’s net sales (previous year: no single external customer accounted for more than 10% of the Group’s net sales).

Notes to the consolidated financial statements

6. Revenues and expenses

a. Analysis of sales revenue

(CHF million)	**2011**	2010
Sale of goods	**6 733**	6 052
Rendering of services	**31**	56
Total net sales	**6 764**	6 108

b. Other operating income

In 2011, other operating income amounted to CHF 88 million (2010: CHF 139 million). The decrease is mainly due to the timekeeping services rendered in 2010 for the Olympics.

c. Personnel expense

(CHF million)	**2011**	2010
Wages and salaries	**1 481**	1 355
Social security costs	**232**	220
Share-based compensation (Note 28)	**16**	10
Pension costs – defined benefit plans (Note 23)	**82**	43
Pension costs – defined contribution plans (Note 23)	**7**	6
Other post-employment benefits (Note 23)	**0**	0
Total personnel expense	**1 818**	1 634

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

(Unaudited)	**2011**	2010
Average annual headcount	**26 777**	24 240
Total headcount at 31 December	**28 028**	25 197
Men	**12 505**	11 276
Women	**15 523**	13 921
Swiss contracts	**14 696**	13 357
Non-Swiss contracts	**13 332**	11 840

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

d. Other operating expenses

(CHF million)	**2011**	2010
Marketing, sales and administration	**948**	863
Subcontracting and other direct costs of sales	**287**	281
Maintenance, rents and energy	**487**	426
Other operating expenses	**47**	111
Total other operating expenses	**1 769**	1 681

e. Research and development costs

Research and development (R&D) costs amounted to CHF 160 million in 2011, representing 2.4% of net sales (compared with CHF 151 million or 2.5% in 2010).

f. Net financial result

(CHF million)	**2011**	2010
Interest income	**7**	4
Result from marketable securities at fair value and derivatives	**–4**	30
Net result from investment property	**5**	0
Net currency result	**–10**	–73
Other financial expense	**–4**	–3
Other financial income and expense	**–6**	–42
Interest on convertible bond	**–**	0
Other interest	**–3**	–5
Interest expense	**–3**	–5
Share of result from associates and joint ventures	**6**	9
Net financial result	**–3**	–38

Notes to the consolidated financial statements

7. Income taxes

a. Income tax expenses

(CHF million)	**2011**	2010
Current income taxes	**278**	320
Adjustments recognized for current income taxes of prior periods	**2**	1
Deferred taxes	**55**	–3
Total income taxes	**335**	318

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.

	2011	2010
	%	%
Group's average expected tax rate	**20.1**	21.4
Tax effect of:		
– Change in the applicable tax rate on temporary differences	**–0.4**	–0.1
– Recognition of tax losses not recognized in prior years	**–0.2**	0.0
– Utilization of previously unrecognized tax losses	**–0.2**	–0.1
– Unrecognized current year tax losses	**0.5**	1.0
– Non-taxable income	**–0.2**	–0.2
– Non-tax-deductible expenses	**0.9**	0.7
– Items taxable at reduced rates	**–0.4**	–0.4
– Adjustments recognized for current taxes of prior periods	**0.1**	0.1
– Other items	**0.6**	0.4
Group's effective tax rate	**20.8**	22.8

c. Current income tax

(CHF million)	**2011**	2010
Net current income tax liability		
Balance at 1 January	**–144**	–52
Recognized in income statement	**–280**	–321
Recognized in equity	**0**	0
Income taxes paid	**325**	225
Translation differences	**1**	4
Balance at 31 December	**–98**	–144
thereof current income tax assets	**24**	12
thereof current income tax liabilities	**–122**	–156

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

	31.12.2011			31.12.2010		
(CHF million)	**Assets**	**Liabilities**	**Net amount**	Assets	Liabilities	Net amount
Inventories	**190**	**–282**	**–92**	157	–224	–67
Trade and other receivables	**5**	**–19**	**–14**	4	–13	–9
Property, plant and equipment	**9**	**–93**	**–84**	11	–80	–69
Intangible assets	**2**	**–5**	**–3**	3	–7	–4
Provisions	**12**	**–34**	**–22**	6	–20	–14
Retirement benefit obligations	**5**	**–16**	**–11**	3	–19	–16
Tax losses	**27**	**–**	**27**	33	–	33
Other	**34**	**–23**	**11**	26	–14	12
Total deferred tax assets (liabilities)	**284**	**–472**	**–188**	243	–377	–134
Deferred tax assets on the balance sheet			**241**			219
Deferred tax liabilities on the balance sheet			**–429**			–353

Notes to the consolidated financial statements

Deferred tax assets and liabilities have changed as follows:

(CHF million)	**Balance at 31.12.2010**	Recognized in income statement	Business combinations	Foreign currency translation adjustments	**Balance at 31.12.2011**
Inventories	**–67**	–26	–	1	**–92**
Trade and other receivables	**–9**	–5	0	0	**–14**
Property, plant and equipment	**–69**	–14	–1	0	**–84**
Intangible assets	**–4**	1	0	0	**–3**
Provisions	**–14**	–9	0	1	**–22**
Retirement benefit obligations	**–16**	5	–	0	**–11**
Tax losses	**33**	–6	–	0	**27**
Other	**12**	–1	0	0	**11**
Total deferred tax assets (liabilities)	**–134**	–55	–1	2	**–188**

(CHF million)	Balance at 31.12.2009	Recognized in income statement	Business combinations	Foreign currency translation adjustments	Balance at 31.12.2010
Inventories	–66	4	0	–5	–67
Trade and other receivables	–7	–2	0	0	–9
Property, plant and equipment	–65	–4	0	0	–69
Intangible assets	0	–3	0	–1	–4
Provisions	–11	–3	0	0	–14
Retirement benefit obligations	–10	–6	0	0	–16
Tax losses	37	–1	0	–3	33
Other	–6	18	0	0	12
Total deferred tax assets (liabilities)	–128	3	0	–9	–134

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 not expected to reverse in the foreseeable future, amounted to CHF 801 million (previous year: CHF 828 million).

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 2011**
One year	7	5	**12**
Two years	11	5	**16**
Three years	19	4	**23**
Four years	15	10	**25**
Five years	21	20	**41**
Six years	29	15	**44**
More than six years	110	45	**155**
Total at 31.12.2011	**212**	**104**	**316**

(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
Total at 31.12.2010	225	120	345

Notes to the consolidated financial statements

8. Earnings per share

a. Basic

	2011	2010
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	**1 269**	1 074
Percentage of registered shares outstanding in comparison with the share capital outstanding	**43.8%**	42.7%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	**56.2%**	57.3%
Registered shares		
Net income attributable to registered shareholders (CHF million)	**556**	459
Average number of shares outstanding	**118 399 729**	113 103 548
Basic earnings per share (in CHF)	**4.70**	4.05
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	**713**	615
Average number of shares outstanding	**30 335 000**	30 335 000
Basic earnings per share (in CHF)	**23.50**	20.27

b. Diluted

	2011	2010
Net income attributable to equity holders of The Swatch Group Ltd (CHF million)	**1 269**	1 074
Net income used to determine diluted EPS (CHF million)	**1 269**	1 074
Percentage of diluted registered shares in comparison with the diluted share capital outstanding	**43.9%**	44.0%
Percentage of diluted bearer shares outstanding in comparison with the diluted share capital outstanding	**56.1%**	56.0%
Registered shares		
Net income attributable to registered shareholders (CHF million)	**557**	473
Average number of shares outstanding – basic (as above)	**118 399 729**	113 103 548
Potentially dilutive number of shares from convertible bond	**0**	5 804 783
Potentially dilutive number of shares from options outstanding	**233 786**	218 081
Average number of shares outstanding – diluted	**118 633 515**	119 126 412
Diluted earnings per share (in CHF)	**4.70**	3.97
Bearer shares		
Net income attributable to bearer shareholders (CHF million)	**712**	601
Average number of shares outstanding	**30 335 000**	30 335 000
Diluted earnings per share (in CHF)	**23.48**	19.83

9. Dividends paid and proposed

On 31 May 2011, the Annual General Meeting approved the distribution of a dividend of CHF 1.00 per registered share and CHF 5.00 per bearer share. The distribution to holders of outstanding shares totaled CHF 270 million (2010: CHF 210 million) and has been recorded against retained earnings in 2011.

