# ALCON, INC.

**Bösch 69**
**P.O. Box 62**
**Hünenberg, Switzerland**

# 2010 Business Report

# ALCON, INC.

## 2010 Business Report

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Alcon, Inc.'s management is responsible for establishing and maintaining adequate internal control over financial reporting. Alcon, Inc.'s internal control system was designed to provide reasonable assurance to the Company's management regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Alcon, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that, as of December 31, 2010, Alcon, Inc.'s internal control over financial reporting is effective based on those criteria.

| /s/ Kevin J. Buehler | /s/ Robert Karsunky |
|---|---|
| Kevin J. Buehler | Robert Karsunky |
| President and Chief Executive Officer | Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer |

February 1, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Alcon, Inc.:

We have audited the accompanying consolidated balance sheets of Alcon, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alcon, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alcon, Inc.'s internal control over financial reporting as of December 31, 2010 based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 1, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
KPMG LLP

Fort Worth, Texas
February 1, 2011

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Alcon, Inc.:

We have audited Alcon, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alcon, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Alcon, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control--Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alcon, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated February 1, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
KPMG LLP

Fort Worth, Texas
February 1, 2011

**ALCON, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions, except share data) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,525 | $ 3,007 |
| Short term investments | 889 | 479 |
| Trade receivables, net | 1,483 | 1,346 |
| Inventories | 693 | 626 |
| Deferred income tax assets | 172 | 162 |
| Other current assets | 307 | 213 |
| Total current assets | 6,069 | 5,833 |
| Long term investments | 398 | 73 |
| Property, plant and equipment, net | 1,388 | 1,304 |
| Intangible assets, net | 953 | 255 |
| Goodwill | 833 | 688 |
| Long term deferred income tax assets | 261 | 391 |
| Other assets | 171 | 142 |
| Total assets | $ 10,073 | $ 8,686 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 370 | $ 321 |
| Short term borrowings | 337 | 607 |
| Current maturities of long term debt | 62 | -- |
| Other current liabilities | 1,022 | 1,047 |
| Total current liabilities | 1,791 | 1,975 |
| Long term debt, net of current maturities | -- | 56 |
| Long term deferred income tax liabilities | 65 | 59 |
| Other long term liabilities | 965 | 691 |
| Contingencies (note 17) | | |
| Shareholders' equity: | | |
| Common shares, par value CHF 0.20 per share, 320,254,200 shares authorized; 305,044,983 shares issued and 302,390,266 shares outstanding at December 31, 2010; 304,016,290 shares issued and 299,550,733 shares outstanding at December 31, 2009 | 42 | 42 |
| Additional paid-in capital | 1,669 | 1,535 |
| Accumulated other comprehensive income | 98 | 203 |
| Retained earnings | 5,706 | 4,533 |
| Treasury shares, at cost; 2,654,717 shares at December 31, 2010; and 4,465,557 shares at December 31, 2009 | (263) | (408) |
| Total shareholders' equity | 7,252 | 5,905 |
| Total liabilities and shareholders' equity | $ 10,073 | $ 8,686 |

See accompanying notes to consolidated financial statements.

**ALCON, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF EARNINGS**

| | Years ended December 31, | | |
|---|---|---|---|
| | **2010** | **2009** | **2008** |
| | **(in millions, except share data)** | | |
| Sales | $ 7,179 | $ 6,499 | $ 6,294 |
| Cost of goods sold | 1,675 | 1,614 | 1,472 |
| Gross profit | 5,504 | 4,885 | 4,822 |
| Selling, general and administrative | 2,070 | 1,935 | 1,961 |
| Research and development | 747 | 665 | 619 |
| Amortization of intangibles | 60 | 24 | 29 |
| Other operating expenses | 152 | -- | -- |
| Operating income | 2,475 | 2,261 | 2,213 |
| Other income (expense): | | | |
| Gain (loss) from foreign currency, net | (3) | (3) | (21) |
| Interest income | 29 | 46 | 76 |
| Interest expense | (9) | (16) | (51) |
| Other, net | 35 | 25 | (134) |
| Earnings before income taxes | 2,527 | 2,313 | 2,083 |
| Income taxes | 317 | 306 | 36 |
| Net earnings | $ 2,210 | $ 2,007 | $ 2,047 |
| Basic earnings per common share | $ 7.34 | $ 6.72 | $ 6.86 |
| Diluted earnings per common share | $ 7.27 | $ 6.66 | $ 6.79 |
| Basic weighted average common shares | 300,932,749 | 298,847,072 | 298,504,732 |
| Diluted weighted average common shares | 304,104,272 | 301,348,181 | 301,582,676 |

See accompanying notes to consolidated financial statements.

**ALCON, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**
**Years Ended December 31, 2010, 2009 and 2008**

| | Common Shares | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Shares | Total |
|---|---|---|---|---|---|---|---|
| | Number of Shares Outstanding | Amount | | | | | |
| | (in millions, except share data) | | | | | | |
| Balance, December 31, 2007 | 297,662,706 | $ 43 | $ 1,300 | $ 203 | $ 3,392 | $ (1,563) | $ 3,375 |
| Comprehensive income: | | | | | | | |
| Net earnings | -- | -- | -- | -- | 2,047 | -- | 2,047 |
| Change in net unrealized gains (losses) on investments | -- | -- | -- | (7) | -- | -- | (7) |
| Foreign currency translation adjustments | -- | -- | -- | (89) | -- | -- | (89) |
| Unrecognized postretirement benefits losses and prior service costs, net of taxes | -- | -- | -- | (27) | -- | -- | (27) |
| Total comprehensive income | | | | | | | 1,924 |
| Adjustment for new pension plan measurement date, net of taxes | -- | -- | -- | -- | (1) | -- | (1) |
| Share-based payments | -- | -- | 83 | -- | -- | -- | 83 |
| Share award transactions | 2,031,562 | -- | 25 | -- | (8) | 108 | 125 |
| Tax benefits on share award transactions | -- | -- | 61 | -- | -- | -- | 61 |
| Treasury shares acquired | (1,045,915) | -- | -- | -- | -- | (127) | (127) |
| Share cancellation | -- | (1) | (21) | -- | (981) | 1,003 | -- |
| Dividends on common shares | -- | -- | 1 | -- | (750) | -- | (749) |
| Balance, December 31, 2008 | 298,648,353 | 42 | 1,449 | 80 | 3,699 | (579) | 4,691 |
| Comprehensive income: | | | | | | | |
| Net earnings | -- | -- | -- | -- | 2,007 | -- | 2,007 |
| Change in net unrealized gains (losses) on investments | -- | -- | -- | 40 | -- | -- | 40 |
| Foreign currency translation adjustments | -- | -- | -- | 71 | -- | -- | 71 |
| Unrecognized postretirement benefits losses and prior service costs, net of taxes | -- | -- | -- | 12 | -- | -- | 12 |
| Total comprehensive income | | | | | | | 2,130 |
| Adjustment for acquisition of noncontrolling interest | -- | -- | (12) | -- | -- | -- | (12) |
| Share-based payments | -- | -- | 74 | -- | -- | -- | 74 |
| Share award transactions | 977,202 | -- | 5 | -- | (2) | 52 | 55 |
| Tax benefits on share award transactions | -- | -- | 22 | -- | -- | -- | 22 |
| Treasury shares acquired | (74,822) | -- | -- | -- | -- | (7) | (7) |
| Share cancellation | -- | -- | (3) | -- | (123) | 126 | -- |
| Dividends on common shares | -- | -- | -- | -- | (1,048) | -- | (1,048) |
| Balance, December 31, 2009 | 299,550,733 | 42 | 1,535 | 203 | 4,533 | (408) | 5,905 |
| Comprehensive income: | | | | | | | |
| Net earnings | -- | -- | -- | -- | 2,210 | -- | 2,210 |
| Change in net unrealized gains (losses) on investments | -- | -- | -- | (30) | -- | -- | (30) |
| Foreign currency translation adjustments | -- | -- | -- | (43) | -- | -- | (43) |
| Unrecognized postretirement benefits losses and prior service costs, net of taxes | -- | -- | -- | (32) | -- | -- | (32) |
| Total comprehensive income | | | | | | | 2,105 |
| Share-based payments | -- | -- | 78 | -- | -- | -- | 78 |
| Share award transactions | 3,046,622 | -- | (9) | -- | -- | 178 | 169 |
| Tax benefits on share award transactions | -- | -- | 65 | -- | -- | -- | 65 |
| Treasury shares acquired | (207,089) | -- | -- | -- | -- | (33) | (33) |
| Dividends on common shares | -- | -- | -- | -- | (1,037) | -- | (1,037) |
| Balance, December 31, 2010 | 302,390,266 | $ 42 | $ 1,669 | $ 98 | $ 5,706 | $ (263) | $ 7,252 |

See accompanying notes to consolidated financial statements.

**ALCON, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| | | (in millions) | |
| Cash provided by (used in) operating activities: | | | |
| Net earnings | $ 2,210 | $ 2,007 | $ 2,047 |
| Adjustments to reconcile net earnings to cash provided from operating activities: | | | |
| Depreciation | 212 | 194 | 167 |
| Amortization of intangibles | 60 | 24 | 29 |
| Share-based payments | 78 | 74 | 83 |
| Tax benefits from share-based compensation | 8 | 5 | 8 |
| Deferred income taxes | 4 | 51 | (146) |
| Loss (gain) on sale of assets | (29) | 49 | 12 |
| Loss on impairment of available-for-sale securities | -- | -- | 37 |
| Unrealized depreciation (appreciation) on trading securities | (6) | (76) | 85 |
| Other, net | 4 | 1 | 7 |
| Changes in operating assets and liabilities, net of effects from business acquisitions: | | | |
| Trade receivables | (129) | (144) | (121) |
| Inventories | (54) | (6) | (79) |
| Other assets | (116) | (13) | 25 |
| Accounts payable | 49 | 118 | (8) |
| Other current liabilities | (27) | 100 | 62 |
| Other long term liabilities | 111 | 32 | (176) |
| Net cash from operating activities | 2,375 | 2,416 | 2,032 |
| Cash provided by (used in) investing activities: | | | |
| Purchases of property, plant and equipment | (309) | (342) | (302) |
| Acquisitions of businesses, net of cash acquired | (529) | (149) | (23) |
| Purchases of intangible assets | (137) | (8) | (26) |
| Purchases of investments | (2,881) | (1,261) | (1,099) |
| Proceeds from sales and maturities of investments | 2,149 | 1,362 | 1,081 |
| Other, net | 2 | 8 | 4 |
| Net cash from investing activities | (1,705) | (390) | (365) |
| Cash provided by (used in) financing activities: | | | |
| Net proceeds from (repayment of) short term debt | (306) | (492) | (633) |
| Repayment of long term debt | -- | (6) | (2) |
| Dividends on common shares | (1,037) | (1,048) | (749) |
| Acquisition of treasury shares | (33) | (7) | (127) |
| Proceeds from exercise of stock options | 169 | 55 | 125 |
| Tax benefits from share-based payment arrangements | 57 | 17 | 53 |
| Net cash from financing activities | (1,150) | (1,481) | (1,333) |
| Effect of exchange rates on cash and cash equivalents | (2) | 13 | (19) |
| Net increase (decrease) in cash and cash equivalents | (482) | 558 | 315 |
| Cash and cash equivalents, beginning of year | 3,007 | 2,449 | 2,134 |
| Cash and cash equivalents, end of year | $ 2,525 | $ 3,007 | $ 2,449 |

See accompanying notes to consolidated financial statements.

## (1) Summary of Significant Accounting Policies and Practices

*(a) Description of Business*

Alcon, Inc. ("Alcon"), a Swiss corporation, is a majority owned subsidiary of Novartis AG. During July 2008, Nestlé S.A. sold approximately 74 million of its Alcon common shares to Novartis. At December 31, 2009, Nestlé owned 156,076,263 common shares of Alcon. In January 2010, Novartis exercised its call option for Nestlé's remaining Alcon common shares and proposed a merger of Alcon with and into Novartis, as discussed in note 16. In August 2010, Novartis acquired Nestlé's remaining Alcon shares. As of December 31, 2010, Novartis had purchased 231,352,279 Alcon common shares.

The principal business of Alcon and all of its subsidiaries (collectively, the "Company") is the development, manufacture and marketing of pharmaceuticals, surgical equipment and devices, contact lens care and other vision care products that treat eye diseases and disorders and promote the general health and function of the human eye. Due to the nature of the Company's worldwide operations, it is not subject to significant concentration risks.

*(b) Principles of Consolidation*

The consolidated financial statements include the accounts of the Company. All significant balances and transactions among the consolidated entities have been eliminated in consolidation. All consolidated entities are included on the basis of a calendar year.

*(c) Management Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Actual results could differ from those estimates.

*(d) Foreign Currency*

The reporting currency of the Company is the United States dollar. The financial position and results of operations of the Company's foreign subsidiaries are generally determined using the local currency as the functional currency. Assets and liabilities of these subsidiaries have been translated at the rate of exchange at the end of each period. Revenues and expenses have been translated at the weighted average rate of exchange in effect during the period. Gains and losses resulting from translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity. The impact of subsidiaries located in countries whose economies are considered highly inflationary is insignificant. Gains and losses resulting from foreign currency transactions are included in nonoperating earnings. Under Swiss corporate law, Alcon is required to declare any dividends on its common shares in Swiss francs.

*(e) Cash and Cash Equivalents*

Cash equivalents include demand deposits and all highly liquid investments with original maturities of three months or less.

*(f) Inventories*

Inventories are stated at the lower of cost or market. Cost is determined primarily using the first-in, first-out method.

*(g) Investments*

The Company holds investments of various types, maturities and classifications.

*Trading Securities*. Trading securities are stated at fair value, with gains or losses resulting from changes in fair value recognized currently in earnings. Gains or losses from changes in fair value of these securities are included in the consolidated statements of earnings in other, net.

*Available-for-Sale Investments*. Investments designated as available-for-sale include marketable debt and equity securities. Investments designated as available-for-sale are reported at fair value, with unrealized gains and losses, net of tax, recorded in shareholders' equity. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of these securities are recorded in the consolidated statements of earnings in other, net. Should the decline in value of any investment be deemed to be other-than-temporary, the investment basis is written down to fair value and the write-down is recorded to earnings as a loss in other, net.

*Held-to-Maturity Investments*. The Company holds no investments classified as held-to-maturity.

*Short Term/Long Term Classification*. The Company considers all liquid interest-earning investments with original maturities of three months or less to be cash equivalents. Debt securities with maturities greater than three months and less than one year are classified as short term investments. Generally, debt securities with remaining maturities greater than one year are classified as long term investments. However, investments with maturities greater than one year may be classified as short term based on their highly liquid nature and because they represent the investment of cash that is available for current operations.

*(h) Financial Instruments*

The Company uses various derivative financial instruments on a limited basis as part of a strategy to manage the Company's exposure to certain market risks associated with interest rate and foreign currency exchange rate fluctuations expected to occur within the next twelve months. The Company evaluates the use of interest rate swaps and periodically uses such arrangements to manage its interest risk on selected debt instruments.

The Company regularly uses foreign currency forward exchange contracts to reduce the effect of exchange rate changes on certain foreign currency denominated intercompany and third-party transactions. The forward exchange contracts establish the exchange rates at which the Company purchases or sells the contracted amount of foreign currencies for specified local currencies at a future date. The Company uses forward contracts, which are short term in nature, and receives or pays the difference between the contracted forward rate and the exchange rate at the settlement date.