At the Annual General Meeting on 16 May 2012, payment of the following dividends for 2011 will be proposed:

	Registered	**Bearer**
Dividend per share	CHF 1.15	CHF 5.75
Total dividend	CHF 142 651 750	CHF 177 330 000

The financial statements ending 31 December 2011 do not take into account this proposed dividend. Dividends will be treated as a distribution of available earnings during the financial year 2012.

Notes to the consolidated financial statements

10. Property, plant and equipment

(CHF million)	**Land and buildings**	**Plant and machinery**	**Other fixtures and fittings**	**Advances and construction in progress**	**Total**
Historical cost, 1 January 2011	**1 145**	**2 553**	**362**	**14**	**4 074**
Translation differences	9	–4	–2	0	**3**
Business combinations (Note 14)	3	1	–	–	**4**
Divestments of businesses (Note 14)	–	–	–	–	**–**
Additions	45	250	60	21	**376**
Disposals	–1	–83	–13	0	**–97**
Transfers	10	14	–14	–7	**3**
Historical cost, 31 December 2011	**1 211**	**2 731**	**393**	**28**	**4 363**
Accumulated depreciation, 1 January 2011	**–515**	**–1 851**	**–220**	**0**	**–2 586**
Translation differences	0	6	1	0	**7**
Annual depreciation	–24	–153	–32	–	**–209**
Impairment	–	0	–	–	**0**
Depreciation on disposals	0	80	13	–	**93**
Depreciation on divestments of businesses	–	–	–	–	**–**
Transfers	–1	–7	5	–	**–3**
Accumulated depreciation, 31 December 2011	**–540**	**–1 925**	**–233**	**0**	**–2 698**
Net book value, 31 December 2011	**671**	**806**	**160**	**28**	**1 665**
Insured value					**5 171**
Net book value of property, plant and equipment under finance lease contracts					**0**
Total non-current assets pledged to guarantee the commitments of Group companies					**77**

(CHF million)	Land and buildings	Plant and machinery	Other fixtures and fittings	Advances and construction in progress	Total
Historical cost, 1 January 2010	1 130	2 715	392	9	4 246
Translation differences	–3	–31	–12	0	–46
Business combinations (Note 14)	–	1	0	–	1
Divestments of businesses (Note 14)	–	–9	–1	0	–10
Additions	33	169	37	15	254
Disposals	–4	–58	–19	0	–81
Derecognized items	–13	–230	–46	–	–289
Transfers	2	–4	11	–10	–1
Historical cost, 31 December 2010	1 145	2 553	362	14	4 074
Accumulated depreciation, 1 January 2010	–507	–2 024	–255	0	–2 786
Translation differences	2	23	9	–	34
Annual depreciation	–23	–147	–35	–	–205
Impairment	–	–	–	–	–
Depreciation on disposals	0	57	18	–	75
Depreciation on divestments of businesses	–	7	1	–	8
Depreciation on derecognized items	13	230	46	–	289
Transfers	–	3	–4	–	–1
Accumulated depreciation, 31 December 2010	–515	–1 851	–220	0	–2 586
Net book value, 31 December 2010	630	702	142	14	1 488
Insured value					5 183
Net book value of property, plant and equipment under finance lease contracts					0
Total non-current assets pledged to guarantee the commitments of Group companies					81

Notes to the consolidated financial statements

11. Investment property

(CHF million)	**2011**	2010
Historical cost, 1 January	**63**	68
Translation differences	**0**	0
Additions	**0**	1
Disposals	**–15**	–7
Transfers	**0**	1
Historical cost, 31 December	**48**	63
Accumulated depreciation, 1 January	**–22**	–29
Translation differences	**0**	0
Annual depreciation	**–1**	–1
Impairment	**–**	–
Depreciation on disposals	**6**	7
Transfers	**0**	1
Accumulated depreciation, 31 December	**–17**	–22
Net book value, 31 December	**31**	41
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 58 million at 31 December 2011 compared to CHF 77 million at 31 December 2010. No external independent valuation has been performed.

Notes to the consolidated financial statements

12. Intangible assets

(CHF million)	**Goodwill**	**Capitalized development costs**	**Other intangible assets**	**Total**
Historical cost, 1 January 2011	**207**	**59**	**157**	**423**
Translation differences	–1	0	–1	**–2**
Business combinations (Note 14)	2	0	2	**4**
Additions	–	15	13	**28**
Disposals	–	–	–2	**–2**
Transfers	–	0	0	**0**
Historical cost, 31 December 2011	**208**	**74**	**169**	**451**
Accumulated amortization, 1 January 2011	**–**	**–20**	**–86**	**–106**
Translation differences	–	0	0	**0**
Annual amortization	–	–8	–11	**–19**
Impairment	–	–	–	**–**
Amortization on disposals	–	0	2	**2**
Transfers	–	0	0	**0**
Accumulated amortization, 31 December 2011	**–**	**–28**	**–95**	**–123**
Net book value, 31 December 2011	**208**	**46**	**74**	**328**

(CHF million)	Goodwill	Capitalized development costs	Other intangible assets	Total
Historical cost, 1 January 2010	206	53	163	422
Translation differences	–2	–1	–11	–14
Business combinations (Note 14)	3	–	0	3
Divestments of businesses (Note 14)	–	–1	–1	–2
Additions	–	12	14	26
Disposals	–	–4	–8	–12
Historical cost, 31 December 2010	207	59	157	423
Accumulated amortization, 1 January 2010	–	–18	–84	–102
Translation differences	–	0	3	3
Annual amortization	–	–6	–10	–16
Impairment	–	0	0	0
Amortization on disposals	–	3	4	7
Amortization on divestments of businesses	–	1	1	2
Accumulated amortization, 31 December 2010	–	–20	–86	–106
Net book value, 31 December 2010	207	39	71	317

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)	**31.12.2011**	31.12.2010
Watches & Jewelry	**159**	159
Production	**39**	38
Electronic Systems	**10**	10
Total	**208**	207

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

	2011			2010		
	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	**50%-61%**	**28%-30%**	**25%-32%**	51%-62%	26%-29%	32%-35%
Pre-tax discount rate	**8.3%**	**9.7%**	**10.0%**	8.6%	9.9%	10.3%

No impairment charge for goodwill had to be recorded in 2011 and 2010. 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)	**2011**	2010
Balance at 1 January	**169**	139
Share of result from associates and joint ventures	**6**	9
Dividends received	**–8**	–2
Investments	**24**	28
Divestments	**–1**	–
Translation differences	**1**	–5
Balance at 31 December	**191**	169

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.

In 2011, the Group acquired a 33.3% stake in Alzouman General Trading Co. Ltd. in Jeddah, Saudi Arabia. The company sells Swatch and Flik Flak brands exclusively through its own stores in prime retail locations in Saudi Arabia. The acquisition is considered as an associate. Furthermore, the Group divested its stake in the associate Terbival SA and in the joint venture Time Sales Inc.
Investments in 2010 related in part to an increase in the stake in Hengdeli Holdings from 8.92% to 9.05%. In addition, 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 2011, the fair value of the investment in Hengdeli Holdings was CHF 122 million (2010: CHF 225 million). Sales to and purchases from associates and joint ventures amounted to CHF 849 million (2010: CHF 584 million) and CHF 14 million (2010: CHF 10 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)	**31.12.2011**	31.12.2010
Assets	**211**	162
Liabilities	**106**	70
Revenues	**202**	167
Net income	**6**	9

At the balance sheet date, there were no contingent liabilities of associates and joint ventures (previous year: CHF 1 million).