All of the Company's derivative financial instruments are recorded at fair value. For derivative instruments designated and qualifying as fair value hedges, the gain or loss on these hedges is recorded immediately in earnings to offset the changes in the fair value of the assets or liabilities being hedged. For derivative instruments designated and qualifying as cash flow hedges, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income (loss) in shareholders' equity, and is reclassified into earnings when the hedged transaction affects earnings.

*(i) Property, Plant and Equipment*

Property, plant and equipment are stated at historical cost. Additions, major renewals and improvements are capitalized while repairs and maintenance costs are expensed. Upon disposition, the book value of assets and related accumulated depreciation is relieved and the resulting gains or losses are reflected in earnings.

(in millions, except share data)

Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets, which are as follows:

| | |
|---|---|
| Land improvements | 25 years |
| Buildings and improvements | 5-50 years |
| Machinery, other equipment and software | 3-12 years |

*(j) Goodwill and Intangible Assets, Net*

Goodwill is not amortized, but instead is tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their residual values and reviewed for recoverability upon the occurrence of an event that might indicate conditions for impairment could exist.

Intangible assets, net, include acquired customer base, trademarks, patents and licensed technology. The cost of these intangible assets is amortized on a straight-line basis over the estimated useful lives of the respective assets, which are 3 to 20 years.

Intangible assets, net, also include the costs of purchased in process research and development projects. The costs of these projects are not amortized but are tested for impairment at least annually and the projects are monitored to determine if commercialization has been achieved. If these projects reach commercialization, the related costs will be amortized over the useful lives of the respective assets.

*(k) Impairment*

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

*(l) Pension and Other Postretirement Plans*

The Company sponsors several defined contribution plans, defined benefit retirement plans and a postretirement healthcare plan.

The Company provides for the benefits payable to employees on retirement by charging current service costs to income systematically over the expected service lives of employees who participate in defined benefit plans. An actuarially computed amount is determined at the beginning of each year by using valuation methods that attribute the cost of the retirement benefits to periods of employee service. Such valuation methods incorporate assumptions concerning employees' projected compensation and healthcare cost trends. Prior service costs for plan amendments are generally charged to income systematically over the remaining expected service lives of participating employees.

The overfunded or underfunded status of defined benefit postretirement plans (other than multiemployer plans) is shown as an asset or liability in the balance sheet and changes in the funded status are recognized in the year in which the changes occur through other comprehensive income. Effective January 1, 2008, the Company adopted a provision to measure the funded status of a plan as of the date of its year-end balance sheet. The Company utilized the alternate transition method to transition the measurement date for its defined pension benefit plan in Japan from September 30 to December 31. Under this transition method, the Company charged 3/15ths of the estimated pension cost from October 1, 2007 to December 31, 2008 (or $1, net of taxes) to retained earnings as of January 1, 2008. Retrospective application was not permitted.

The cost recognized for defined contribution plans is based upon the contribution required for the period.

*(m) Revenue Recognition*

The Company recognizes revenue in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 104.

The Company recognizes revenue on product sales when the customer takes title and assumes risk of loss except for surgical equipment sales. If the customer takes title and assumes risk of loss upon shipment, revenue is recognized on the shipment date. If the customer takes title and assumes risk of loss upon delivery, revenue is recognized on the delivery date. Revenue is recognized as the net amount to be received after deducting estimated amounts for rebates and product returns.

The Company recognizes revenue on surgical equipment sales when the customer takes title and assumes risk of loss and when installation and any required training have been completed. Per procedure technology fees associated with treatment cards related to refractive products manufactured by WaveLight AG are recognized when the treatment cards are delivered and title and risks of ownership are transferred.

When the Company recognizes revenue from the sale of products, certain items, such as cash discounts, allowances and rebates, which are known and estimable at the time of sale, are recorded as a reduction of sales. To the extent the customer will, or is expected to, reduce its payment on the related invoice amounts, these items are reflected as a reduction of accounts receivable and sales.

In accordance with certain government rebate requirements (such as those under U.S. Medicaid and Medicare) and with certain contractual agreements, the Company is required to pay rebates to customers, their customers or government agencies under provisions that limit the amounts that may be paid for pharmaceuticals and surgical devices. The amount of accrued product rebates is included in other current liabilities.

The Company records a reduction of sales for estimated discounts, allowances and rebates in the period in which the related sales occur, based upon historical experience of amounts paid and amounts as a percentage of sales. The Company also considers the effects of changes in product pricing, in sales trends, in contract terms and in laws and regulations.

Value added taxes and other sales taxes are excluded from sales.

*(n) Research and Development*

Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed as the contracted work is performed or as milestone results have been achieved.

*(o) Selling, General and Administrative*

Advertising costs are expensed as incurred. Advertising costs amounted to $128, $129 and $144 in 2010, 2009 and 2008, respectively.

Shipping and handling costs amounted to $76, $70 and $76 in 2010, 2009 and 2008, respectively.

Legal costs are expensed during the period incurred.

*(p) Income Taxes*

The Company recognizes deferred income tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of the Company's assets, liabilities and expected benefits of utilizing net operating loss and credit carryforwards. The impact on deferred income taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. Withholding taxes have been provided on unremitted earnings of subsidiaries which are not reinvested indefinitely in such operations. Taxes have not been provided on permanent

(in millions, except share data)

investments in certain subsidiaries that would be taxable in the event of liquidation. Dividends paid by subsidiaries to Alcon, Inc. do not result in Swiss income taxes.

*(q) Basic and Diluted Earnings Per Common Share*

Basic earnings per common share were computed by dividing net earnings by the weighted average number of common shares outstanding for the relevant period. The unvested portion of restricted common shares was excluded in the calculation of basic weighted average common shares outstanding. Diluted weighted average common shares reflect the potential dilution, using the treasury stock method, that could occur if employee stock options for the purchase of common shares and share-settled stock appreciation rights were exercised and if share-settled restricted share units and performance share units and contingent restricted common shares granted to employees were vested.

The following table reconciles the weighted average shares of the basic and diluted share computations:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Basic weighted average common shares outstanding | 300,932,749 | 298,847,072 | 298,504,732 |
| Effect of dilutive securities: | | | |
| Employee stock options | 1,736,233 | 1,807,211 | 2,585,873 |
| Share-settled stock appreciation rights | 1,050,684 | 414,799 | 300,834 |
| Share-settled restricted share units and performance share units | 374,191 | 187,543 | 49,786 |
| Contingent restricted common shares | 10,415 | 91,556 | 141,451 |
| Diluted weighted average common shares outstanding | 304,104,272 | 301,348,181 | 301,582,676 |

Certain executives of the Company had deferred the receipt of 70,675 and 118,180 Alcon common shares at December 31, 2010 and 2009, respectively, into the Alcon Executive Deferred Compensation Plan discussed in note 13. Alcon common shares held in the plan were reflected as outstanding in the consolidated balance sheets and were included in the applicable basic and diluted earnings per share calculations.

The computations of diluted weighted average common shares outstanding for the years ended December 31, 2010, 2009 and 2008 did not include the following instruments, as their exercise prices and unrecognized costs were greater than the average market price of the common shares:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Stock options | -- | 125 | 497,805 |
| Share-settled stock appreciation rights | 1,350 | 5,850 | 3,628,998 |

The effect of their inclusion would have been anti-dilutive.

*(r) Comprehensive Income*

Comprehensive income consists of net earnings, foreign currency translation adjustments, unrealized gains (losses) on investments and the changes in the funded status of defined benefit postretirement plans and is presented in the consolidated statements of shareholders' equity and comprehensive income.

(in millions, except share data)

*(s) Share-Based Compensation*

U.S. GAAP requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, based on estimated "fair values."

The Company estimates the "fair value" of share-based payment awards as of the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period. Share-based compensation expenses recognized in net earnings were based on awards ultimately expected to vest, and therefore the amounts were reduced for estimated forfeitures. The Company estimates forfeitures at the time of grant and revises, if necessary, in subsequent periods if actual forfeitures differ materially from those estimates. Excess tax benefits related to share-based compensation are reflected as financing cash flows rather than operating cash flows.

The Company records deferred tax assets for share-based awards that result in deductions on the Company's income tax returns, based on the amount of compensation cost recognized and the Company's statutory tax rate in the jurisdiction in which it expects to receive a deduction. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded in additional paid-in capital (if the tax deduction exceeds the deferred tax asset) or in the consolidated statement of earnings (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

*(t) Treasury Shares*

Treasury shares are accounted for by the cost method. The board of directors has approved the purchase of Alcon common shares for various purposes as described in notes 12 and 6.

*(u) Warranty Reserves*

The Company generally warrants its surgical equipment against defects for a period of one year from the installation date. Warranty costs are estimated and expensed at the date of sale and the resulting accrued liability is amortized over the warranty period. Such costs are estimated based on actual cost experience.

**(2) Cash Flows—Supplemental Disclosures**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Supplemental Disclosure of Cash Flow Information: | | | |
| Cash paid during the year for the following: | | | |
| Interest expense, net of amount capitalized | $ 9 | $ 14 | $ 53 |
| Income taxes | $ 284 | $ 262 | $ 232 |

Supplemental Disclosure of Noncash Financing Activities:

During the years ended December 31, 2010, 2009 and 2008, certain individuals terminated employment prior to the vesting of their restricted Alcon common shares and forfeited 239 shares, 5,420 shares and 17,622 shares, respectively. (See note 12 for discussion of restricted common shares.) The forfeited shares were recorded as treasury shares during the respective periods.

(in millions, except share data)

## (3) Supplemental Balance Sheet Information

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Cash and Cash Equivalents** | | |
| Cash | $ 479 | $ 195 |
| Cash equivalents on deposit with Nestlé | -- | 10 |
| Cash equivalents -- other | 2,046 | 2,802 |
| Total | $ 2,525 | $ 3,007 |

Cash equivalents consisted of interest-bearing deposits and repurchase agreements with an initial term of less than three months.

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Trade Receivables, Net** | | |
| Trade receivables | $ 1,540 | $ 1,389 |
| Allowance for doubtful accounts | (57) | (43) |
| Net | $ 1,483 | $ 1,346 |

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Allowance for Doubtful Accounts** | | | |
| Balance at beginning of year | $ 43 | $ 45 | $ 34 |
| Bad debt expense | 19 | 6 | 13 |
| Charge-offs, net of recoveries | (5) | (8) | (2) |
| Balance at end of year | $ 57 | $ 43 | $ 45 |

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Inventories** | | |
| Finished products | $ 434 | $ 375 |
| Work in process | 48 | 50 |
| Raw materials | 211 | 201 |
| Total | $ 693 | $ 626 |

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Other Current Assets** | | |
| Prepaid expenses | $ 74 | $ 57 |
| Prepaid income taxes | 139 | 58 |
| Receivables from affiliates | 3 | -- |
| Other | 91 | 98 |
| Total | $ 307 | $ 213 |

(in millions, except share data)

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Property, Plant and Equipment, Net** | | |
| Land and improvements | $ 28 | $ 29 |
| Buildings and improvements | 879 | 828 |
| Machinery, other equipment and software | 1,685 | 1,566 |
| Construction in progress | 278 | 227 |
| Total | 2,870 | 2,650 |
| Accumulated depreciation | (1,482) | (1,346) |
| Net | $ 1,388 | $ 1,304 |

Construction in progress at December 31, 2010 consisted primarily of initial construction of a new manufacturing facility in Singapore and various plant expansion and upgrade projects. Commitments related to these projects at December 31, 2010 totaled $53.

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Other Current Liabilities** | | |
| Deferred income tax liabilities | $ 9 | $ 9 |
| Payables to affiliates | -- | 2 |
| Accrued warranties | 12 | 9 |
| Accrued compensation | 339 | 333 |
| Accrued taxes | 217 | 201 |
| Accrued product rebates | 236 | 221 |
| Other | 209 | 272 |
| Total | $ 1,022 | $ 1,047 |

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| **Warranty Reserve** | | | |
| Balance at beginning of year | $ 9 | $ 7 | $ 7 |
| Warranty expense | 16 | 12 | 12 |
| Warranty payments, net | (13) | (10) | (12) |
| Balance at end of year | $ 12 | $ 9 | $ 7 |

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Other Long Term Liabilities** | | |
| Pension plans | $ 543 | $ 423 |
| Postretirement healthcare plan | 123 | 99 |
| Deferred compensation | 29 | 29 |
| Long term income tax liabilities (note 9) | 76 | 57 |
| Liability for acquisition-related contingent payments | 160 | 71 |
| Other | 34 | 12 |
| Total | $ 965 | $ 691 |

(in millions, except share data)

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Accumulated Other Comprehensive Income (Loss)** | | |
| Foreign currency translation adjustment | $ 222 | $ 265 |
| Unrealized gains (losses) on investments, net of income taxes | -- | 30 |
| Unrecognized postretirement benefits losses and prior service costs, net of tax benefits | (124) | (92) |
| Total | $ 98 | $ 203 |

At December 31, 2010, the portion of retained earnings that was available under Swiss law for the payment of dividends was $3,496.

For the years ended December 31, 2010, 2009 and 2008, the Company declared and paid dividends on common shares in Swiss francs ("CHF") as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Dividends per common share in Swiss francs | CHF 3.95 | CHF 3.95 | CHF 2.63 |
| Dividends per common share measured in U.S. dollars | $ 3.44 | $ 3.50 | $ 2.50 |
| Total dividends on common shares measured in U.S. dollars | $ 1,037 | $ 1,048 | $ 750 |

**(4) Investments**

At December 31, 2010 and 2009, investments were as follows:

| | 2010 | 2009 |
|---|---|---|
| Short term investments: | | |
| Trading securities | $ 6 | $ 22 |
| Available-for-sale investments | 883 | 457 |
| Total short term investments | $ 889 | $ 479 |
| Long term investments—available-for-sale investments | $ 398 | $ 73 |

At December 31, 2010 and 2009, trading securities were as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Net Unrealized Gains (Losses) | Estimated Fair Value | Net Unrealized Gains (Losses) | Estimated Fair Value |
| Total trading securities | $ (3) | $ 6 | $ (9) | $ 22 |

(in millions, except share data)

At December 31, 2010, available-for-sale investments were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Short term investments: | | | | |
| U.S. government and agency securities | $ 279 | $ 1 | $ -- | $ 280 |
| Mortgage-backed securities | 5 | -- | -- | 5 |
| Corporate debt securities | 579 | 1 | (2) | 578 |
| Foreign government bonds | 17 | -- | -- | 17 |
| Other investments | 3 | -- | -- | 3 |
| Total short term investments | 883 | 2 | (2) | 883 |
| Long term investments: | | | | |
| U.S. government and agency securities | 280 | 1 | (1) | 280 |
| Mortgage-backed securities | 4 | -- | -- | 4 |
| Corporate debt securities | 112 | -- | -- | 112 |
| Other investments | 2 | -- | -- | 2 |
| Total long term investments | 398 | 1 | (1) | 398 |
| Total available-for-sale investments | $ 1,281 | $ 3 | $ (3) | $ 1,281 |

At December 31, 2009, available-for-sale investments were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| Short term investments: | | | | |
| U.S. government and agency securities | $ 129 | $ -- | $ (1) | $ 128 |
| Mortgage-backed securities fund | 75 | 7 | -- | 82 |
| Mortgage-backed securities | 6 | -- | -- | 6 |
| Senior secured bank loans fund | 131 | 23 | -- | 154 |
| Corporate debt securities | 43 | -- | -- | 43 |
| Equity securities | 29 | -- | -- | 29 |
| Other investments | 15 | -- | -- | 15 |
| Total short term investments | 428 | 30 | (1) | 457 |
| Long term investments: | | | | |
| U.S. government and agency securities | 52 | -- | (1) | 51 |
| Mortgage-backed securities | 10 | -- | -- | 10 |
| Equity securities | 2 | -- | -- | 2 |
| Other investments | 8 | 2 | -- | 10 |
| Total long term investments | 72 | 2 | (1) | 73 |
| Total available-for-sale investments | $ 500 | $ 32 | $ (2) | $ 530 |

The senior secured bank loans fund is a professionally managed fund investing in loans made by banks to large corporate borrowers whose assets are pledged as collateral.

(in millions, except share data)

The contractual maturities of available-for-sale investments at December 31, 2010 were as follows:

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Securities not due at a single maturity date* | $ 1 | $ 1 |
| Other debt securities, maturing: | | |
| Within one year | 563 | 563 |
| After 1 year through 10 years | 710 | 710 |
| After 10 years through 15 years | -- | -- |
| Beyond 15 years | 7 | 7 |
| Total debt securities recorded at market | 1,281 | 1,281 |
| Equity and other investments | -- | -- |
| Total available-for-sale investments | $ 1,281 | $ 1,281 |

*Mortgage-backed securities and certain other investments.

Activities related to available-for-sale investments were as shown below. The cost of securities was based on the specific identification method.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Proceeds from sales and principal repayments | $ 2,132 | $ 1,068 | $ 10 |
| Gross realized gains on sales | 39 | 22 | 1 |
| Gross realized losses on sales | (4) | (4) | (2) |

The net unrealized holding gains (losses) for available-for-sale investments included in accumulated other comprehensive income (loss) in shareholders' equity at December 31, 2010, 2009 and 2008 were less than $1, $30 and $(10), respectively. Net unrealized holding gains (losses) on trading securities included in earnings for the years ended December 31, 2010, 2009 and 2008 were $6, $76 and $(85), respectively.

The changes in net unrealized gains (losses) on investments, net of taxes, included in accumulated other comprehensive income (loss) were:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Changes in unrealized holding gains (losses) arising during the period | $ 5 | $ 58 | $ (45) |
| Reclassification adjustment for losses (gains) included in net income | (35) | (18) | 38 |
| Changes in net unrealized gains (losses) on investments, net of taxes | $ (30) | $ 40 | $ (7) |

(in millions, except share data)

As of December 31, 2010 and 2009, there were no gross unrealized losses on individual available-for-sale investments greater than $1.

The Company recognized $37 in losses for other-than-temporary impairment in the year ended December 31, 2008, as discussed in note 5.

*Investment Income*

Other, net, included gains (losses) on investments as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Realized gains (losses) on sale of investments | $ 30 | $ (49) | $ (12) |
| Unrealized gains (losses) on investments classified as trading securities | 6 | 76 | (85) |
| Other-than-temporary impairment | -- | -- | (37) |
| Total gains (losses) on investments | $ 36 | $ 27 | $ (134) |

## (5) Financial Instruments

Foreign Currency Risk Management

A significant portion of the Company's cash flows is denominated in foreign currencies. Alcon relies on ongoing cash flows generated from foreign sources to support its long term commitments to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of weakening local currencies relative to the dollar, the Company's ability to fund research and other dollar-based strategic initiatives at a consistent level may be impaired. The Company has established a foreign currency risk management program to protect against volatility of non-functional currency monetary assets and liabilities and changes in fair value caused by fluctuations in foreign exchange rates.

The Company primarily utilizes forward exchange contracts in countries where they are available and economically beneficial to offset the impact of fluctuations in foreign exchange rates on monetary assets and their related cash flows. All outstanding foreign exchange forward contracts are entered into to protect the value of assets or liabilities denominated in currencies other than the entity's functional currency. To the extent hedged, the changes in fair value of the forward contracts offset the changes in the value of the assets or liabilities. The changes in value of the foreign exchange forward contracts and the assets/liabilities that are being protected are recorded in foreign exchange gains and losses within other income (expense).

The fair values of forward exchange and option contracts are reported in other current assets and other current liabilities. At December 31, 2010, the fair value hedge derivative instruments have settlement dates in the first half of 2011 and cover a gross notional amount of $680.

The Company believes that, at the balance sheet date, counterparty credit risk was not significant due to the credit quality of the counterparties to the derivatives, which were all large financial institutions in Europe, and the short-term maturities of most derivatives. The credit exposure related to these financial instruments was represented by the fair value of contracts with a positive fair value at the reporting date.

(in millions, except share data)

For the years ended December 31, 2010 and 2009, the effects of foreign exchange derivative instruments were:

| Derivatives in Fair Value Hedging Relationships | Location of Gain (Loss) Recognized in Earnings on Derivatives | 2010 Amount of Gain (Loss) Recognized in Earnings on Derivatives | 2010 Amount of Gain (Loss) on the Hedged Items | 2009 Amount of Gain (Loss) Recognized in Earnings on Derivatives | 2009 Amount of Gain (Loss) on the Hedged Items |
|---|---|---|---|---|---|
| Foreign exchange forward contracts | Gain (loss) from foreign currency, net | $ (28) | $ 16 | $ 3 | $ (8) |

Interest Rate Risk Management

The Company may use interest rate swaps on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and does not leverage any of its investment activities that would put capital at risk.

At December 31, 2010 and 2009, in connection with a long term bank loan, the Company had an interest rate swap fair value hedge outstanding in the notional principal amount of $61 and $54 at the respective year-end exchange rates. The fair values of interest rate swap agreements are reported in other current assets and other current liabilities. This interest rate swap did not have a significant effect on results of operations in 2010 and 2009.

Fair Value of Financial Instruments

At December 31, 2010 and 2009, the Company's financial instruments included cash and cash equivalents, investments, trade receivables, accounts payable, short term borrowings, long term debt and the estimated fair value of certain contingent payments. The estimated fair values of all of these financial instruments were as noted below. Due to the short term maturities of cash and cash equivalents, trade receivables, accounts payable and short term borrowings, the carrying amounts approximate fair values at the respective balance sheet dates.

At December 31, 2010 and 2009, the Company's cash equivalents included $218 and $30, respectively, of instruments that were tri-party fully collateralized reverse repurchase agreements. They were transacted on December 31, 2010 and 2009 and matured "overnight" on the first business day in January 2011 and 2010. The Company utilized this type of transaction to enhance yields on available cash balances, while maintaining liquidity. These securities were recorded at cost, which approximated fair value.

The Company received debt and equity securities as collateral for its advances under the reverse repurchase agreements. A financial institution other than the seller held the collateral for the Company's benefit. The value and the liquidity of the underlying collateral were required to be between 102% and 110%, depending upon the credit of collateral, of the advanced amount and were evaluated by an independent third-party custodian. The Company recorded only its advances under the agreements as cash equivalents at the time of entering the transactions and recognized the interest income upon settlement. The collateral value or changes in collateral value were not recorded or recognized.

The fair values of long term debt were based on interest rates then currently available to the Company for issuance of debt with similar terms and remaining maturities. The fair values of investments and acquisition-related contingent payments were determined as discussed below.

(in millions, except share data)

| | December 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Carrying Amounts | Fair Value | Carrying Amounts | Fair Value |
| **Assets:** | | | | |
| Short term trading and available-for-sale investments .. | $ 889 | $ 889 | $ 479 | $ 479 |
| Long term available-for-sale investments..... | 398 | 398 | 73 | 73 |
| Forward exchange contracts ..... | -- | -- | 6 | 6 |
| Interest rate swaps ..... | -- | -- | 1 | 1 |
| **Liabilities:** | | | | |
| Long term debt ..... | 62 | 62 | 56 | 56 |
| Liability for acquisition-related contingent payments ... | 160 | 160 | 71 | 71 |
| Forward exchange and option contracts ..... | 12 | 12 | 2 | 2 |

Financial instruments, such as equity or fixed income securities, other investments, financial liabilities and derivatives, are presented at fair value. Fair value is defined as the price at which an asset could be exchanged or a liability could be transferred in an orderly transaction between knowledgeable and willing market participants within the principal or most advantageous market at the measurement date. Where available, fair value is based on or derived from observable market prices or parameters. Where observable prices or inputs are not available, pricing for similar financial assets or liabilities, dealer quotes or valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Financial assets and liabilities recorded at fair value in the consolidated balance sheets were categorized based upon the level of judgment associated with the inputs used to measure their fair value. These categories, from lowest to highest based on the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of Company assets carried at Level 1 fair value are equities listed in active markets.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the assets or liabilities through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

The Company's assets generally included in this fair value category are various government agency securities, certain investment funds, mortgage backed securities, collateralized mortgage obligations, foreign exchange derivatives and certain interest rate derivatives. Foreign exchange derivatives and interest rate derivatives are valued using corroborated, observable market data. The Company's liabilities generally included in this fair value category consist of certain foreign exchange derivatives.

Level 3 – Inputs are unobservable inputs for the asset or liability. These inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Generally, the Company's assets carried at fair value included in this category are various investment funds.

The Company's liabilities carried at fair value in this category are acquisition-related contingent payments.

The Company's Level 3 financial investments are held in funds professionally managed by investment managers. The net asset values are furnished in statements received from fund custodians whose statements reflect valuations conducted according to their respective fund pricing policies and asset types. The complete details of the fund holdings of several of the Company's professionally managed funds may be unavailable at times, limiting the Company's ability to look through to the underlying assets at the date the financial statements are prepared. Because of these constraints, the Company classifies these fund investments as Level 3.

As of December 31, 2010, the Company estimated $160 as the fair value of its obligations to make contingent payments related to acquisitions. The fair value measurements were based on significant inputs not observable in the market and thus represent a Level 3 measurement.

In connection with an acquisition in 2009, the Company is obligated to make acquisition-related contingent payments of up to $439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. At December 31, 2010, the fair value of these payments was estimated to be $71. Each milestone was assigned a probability based on its current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 5.3%, which the Company believed was appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 5% to 39%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately $30.

In connection with acquisitions in 2010, the Company is obligated to make acquisition-related contingent payments of up to $528 upon achieving certain sales objectives through 2015. The fair values of these payments at December 31, 2010 were estimated to total $89. The fair values were based on the Company's estimates of the probability and timing of related sales projection streams. Each revenue projection assumption was assigned a probability and the resultant probability-weighted cash flows were then discounted using discount rates between 4.5% and 6%, which the Company believed was appropriate and representative of market participant assumptions. Achieving the Company's most optimistic sales assumptions would not increase the estimated total fair value more than $10.

The fair values of these contingent payments are reviewed each reporting period. Any changes in the estimated value not associated with the original purchase price valuation are recorded in the Company's results of operations. No such changes were recognized in the current period.

*Fair Value by Category*

Financial assets and financial liabilities measured at fair value on a recurring basis were categorized in the tables below based upon the lowest hierarchical level of input that is significant to the fair value measurement.

(in millions, except share data)

| | Fair Value as of December 31, 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial Assets** | | | | |
| Trading securities - Hedge funds | $ -- | $ -- | $ 6 | $ 6 |
| Available-for-sale securities: | | | | |
| U.S. government and agency securities | -- | 560 | -- | 560 |
| Mortgage-backed securities | -- | 9 | -- | 9 |
| Corporate debt securities | -- | 690 | -- | 690 |
| Foreign government bonds | -- | 17 | -- | 17 |
| Other investments | -- | 5 | -- | 5 |
| Total | $ -- | $ 1,281 | $ 6 | $ 1,287 |
| **Financial Liabilities** | | | | |
| Liability for acquisition-related contingent payments | $ -- | $ -- | $ 160 | $ 160 |
| Foreign exchange and option contracts | -- | 12 | -- | 12 |
| Total | $ -- | $ 12 | $ 160 | $ 172 |

| | Fair Value as of December 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Financial Assets** | | | | |
| Trading securities - Hedge funds | $ -- | $ -- | $ 22 | $ 22 |
| Available-for-sale securities: | | | | |
| U.S. government and agency securities | -- | 179 | -- | 179 |
| Mortgage-backed securities fund | -- | 82 | -- | 82 |
| Mortgage-backed securities | -- | 16 | -- | 16 |
| Senior secured bank loans fund | -- | 154 | -- | 154 |
| Corporate debt securities | -- | 43 | -- | 43 |
| Equity securities | 31 | -- | -- | 31 |
| Other investments | -- | 25 | -- | 25 |
| Forward exchange contracts | -- | 6 | -- | 6 |
| Interest rate swaps | -- | 1 | -- | 1 |
| Total | $ 31 | $ 506 | $ 22 | $ 559 |
| **Financial Liabilities** | | | | |
| Liability for acquisition-related contingent payments | $ -- | $ -- | $ 71 | $ 71 |
| Foreign exchange and option contracts | -- | 2 | -- | 2 |
| Total | $ -- | $ 2 | $ 71 | $ 73 |

*Level 3 Gains and Losses*

At December 31, 2010, trading securities were the only type of financial assets included in Level 3. The trading securities were professionally managed investment funds, which included hedge funds of $6. The fair value of the investment funds classified as Level 3 could not be determined by independent market observation or through the use of other observable valuation techniques. The valuation was based on net asset values as furnished by the funds'

(in millions, except share data)

custodian. If more than an insignificant proportion of a particular fund's assets were Level 3, the entire fund was classified as Level 3, although many of the fund's individual holdings may meet the definition of Level 1 or Level 2. The only liabilities included in Level 3 were the acquisition-related contingency payments, as discussed earlier in this note.

Total gains or losses (realized and unrealized) for financial assets and liabilities classified as Level 3 that were included in earnings before income taxes were a component of other, net, in the consolidated statements of earnings. For the year ended December 31, 2010, there were net gains (realized and unrealized) of $1 from trading securities, and the Company received proceeds from sales of Level 3 trading securities of $17. Realized and unrealized net gains during the period were approximately 5% of the beginning balance for Level 3 trading securities and did not negatively affect or materially impact operations, liquidity or capital resources.

The table presented below summarizes the change in carrying values associated with Level 3 financial instruments during the year ended December 31, 2010.

| | Assets | Liabilities |
|---|---|---|
| | Trading Securities | Acquisition-Related Contingent Payments |
| Beginning balance | $ 22 | $ 71 |
| Total net gains or losses (realized/unrealized)-- | | |
| Included in earnings before income taxes | 1 | -- |
| Purchases of investments | -- | -- |
| Acquisition-related activities | -- | 89 |
| Proceeds on sales and maturities | (17) | -- |
| Transfers in and/or out of Level 3 | -- | -- |
| Ending balance | $ 6 | $ 160 |

Gains and losses (realized and unrealized) on Level 3 financial instruments included in earnings were reported in other, net, as follows:

| | 2010 |
|---|---|
| Net gains (losses) included in earnings for the period | $ 1 |
| Change in unrealized net gains (losses) related to assets still held at reporting date | $ 1 |

At December 31, 2009, trading securities were the only type of financial assets included in Level 3. The trading securities were professionally managed investment funds, which included fixed income funds of $22. The fair value of the investment funds classified as Level 3 could not be determined by independent market observation or through the use of other observable valuation techniques. The valuation was based on net asset values as furnished by the funds' custodian. If more than an insignificant proportion of a particular fund's assets were Level 3, the entire fund was classified as Level 3, although many of the fund's individual holdings may meet the definition of Level 1 or Level 2. The only liabilities included in Level 3 were the acquisition-related contingency payments, as discussed earlier in this note.

Total gains and losses (realized and unrealized) included in earnings before income taxes for financial assets and liabilities classified as Level 3 were a component of other, net, in the consolidated statements of earnings. For the

(in millions, except share data)

year ended December 31, 2009, there were net gains (realized and unrealized) of $7 from trading securities, and the Company received proceeds from sales of Level 3 trading securities of $246. Realized and unrealized net gains during the period were approximately 3% of the beginning balance for Level 3 trading securities and did not negatively affect or materially impact operations, liquidity or capital resources.