14. Business combinations

In January 2011, the Group acquired 100% of Novi SA, an assembler of watch movements located in the canton of Jura (Switzerland).
In 2010, the business activities of Tanzarella Ltd, a small entity in Southern Switzerland active in the assembly of watch movements, were acquired. Net assets were transferred into the newly founded company Assemti 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:

		2011	2010
(CHF million)	Notes	**Fair value**	Fair value
Property, plant and equipment	(10)	**4**	1
Intangible assets	(12)	**2**	–
Current assets		**1**	1
Cash and cash equivalents		**6**	–
Provisions	(24)	**0**	–
Deferred tax liabilities	(7d)	**–1**	0
Current liabilities		**–1**	–2
Net assets acquired		**11**	0
Goodwill (capitalized)	(12)	**2**	3
Total purchase consideration		**13**	3
Cash and cash equivalents acquired		**–6**	–
Consideration payable		**–**	–
Consideration paid for prior year acquisitions		**–**	1
Cash outflow on acquisitions		**7**	4

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).
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 CHF 1 million (2010: below CHF 1 million). Furthermore, if the acquisitions had taken place at 1 January 2011 (1 January 2010), there would have been no impact on the Group's revenue and profit (2010: no impact).

Notes to the consolidated financial statements

Divestment of businesses

There were no divestments of businesses in 2011. 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.

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

(CHF million)	Notes	**2011**	2010
Property, plant and equipment	(10)	–	2
Intangible assets	(12)	–	0
Goodwill	(12)	–	–
Current assets		–	24
Cash and cash equivalents		–	0
Provisions	(24)	–	0
Deferred tax liabilities	(7d)	–	–
Current liabilities		–	–16
Net assets disposed of		–	10
Accumulated currency translation gains recognized in equity		–	–
Profit on divestment of businesses		–	2
Total disposal consideration		–	12
Cash and cash equivalents disposed of		–	0
Net Cash inflow on divestment		–	12

Repurchase of non-controlling interests

In 2011, the Group did not repurchase any non-controlling interests. In July 2010 the Group had 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
Balance at 1 January 2011	**24**	**29**	**5**	**87**	**145**
Translation differences	0	0	0	0	**0**
Additions	6	8	112	–	**126**
Disposals / decreases	–	0	–1	–10	**–11**
Transfers to "Other current assets"	–7	0	–	–	**–7**
Balance at 31 December 2011	**23**	**37**	**116**	**77**	**253**
Term 1–5 years	19	28	116	0	**163**
Term >5 years	4	9	0	77	**90**
Balance at 31 December 2011	**23**	**37**	**116**	**77**	**253**

(CHF million)	Key money	Security deposits	Other financial assets	Pension assets	Total
Balance at 1 January 2010	28	28	5	64	125
Translation differences	–3	–2	0	0	–5
Additions	5	4	1	23	33
Disposals / decreases	–2	–1	–1	–	–4
Transfers to "Other current assets"	–4	–	–	–	–4
Balance at 31 December 2010	24	29	5	87	145
Term 1–5 years	21	25	5	–	51
Term >5 years	3	4	–	87	94
Balance at 31 December 2010	24	29	5	87	145

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». Other financial assets also include loans granted to commercial partners and associates. Security deposits as well as other financial assets are considered as financial instruments (category financial assets at amortized cost). Detail to the pension assets can be found in Note 23.

16. Inventories

(CHF million)	**31.12.2011**	31.12.2010
Raw materials	**349**	226
Work in progress	**525**	383
Semi-finished goods	**1 407**	1 141
Finished goods	**1 201**	950
Spare parts for customer service	**189**	169
Total inventories	**3 671**	2 869

The cost of inventories recognized as an expense in 2011 amounted to CHF 2 872 million (2010: CHF 2 577 million).
Inventories with risk of obsolescence have been adjusted to their net realizable value. In 2011, the Group recognized write-downs of CHF 42 million (previous year: CHF 26 million) and reversals of write-downs of CHF 2 million (previous year: CHF 2 million). The net impact of these adjustments was a charge to the income statement of CHF 40 million (2010: CHF 24 million).

Notes to the consolidated financial statements

17. Trade receivables

(CHF million)	**31.12.2011**	31.12.2010
Trade receivables – gross	**912**	735
Allowance for impaired receivables	**–18**	–19
Total trade receivables – net	**894**	716

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

(CHF million)	**2011**	2010
Balance at 1 January	**–19**	–19
Translation differences	**0**	1
Utilization	**1**	2
Reversal	**4**	2
Creation	**–4**	–5
Balance at 31 December	**–18**	–19

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)	**31.12.2011**	31.12.2010
Neither past due nor impaired	**801**	625
<3 months	**86**	81
3–6 months	**5**	6
6–12 months	**0**	3
>12 months	**2**	1
Total past due but not impaired	**93**	91
Total trade receivables	**894**	716

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)	**31.12.2011**	31.12.2010
CHF	**193**	198
CNY	**206**	64
EUR	**185**	181
HKD	**66**	51
JPY	**72**	21
USD	**23**	65
Other currencies	**149**	136
Total trade receivables – net	**894**	716

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 holds collateral as security, and other credit enhancements to secure material trade receivables accounts.

Notes to the consolidated financial statements

18. Other current assets

(CHF million)	31.12.2011	31.12.2010
Other current receivables		
VAT to be refunded	**118**	96
Other receivables	**30**	17
Total other current receivables	**148**	113
Prepayments		
Key money	**6**	6
Other prepayments and accrued income	**184**	150
Total prepayments	**190**	156
Total other current assets	**338**	269

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 2010). Except for prepayments, other current assets are considered as financial instruments.

19. Marketable securities and derivative financial instruments

(CHF million)	31.12.2011	31.12.2010
Equity securities	**102**	112
Bond securities	**417**	390
Investment funds and other investments	**34**	36
Total marketable securities at fair value	**553**	538
Derivative financial instruments	**0**	4
Total marketable securities and derivative financial instruments	**553**	542

All marketable securities and derivative financial assets are classified in the category «financial assets at fair value». 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.

	31.12.2011			31.12.2010		
Type (CHF million)	**Contract value**	**Positive fair value**	**Negative fair value**	Contract value	Positive fair value	Negative fair value
Forward foreign exchange rate contracts	**555**	**–**	**–4**	311	4	–
Currency options	**–**	**–**	**–**	–	–	–
Options on equity securities	**–**	**–**	**–**	–	–	–
Total trading	**555**	**–**	**–4**	311	4	–
Forward foreign exchange rate contracts	**–**	**–**	**–**	–	–	–
Currency options	**–**	**–**	**–**	–	–	–
Total hedge accounting	**–**	**–**	**–**	–	–	–
Total	**555**	**–**	**–4**	311	4	–

Notes to the consolidated financial statements

At the end of 2010 and 2011, 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:

				2011				
Type	**EUR**	**JPY**	**HKD**	**USD**	**SGD**	**CNY**	**Other**	**Total**
(CHF million)								
Forward foreign exchange contracts	**206**	**74**	**0**	**148**	**5**	**51**	**71**	**555**
Currency options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Options on equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total trading	**206**	**74**	**0**	**148**	**5**	**51**	**71**	**555**
Forward foreign exchange contracts	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency options	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total hedge accounting	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**206**	**74**	**0**	**148**	**5**	**51**	**71**	**555**

				2010				
Type	EUR	JPY	HKD	USD	SGD	CNY	Other	Total
(CHF million)								
Forward foreign exchange contracts	176	54	0	18	0	0	63	311
Currency options	–	–	–	–	–	–	–	–
Options on equity securities	–	–	–	–	–	–	–	–
Total trading	176	54	0	18	0	0	63	311
Forward foreign exchange contracts	–	–	–	–	–	–	–	–
Currency options	–	–	–	–	–	–	–	–
Total hedge accounting	–	–	–	–	–	–	–	–
Total	176	54	0	18	0	0	63	311

At 31 December 2011, the contracts have a term of up to one year.

20. Cash and cash equivalents

(CHF million)	**31.12.2011**	31.12.2010
Current accounts and liquid assets	**920**	639
Short-term deposits with financial institutions	**696**	1 188
Total	**1 616**	1 827

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)	**31.12.2011**	31.12.2010
Cash and cash equivalents	**1 616**	1 827
Current account overdrafts (Note 22)	**0**	–2
Total	**1 616**	1 825

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 developed as follows:

Balance sheet date	Registered shares	Bearer shares	Share capital in CHF
31.12.2008	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2009	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2010	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2011	**124 045 000 at CHF 0.45**	**30 840 000 at CHF 2.25**	**125 210 250.00**

At year-end 2011 as well as 2010, 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		
	Quantity	Value CHF million	Quantity	Value CHF million	Total CHF million
Balance at 31.12.2009	**13 484 429**	**497**	**505 000**	**132**	**629**
Disposals [1]	–230 822	0	–	–	0
Conversions	–7 895 551	–336	–	–	–336
Balance at 31.12.2010	**5 358 056**	**161**	**505 000**	**132**	**293**
Acquisitions [2]	870 000	54	–	–	54
Disposals [1]	–237 494	0	–	–	0
Balance at 31.12.2011	**5 990 562**	**215**	**505 000**	**132**	**347**

[1] 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.

[2] In 2011, the Group acquired 870 000 registered shares at an average price of CHF 62.28 each, which increased the amount of treasury shares by CHF 54 million.

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

The only item in other reserves consists of foreign currency translation from foreign operations. At year-end 2011, the accumulated negative amount is CHF 280 million (previous year: negative amount of CHF 286 million).

Notes to the consolidated financial statements

22. Financial debts and derivative financial instruments

(CHF million)	**31.12.2011**	31.12.2010
Other non-current debt	**73**	77
Total non-current financial debts	**73**	77
Current account overdrafts	**0**	2
Short-term leasing commitments	**1**	0
Short-term bank debt	**13**	29
Total current financial debts	**14**	31
Derivative financial instruments	**4**	0
Total current financial debts and derivative financial instruments	**18**	31
Total financial debts	**91**	108

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**
At 31.12.2011	**18**	**25**	**48**	**91**
At 31.12.2010	31	25	52	108

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

(CHF million)	**31.12.2011**	31.12.2010
Swiss Franc (CHF)	**6**	15
Japanese Yen (JPY)	**77**	89
Euro (EUR)	**2**	1
Other currencies	**6**	3
Total	**91**	108

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 in 2010, 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 were recognized in 2010 through equity. Therefore, the total equity impact of the conversion amounted to CHF 385 million (refer to the consolidated statement of changes in equity).

The convertible bond was recognized as follows:

(CHF million)	**2011**	2010
Liability component at 1 January	**–**	385
Coupon interest at market rate	**–**	3
Conversion into registered shares	**–**	–387
Settlement in cash at maturity date	**–**	–1
Liability component at 31 December	**–**	–

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)	**2011**	2010
Present value of funded obligations	**–3 704**	–3 543
Fair value of plan assets	**3 195**	3 299
Excess of liabilities at 31 December	**–509**	–244
Present value of unfunded obligations	**–11**	–12
Unrecognized actuarial loss	**577**	322
Unrecognized past-service cost	**–**	–
Net asset in the balance sheet at 31 December	**57**	66

Periodic pension cost for defined benefit plans

(CHF million)	**2011**	2010
Current service cost	**–149**	–128
Interest cost	**–97**	–104
Expected return on plan assets	**140**	134
Actuarial gains/(losses)	**0**	–1
Past-service cost	**–36**	–
Employee contributions	**60**	56
Gains/(losses) on curtailment	**–**	–
Total periodic pension cost	**–82**	–43

Movement in the fair value of plan assets

(CHF million)	**2011**	2010
1 January	**3 299**	3 171
Expected return on plan assets	**140**	134
Actuarial gains/(losses)	**–204**	42
Exchange differences	**1**	–5
Employer contributions	**72**	67
Employee contributions	**60**	56
Benefits paid	**–173**	–166
31 December	**3 195**	3 299

Pension plan assets include the company's registered shares with a fair value of CHF 428 million (2010: CHF 507 million) and the company's bearer shares with a fair value of CHF 1 million (2010: below CHF 1 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 loss of CHF 64 million (2010: gain of CHF 176 million). The Group expects to contribute CHF 74 million to its post-employment benefit plans in 2012.

Notes to the consolidated financial statements

Asset allocation of plan assets

	31.12.2011		31.12.2010	
	CHF million	**%**	CHF million	%
Equity	**1 088**	**34.0**	1 236	37.5
Bonds	**999**	**31.3**	1 002	30.4
Real estate	**643**	**20.1**	612	18.5
Other assets	**465**	**14.6**	449	13.6
Total	**3 195**	**100.0**	3 299	100.0

Movement in the present value of defined benefit obligation

(CHF million)	**2011**	2010
1 January	**–3 555**	–3 242
Current service cost	**–149**	–128
Interest cost	**–97**	–104
Actuarial gains/(losses)	**–50**	–257
Exchange differences	**–1**	9
Benefits paid	**173**	167
Plan amendments	**–36**	–
Curtailments	**0**	0
Settlements	**–**	0
31 December	**–3 715**	–3 555

Principal actuarial assumptions used

	2011	2010
	%	%
	Weighted average	Weighted average
Discount rate	**2.50**	2.75
Expected return on plan assets	**4.25**	4.25
Expected rates of salary increases (incl. inflation)	**1.75**	2.00
Future pension increases due to inflation	**0.00**	0.00

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)	**2011**	2010	2009	2008	2007
Present value of defined benefit obligation	**–3 715**	–3 555	–3 242	–3 139	–3 282
Fair value of plan assets	**3 195**	3 299	3 171	2 814	3 590
Over/(under) funding	**–520**	–256	–71	–325	308
Experience adjustments on plan liabilities - loss / (gain)	**45**	8	6	29	133
Experience adjustments on plan assets - gain / (loss)	**–204**	42	289	–872	39

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 2011 of CHF 2 million (2010: 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 2011, these liabilities amounted to CHF 3 million (31 December 2010: CHF 5 million).

d. Reconciliation

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

(CHF million)	**31.12.2011**	31.12.2010
Defined benefit plan asset	**77**	87
Total pension asset (Note 15)	**77**	87
Defined benefit plan liability	**–20**	–21
Other post-employment benefit obligations	**–3**	–5
Total retirement benefit obligations	**–23**	–26

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 2011, these contributions amounted to CHF 7 million (CHF 6 million in 2010).

24. Provisions

(CHF million)	**Warranties**	**Litigation**	**Other**	**Total**
Balance at 31.12.2009	**71**	**9**	**20**	**100**
Translation differences	–6	0	–2	**–8**
Additional provisions	75	3	7	**85**
Reversal of provisions	–8	–2	–3	**–13**
Acquisitions / divestments	–	–	–	**–**
Provisions used during the year	–58	–3	–3	**–64**
Balance at 31.12.2010	**74**	**7**	**19**	**100**
thereof current provisions	51	4	8	**63**
thereof non-current provisions	23	3	11	**37**
Translation differences	–1	0	0	**–1**
Additional provisions	80	3	5	**88**
Reversal of provisions	–11	–2	–4	**–17**
Acquisitions / divestments	–	–	–	**–**
Provisions used during the year	–62	–2	–3	**–67**
Balance at 31.12.2011	**80**	**6**	**17**	**103**
thereof current provisions	57	4	5	**66**
thereof non-current provisions	23	2	12	**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 liabilities

(CHF million)	**31.12.2011**	31.12.2010
Advance payments	**15**	15
VAT due	**12**	16
Other payables	**76**	70
Total other payables	**103**	101
Accrued expenses and deferred income	**463**	378
Total other liabilities	**566**	479
thereof other current liabilities	**545**	479
thereof other non-current liabilities	**21**	–

In order to enhance disclosures, other liabilities have been separated into a current and non-current part as of 31 December 2011. The comparative amount of other non-current liabilities amounting to CHF 12 million as of 31 December 2010 is considered as immaterial. Therefore, this amount has not been separated and is still disclosed under the position other current liabilities as of 31 December 2010.