The table presented below summarizes the change in carrying values associated with Level 3 financial instruments during the year ended December 31, 2009.

| | Assets | Liabilities |
|---|---|---|
| | Trading Securities | Acquisition-Related Contingent Payments |
| Beginning balance | $ 261 | $ -- |
| Total net gains or losses (realized/unrealized) -- | | |
| Included in earnings before income taxes | 7 | -- |
| Acquisition-related activities | -- | 71 |
| Proceeds on sales and maturities | (246) | -- |
| Transfers in and/or out of Level 3 | -- | -- |
| Ending balance | $ 22 | $ 71 |

Gains and losses (realized and unrealized) on Level 3 financial instruments included in earnings were reported in other, net, as follows:

| | 2009 |
|---|---|
| Net gains (losses) included in earnings for the period | $ 7 |
| Change in unrealized net gains (losses) related to assets still held at reporting date | $ 2 |

*Valuation Techniques*

Valuation techniques used for financial assets and liabilities accounted for at fair value are generally categorized into three types: market approach, income approach and cost approach. The Company valued its Level 3 financial assets and liabilities at December 31, 2010 and 2009 primarily using the market approach and, to a lesser extent, the income approach.

*Market Approach*. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables. A majority of the Company's balances measured at fair value on a recurring basis were valued using the market approach. Most measurements were market quotes or obtained from other reliable market sources. The Company did not use market indices for valuing material balances measured at fair value.

*Income Approach*. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present or discounted amount. The measurement is based on the value indicated by current market expectations about those future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models, binomial or lattice models that incorporate present value techniques and option-pricing models. The Company valued certain derivatives, in part or whole, and acquisition-related contingent payments using the income approach.

*Cost Approach*. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset. The Company did not employ the cost approach for determining fair value of financial assets and liabilities.

The valuation approaches are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation techniques may be used. Professionally managed investment funds may use a combination of market, income and cost approaches. The process of selecting which valuation method(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

*Other-Than-Temporary Impairment of Available-for-Sale Investments*

The Company reviews quarterly its available-for-sale investments to identify impaired equity and debt securities. An individual security is impaired if the fair value of the investment is less than its amortized cost basis. Impairment may be either temporary or other-than-temporary.

The Company normally reviews securities held in its portfolio that have been in a continuous loss position for twelve months or longer and securities whose fair value is significantly lower than its amortized cost basis. Impairment is evaluated using a combination of quantitative and qualitative factors such as considering the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer, as well as the Company's ability and intent to hold the investments for an adequate period of time until an anticipated market price recovery or maturity. In its impairment analysis of debt securities, management assesses whether it does not have the intent to sell the security before maturity and it is more likely than not that it will not have to sell the security before recovery of its cost basis. If an impairment is determined to be other-than-temporary, the investment is written down to fair value, and a loss is recognized immediately through earnings.

In addition, the Company assesses whether there are probable credit losses associated with impaired available-for-sale debt securities. The portion of an other-than-temporary impairment of an available-for-sale debt security that is related to credit loss is recognized in earnings and the remainder of the difference between the cost basis of the debt security and its fair value is recorded in other comprehensive income.

The Company determined that, at December 31, 2010 and 2009, there were no unrealized losses on available-for-sale investments that were other-than-temporarily impaired and there were no credit losses on any investments.

The Company determined that, at December 31, 2008, unrealized losses on certain available-for-sale equity securities and a senior secured bank loans fund were other-than-temporarily impaired due to deteriorating general market conditions, particularly during the fourth quarter of 2008, coupled with the unlikely near term prospects for achieving a sustainable recovery, uncertainty about future market conditions, and declines in certain quantitative or qualitative factors. The other-than-temporary impairment recognized for the senior secured bank loans fund also was deemed appropriate to bring a significant portion of the unrealized losses in line with current market conditions for credit default rates and loss recovery rates. The Company recognized losses for other-than-temporary impairment during the year ended December 31, 2008 of $37.

(in millions, except share data)

Concentrations of Credit Risk

As part of its ongoing control procedures, the Company monitors concentrations of credit risk associated with corporate issuers of securities and financial institutions with which it conducts business. Credit risk is minimal as credit exposure limits are established to avoid a concentration with any single issuer or institution. The Company also monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Concentrations of credit risk associated with these trade receivables are considered minimal due to the Company's diverse customer base. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

**(6) Intangible Assets and Goodwill**

| | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| **Intangible Assets** | | | | |
| Subject to amortization: | | | | |
| Licensed technology…….... | $ 467 | $ (315) | $ 332 | $ (296) |
| Patents…….... | 290 | (40) | 111 | (24) |
| Other…….... | 562 | (115) | 121 | (93) |
| Total subject to amortization…….. | 1,319 | (470) | 564 | (413) |
| Not subject to amortization: | | | | |
| Purchased in process research and development assets…….... | 104 | -- | 104 | -- |
| Total intangible assets…….. | $ 1,423 | $ (470) | $ 668 | $ (413) |

During the years ended December 31, 2010 and 2009, the Company added licensed technology, patents and other intangible assets through business acquisitions and asset purchases. Note 18 provides additional information on changes to intangible assets from significant business acquisitions in 2010 and 2009.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2010 | 2009 | 2008 |
| Aggregate amortization expense related to intangible assets..... | $ 60 | $ 24 | $ 29 |

Estimated Amortization Expense:

| | |
|---|---|
| For year ended December 31, 2011..... | $ 78 |
| For year ended December 31, 2012..... | $ 73 |
| For year ended December 31, 2013..... | $ 67 |
| For year ended December 31, 2014..... | $ 67 |
| For year ended December 31, 2015..... | $ 65 |

(in millions, except share data)

The changes in the carrying amounts of goodwill for the years ended December 31, 2010 and 2009 were as follows:

| | United States Segment | International Segment | Total |
|---|---|---|---|
| **Goodwill** | | | |
| Balance, December 31, 2008 | $ 403 | $ 242 | $ 645 |
| Acquisition of business | 18 | 22 | 40 |
| Impact of changes in foreign exchange rates | 2 | 1 | 3 |
| Balance, December 31, 2009 | 423 | 265 | 688 |
| Acquisitions of businesses | 90 | 64 | 154 |
| Impact of changes in foreign exchange rates | (5) | (4) | (9) |
| Balance, December 31, 2010 | $ 508 | $ 325 | $ 833 |

**(7) Short Term Borrowings**

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Lines of credit | $ 307 | $ 273 |
| Commercial paper | -- | 286 |
| From affiliates | 4 | 7 |
| Bank overdrafts | 26 | 41 |
| Total short term borrowings | $ 337 | $ 607 |

At December 31, 2010, the Company had several unsecured line of credit agreements with third parties totaling $597 that were denominated in various currencies. The commitment fees related to unused borrowings under these facilities were less than $1 during 2010, 2009 and 2008. The weighted average interest rates at December 31, 2010 and 2009 were 2.2% and 2.2%, respectively. The amounts outstanding under these agreements at December 31, 2010 were due at various dates during 2011.

During the first half of 2010 and all of 2009, the Company had a $2,000 commercial paper facility. Nestlé guaranteed the commercial paper facility and assisted in its management, for which the Company paid Nestlé an annual fee based on the average outstanding commercial paper balances. The Company's management believes that any fees paid by the Company to Nestlé for their guarantee of any indebtedness or for the management of the commercial paper program were comparable to the fees that would be paid in an arm's length transaction. Total fees paid to Nestlé in connection with this facility for the years ended December 31, 2010, 2009 and 2008 were less than $1 per year.

During 2010, the Company entered into an unsecured line of credit agreement denominated in Venezuelan bolivars with a subsidiary of Novartis. These short term borrowings at December 31, 2010 were due October 15, 2011. The weighted average interest rate at December 31, 2010 was 10.0%. The unused portion under the line of credit agreements was $8 at December 31, 2010.

The Company had several unsecured bank overdraft lines of credit denominated in various currencies totaling $248 at December 31, 2010. The weighted average interest rates on bank overdrafts at December 31, 2010 and 2009 were 4.5% and 4.5%, respectively.

(in millions, except share data)

## (8) Long Term Debt

| | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Bank loan | $ 62 | $ 56 |
| Less current maturities of long term debt | 62 | -- |
| Long term debt, net of current maturities | $ -- | $ 56 |

The Company's Japanese subsidiary has an outstanding bank loan with a fixed interest rate of 1.6%, due in January 2011. This fixed rate of 1.6% was swapped for floating rate yen LIBOR, which was 0.2% at December 31, 2010. The bank loan was guaranteed by Nestlé for a fee of less than $1 annually in 2010, 2009 and 2008. The bank loan contains provisions that may accelerate the obligation in the event that Nestlé's ownership of Alcon falls below 51%. Although Nestlé's ownership fell below this threshold, the lenders have opted not to call the loan before its maturity date. The balance of the loan was paid in January 2011.

Interest costs of $1, $1 and $2 in 2010, 2009 and 2008, respectively, were capitalized as part of property, plant and equipment.

## (9) Income Taxes

The components of earnings before income taxes were:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Switzerland | $ 1,822 | $ 1,339 | $ 1,446 |
| Outside Switzerland | 705 | 974 | 637 |
| Earnings before income taxes | $ 2,527 | $ 2,313 | $ 2,083 |

Income tax expense (benefit) consisted of the following:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current: | | | |
| Switzerland | $ 5 | $ 29 | $ 6 |
| Outside Switzerland | 308 | 226 | 176 |
| Total current | 313 | 255 | 182 |
| Deferred: | | | |
| Switzerland | -- | (1) | (6) |
| Outside Switzerland | 4 | 52 | (140) |
| Total deferred | 4 | 51 | (146) |
| Total | $ 317 | $ 306 | $ 36 |

During the year ended December 31, 2010, the Company recognized a $25 tax charge for the write-off of deferred tax assets as a result of provisions of U.S. healthcare reform laws enacted during the period.

Income tax expense for the year ended December 31, 2008 reflected a net reduction of $271 for period items, including a reduction of $236 related to losses associated with the Company's investment in and advances to its

(in millions, except share data)

former subsidiary, Summit Autonomous, Inc., as well as reductions related to progress in audit settlements, advance pricing agreement negotiations, the lapse of statutes of limitation and other minor items.

Current tax expense does not reflect benefits of $65, $22 and $61 for the years ended December 31, 2010, 2009 and 2008, respectively, related to restricted shares and the exercise of employee stock options, recorded directly to additional paid-in capital.

In 2010, 2009 and 2008, the Company realized certain Swiss tax benefits totaling approximately $194, $145 and $130, respectively, for its commitment to relocate and significantly expand its global administration operations in Switzerland. The initial term of these benefits is expected to continue from 2008 for a period of five years. These benefits would be extended for an additional five years if the Company fulfills certain employment commitments and maintains these commitments through 2022.

A reconciliation of income tax expense at the statutory tax rate of 7.8% in Switzerland to the consolidated effective tax rate follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Statutory income tax rate | 7.8% | 7.8% | 7.8% |
| Effect of different tax rates in various jurisdictions | 4.8 | 4.8 | 8.2 |
| Current year research and experimentation credits | (0.6) | (0.9) | (1.1) |
| Other current year taxes | 0.3 | 0.4 | 0.2 |
| Current year nondeductible and excludable items | (0.4) | 0.1 | (0.4) |
| Effect of losses on investment in Summit Autonomous, Inc | -- | -- | (11.3) |
| Effect of provisions of U.S. healthcare reform legislation | 1.0 | -- | -- |
| Effect of change of majority ownership | (0.3) | -- | -- |
| Tax impact of prior year audit settlements, amended returns and adjustments to estimates | -- | 1.1 | (1.7) |
| Other | (0.1) | (0.1) | -- |
| Effective tax rate | 12.5% | 13.2% | 1.7% |

At December 31, 2010, Alcon's subsidiaries had loss carryforwards that expire as follows:

| | |
|---|---|
| 2011 | $ -- |
| 2012 | -- |
| 2013 | -- |
| 2014 | 2 |
| 2015 | -- |
| 2016-2030 | 91 |
| Indefinite | -- |
| Total loss carryforwards | $ 93 |

Deferred income taxes are recognized for tax consequences of temporary differences by applying enacted statutory tax rates, applicable to future years, to differences between the financial reporting and the tax basis of existing assets and liabilities.

Temporary differences and carryforwards at December 31, 2010 and 2009 were as follows:

(in millions, except share data)

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Deferred income tax assets: | | |
| Trade receivables | $ 53 | $ 41 |
| Inventories | 9 | 12 |
| Intangible assets | 50 | 25 |
| Accounts payable and other current liabilities | 113 | 113 |
| Other liabilities | 232 | 237 |
| Share-based payments | 60 | 81 |
| Loss carryforwards | 31 | 3 |
| Gross deferred income tax assets | 548 | 512 |
| Unused tax credits | 18 | 19 |
| Valuation allowance | (5) | (6) |
| Total deferred income tax assets | 561 | 525 |
| Deferred income tax liabilities: | | |
| Property, plant and equipment | 35 | 34 |
| Intangible assets | 157 | -- |
| Other | 10 | 6 |
| Total deferred income tax liabilities | 202 | 40 |
| Net deferred income tax assets | $ 359 | $ 485 |

The valuation allowances for deferred tax assets as of January 1, 2010 and 2009 were $(6) and $(5), respectively. The net changes in the total valuation allowance for each of the years ended December 31, 2010 and 2009 were a decrease of $1 and an increase of $1, respectively. The valuation allowances at December 31, 2010 and 2009 were primarily related to costs for which deductions did not appear to be more likely than not to be realized. Based on the Company's historical pretax earnings, management believes it is more likely than not that the Company will realize the benefit of the existing net deferred income tax assets at December 31, 2010. Management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable earnings; however, there can be no assurance that the Company will generate any earnings or any specific level of continuing earnings in future years. Certain tax planning or other strategies could be implemented, if necessary, to supplement earnings from operations to fully realize tax benefits.

Withholding taxes of approximately $107 have not been provided on approximately $2,133 of unremitted earnings of certain subsidiaries since such earnings are, or will be, reinvested in operations indefinitely. Taxes of approximately $17 have not been provided on temporary differences of approximately $212 for permanent investments in certain subsidiaries that will be taxable upon liquidation.

The Company or one of its subsidiaries files income tax returns in Switzerland, the U.S. federal jurisdiction, and various state and other foreign jurisdictions. With few exceptions, the Company is no longer subject to Swiss, U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2004.

In June 2009, the Internal Revenue Service ("IRS") commenced an examination of the Company's U.S. income tax returns for 2006 and 2007 that was completed substantially in January 2011. In May 2009, the IRS and the Company entered the Compliance Assurance Process ("CAP") program for 2009. In January 2010, the IRS and the Company extended the CAP program to 2010. The Company also currently is subject to income tax examinations by various state, local and foreign tax authorities. In addition, in June 2009, the Company and the IRS signed an

(in millions, except share data)

advance pricing agreement ("APA") contract memorializing the mutual agreement letter between Switzerland and the United States for years through 2014 that covers all material intercompany transactions involving the Company and its subsidiaries in these two jurisdictions. Finally, during the fourth quarter of 2007, the Company submitted a similar request for a bilateral APA between Japanese and Swiss tax authorities that would cover the tax years 2008 through 2012. The Company received the duly signed Japanese-Swiss APA in the third quarter of 2010.

The Company believes that it takes reasonable positions on its tax returns filed throughout the world; however, tax laws are complex and susceptible to differing interpretations. Tax authorities throughout the world, from time to time, routinely challenge positions taken by the Company, particularly in the case of transfer pricing issues. The Company has identified its uncertain tax positions and prepared its reserve for contingent tax liabilities to reflect the associated unrecognized tax benefits (the "Tax Reserves") in accordance with Financial Accounting Standards Board ("FASB") guidance which, among other things, requires that the Company assume that it will be subject to examination in every jurisdiction in which it is subject to tax. Management believes that the Tax Reserves are fairly stated but believes it is reasonably possible that the total amount of unrecognized tax benefits related to transfer pricing, currency translations and other tax positions reflected in the Tax Reserves will significantly increase or decrease within 12 months of the reporting of this financial statement as the result of, among other things, (i) developments with respect to currently active audits and/or (ii) the further development of tax laws through judicial or administrative actions and/or the actual payment of Tax Reserves. Although tax laws are complex and significant uncertainty exists with respect to the actual date that any of the currently active audits could reach final resolution or a new audit could commence, management believes it is reasonably possible that unrecognized tax benefits could increase in the next 12 months by at least 10% or decrease by up to 70%.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, exclusive of interest and penalties, related to uncertain tax positions is as follows:

| | 2010 | 2009 |
|---|---|---|
| Balance at January 1 | $ 74 | $ 130 |
| Additions for tax positions related to prior years | 19 | 40 |
| Reductions for tax positions related to prior years | (13) | (16) |
| Additions for tax positions related to the current year | 4 | 10 |
| Settlements | (12) | (90) |
| Lapse of statutes of limitation | (1) | -- |
| Balance at December 31 | $ 71 | $ 74 |

During the years ended December 31, 2010 and 2009, the total amount of unrecognized tax benefits excluding interest and penalties, included in the Tax Reserves decreased by $3 to $71 and decreased by $56 to $74, respectively. The net decrease in unrecognized tax benefits in 2010 reflected progress on audit settlements, APA negotiations, the lapse of statutes of limitation and other minor items. The net decrease in unrecognized tax benefits in 2009 reflected the resolution of various audits, progress on ongoing audits, APA negotiations, the development of case law, the lapse of statutes of limitations and other minor items. The amounts of unrecognized tax benefits that would impact the effective tax rate if recognized at December 31, 2010 and 2009 were $64 and $69, respectively.

The Company's policy is to classify interest and penalties in income tax expense. The gross amount of interest and penalties accrued as part of the Tax Reserves at December 31, 2010 and 2009 were $14 and $9, respectively. At December 31, 2010, the consolidated balance sheet included $1 in other current liabilities and $76 in other long term liabilities for the Tax Reserves, net of deposits with statutory authorities. At December 31, 2009, the consolidated balance sheet included $19 in other current liabilities and $57 in other long term liabilities for the Tax Reserves, net of deposits with statutory authorities. The gross amounts of interest and penalties included in the consolidated statements of earnings for 2010 and 2009 were not significant.

(in millions, except share data)

## (10) Business Segments

The Company conducts its global business through two business segments: Alcon United States and Alcon International. Alcon United States includes sales to unaffiliated customers located in the United States of America, excluding Puerto Rico. Alcon United States operating income is derived from operating profits within the United States. Alcon International includes sales to all other unaffiliated customers.

Each business segment markets and sells products principally in three product categories of the ophthalmic market: (1) pharmaceutical (prescription drugs), (2) surgical equipment and devices (cataract, vitreoretinal and refractive), and (3) consumer eye care (contact lens disinfectants and cleaning solutions, artificial tears and ocular vitamins). Business segment operations generally do not include research and development, certain manufacturing and other corporate functions.

Segment performance is measured based on sales and operating income reported in accordance with U.S. GAAP.

Certain manufacturing costs and manufacturing variances are not assigned to business segments because most manufacturing operations produce products for more than one business segment. Research and development costs, excluding regulatory costs which are included in the business segments, are treated as general corporate costs and are not assigned to business segments.

Identifiable assets are not assigned by business segment and are not considered in evaluating the performance of the business segments.

| | Sales | | | Operating Income | | | Depreciation and Amortization | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| United States | $ 3,177 | $ 2,914 | $ 2,807 | $ 1,896 | $ 1,664 | $ 1,554 | $ 64 | $ 47 | $ 46 |
| International | 4,002 | 3,585 | 3,487 | 1,728 | 1,507 | 1,472 | 107 | 90 | 78 |
| Segments total | 7,179 | 6,499 | 6,294 | 3,624 | 3,171 | 3,026 | 171 | 137 | 124 |
| Manufacturing operations | -- | -- | -- | (64) | (64) | (61) | 58 | 51 | 46 |
| Research and development | -- | -- | -- | (687) | (579) | (527) | 24 | 18 | 16 |
| General corporate | -- | -- | -- | (332) | (190) | (144) | 19 | 12 | 10 |
| Share-based compensation | -- | -- | -- | (66) | (77) | (81) | -- | -- | -- |
| Total | $ 7,179 | $ 6,499 | $ 6,294 | $ 2,475 | $ 2,261 | $ 2,213 | $ 272 | $ 218 | $ 196 |

During the year ended December 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a $24 addition to U.S. operating income during the period.

In the year ended December 31, 2010, the Company incurred pretax expenses totaling $152 for costs (including $12 in share-based compensation costs) related to the change of majority ownership discussed in note 16 and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. In the tables above, these expenses were included with general corporate expenses.

On February 11, 2009, the Company announced that it initiated programs to align its operations with the evolving economic conditions and market environment. These programs included a staffing reduction of approximately 260 employee positions that resulted in a pre-tax charge of $19 for the year ended December 31, 2009, which was included in general corporate expenses.

(in millions, except share data)

## (11) Geographic, Customer and Product Information

Sales for the Company's country of domicile and all individual countries accounting for more than 10% of total sales are presented below along with long lived assets in those countries. Sales by ophthalmic market segment are also included. Sales below are based on the location of the customer. Sales to one customer of the United States business segment represented $661 of the Company's consolidated sales in 2008. No single customer accounted for more than 10% of total sales in 2010 and 2009.

| | Sales | | | Property, Plant and Equipment | |
|---|---|---|---|---|---|
| | For the Years ended December 31, | | | At December 31, | |
| | 2010 | 2009 | 2008 | 2010 | 2009 |
| United States | $ 3,177 | $ 2,914 | $ 2,807 | $ 739 | $ 720 |
| Switzerland | 50 | 46 | 44 | 20 | 19 |
| Rest of world | 3,952 | 3,539 | 3,443 | 629 | 565 |
| Total | $ 7,179 | $ 6,499 | $ 6,294 | $ 1,388 | $ 1,304 |
| Pharmaceutical | $ 3,066 | $ 2,677 | $ 2,561 | | |
| Surgical | 3,220 | 2,997 | 2,881 | | |
| Consumer eye care | 893 | 825 | 852 | | |
| Total | $ 7,179 | $ 6,499 | $ 6,294 | | |

## (12) Share-Based Compensation Plans

Under the Amended 2002 Alcon Incentive Plan, the Company's board of directors may award to officers, directors and key employees share-based compensation, including stock options, share-settled stock appreciation rights ("SSARs"), restricted shares, share-settled restricted share units ("RSUs"), performance share units and certain cash-settled liability awards. The total number of shares from conditional capital and treasury shares that may be issued under the plan with respect to such awards cumulatively shall not exceed 40 million Alcon common shares. The number of shares that may be delivered pursuant to an exercise or after a lapse of a restriction period may not exceed 10% of the total number of shares issued and outstanding at that time. The grant prices for stock options or stock appreciation rights shall not be lower than the prevailing stock exchange price upon the grant of the award, unless specifically approved by the board.

Individual grants become exercisable generally on or after the third anniversary of the grant and lapse on the tenth anniversary of the grant. Grants prior to February 2006 also become exercisable upon early retirement at or after age 55. If there is a change in control (as defined by the plan), the exercise or vesting of the awards accelerates.

Beginning in February 2006, consistent with earlier grants, participants may vest in the stock option and SSAR grants upon early retirement at or after age 55; however, under grants subsequent to January 2006, participants may exercise these instruments only on or after the third anniversary of the grant. Restricted share and restricted share unit awards are subject to a three-year cliff vesting; furthermore, participants retiring before reaching age 60 for awards granted subsequent to January 2006 through December 2008, or age 62 for awards granted subsequent to January 2009, will forfeit some or all of such awards if the three-year service period has not expired.

The Company intends to satisfy all equity awards granted prior to December 31, 2003 and after December 31, 2007 with the issuance of new shares from conditional capital authorized for the Amended 2002 Alcon Incentive Plan. At December 31, 2010, the Company had reserved approximately 19.6 million Alcon common shares for issuance pursuant to the Amended 2002 Alcon Incentive Plan.

(in millions, except share data)

The Company's board of directors has authorized the acquisition on the open market of Alcon common shares to, among other things, satisfy the share-based awards requirements granted under the Amended 2002 Alcon Incentive Plan. At December 31, 2010, outstanding authorizations by the Company's board of directors would have permitted the purchase of approximately 1.6 million Alcon common shares. The Company has purchased treasury shares on the open market to satisfy the majority of the outstanding equity awards granted subsequent to December 31, 2003 and prior to January 1, 2008. Additional treasury shares were purchased during 2008 in anticipation of presenting the shares to the shareholders for approval of cancellation (note 16).

**Change of Control Provisions**

Upon the change of control in the ownership of Alcon to Novartis from Nestlé discussed in note 16, the Company's share-based compensation awards granted to employees prior to January 1, 2009 vested immediately. However, the vesting of similar awards granted after January 1, 2009 will accelerate only if the respective participant's employment with the Company or its successor is terminated without cause, or by the participant under certain circumstances, within six months preceding or during the two years following a change of control. The acceleration of vesting increased the cost of share-based payments $8, which was included in other operating expenses in 2010. If the change of control had not occurred, $6 of that cost would have been recognized in normal attribution during the remainder of 2010.

Upon the completion of the merger discussed in note 16, management expects that Novartis common shares would be substituted for Alcon common shares under the outstanding share-based awards at the merger date. The substitution ratio would be based on the price of a Novartis share in the merger relative to $168 for an Alcon share, but no cash would be paid.

**Equity Awards**

Net earnings for the years ended December 31, 2010, 2009 and 2008 reflected the impact of compensation cost for all share-based payments based on the estimated grant-date "fair value."

The effects of share-based equity awards on operating income and net earnings for the years ended December 31, 2010, 2009 and 2008 were as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Total share-based equity award costs applicable for period | $ 78 | $ 74 | $ 83 |
| Costs relieved from (capitalized in) inventory | -- | -- | -- |
| Costs recognized in operating income | 78 | 74 | 83 |
| Tax benefit recognized in net earnings | 23 | 23 | 27 |
| Reduction to net earnings | $ 55 | $ 51 | $ 56 |

Compensation expense for equity awards was calculated on a straight-line basis over the three-year vesting period of the applicable share-based awards, with acceleration of the expense for individuals meeting the requirements for retirement and under the change of control provisions, as described above.

As of December 31, 2010, total unrecognized compensation cost related to nonvested share-based equity compensation arrangements (including share options, SSARs and nonvested share and share unit awards) granted under the plan was $112. That cost is expected to be recognized over a weighted average period of 1.6 years.

(in millions, except share data)

*Options and SSARs*

No options or SSARs were granted in 2010. The "fair values" of each stock option and SSAR granted in 2009 and 2008 were estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2009 | 2008 |
|---|---|---|
| Expected volatility | 31.5% | 29.5% |
| Risk-free interest rate | 1.66% | 2.67% |
| Expected dividend yield | 3.0% | 1.5% |
| Expected term | 5 years | 5 years |

The Company based its estimates of expected volatility on daily historical trading data of its common shares from March 2002 through the grant dates and, due to its short history as a public company when compared to length of the term of the instruments, other factors, such as the volatility of the common share prices of other pharmaceutical and surgical companies.

The risk-free interest rate assumptions were based on implied yields, at the grant dates, of U.S. Treasury zero-coupon bonds having a remaining term equal to the expected term of the employee share awards.

The expected dividend yield was estimated generally based upon the Company's historic dividend yield since 2003, projected dividend increases and other relevant information.

The Company estimated the expected term consistent with historical exercise and cancellation activity of its previous share-based grants with a ten-year contractual term, as well as that of other pharmaceutical and surgical companies.

Forfeitures of stock options and SSARs were estimated to be 4.0% in 2010 (6.3% in 2009 and 7.3% in 2008) of the number granted, based on historical experience.

If factors change and the Company employs different assumptions to account for share-based payments in future periods, the compensation expense that the Company records may differ significantly from what the Company has recorded in the current period.

The status of the stock options and SSARs as of December 31, 2010 and the changes during the year then ended are presented below:

(in millions, except share data)

| | Stock Options | | | | SSARs | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value | Number | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
| Outstanding at beginning of period | 5,633,142 | $ 68 | | | 5,345,020 | $ 117 | | |
| Granted | -- | -- | | | -- | -- | | |
| Forfeited | (26,936) | 97 | | | (42,442) | 104 | | |
| Exercised | (2,448,823) | 69 | | | (1,501,331) | 130 | | |
| Expired | (617) | 133 | | | (1,863) | 129 | | |
| Outstanding at end of period | 3,156,766 | 68 | 3.6 | $ 302 | 3,799,384 | 112 | 7.1 | $ 197 |
| Exercisable at end of period | 2,965,322 | 66 | 3.3 | $ 288 | 1,991,643 | 134 | 6.1 | $ 59 |

The weighted average grant-date "fair values" of stock options granted during the years ended December 31, 2009 and 2008 were $19 and $39 per option, respectively. The total intrinsic values of the stock options exercised during the years ended December 31, 2010, 2009 and 2008 were $227, $69, and $191, respectively.

The weighted average grant-date "fair values" of SSARs granted during the years ended December 31, 2009 and 2008 were $19 and $38 per SSAR. The total intrinsic value of SSARs exercised during the years ended December 31, 2010 and 2009 were $244 and $4. No SSARs were exercised during the year ended December 31, 2008.