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 liabilities are considered as financial instruments.

26. Commitments and contingencies

a. Guarantees and sureties

At 31 December 2011, 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-2010).
Total current assets pledged by Group companies to guarantee their commitments amounted to CHF 37 million at 31 December 2011 (CHF 29 million at end-2010).

b. Leasing, rental and other commitments

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

(CHF million)	**31.12.2011**	31.12.2010
Less than 1 year	**223**	164
Between 1 and 5 years	**491**	374
Over 5 years	**298**	221
Total	**1 012**	759
Proportion of contracts with renewal option (% of total amount)	**48.2**	59.3
Maximum risk (% of total amount)	**95.7**	93.8

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 2011. Leasing costs amounting to CHF 225 million were recognized in the 2011 income statement (CHF 163 million in 2010). 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 2011, amounted to CHF 82 million (CHF 30 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	**2011**	2010
Reversal of non-cash items			
Share of result from associates and joint ventures	(13)	**–6**	–9
Income taxes	(7a)	**335**	318
Depreciation of tangible assets	(10, 11)	**210**	206
Amortization of intangible assets	(12)	**19**	16
Divestment gain from disposal of subsidiaries	(14)	**–**	–2
Profit on sale of fixed assets		**–8**	–6
Loss on sale of fixed assets		**2**	2
Fair value gains on marketable securities		**–51**	–20
Fair value losses on marketable securities		**73**	54
Interest income	(6f)	**–7**	–4
Interest expense	(6f)	**3**	5
Expenses for equity-settled equity compensation plan	(28)	**16**	10
Changes in provisions		**4**	10
Changes in pensions and other retirement benefits		**8**	–22
Total		**598**	558

b. Changes in working capital

(CHF million)	**2011**	2010
Changes in working capital and other items included in cash flow from operating activities		
Inventories	**–800**	–198
Trade and other receivables	**–233**	–51
Trade payables and other liabilities	**188**	141
Other items included in cash flow from operating activities	**–10**	45
Total	**–855**	–63

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 2011, this portfolio comprised 1 888 220 registered shares (2 125 677 at the end of 2010). In 2011, 237 457 registered shares were exercised at a preferential price of CHF 4 per registered share.

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

	2011	2010
	Options	Options
Options outstanding at 1 January	**233 072**	221 928
Granted	**254 642**	244 450
Forfeited or lapsed	**–1 966**	–2 674
Exercised	**–237 457**	–230 632
Options outstanding at 31 December	**248 291**	233 072

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:

	Share options	
Expiry date	**31.12.2011**	31.12.2010
2011		153 141
2012	**164 505**	79 931
2013	**83 786**	
Total	**248 291**	233 072

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 2011 and 2010 was based:

	2011		2010	
	Tranche exercisable in 1 year	**Tranche exercisable in 2 years**	Tranche exercisable in 1 year	Tranche exercisable in 2 years
Grant date	**5 July 2011**	**5 July 2011**	13 July 2010	13 July 2010
Expiration date	**5 July 2012**	**5 July 2013**	13 July 2011	13 July 2012
Closing share price on grant date	**CHF 78.50**	**CHF 78.50**	CHF 58.30	CHF 58.30
Exercise price	**CHF 4.00**	**CHF 4.00**	CHF 4.00	CHF 4.00
Volatility	**50.0%**	**50.0%**	38.6%	38.6%
Expected dividend yield	**CHF 1.15**	**CHF 1.15**	CHF 1.00	CHF 1.00
Risk-free interest rate	**0.44%**	**0.56%**	0.42%	0.65%
Market value of option at grant date	**CHF 73.37**	**CHF 72.25**	CHF 53.32	CHF 52.35

The first tranche that was immediately exercisable had the same assumptions as shown above (2011: grant date 5 July 2011, share price at grant date CHF 78.50, exercise price CHF 4.00; 2010: grant date 13 July 2010, share price at grant date CHF 58.30, exercise price CHF 4.00). The weighted average share price at exercise date was CHF 60.15 in 2011 (2010: CHF 61.54).

The personnel expense recorded in the 2011 income statement as a result of applying IFRS 2 calculation amounted to CHF 16 million (2010: CHF 10 million).

29. Related party transactions

a. Principal shareholders

On 31 December 2011, the Hayek Pool and its related companies, institutions and individuals held 64 507 101 registered shares and 1 775 bearer shares, equivalent to 41.7% of the shares issued (previous year: 41.6%) 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 (previous year: 40.8%).
Mrs. Esther Grether's group controlled 7.2% of the shares issued (compared with 7.2% a year earlier).

In 2011, the Hayek Group, owned by the community of heirs of N. G. Hayek, invoiced an amount of CHF 9.0 million to the Swatch Group (compared with CHF 10.1 million in 2010). This amount primarily covered support for Group Management in the following areas of activity:

(CHF million)	**2011**	2010
Audit, feasibility studies and process optimization	**1.3**	3.0
Provision of managers and filling important, vacant functions	**0.9**	1.1
Project management in the construction sector	**4.1**	3.6
Support for projects in the materials and surface treatment technology sector	**1.2**	0.5
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.	**1.1**	1.5
Total	**9.0**	10.1

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)	**2011**	2010
Short-term employee benefits	**26.2**	26.6
– of which in salaries	**8.6**	8.6
– of which in bonus	**17.5**	17.9
– of which in other benefits	**0.1**	0.1
Post-employment benefits	**0.8**	0.8
Termination benefits	**–**	–
Share-based compensation	**10.5**	6.8
Total	**37.5**	34.2

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

c. Share ownership

At 31 December 2011, 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 56 396 328 registered shares and 240 bearer shares, representing 36.4% of the voting rights (previous year: 36.4%).
In addition, at 31 December 2011, all the non-executive members of the Board of Directors as well as the persons close to them held 10 963 000 registered shares and 116 000 bearer shares, representing 7.2% of the voting rights (previous year: 7.2%).

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 2011 and 2010, 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 2011, one loan to a member of the Group Management Board for a total of CHF 0.9 million with an interest rate of 1.7% existed (2010: CHF 0.9 million at 2.6%).

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).

	2011		2010	
(CHF million)	**Purchases**	**Sales**	Purchases	Sales
Associates and joint ventures	**14**	**849**	10	584
Other related parties	**–**	**–**	–	–

At the end of 2011, receivables from associates amounted to CHF 165 million (2010: CHF 55 million), and payables to associates were CHF 2 million (2010: CHF 5 million). In addition, at the end of 2011 the Group held guarantees from associated companies in the amount of CHF 136 million (2010: CHF 47 million). Furthermore, at 31 December 2011 the Group had granted loans to associated companies in the amount of USD 27 million (2010: USD 1 million) with an interest rate of 4.4% (2010: 3.25%).
At the end of 2011 and 2010 there were no balances outstanding with other related parties.

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^bis and 663c 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. The disclosures relating to Mr. N.G. Hayek and Mrs. Nayla Hayek in 2010 are pro rata; as of July 2010 Mrs. Nayla Hayek assumed the Chair of the Board of Directors and new functions.