The following tables summarize information about stock options and SSARs as of December 31, 2010:

| | Options Outstanding | | | | Options Exercisable | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Term (Years) | Weighted Average Exercise Price per Share | Scheduled Exercisable Date | Number Exercisable | Weighted Average Exercise Price per Share |
| $ 33 | 204,431 | 1.2 | $ 33 | March 21, 2005 | 204,431 | $ 33 |
| 36 | 597,888 | 2.1 | 36 | February 18, 2006 | 597,888 | 36 |
| 42-50 | 12,100 | 2.5 | 47 | Various dates in 2006 | 12,100 | 47 |
| 63 | 916,083 | 3.1 | 63 | February 11, 2007 | 916,083 | 63 |
| 67-80 | 58,000 | 3.7 | 77 | Various dates in 2007 | 58,000 | 77 |
| 80 | 5,500 | 4.0 | 80 | January 18, 2008 | 5,500 | 80 |
| 79 | 939,838 | 4.1 | 79 | February 9, 2008 | 939,838 | 79 |
| 98-105 | 11,000 | 4.4 | 101 | Various dates in 2008 | 11,000 | 101 |
| 123 | 61,106 | 5.1 | 123 | February 8, 2009 | 61,106 | 123 |
| 131 | 85,510 | 6.1 | 131 | February 12, 2010 | 85,510 | 131 |
| 148 | 72,409 | 7.1 | 148 | February 11, 2011 | 72,409 | 148 |
| 145 | 125 | 7.3 | 145 | April 3, 2011 | 125 | 145 |
| 87 | 192,070 | 8.1 | 87 | February 17, 2012 | 1,332 | 87 |
| 90 | 706 | 8.3 | 90 | April 3, 2012 | -- | |
| Total | 3,156,766 | | | | 2,965,322 | |

(in millions, except share data)

| | SSARs Outstanding | | | | SSARs Exercisable | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Term (Years) | Weighted Average Exercise Price per Share | Scheduled Exercisable Date | Number Exercisable | Weighted Average Exercise Price per Share |
| $ 123 | 599,512 | 5.1 | $ 123 | February 8, 2009 | 599,512 | $ 123 |
| 100 | 6,600 | 5.3 | 100 | May 2, 2009 | 6,600 | 100 |
| 131 | 724,509 | 6.1 | 131 | February 12, 2010 | 724,509 | 131 |
| 133 | 6,000 | 6.4 | 133 | May 14, 2010 | 6,000 | 133 |
| 148 | 627,864 | 7.1 | 148 | February 11, 2011 | 627,864 | 148 |
| 145-168 | 21,266 | 7.3 | 148 | Various dates in 2011 | 21,266 | 148 |
| 87 | 1,781,786 | 8.1 | 87 | February 17, 2012 | 5,892 | 87 |
| 90-116 | 31,847 | 8.3 | 97 | Various dates in 2012 | -- | |
| Total | 3,799,384 | | | | 1,991,643 | |

*Restricted Shares and RSUs*

Restricted shares and RSUs are recognized over the required service period at the closing market price for Alcon common shares on the date of grant. Forfeitures of restricted shares and RSUs in 2010, 2009 and 2008 were estimated to be 6.0%, 8.3% and 9.8%, respectively, of the number granted, based on historical experience. The status of the nonvested restricted shares and RSUs as of December 31, 2010 and the changes during the year then ended are presented below:

| | Restricted Shares | | | | RSUs | | | |
|---|---|---|---|---|---|---|---|---|
| | Number | Weighted Average Grant-Date Price per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Market Value | Number | Weighted Average Grant-Date Price per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Market Value |
| Nonvested at beginning of period | 125,058 | $ 131 | | | 693,782 | $ 110 | | |
| Granted | -- | -- | | | 790,636 | 159 | | |
| Vested | (124,819) | 131 | | | (288,922) | 144 | | |
| Forfeited | (239) | 131 | | | (38,353) | 127 | | |
| Nonvested at end of period | -- | -- | -- | $ -- | 1,157,143 | 134 | 1.53 | $ 189 |

No restricted shares were granted during 2010, 2009 and 2008. The total market values of restricted shares that vested during the years ended December 31, 2010, 2009 and 2008 were $20, $14 and $4, respectively.

The weighted average grant-date market values of RSUs granted during the years ended December 31, 2010, 2009 and 2008 were $159, $89, and $147 per share, respectively. The total market values of RSUs that vested during the years ended December 31, 2010, 2009 and 2008 were $50, $6 and less than $1, respectively.

*Performance Share Units*

In February 2009 and 2008, pursuant to the Amended 2002 Alcon Incentive Plan, the Company's board of directors approved the grants of approximately 47,000 and 37,000 performance share units, respectively, to the senior executive officers and other selected executives. The performance share units are designed to award

(in millions, except share data)

additional compensation in the form of Alcon shares if certain earnings per share targets are met. The final awards may be adjusted by a total shareholder return multiplier. If minimum earnings per share targets are not met, no Alcon shares are delivered under the awards. These awards do not pay dividend equivalents during the performance period. The 2009 and 2008 performance share units vest at the end of a three-year service period, with forfeitures if the recipient is not fully vested before age 62 or 60, respectively.

The "fair value" of each performance share unit was estimated at the grant date assuming that the target performance goal will be achieved and using a Monte Carlo simulation approach to model adjustments for total shareholder return modifier provisions. The following weighted average assumptions were incorporated into the valuation model:

| | 2009 | 2008 |
|---|---|---|
| Expected volatility | 31.5% | 29.5% |
| Risk-free interest rate | 1.22% | 2.10% |
| Expected dividend yield | 3.0% | 1.5% |
| Expected term | 3 years | 3 years |

In the event that the minimum performance goals are not met, previously recognized compensation cost will be reversed. The Company recognizes the "fair values" of performance share units over the required service period.

Forfeitures of performance share units were estimated to be 0.8% in 2010 (1.5% in 2009 and 2.3% in 2008) of the number granted, based on historical experience of other types of awards and the limited number of executives receiving them. The status of the performance share unit awards as of December 31, 2010 and the changes during the year then ended are presented below:

| | Performance Share Units | | | |
|---|---|---|---|---|
| | Number | Weighted Average Grant-Date "Fair Value" per Unit | Weighted Average Remaining Contractual Term (Years) | Aggregate Market Value |
| Nonvested at beginning of period | 81,155 | $ 114 | | |
| Granted | -- | -- | | |
| Vested | (8,003) | 107 | | |
| Forfeited | (683) | 86 | | |
| Nonvested at end of period | 72,469 | 114 | 0.7 | $ 12 |

The weighted average grant-date "fair values" of performance share units granted during the years ended December 31, 2009 and 2008 were $86 and $152 per instrument, respectively. The total market value of performance share units that vested during the year ended December 31, 2010 was $1. No performance share units vested during the years ended December 31, 2009 and 2008. No such instruments were granted in 2010 and prior to 2008.

**Liability Awards**

The Amended 2002 Alcon Incentive Plan also provides that the board may grant cash-settled stock appreciation rights ("CSARs") whereby the grantee may receive the appreciation in share value over the grant price. Individual grants become exercisable generally on or after the third anniversary of the grant and lapse on the tenth anniversary of the grant. In addition to scheduled vesting, shares are fully vested upon meeting the requirements for retirement.

(in millions, except share data)

The Company accounts for CSARs as share-based liability awards that are remeasured each reporting period through the awards' settlement dates using the Black-Scholes option-pricing model and similar assumptions to those used for measuring equity grants. No CSARs were granted in 2010, 2009 and 2008. At December 31, 2010 and 2009, all CSARs were fully vested and were measured at their intrinsic value. The market price for Alcon common shares was $163 per share at December 31, 2010. At December 31, 2010 and 2009, the Company's liability for CSARs totaled $2 and $3, respectively. The related activity in 2010, 2009 and 2008 was not significant.

The Company expects to use liability awards minimally in the future. As of December 31, 2010, there was no unrecognized compensation cost related to CSARs granted under the plan.

**(13) Deferred Compensation**

The Alcon Executive Deferred Compensation Plan permits certain executives of the Company to defer receipt of compensation and certain stock gains otherwise payable currently and to accumulate earnings thereon on a tax-deferred basis. The plan is designed to permit executives' deferral elections to be held and owned by the Company in a Rabbi trust. During the years ended December 31, 2010, 2009 and 2008, certain executives elected to defer compensation totaling $2, $1, and $1 respectively. At December 31, 2010 and 2009, other long term liabilities in the accompanying consolidated balance sheets included liabilities under the plan of $12 and $13, respectively.

In 2004, the Company established the Alcon Excess 401(k) Plan, allowing deferral of excess employer contributions that cannot be made to the Alcon 401(k) Retirement Plan because of limitations under the U.S. Internal Revenue Code of 1986. During the years ended December 31, 2010, 2009 and 2008, deferrals under the plan were $5, $3 and $3 respectively. At December 31, 2010 and 2009, liabilities under the plan, included in other long term liabilities in the accompanying consolidated balance sheets, were $17 and $13, respectively.

**(14) Related Party Transactions**

As of December 31, 2010, Novartis had purchased 231,352,279 common shares of Alcon, and Nestlé no longer owned any common shares of Alcon.

On January 9, 2009, the Company entered into an agreement with Novartis Pharma AG (an affiliate of Novartis) providing for the co-promotion under their license of the Lucentis® product in Japan. This agreement has a three-year term ending on December 31, 2011. During the years ended December 31, 2010 and 2009, the Company recognized approximately $10 and $3 in co-promotion fees from this agreement, which fees were more than sufficient to recover the Company's costs under the agreement.

During the year ended December 31, 2010, the Company reimbursed Novartis for certain operating expenses totaling $2 incurred on the Company's behalf.

The Company's other material transactions with related parties during 2010, 2009 and 2008 were with Nestlé and its subsidiaries. All material related party transactions that are not disclosed elsewhere in these notes are included below.

During 2010, 2009 and 2008, the Company had investments and borrowings with Nestlé and its subsidiaries which resulted in the following impact to earnings before income taxes:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Interest expense | $ 1 | $ 3 | $ 5 |
| Interest income | $ -- | Less than $1 | Less than $1 |

The Company continues to lease certain facilities from Nestlé subsidiaries which resulted in rent expense of $3, $3, and $2 in 2010, 2009 and 2008, respectively. Nestlé provided the Company with certain services, including a portion of the Company's information technology licenses, corporate legal services, certain treasury and cash

management activities and certain internal audit activities. Nestlé charged the Company for its portion of the costs of these services based on arm's length prices. Such charges were less than $3 in each of the three years ended December 31, 2010, 2009 and 2008.

During 2008, Lehman Brothers International (Europe) London filed for administration in England. At that time the Company's cash and cash equivalents included $707 of short term securities held in a segregated custodial account of Lehman Brothers International (Europe) London pursuant to a Custody Agreement. Nestlé invoiced the Company in December 2008, and in 2009 the Company reimbursed Nestlé, for a total of $5 in fees paid by Nestlé to the Joint Administrators of Lehman Brothers International (Europe) (in administration) related to the release of the short-term securities held in the custodial account. This amount of fees is subject to adjustment depending on the final costs incurred to settle the administration of Lehman Brothers International (Europe).

The Company executed certain foreign exchange contracts through Nestlé Finance SA, Cham to benefit from Nestlé's foreign exchange transaction volumes and expertise. At December 31, 2010 and 2009, the Company had no notional amounts outstanding with Nestlé.

The Company participated with certain Nestlé affiliates in specific cash pooling accounts under which overdraft lines of credit were available and were jointly and severally guaranteed by all participants, including the Company. At December 31, 2010, these lines of credit were longer available.

The Company was part of the Nestlé Swiss Value-Added Tax Group until October 2010, when a new Swiss Alcon Value-Added Tax Group was formed. Alcon is jointly and severally liable for any value-added tax liabilities of all other Swiss Alcon Group participants effective October 2010.

**(15) Pension and Postretirement Benefits**

The Company's pension and postretirement benefit plans, which in aggregate cover substantially all employees in the United States and employees in certain other countries, consist of defined benefit pension plans, defined contribution plans and a postretirement healthcare plan. The Company's cost of defined contribution plans was $94, $86 and $78 in 2010, 2009 and 2008, respectively.

The information provided below pertains to the Company's defined benefit pension plans and postretirement healthcare plan. The measurement date used to determine pension and postretirement benefit measurements for all of the benefit plans in 2010, 2009 and 2008 was December 31 of the respective year.

The changes in benefit obligations, fair values of plan assets and funded status for the years ended December 31, 2010 and 2009 were:

(in millions, except share data)

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Change in Benefit Obligation** | | | | |
| Benefit obligation at beginning of year | $ 557 | $ 458 | $ 276 | $ 269 |
| Service cost | 28 | 23 | 14 | 13 |
| Interest cost | 30 | 29 | 16 | 16 |
| Benefits paid by trust | (5) | (7) | (11) | (10) |
| Benefits paid by Company | (21) | (19) | -- | -- |
| Employee contributions | 1 | 1 | -- | -- |
| Foreign currency translation | 7 | 3 | -- | -- |
| Medicare subsidy | -- | -- | 1 | 1 |
| Conversion of multi-employer plan/acquisition | -- | 35 | -- | -- |
| Special termination benefits | 101 | -- | -- | -- |
| Curtailment | (44) | -- | -- | -- |
| Actuarial (gain)/loss | 58 | 34 | 45 | (13) |
| Benefit obligation at end of year | 712 | 557 | 341 | 276 |
| **Change in Plan Assets** | | | | |
| Fair value of plan assets at beginning of year | 119 | 68 | 177 | 123 |
| Actual return on plan assets | 7 | 10 | 18 | 32 |
| Employer contribution | 12 | 17 | 34 | 32 |
| Employee contributions | 1 | 1 | -- | -- |
| Conversion of multi-employer plan/acquisition | -- | 29 | -- | -- |
| Foreign currency translation | 4 | 1 | -- | -- |
| Benefits paid | (5) | (7) | (11) | (10) |
| Fair value of plan assets at end of year | 138 | 119 | 218 | 177 |
| **Funded Status at End of Year** | $ (574) | $ (438) | $ (123) | $ (99) |
| **Amounts Recognized in the Consolidated Balance Sheets** | | | | |
| Accrued benefit costs in other current liabilities | $ (31) | $ (15) | $ -- | $ -- |
| Pension and postretirement obligation in other long term liabilities | (543) | (423) | (123) | (99) |
| Net amount recognized in the consolidated balance sheet | $ (574) | $ (438) | $ (123) | $ (99) |

Amounts recognized in accumulated other comprehensive income, net of taxes, at December 31, 2010 consisted of:

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| Prior service cost | $ -- | $ -- |
| Net losses (gains) | 82 | 42 |
| Total | $ 82 | $ 42 |

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in the year ended December 31, 2011 were estimated to be:

(in millions, except share data)

| | Pension Benefits | Postretirement Benefits |
|---|---|---|
| Prior service cost | $ -- | $ -- |
| Net losses (gains) | 4 | 4 |
| Total | $ 4 | $ 4 |

The accumulated benefit obligation for all defined benefit pension plans was $605 and $439 at December 31, 2010 and 2009, respectively.

The following table provides information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2010 and 2009:

| | Pension Benefits | |
|---|---|---|
| | 2010 | 2009 |
| Projected benefit obligation | $ 571 | $ 438 |
| Accumulated benefit obligation | 511 | 359 |
| Fair value of plan assets | 13 | 10 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Weighted Average Assumptions to Calculate Benefit Obligations as of December 31** | **2010** | **2009** | **2010** | **2009** |
| Discount rate | 4.8% | 5.4% | 5.5% | 6.0% |
| Expected return on plan assets | 4.0 | 4.2 | 6.6 | 7.5 |
| Rate of compensation increase | 4.9 | 4.9 | N/A | N/A |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Weighted Average Assumptions to Calculate Net Benefit Costs for** | **2010** | **2009** | **2010** | **2009** |
| Discount rate | 5.4% | 5.7% | 6.0% | 6.0% |
| Expected return on plan assets | 4.2 | 3.3 | 7.5 | 7.5 |
| Rate of compensation increase | 4.9 | 5.1 | N/A | N/A |

The discount rates for the defined benefit pension plans were determined by matching, as of the respective measurement dates, the expected future cash flows with high-quality fixed-income securities of the same duration. This resulted in weighted average discount rates for appropriate equivalent annualized rates.

The discount rates for the postretirement benefit plan were determined by matching the expected future cash flows with high quality fixed-income securities of the same duration as of the respective measurement dates.

The expected long term rates of return on plan assets were based on historical market index returns for the applicable asset classes weighted in proportion to the target allocation of the plan. The return assumption for the

(in millions, except share data)

postretirement benefits plan also took into account the estimated cost of life insurance coverage and insurer profit due to the use of the trust-owned life insurance investment vehicle.

At December 31, 2009, the Company adopted the provisions of the Compensation-Defined Benefits-Disclosure Topic of the ASC, as adopted by the FASB, which enhances disclosure requirements for fair value measurements. The required hierarchical levels were discussed in note 5.

**Pension Plan Assets**

The Company's overall investment strategy is to achieve a mix of investments for long-term growth and investments for near-term benefit payments, with a wide diversification of asset types, fund strategies, and fund managers. The strategies use a variety of asset classes to provide return opportunities that are consistent with the Company's acceptable risk tolerance. The majority of the Company's plans are unfunded, with the major funded plans designated for employees in Japan, Belgium and Spain.