Compensation to Board of Directors and Group Management (Art. 663b^bis SCO)

a. Board of Directors (BoD)

2011 **Name**	**Function**	**Compensation for functions in the BoD**[1]	**Base compensation for executive function**[1]	**Bonus**[2]	**Other compensation**[3]	**Total**[4]
		(CHF)	**(CHF)**	**(CHF)**	**(CHF)**	**(CHF)**
Nayla Hayek	Chairwoman	179 230	1 001 568	1 300 000	1 405 258	3 886 056
Dr. Peter Gross[5]	Vice-Chairman	47 867				47 867
Ernst Tanner[6]	Vice-Chairman	112 886				112 886
Esther Grether	Member	104 517				104 517
Georges Nicolas Hayek[7]	Member	105 430				105 430
Prof. Dr. h.c. Claude Nicollier	Member	104 517				104 517
Dr. Jean-Pierre Roth	Member	104 517				104 517
Total		**758 964**	**1 001 568**	**1 300 000**	**1 405 258**	**4 465 790**

2010 Name	Function	Compensation for functions in the BoD[1]	Base compensation for executive function[1]	Bonus[2]	Other compensation[3]	Total[4]
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Dr. h.c. Nicolas G. Hayek[8] (pro rata)	Chairman & Delegate		350 946	835 000	116 722	1 302 668
Nayla Hayek[9] (pro rata)	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[7]	Member	65 893				65 893
Prof. Dr. h.c. Claude Nicollier	Member	104 518				104 518
Johann N. Schneider-Ammann[10]	Member	88 896				88 896
Dr. Jean-Pierre Roth[11]	Member	65 323				65 323
Ernst Tanner	Member	106 667				106 667
Total		796 720	1 102 512	2 135 000	994 327	5 028 559

[1] Total annual fee paid in cash, not including any reimbursement for travel and other business expenses incurred.
[2] Cash bonuses according to the accrual principle.
[3] Other compensation includes pension benefits and share options. In 2011, 20 000 share options with a value of CHF 1 342 630 were granted to Mrs. N. Hayek (2010: 15 000 share options with a value of CHF 816 045), according to the conditions described in Note 28 Employee stock option plan. Each option gives the right to conversion in one registered share.
[4] 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.
[5] BoD Vice-Chairman and member until May 2011.
[6] BoD Vice-Chairman as of June 2011.
[7] BoD Member as of May 2010. The compensation for his executive functions is included in Note 30 b.
[8] BoD Chairman until June 2010 (†).
[9] BoD Chairwoman as of July 2010.
[10] BoD Member until October 2010.
[11] BoD Member as of May 2010.

Notes to the consolidated financial statements

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

2011

Name	**Salaries[1)]**	**Bonus[2)]**	**Share options[3)]**	**Share options[3)]**	**Other compensation[4)]**	**Total[5)]**
	(CHF)	**(CHF)**	**(number)**	**(CHF)**	**(CHF)**	**(CHF)**
Georges Nicolas Hayek (MB President / CEO)	1 489 378	3 200 000	24 000	1 611 144	62 628	6 363 150
Total other members	5 406 598	12 990 000	126 200	8 472 004	741 472	27 610 074
Total	**6 895 976**	**16 190 000**	**150 200**	**10 083 148**	**804 100**	**33 973 224**

2010

Name	Salaries[1)]	Bonus[2)]	Share options[3)]	Share options[3)]	Other compensation[4)]	Total[5)]
	(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
Total	6 748 439	15 706 000	145 950	7 940 081	776 454	31 170 974

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

2) Variable cash bonuses according to the accrual principle.

3) 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.

4) Other salary elements such as pension benefits, company cars and other benefits.

5) 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 2011 and 2010, 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 2011, 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 1.7% existed (2010: CHF 0.9 million at 2.6%).
In 2011 and 2010, 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 2011 and 2010, 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)	
		2011	2010	2011	2010	2011	2010
Community of heirs N. G. Hayek represented by Marianne Hayek		55 704 144	55 704 144	550	550		
Nayla Hayek	BoD Chairwoman	29 876	14 876			18 334	13 334
Dr. Peter Gross[1)]	BoD Vice-Chairman		7 200				
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Esther Grether	BoD Member	10 963 000	11 094 500	114 000	112 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member						
Dr. Jean-Pierre Roth	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	56 990	71 363			23 834	23 001
Arlette E. Emch	MB Member	61 334	47 334			13 000	15 000
Florence Ollivier-Lamarque	MB Member	53 534	44 000			11 668	11 002
Dr. Mougahed Darwish	MB Member	56 470	50 470			6 000	6 000
Marc A. Hayek	MB Member	56 732	46 233			11 668	9 667
Dr. Hanspeter Rentsch	MB Member / CLO	108 489	95 022	200		18 735	18 202
Roland Streule	MB Member	27 133	24 466			4 334	7 001
François Thiébaud	MB Member	72 791	62 458			11 334	9 667
Dr. Thierry Kenel	EMB Member / CFO	14 420	8 586			7 834	5 668
Matthias Breschan	EMB Member	2 166				2 668	1 834
Pierre-André Bühler	EMB Member	9 068	9 068			5 500	4 000
Yann Gamard	EMB Member	3 167				5 335	5 002
Walter von Känel	EMB Member	25 641	21 309	40	40	4 752	4 084
Thomas Meier	EMB Member	1 300				1 300	1 400
Kevin Rollenhagen	EMB Member	36 482	29 483			7 668	6 667
Dr. Peter Steiger	EMB Member	49 591	43 591			6 334	5 834
Stephen Urquhart	EMB Member	27 000	21 500			6 502	6 168
Total		**67 359 328**	**67 395 603**	**116 790**	**114 590**	**166 800**	**153 531**

[1)] BoD Vice-Chairman and member until May 2011.

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 2011 and 2010, either directly or through share options, more than 1% of the outstanding Swatch Group shares.

31. Events after the balance sheet date

There were no significant events after the balance sheet date.

32. The Swatch Group Companies – as at 31.12.2011

Europe

Switzerland

Company name, Registered offices	Field of Activity		Capital in millions	Swatch Group Shareholdings %	Consoli-dation	Segment
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	6.00	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	●	▼
Le Foyer SA, Saint-Imier	Real estate	CHF	0.13	100	●	▼
Léon Hatot Les Boutiques SA, Auvernier	Retail	CHF	0.10	100	●	◀
Léon Hatot SA, Auvernier	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 Ruedin SA, Bassecourt	Watch cases	CHF	2.40	100	●	▲
Meco SA, Grenchen	Watch crowns	CHF	4.50	100	●	▲
Microcomponents AG, Grenchen	Components for the automobile industry	CHF	11.00	100	●	▶
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF	4.00	100	●	▶
Mido AG, Le Locle	Watches	CHF	1.20	100	●	◀
MOM le Prélet SA, Les Geneveys-sur-Coffrane	Watch dials	CHF	0.30	100	●	▲
Montres Breguet SA, L'Abbaye	Watches	CHF	10.00	100	●	◀
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF	12.00	100	●	◀
Nivarox-FAR SA, Le Locle	Watch components and thin wires	CHF	4.00	100	●	▲
Novi SA, Les Genevez	Assembly	CHF	0.14	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 AG, Corgémont	Sports timing & information display systems	CHF	2.00	100	●	▶
Technocorp Holding SA, Le Locle	Holding	CHF	6.00	100	●	▼
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, Lausanne	Watches	CHF	0.20	100	●	◀

Germany

Company name, Registered offices	Field of Activity		Capital in millions	Swatch Group Shareholdings %	Consoli-dation	Segment
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 31.12.2011

Company name, Registered offices	Field of Activity	Capital in millions		Swatch Group Shareholdings %	Consoli-dation	Segment
Austria						
The Swatch Group (Oesterreich) GmbH, Wien	Distribution	EUR	0.04	100	●	◀
Belgium						
The Swatch Group (Belgium) SA, Anderlecht	Distribution	EUR	1.75	100	●	◀
The Swatch Group Participation SA, Anderlecht	Holding	EUR	2.09	100	●	▼
Spain						
The Swatch Group (España) SA, Alcobendas	Distribution	EUR	0.45	100	●	◀
France						
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	●	▲
Centre Européen de Service Horloger, Besançon	Customer service	EUR	0.70	100	●	◀
Tech Airport Développement, Paris	Retail	EUR	0.50	100	●	◀
Tech Airport Holding, Paris	Holding	EUR	31.20	100	●	◀
Tech Airport Nice, Paris	Retail	EUR	5.04	100	●	◀
Tech Airport Orly, Paris	Retail	EUR	2.83	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	●	◀
Great Britain						
The Swatch Group (UK) Ltd, London	Distribution	GBP	2.00	100	●	◀
The Swatch Group (UK) Les Boutiques Ltd, London	Retail	GBP	0.08	100	●	◀
Greece						
Alkioni SA, Athens	Retail	EUR	0.10	100	●	◀
The Swatch Group (Greece) SA, Athens	Distribution	EUR	0.06	100	●	◀
Italy						
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., Milano	Distribution	EUR	23.00	100	●	◀
Luxembourg						
The Swatch Group SICAF-SIF, 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	1.60	100	●	▼
Netherlands						
The Swatch Group (Netherlands) BV, Eindhoven	Distribution	EUR	3.45	100	●	◀
Poland						
The Swatch Group (Polska) Sp.zo.o., Warszawa	Distribution	PLN	5.00	100	●	◀
Portugal						
The Swatch Group (Europa) – Sociedade Unipessoal SA, Funchal	Distribution	EUR	24.14	100	●	◀
Russia						
Swiss Watch Le Prestige OOO Russia, Moscow	Distribution	RUB	0.20	100	●	◀
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB	2 609.43	100	●	◀
Sweden						
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK	0.50	100	●	◀
Czech Republic						
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK	2.01	51	●	▶
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK	0.10	100	●	▶
The Swatch Group (CZ) Les Boutiques s.r.o., Praha	Retail	CZK	9.00	100	●	◀
Africa						
South Africa						
The Swatch Group (South Africa) (Proprietary) Ltd, Sandton	Distribution	ZAR	0.00	100	●	◀
America						
Brazil						
SGA Administração de Imóvies SA, Manaus	Inactive	BRL	4.92	100	●	◀
SGB Serviços e Comércio de Peças Ltda, São Paulo	Customer service	BRL	14.04	100	●	◀
SMH do Brasil Administração de Bens Ltda, São Paulo	Inactive	BRL	2.74	100	●	▼
Canada						
The Swatch Group (Canada) Ltd, Toronto	Distribution	CAD	4.50	100	●	◀
United States						
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	●	◀

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

32. The Swatch Group Companies – as at 31.12.2011

Company name, Registered offices	Field of Activity		Capital in millions	Swatch Group Shareholdings %	Consolidation	Segment
Mexico						
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	●	◀
Panama						
The Swatch Group Panama SA, Panama City	Commercial services	USD	0.01	100	●	◀
Asia						
Greater China						
Beijing Xin Yu Heng Rui Watch & Clock Co., Ltd., Beijing	Real estate	CNY	40.00	50	○	◀
Hengdeli Holdings Limited, Hong Kong	Retail	CNY	21.31	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	●	◀
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 Electric Co. Ltd, Zhuhai	Components	CNY	74.57	100	●	▲
South Korea						
The Swatch Group (Korea) Ltd, Seoul	Distribution	KRW	5 300.00	100	●	◀
Saudi Arabia						
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR	60.00	33	○	◀
United Arab Emirates						
Rivoli Investments L.L.C., Dubai	Retail	AED	0.30	15	○	◀
Swatch Group Retail Middle East L.L.C., Dubai	Retail	AED	0.30	49	●	◀
India						
Swatch Group (India) Private Ltd, New Delhi	Distribution	INR	1 511.26	100	●	◀
Japan						
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY	3 700.00	100	●	◀
Malaysia						
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	1.00	100	●	◀
Singapore						
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	●	◀
Thailand						
ETA (Thailand) Co. Ltd, Samut Prakan	Electronic components	THB	504.50	100	●	▲
The Swatch Group Trading (Thailand) Ltd, Bangkok	Distribution	THB	400.00	100	●	◀
Oceania						
Australia						
The Swatch Group (Australia) Pty Ltd, Glen Iris	Distribution	AUD	0.40	100	●	◀

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

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 150 to 204), for the year ended 31 December 2011.

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 2011 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

Gerhard Siegrist Audit expert Auditor in charge	Roy Bächinger Audit expert

Basel, 17 February 2012

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Income Statement of the Holding

	Notes	**2011** **CHF million**	2010 CHF million
Income from investments in subsidiaries	(1)	**813**	621
Financial income	(2)	**30**	41
Other income		**8**	17
Total income		**851**	679
Personnel expense		**–46**	–49
General expense		**–18**	–18
Depreciation and impairment		**–3**	–23
Interest expense	(3)	**0**	–2
Exchange differences and other financial expenses	(4)	**–27**	–4
Taxes		**–1**	–2
Total expenses		**–95**	–98
Net income		**756**	581

Balance sheet of the Holding

Assets		**31.12.2011**		31.12.2010	
	Notes	**CHF million**	**%**	CHF million	%
Non-current assets					
Property, plant and equipment		**8**	**0.2**	11	0.4
Financial assets					
– Long-term loans to Group companies		**68**	**2.0**	81	2.8
– Investments in subsidiaries	(5)	**2 137**	**63.3**	2 091	72.0
Total non-current assets		**2 213**	**65.5**	2 183	75.2
Current assets					
Receivables from Group companies		**105**	**3.1**	55	1.9
Other receivables and accrued income		**66**	**2.0**	56	2.0
Marketable securities and precious metals	(6)	**586**	**17.4**	563	19.4
Cash and cash equivalents		**407**	**12.0**	44	1.5
Total current assets		**1 164**	**34.5**	718	24.8
Total assets		**3 377**	**100.0**	2 901	100.0

Balance sheet of the Holding

Equity and liabilities			31.12.2011			31.12.2010	
	Notes		**CHF million**	**%**		CHF million	%
Equity							
Share capital			**125**	**3.7**		125	4.3
General reserve			**67**	**2.0**		67	2.3
Reserve for treasury shares			**347**	**10.3**		293	10.1
Special reserve			**1 819**	**53.8**		1 573	54.2
– Profit brought forward		**37**			27		
– Net profit for the year		**756**			581		
Available earnings			**793**	**23.5**		608	21.0
Total equity	(7)		**3 151**	**93.3**		2 666	91.9
Liabilities							
Provisions			**143**	**4.2**		147	5.1
Payables to Group companies			**56**	**1.7**		57	2.0
Other liabilities			**3**	**0.1**		4	0.1
Accrued expenses			**24**	**0.7**		27	0.9
Total liabilities			**226**	**6.7**		235	8.1
Total equity and liabilities			**3 377**	**100.0**		2 901	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

1. Income from investments in subsidiaries

(CHF million)	**2011**	2010
Dividends	**739**	564
Other income	**74**	57
Total	**813**	621

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

2. Financial income

(CHF million)	**2011**	2010
Interest income	**5**	4
Income and gains on securities	**25**	37
Total	**30**	41

The company recorded capital gains on its investment portfolio of CHF 25 million. This figure was mostly offset by losses of CHF 23 million (see Note 4).

3. Interest expense

In 2011, interest expense decreased by another CHF 2 million compared with 2010. The lower interest expense reflects the low average amount of borrowings.

4. Exchange differences and other financial expenses

The currency translation position on foreign currency hedging contracts, taken out to protect the Group's companies, was negative by CHF 4 million (2010: positive by CHF 7 million). The loss recorded on the securities portfolio, including other financial expenses, amounted to CHF 23 million (2010: CHF 11 million).

5. Investments in subsidiaries

The list of 154 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 63.3% of total assets at 31 December 2011 versus 72.0% at end-2010. In absolute terms, the value of investments in subsidiaries amounted to CHF 2 137 million at end-2011. This amount corresponds to consolidated investments and investments in associates, and is CHF 46 million higher than in 2010.

Notes to the financial statements

6. Marketable securities and precious metals

(CHF million)	**31.12.2011**	31.12.2010
Marketable securities	**262**	265
Own shares	**279**	225
Precious metals	**45**	73
Total	**586**	563

In 2011, own shares amounting to CHF 54 million were repurchased. The position "Own shares" includes repurchased treasury shares 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 2011 corresponded to 3.1% (versus 2.9% at end-2010) of the nominal value of total share capital.
See table on page 212 showing changes in The Swatch Group Ltd's treasury stock.
The table below shows the changes in equity:

(CHF million)	**Share capital**	**General reserve**	**Reserve for treasury shares**	**Special reserve**	**Available earnings**	**Total equity**
Balance at 31.12.2010	**125**	**67**	**293**	**1 573**	**608**	**2 666**
Allocated in 2011				300	–300	**–**
Dividend paid out					–270	**–270**
Transfer			54	–54	–1	**–1**
Net income for the year					756	**756**
Balance at 31.12.2011	**125**	**67**	**347**	**1 819**	**793**	**3 151**

Compared with end-2010, equity increased by CHF 485 million to CHF 3 151 million in 2011. In percentage of total assets the equity ratio increased to 93.3% at 31 December 2011 (versus 91.9% in the previous year).