The target allocations for plan assets at December 31, 2010 (on a weighted-average basis) were 12% equity securities, 14% debt securities, 41% guaranteed investment contracts and 33% other investments. Equity securities primarily included investment in large capitalization companies and index funds located in the United States and Japan. Debt securities were primarily government bonds in Japan. The guaranteed investment contract was with an insurance company located in Japan used to fund benefits for employees in Japan. Other investments consisted of investment funds mainly invested in a mix of debt and equity securities for employees in Belgium, the Netherlands and Norway. Assets previously invested with a Nestlé plan for employees in Spain had been liquidated and the proceeds were in cash and cash equivalents at December 31, 2010.

Expected long-term rates-of-return on assets were based primarily on historical returns and asset-liability modeling studies and considered expected real returns, inflation fluctuations and volatility of each asset category.

At December 31, 2010 and 2009, the Company's asset allocations by asset category were as follows:

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | $ 31 | $ 8 |
| Equity securities | 5 | 12 |
| Debt securities | 7 | 20 |
| Guaranteed investment contracts | 51 | 40 |
| Other investments: | | |
| Investment funds | 39 | 35 |
| Other | 5 | 4 |
| Total | $ 138 | $ 119 |

At December 31, 2010, financial assets for pension benefits measured at fair value on a recurring basis were categorized in the table below based upon the lowest level of input that is significant to the fair value measurement as follows:

(in millions, except share data)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 31 | $ -- | $ -- | $ 31 |
| Equity securities (a) | -- | 5 | -- | 5 |
| Debt securities (b) | -- | 7 | -- | 7 |
| Guaranteed investment contracts (c) | -- | 51 | -- | 51 |
| Other investments (d): | | | | |
| Investment funds | -- | 39 | -- | 39 |
| Other | -- | 5 | -- | 5 |
| Total | $ 31 | $ 107 | $ -- | $ 138 |

(a) This category consists mainly of large capitalization companies and index funds in the United States and Japan.
(b) This category consists mainly of government debt securities primarily in Japan.
(c) This category is primarily guaranteed investment contracts in Japan administered through insurance companies with guaranteed returns of 0.75%. The life insurance companies pool pension plan assets together from all the participating companies and generally invest in a relatively conservative asset mix of corporate and government bonds, mostly Japanese, with a minor portion in both domestic and foreign equity, loans and other investments.
(d) This category includes assets held in a variety of funds primarily managed by Nestlé Capital Management (a Nestlé affiliate) and State Street Global Advisors for the benefit of employees in Belgium and the Netherlands. Equity funds consist of Robusta European, Common Contractual and Emerging Market funds (operated by Nestlé's investment management company) and State Street Global Advisors Asia Pacific and World Index funds. Fixed income funds consist of Euro government bonds, Robusta Inflation Linked and Global Credit Bonds (operated by Nestlé's investment management company). A minor portion of the funds are invested in real estate, commodities and absolute return hedge funds.

The Company maintains an irrevocable Rabbi trust to be held and invested in an unfunded arrangement for the payment of benefits to participants under certain defined benefit pension plans of the Company. The assets of the trust are restricted to the payment of pension benefits except under certain conditions, such as the Company's insolvency or termination of the trust. The Alcon Executive Retirement Plans Grantor Trust Agreement provides for the Company to fund the current actuarially determined present value of the aggregate accrued pension benefits of all participants upon the change of control (discussed in note 16). Based on actuarially determined pension benefit projections and market conditions, the Company contributed $152 during 2010 to satisfy this requirement. The assets of the trust were primarily the cash surrender value ($279 as of December 31, 2010) of company owned life insurance policies purchased from a related captive insurance company subsidiary and cash equivalents ($152 as of December 31, 2010).

The Company does not anticipate that any assets from defined benefit plans would be returned to the Company during the year ending December 31, 2011.

At December 31, 2009, financial assets for pension benefits measured at fair value on a recurring basis were categorized in the table below based upon the lowest level of input that is significant to the fair value measurement as follows:

(in millions, except share data)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 8 | $ -- | $ -- | $ 8 |
| Equity securities (a) | -- | 12 | -- | 12 |
| Debt securities (b) | -- | 20 | -- | 20 |
| Guaranteed investment contracts (c) | -- | 40 | -- | 40 |
| Other investments (d): | | | | |
| Investment funds | -- | 35 | -- | 35 |
| Other | -- | 4 | -- | 4 |
| Total | $ 8 | $ 111 | $ -- | $ 119 |

(a) This category consists mainly of large capitalization companies and index funds in the United States and Europe.
(b) This category consists mainly of government debt securities in Europe, the United States and Japan.
(c) This category is primarily guaranteed investment contracts in Japan administered through insurance companies with guaranteed returns of 0.75%. The life insurance companies pool pension plan assets together from all the participating companies and generally invest in a relatively conservative asset mix of corporate and government bonds, mostly Japanese, with a minor portion in both domestic and foreign equity, loans and other investments.
(d) This category includes assets held in a variety of funds primarily managed by Nestlé Capital Management (a Nestlé affiliate) and State Street Global Advisors for the benefit of employees in Belgium and the Netherlands. Equity funds consist of Robusta European, Common Contractual and Emerging Market funds (operated by Nestlé's investment management company) and State Street Global Advisors Asia Pacific and World Index funds. Fixed income funds consist of Euro government bonds, Robusta Inflation Linked and Global Credit Bonds (operated by Nestlé's investment management company). A minor portion of the funds are invested in real estate, commodities and absolute return hedge funds.

**Postretirement Benefits Assets**

The Company's overall investment strategy for these fund assets is to invest in long-term growth assets (excluding necessary cash for near-term benefit payments) with a wide diversification of asset types, fund strategies, and fund managers. The strategies use a variety of asset classes to provide return opportunities that are consistent with the Company's acceptable risk tolerances. The post retirement plan is a U.S. plan having assets funded to a Voluntary Employee Benefit Association ("VEBA") trust and to a 401(h) account under the Alcon Retirement Plan. The blended target allocations for plan assets at December 31, 2010 were 6% cash and cash equivalents, 63% global equity securities, 27% corporate bonds, and 4% other investments. Equity securities primarily included investment in large cap companies located around the world. Corporate bonds were primarily investment-grade bonds of companies in diversified industries primarily located in the United States. Other investments consisted primarily of convertible bonds and real assets, including real estate investments and commodities. Expected long-term rates-of-return on assets were primarily based on historical returns.

At December 31, 2010 and 2009, the Company's asset allocations by asset category were as follows:

(in millions, except share data)

| | 2010 | 2009 |
|---|---|---|
| Cash and cash equivalents | $ 37 | $ 27 |
| Equity securities (funds and direct holdings): | | |
| Equity securities - U.S. large cap | 32 | 28 |
| Equity securities - large cap located outside United States (a) | 28 | 26 |
| Debt securities: | | |
| Debt securities – U.S. Treasuries, Agencies & investment grade corporate (b) | 31 | 29 |
| Other investments: | | |
| Alcon Active Balanced Fund (c) | 90 | 67 |
| Total | $ 218 | $ 177 |

(a) International holdings were largely located in developed countries within Europe, the Far East and Australia.
(b) Debt securities were largely located in the United States, benchmarked to the Barclay's Aggregate Index.
(c) The 401(h) account is invested in a balanced fund offered within the Master Trust for the Defined Contribution Plans for Alcon Laboratories, Inc. and Alcon (Puerto Rico), Inc.

At December 31, 2010, financial assets measured at fair value on a recurring basis were categorized in the table below for postretirement benefits based upon the lowest level of input that is significant to the fair value measurement as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 37 | $ -- | $ -- | $ 37 |
| Equity securities: | | | | |
| Equity securities – U.S. large cap (a) | -- | 32 | -- | 32 |
| Equity securities – large cap located outside United States (b) | -- | 28 | -- | 28 |
| Debt securities: | | | | |
| Debt securities – U.S. Treasuries, Agencies & investment grade corporate (c) | -- | 31 | -- | 31 |
| Other investments: | | | | |
| Alcon Active Balanced Fund (d) | -- | 90 | -- | 90 |
| Total | $ 37 | $ 181 | $ -- | $ 218 |

(a) This category consists of assets in a U.S. equity index fund through trust-owned life insurance.
(b) This category consists of assets in an international equity index fund through trust-owned life insurance.
(c) This category consists of assets in a U.S. Aggregate Board bond market index fund through trust-owned life insurance.
(d) This category consists of one investment in the Alcon Active Balanced fund. This fund has a globally balanced mandate to include global equities (primarily developed countries), investment grade U.S. corporate and agency debt, real assets and convertibles. The fund is highly liquid with the vast majority of assets classified as either Level 1 or Level 2 within the FASB fair value hierarchy.

The Company does not anticipate that any assets from the postretirement benefits plan would be returned to the Company during the year ending December 31, 2011.

At December 31, 2009, financial assets measured at fair value on a recurring basis were categorized in the table below for postretirement benefits based upon the lowest level of input that is significant to the fair value measurement as follows:

(in millions, except share data)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents…….. | $ 27 | $ -- | $ -- | $ 27 |
| Equity securities: | | | | |
| Equity securities – U.S. large cap (a)…….. | -- | 28 | -- | 28 |
| Equity securities – large cap located outside United States (b) | -- | 26 | -- | 26 |
| Debt securities: | | | | |
| Debt securities – U.S. Treasuries, Agencies & investment grade corporate (c)…… | -- | 29 | -- | 29 |
| Other investments: | | | | |
| Alcon Active Balanced Fund (d)……. | -- | 67 | -- | 67 |
| Total…….. | $ 27 | $ 150 | $ -- | $ 177 |

(a) This category consists of assets in a U.S. equity index fund through trust-owned life insurance.
(b) This category consists of assets in an international equity index fund through trust-owned life insurance.
(c) This category consists of assets in a U.S. Aggregate Board bond market index fund through trust-owned life insurance.
(d) This category consists of one investment in the Alcon Active Balanced fund. This fund has a globally balanced mandate to include global equities (primarily developed countries), investment grade U.S. corporate and agency debt, real assets, convertibles and absolute return funds. The fund is highly liquid with the vast majority of assets classified as either Level 1 or Level 2 within the FASB fair value hierarchy.

**Contributions**

The Company expects to contribute in 2011 approximately $41 to its pension plans and approximately $27 to its postretirement benefit plan.

**Estimated Future Benefit Payments**

The following table provides the benefit payments expected to be paid and the anticipated subsidy receipts:

| | Pension Benefits | Postretirement Benefits | |
|---|---|---|---|
| | | Gross Payments | Subsidy Receipts |
| 2011 | $ 32 | $ 12 | $ (1) |
| 2012 | 32 | 13 | (1) |
| 2013 | 32 | 15 | (1) |
| 2014 | 33 | 16 | (2) |
| 2015 | 36 | 18 | (2) |
| 2016 - 2020 | 204 | 123 | (14) |

(in millions, except share data)

| | Pension Benefits | | | Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| **Components of Net Periodic Benefit Cost** | | | | | | |
| Service cost | $ 28 | $ 23 | $ 24 | $ 14 | $ 13 | $ 13 |
| Interest cost | 30 | 29 | 24 | 16 | 16 | 15 |
| Expected return on assets | (5) | (4) | (2) | (14) | (10) | (11) |
| Prior service cost | (5) | (1) | (1) | -- | 1 | 1 |
| Special termination benefits | 101 | -- | -- | -- | -- | -- |
| Net losses | 6 | 7 | 7 | 2 | 4 | 1 |
| Net periodic benefit cost | 155 | 54 | 52 | 18 | 24 | 19 |
| **Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income** | | | | | | |
| Current year net loss (gain) | 56 | 33 | 16 | 40 | (35) | 47 |
| Amortization of net (gain) | (6) | (7) | (6) | (2) | (4) | (1) |
| Amortization of prior service cost | 5 | 1 | 1 | -- | (1) | (1) |
| Curtailment | (44) | -- | -- | -- | -- | -- |
| Foreign currency translation | 2 | 2 | (2) | -- | -- | -- |
| Net charge to other comprehensive income | 13 | 29 | 9 | 38 | (40) | 45 |
| Total recognized in net periodic pension cost and other comprehensive income | $ 168 | $ 83 | $ 61 | $ 56 | $ (16) | $ 64 |

Effective January 1, 2008, the Company adopted a provision to measure the funded status of a plan as of the date of its year-end balance sheet. The Company utilized the alternate transition method to transition the measurement date for its defined pension benefit plan in Japan from September 30 to December 31. Under this transition method, the Company charged 3/15ths of the estimated pension cost from October 1, 2007 to December 31, 2008 (or $1, net of taxes) to retained earnings as of January 1, 2008.

Certain U.S. defined benefit plans contain change of control provisions that, among other items, provide for accelerated vesting of benefits. The Company recognized charges of $97 in special termination benefits and amortization of prior service cost upon the change of control in the ownership of Alcon by Novartis's purchase of Nestlé's common shares of Alcon (discussed note 16). A curtailment gain of $44 was offset against prior unrecognized losses and no gain was recognized in earnings. Except for certain key employees, payments of these accelerated benefits began during the fourth quarter of 2010 as provided by the plans.

The healthcare cost trend rate used to measure the expected cost of benefits covered by the postretirement plan is 7.6% at December 31, 2010, declining to 5% in 2017 and after. The effect of a one percentage point change in assumed medical cost trend rates is as follows:

(in millions, except share data)

| | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 6 | $ (5) |
| Effect on the postretirement benefit obligation | 60 | (47) |

In certain countries, the Company's employees participate in defined benefit plans of Nestlé. No separate valuation for the Company's employees has historically been prepared for the plans, as they are not individually material to the Company or to Nestlé. Accordingly, these plans are treated as multi-employer plans. Annual contributions to these plans are determined by Nestlé and charged to the Company. Company contributions to these plans during 2010, 2009 and 2008 were $10, $9, and $10, respectively. Future contributions may not reflect past trends. During 2009, the Company obtained a separate valuation for its Belgium and Netherlands subsidiaries' defined benefit pension plans and converted from multi-employer plans to single-employer plans. Prior to the change of ownership by Novartis, the Company and Nestlé entered into an agreement outlining the terms to segregate Alcon employees from Nestlé pension plans. The agreement provides that, except for certain circumstances, all current Alcon pension participants will be migrated from Nestlé pension plans to other, not yet determined Alcon pension plans by January 1, 2011.

## (16) Shareholders' Equity

### *Share Cancellation*

On May 5, 2009, Alcon's shareholders approved the cancellation of 1,043,400 Alcon common shares, which the Company purchased during 2008. After the fulfillment of certain formal Swiss law requirements, the cancellation became effective in August 2009.

On May 6, 2008, the Company's shareholders approved the cancellation of 7,657,400 Alcon common shares, which the Company purchased during 2007. After the fulfillment of certain formal Swiss law requirements, the cancellation became effective in August 2008.

### *Change of Control and Proposed Merger*

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of $143.18 per share. That sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. The option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of $181 per share and the 4.1 million shares at the first stage price of $143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of $181 per share or a premium of approximately 20.5% above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of $143.18 per share.

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of $180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards plan (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share. The proposed merger would be contingent upon, among other things, approval by the Alcon board of directors. The Company believes that Alcon's Organizational Regulations provide that the Alcon board of directors may only approve the proposed merger if a majority of the Independent Director Committee so recommends; however, management cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders.

***Merger Agreement of December 14, 2010***

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at $168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares and, if necessary, a cash contingent value amount to result in a total value of $168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares on the SIX Swiss Exchange and American Depository Shares on the New York Stock Exchange to be issued as merger consideration. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic medicines will be integrated into Alcon.