Share capital

At 31 December 2011, 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**
31.12.2010	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2011	**124 045 000 at CHF 0.45**	**30 840 000 at CHF 2.25**	**125 210 250.00**

Principal shareholders at 31 December 2011

At 31 December 2011, the Hayek Pool, its related companies, institutions and individuals held 64 507 101 registered shares and 1 775 bearer shares, equivalent to 41.7% of the shares issued at this date (previous year: 41.6%). 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
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	–
Wohlfahrtsstiftung der Renata AG	Itingen	–
Fonds de prévoyance d'Universo SA	Neuchâtel	–

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-2011 (previous year: 40.8%).
Mrs. Esther Grether's group controlled 7.2% of the shares issued (compared with 7.2% a year earlier).
At 31 December 2011, 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 347 million on 31 December 2011 (previous year: CHF 293 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 2011 as shown in the table below:

Shares held by:	Registered shares	Bearer shares
	Quantity [1]	Quantity
The Swatch Group Ltd		
Balance at 31.12.2010	4 855 239	505 000
Acquisitions in 2011	870 000	–
Disposals in 2011 [2]	– 237 494	–
Balance at 31.12.2011	**5 487 745**	**505 000**
Other consolidated companies		
Balance at 31.12.2010	502 817	–
Acquisitions in 2011	–	–
Disposals in 2011	–	–
Balance at 31.12.2011	**502 817**	**–**
Total balance at 31.12.2011	**5 990 562**	**505 000**

[1] of which at 31 December 2011 a total of 1 888 220 registered shares were reserved for the management stock option plan (2 125 677 registered shares in 2010).
[2] The disposals in 2011 related mainly to the management stock option plan.

Available earnings
In compliance with the resolution approved at the Annual General Meeting of 31 May 2011, a dividend of CHF 1.00 per registered share and of CHF 5.00 per bearer share was appropriated from available earnings as at 31 December 2010. The total dividend amount paid to shareholders in 2011 came to CHF 118 496 944 on the registered shares and CHF 151 675 000 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 8 073 056, thus constituted an integral part of equity at 31 December 2011. Finally, CHF 300 million was appropriated from available earnings at 31 December 2010 and allocated to the special reserve.

Notes to the financial statements

Off-balance-sheet items

Contingent liabilities
At end-2011, guarantees provided by The Swatch Group Ltd amounted to CHF 582 400 (compared with CHF 582 000 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 2010).

Fire insurance values
At 31 December 2011, the fire insurance value of property, plant and equipment amounted to CHF 34 599 000 (CHF 39 273 700 at end-2010).

Assets pledged
None of the company's assets are pledged.

Commitments
Other commitments entered into by the company and open at 31 December 2011 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 2011.

Type	Contract value			Positive replacement value			Negative replacement value		
(CHF million)	Third party	Group	Total	Third party	Group	Total	Third party	Group	Total
Forward contracts	499	322	821	0	2	2	–3	–3	–6
Options	–	–	–	–	–	–	–	–	–
Total at 31.12.2011	**499**	**322**	**821**	**0**	**2**	**2**	**–3**	**–3**	**–6**
Total at 31.12.2010	307	264	571	4	2	6	0	–9	–9

Derivative financial instruments are recognized at fair value. Positions outstanding at 31 December 2011 serve to hedge operations relating to exchange rate risk and market volatility. Forward contracts outstanding at 31 December 2011 relate to 32 positions held in precious metals and in foreign currencies (previous year: 31). 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 2011, there was no option outstanding (none in the previous year).

Liabilities to pension plans

The balance sheet as at end-2011 contained no liability to pension plans (2010: liability of CHF 269 359).

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:

	2011	2010
	CHF	CHF
Net income for the year	**755 530 262**	581 132 549
Profit brought forward from previous year	**37 424 889**	26 464 284
Available earnings	**792 955 151**	607 596 833
Allocation to special reserve	**–450 000 000**	–300 000 000
Payment on share capital of CHF 125 210 250.00		
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
Payment on share capital of CHF 125 210 250.00[1]		
of a 2011 dividend, i.e.:		
– CHF 1.15 per registered share with a par value of CHF 0.45	**–142 651 750**	
– CHF 5.75 per bearer share with a par value of CHF 2.25	**–177 330 000**	
Dividends not paid out on own shares held by the Group[2]		8 073 056
Balance carried forward	**22 973 401**	37 424 889

[1] It is planned not to pay dividends on own shares held by the Group.

[2] Based on the decision of the Annual General Meeting of 31 May 2011, 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 207 to 213), for the year ended 31 December 2011.

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 2011 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

Gerhard Siegrist	Roy Bächinger
Audit expert	Audit expert
Auditor in charge	

Basel, 17 February 2012

The Swatch Group Ltd securities

Average number of shares outstanding/ Average share capital	2011 basic	2010 basic	2009 basic	2008 basic	2007 basic
Number of registered shares of CHF 0.45	**118 399 729**	113 103 548	110 446 207	111 605 632	115 882 234
Number of bearer shares of CHF 2.25	**30 335 000**	30 335 000	30 335 000	30 596 542	31 485 875
Total average number of shares outstanding	**148 734 729**	143 438 548	140 781 207	142 202 174	147 368 109
Share capital registered shares of CHF 0.45	**53 279 878**	50 896 597	49 700 793	50 222 534	52 147 005
Share capital bearer shares of CHF 2.25	**68 253 750**	68 253 750	68 253 750	68 842 220	70 843 219
Total average share capital	**121 533 628**	119 150 347	117 954 543	119 064 754	122 990 224

Key data per registered share (nom CHF 0.45) in CHF	2011	2010	2009	2008	2007
Consolidated net income	**4.70**	4.05	2.89	3.15	3.70
Cash flow from operating activities	**2.61**	5.11	3.39	1.93	3.20
Consolidated shareholders' equity	**29.82**	26.77	22.74	20.55	19.43
Dividend	**1.15**[1)]	1.00	0.80	0.85	0.85

Key data per bearer share (nom CHF 2.25) in CHF	2011	2010	2009	2008	2007
Consolidated net income	**23.50**	20.27	14.47	15.75	18.49
Cash flow from operating activities	**13.05**	25.55	16.99	9.67	16.01
Consolidated shareholders' equity	**149.11**	133.83	113.85	102.73	97.13
Dividend	**5.75**[1)]	5.00	4.00	4.25	4.25

		2011	2010	2009	2008	2007
Stock price of registered shares (adjusted)	High	**79.50**	78.50	51.70	66.75	76.50
	Low	**51.60**	50.40	23.05	23.20	53.90
	31.12.	**62.60**	75.40	49.40	28.50	66.85
Stock price of bearer shares (adjusted)	High	**443.70**	434.80	268.75	340.00	397.00
	Low	**288.50**	262.20	118.50	115.50	266.25
	31.12.	**351.50**	416.80	261.90	145.80	341.25
Market capitalization (CHF million)	31.12.	**18 605**	22 207	14 205	8 032	19 367

Key ratios (year-end)		2011	2010	2009	2008	2007
Average return on equity	%	**16.8**	16.5	13.3	15.5	19.7
Dividend yield registered shares	%	**1.8**	1.3	1.6	3.0	1.3
Dividend yield bearer shares	%	**1.6**	1.2	1.5	2.9	1.2
Price / earnings ratio – registered shares		**13.3**	18.6	17.1	9.0	18.1
Price / earnings ratio – bearer shares		**15.0**	20.6	18.1	9.3	18.5

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

[1)] Board of Directors' proposal.

Evolution of the Swatch Group Ltd registered shares and the Swiss Market Index (1988–2011)