***Independent Director Committee Trust***

On July 8, 2010, the Independent Director Committee announced the creation and funding of the Alcon Litigation Trust, an irrevocable trust established under New York law pursuant to a resolution of the Alcon board of directors. The members of the Independent Director Committee were the trustees of the trust. The trust was created and funded on July 7, 2010 with $50. The trust was created to provide the financial means to commence, defend or maintain litigation relating to any transaction between Alcon and a majority shareholder, including the transaction contemplated by the merger proposal announced by Novartis on January 4, 2010, and ensure the protection of the interests of Alcon and its minority shareholders in connection with any such transaction.

In connection with the merger agreement of December 14, 2010, the trust was terminated and the trust property was returned to Alcon in December 2010.

***Share Repurchase Agreement Terminated***

In March 2008, as a result of the then-pending agreement between Nestlé and Novartis discussed above, the Company halted the purchase of Alcon common shares in the open market under all share repurchase programs, and terminated the pro rata share repurchase agreement with Nestlé that it had entered into following the December 2007 authorization by the board of directors of the share repurchase program that provided for the purchase of up to $1,100 of Alcon common shares. Prior to its termination, the Company had purchased a total of 150,000 shares under the agreement, comprised of 112,500 shares from the Company's majority shareholder, Nestlé, and 37,500 shares from the market, for a total of $20. The price for the shares purchased from Nestlé under the agreement was equal to the volume-weighted average price for such shares determined in accordance with Rule 10b-18 of the U.S. Securities Exchange Act of 1934.

The program authorized in December 2007 was in addition to the Company's pre-existing share repurchase program, under which, as of December 31, 2008, the Company had remaining authorization to purchase up to 1.8 million shares. In September 2008, the Company resumed purchasing from the public under the pre-existing program up to 1 million Alcon common shares to be presented to the shareholders for retirement. Neither Nestlé nor Novartis participated in this program and their ownership interests did not change materially as a result of these share repurchases.

**(17) Commitments and Contingencies**

***Minority Shareholder Class Action Lawsuits***

On January 4, 2010, Novartis announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law (note 16).

Certain Alcon minority shareholders filed several class action lawsuits related to Novartis's January 2010 merger proposal concerning the acquisition of the remaining publicly held minority interest. The claims varied among the cases, but include allegations of: (i) breach of contract against Alcon; (ii) tortious interference with contract against Novartis and Nestlé; (iii) breach of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (iv) aiding and abetting breaches of fiduciary duties against the Alcon board of directors, Nestlé and Novartis; (v) breach of Section 13(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to disclose that they were acting as a "group;" and (vi) breach of Section 14(d) of the Exchange Act against Novartis and Nestlé for an alleged failure to file with the U.S. Securities and Exchange Commission the materials required in connection with a "tender offer."

Eight cases filed in the U.S. District Courts for the Southern District of New York and the Northern District of Texas were consolidated into one class action case in the Southern District of New York. A ninth case, which did not name Alcon, Inc. and its board of directors as parties, was filed in the Eastern District of New York but was voluntarily dismissed by the plaintiffs on March 18, 2010.

On April 14, 2010, plaintiffs in the consolidated action dismissed their claims against Nestlé and the five Alcon directors designated by Nestlé. On May 24, 2010, the court granted a motion by Novartis and dismissed the action in its entirety on the ground that Switzerland was a more convenient forum for the dispute. On July 14, 2010, the plaintiffs appealed the district court's dismissal to the U.S. Court of Appeals for the Second Circuit. Plaintiffs moved to dismiss the appeal on January 5, 2011, and the Second Circuit granted their motion the next day.

Two cases filed in District Court, Tarrant County, Texas and two cases filed in the County Court at Law, Dallas County, Texas were consolidated for pre-trial purposes by the Texas Multidistrict Litigation Panel in the Texas District Court, Dallas County. In November 2010, the court granted Novartis's motion seeking dismissal of these

actions on the ground that Switzerland is a more convenient forum. The plaintiffs appealed the court's dismissal, and the appeal is pending.

***Other Contingencies***

The Company, either alone or jointly with its commercial partners, has filed fourteen North American patent infringement actions against six different generic drug companies. With the exception of international generic challenges, all of these generic drug companies are seeking U.S. Food and Drug Administration ("FDA") approval to market generic versions of the Company's products, under what are known as Abbreviated New Drug Applications ("ANDAs").

Each infringement action was filed after the Company received notice that one or more of the generic drug companies had filed an ANDA seeking approval to sell a generic version of the Company's product. As part of its ANDA, each generic drug company challenged one or more patents covering the Company's product. In the United States, as a result of filing the lawsuits, the FDA must delay approval of the related ANDAs for 30 months unless the litigation is earlier resolved or the court modifies the 30-month stay on FDA approval. In Canada, filing of the lawsuit secured a 24-month delay in approval from the Minister of Health, which can be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should any generic drug company succeed in overcoming the Company's patents and secure regulatory approval, it would be entitled to sell a generic product that would compete with the Company's product in the United States or Canada. Such competition would be expected to impact significantly the Company's sales and profits.

The following table provides a summary of these lawsuits:

(in millions, except share data)

| Parties seeking approval | Alcon product(s) | No. of patents challenged | Longest patent expiration date | Patents owned by | Jurisdiction/ Regulatory Body | Date first suit filed | Status | If generic challenger is successful, earliest date that a generic may begin selling |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| Teva Pharmaceuticals USA, Inc. | *Vigamox*® antibiotic ophthalmic solution (Moxifloxacin, the primary ingredient in *Vigamox*®, is licensed to Alcon by Bayer Schering Pharma AG). | 3[1] | 2020 | Bayer Schering Pharma AG/the Company | FDA, U.S. District Court of Delaware | April 5, 2006 | Trial relative to the Company's patent concluded on March 6, 2008. On October 19, 2009, the court ruled in the Company's favor. Teva has appealed. | September 4, 2014 |
| Apotex Inc., Apotex Corp., Barr Laboratories, Inc., Wockhardt Limited, Sandoz Inc. and Sandoz Canada Inc. (the last two parties are affiliates of Novartis) | *Patanol*® and *Pataday*™ anti-allergy ophthalmic solutions | Up to 5 [2], [3], [4], [5], [6], [7] | 2015 (*Patanol*®) and 2023 (*Pataday*™) | Kyowa Hakko Kirin Co., Ltd./the Company | FDA, U.S. District Court in Indianapolis and Canadian Minister of Health, Federal Court in Toronto | November 15, 2006 | One non-jury trial concluded on May 7, 2010. Closing arguments, however, were held August 3, 2010. A ruling has not yet been issued. | June 18, 2011 [2], [3], [4], [5], [8], [9] |
| Barr Laboratories, Inc., Par Pharmaceutical, Inc., Apotex Corp. and Apotex Inc. | *TRAVATAN*® and *TRAVATAN Z*® ophthalmic solutions | Up to 7 | 2014[8] | The Company | FDA, U.S. District Court of Delaware | April 30, 2009 | Trial postponed until May 2, 2011. The parties have requested a further postponement. | December 2011[8] |

(1) Two of the patents are owned by the Company's licensor, Bayer Schering Pharma AG, and the third, which expires in 2020 (including a six-month pediatric extension), is owned by the Company. The two Bayer Schering Pharma AG patents were also the subject of another Teva ANDA seeking approval to sell a generic version of Bayer Schering Pharma AG's systemic moxifloxacin product, Avelox®. Suit was filed by the Company and Bayer Schering Pharma AG as co-plaintiffs against Teva relative to the *Vigamox*® ANDA on April 5, 2006 in the U.S. District Court in Delaware. Bayer Schering Pharma AG subsequently filed suit in the same court relative to the Avelox® ANDA, and the two suits were merged. Trial was scheduled to begin February 26, 2008, but the dispute between Bayer Schering Pharma AG and Teva relative to the two Bayer Schering Pharma AG patents was resolved by settlement on the eve of trial. Under the terms of the settlement, Teva acknowledged the validity and enforceability of both Bayer Schering Pharma AG patents, and further acknowledged that its proposed generic ophthalmic product would infringe both patents. Teva has therefore relinquished any claim that it is entitled to market the generic ophthalmic product prior to September 4, 2014. The Company remains the exclusive ophthalmic licensee under the Bayer Schering Pharma AG patents.

The trial relative to the Company's patent concluded on March 6, 2008. On October 19, 2009, the court ruled in the Company's favor on all counts, finding the Company's patent to be valid and infringed by the proposed generic product. Since then, the Company received issuance of a related patent with claims that cover the *Vigamox*® product and Teva's proposed generic product. U.S. Patent No. 7,761,010 was issued on March 2, 2010 and has been added to the FDA Orange Book relative to the Company's *Vigamox*® product. Teva has appealed the trial court ruling.

However, even if Teva were to succeed in having the district court decision reversed on appeal, it would still have to address the Company's recently issued second patent before competing with the Company's *Vigamox*® product in September 2014 when the underlying Bayer patent expires. If Teva were to win on appeal and overcome the Company's second patent, the resulting generic competition would be expected to impact significantly the Company's sales and profits. On a related note, the Company's European counterpart patent to the patent-in-suit was determined to be invalid in a European Patent Office Opposition Proceeding. That invalidity decision was upheld by an Enlarged Board of Appeal on October 22, 2009. Divisional patent applications on the Company's *Vigamox*® product remain pending in the European Patent Office.

(2) The Company's raw material supplier, Kyowa Hakko Kirin Co., Ltd., holds another U.S. patent that has not been challenged in the Apotex ANDA on *Patanol*® and expires on December 18, 2010. In addition, the Company has secured a six-month pediatric extension to the patent coverage, which means this generic challenge poses no threat to the *Patanol*® product market prior to June 18, 2011.

(3) Unlike the Apotex ANDA on *Patanol*®, which is challenging only the patent jointly owned by Kyowa and the Company, the Barr ANDA on *Patanol*® also challenged Kyowa's composition patent on olopatadine, the active agent in *Patanol*®. The 30-month period after which the FDA could have approved Barr's generic product would have expired at the end of March 2010. Trial was scheduled for late April 2010. However, in September 2009, Barr withdrew its ANDA and subsequently was dismissed from the suit.

(4) The Barr ANDA on *Pataday*™ is challenging the patent jointly owned by Kyowa and the Company, as well as two later issued patents owned by the Company that cover the *Pataday*™ formulation. In this ANDA, Barr is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 18, 2011 by a pediatric extension). Of the two patents owned solely by the Company, the latest expiry date is November 2023. The 30-month period after which the FDA could approve Barr's generic product should expire in May 2011 but is of no practical effect in view of the unchallenged Kyowa patent, the term of which extends until June 2011.

(5) Like Barr's ANDA on *Pataday*™, the Apotex ANDA on *Pataday*™ is challenging the patent jointly owned by Kyowa and the Company, as well as two later issued patents owned by the Company that cover the *Pataday*™ formulation. Apotex is not challenging the Kyowa patent on olopatadine that expires in December 2010 (June 2011 with the pediatric extension). If Apotex succeeds in overcoming both of the challenged patents and secures FDA approval, then after the expiration of Barr's potential 180-day "first filer" exclusivity period, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Pataday*™ product in the United States.

(6) Similar to the Apotex ANDA on *Patanol*®, the Sandoz Inc. (an affiliate of Novartis) ANDA on *Patanol*® is challenging only the patent jointly owned by Kyowa and the Company, but not the Kyowa-owned patent on olopatadine, which expires December 2010 (June 2011 with pediatric extension). Trial was scheduled for April 26, 2010, and consolidation with the above-described Apotex suit (*Patanol*®) was ordered by the court. Apotex advised the court of public statements of intent by Novartis to acquire all outstanding shares of Alcon stock, and filed a motion to sever Sandoz from the trial. On February 22, 2010, the court granted the motion, ordering the suit against Sandoz to proceed separately and confirming the April 26, 2010 trial date with Apotex. A new trial date for the Sandoz case has not yet been set. At the request of Sandoz, the court has stayed the litigation against Sandoz until November 2010, and Sandoz has requested a six-month extension of that stay.

The Sandoz Inc. ANDA on *Pataday*™ is challenging the patent jointly owned by Kyowa and the Company (described above), as well as two later issued patents owned by the Company that cover the *Pataday*™ formulation. Of the Company's two patents, the latest expiry date is November 2023. Sandoz is not challenging the Kyowa patent on olopatadine that expires in December 2010 (effectively extended until June 2011 by a pediatric extension). On January 27, 2010, Alcon and Kyowa filed suit in the Federal District Court in Indianapolis. This case was consolidated with the other *Pataday*™ suits (Barr and Apotex, described above), but at the request of Sandoz, the court has stayed the litigation against Sandoz until November 2010. Sandoz has requested a six-month extension of that stay.

(7) The Sandoz Canada Inc. Abbreviated New Drug Submission (ANDS) is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*® product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. Trial had been scheduled for March 7, 2011, but was postponed by the court with no new trial having been set.

(8) In June 2010, Alcon announced its plans to discontinue *TRAVATAN*® in the United States. Therefore, competition from generic versions of *TRAVATAN*® would not be expected to impact significantly the Company's sales and profits. Apotex then withdrew its ANDA on *TRAVATAN*® and was dismissed from the suit in July 2010. In November 2010, Barr advised that it too was withdrawing its ANDA on *TRAVATAN*®. That leaves Par as the effective first filer for both *TRAVATAN*® and *TRAVATAN Z*®. If Par succeeds in overcoming all of the challenged patents and/or secures FDA approval, it would be entitled to begin selling a generic travoprost product that would compete with the Company's *TRAVATAN Z*® product in the United States in December 2011. Such competition would be expected to impact significantly the Company's sales and profits. Another Alcon patent application is pending that, if granted, would have an expiration date in 2027.

(9) Apotex, Inc. notified Alcon Canada that Apotex had filed an ANDS seeking approval from the Canadian Minister of Health to market a generic version of the Company's *Patanol*® product. The Apotex ANDS is challenging only one of the two patents listed in the Canadian Patent Register for the *Patanol*® product. The challenged patent (Canadian Patent No. 2,195,094) is jointly owned by Kyowa and the Company and expires in May 2016. The Company and Kyowa, by timely initiating this action, are entitled to a 24-month delay (until April 2012) in the regulatory approval from the Minister of Health, which can only be shortened if the litigation is earlier resolved or the court modifies the 24-month stay on such approval. Should Apotex succeed in overcoming the challenged patent and secure Minister of Health approval, it would be entitled to begin selling a generic olopatadine product that would compete with the Company's *Patanol*® product in Canada well before the patent expiration in 2016, but not before expiration of the unchallenged patent in November 2012.

The Company is also enforcing patents against generic challengers in China (*Patanol*®) and Chile (*Vigamox*®).

On April 16, 2008, Synergetics USA, Inc., a microsurgical device company, filed a civil antitrust lawsuit in the U.S. District Court for the Southern District of New York against the Company and its subsidiary, Alcon Laboratories, Inc. Synergetics asserted damages that it claimed could exceed $100. In 2008 and 2009, subsidiaries of the Company filed two suits against Synergetics for patent infringement in the U.S. District Court for the Northern District of Texas in Fort Worth. Synergetics answered the complaints. A series of counterclaims and motions followed. On April 23, 2010, the parties entered a Confidential Settlement and License Agreement together with a Supply Agreement. Under the agreements, Alcon paid $32 in exchange for worldwide rights to sell Synergetics patented vitreoretinal products. The products will be manufactured by Synergetics and supplied to Alcon. The agreements also settled all pending litigation between Alcon and Synergetics, including both the antitrust and the patent litigation, and provide a process for future dispute resolution.

On December 18, 2008, James M. Nielsen, M.D. filed a patent infringement suit against Alcon, Inc. and Alcon Laboratories, Inc. in the U.S. District Court for the Northern District of Texas in Dallas. Dr. Nielsen is asserting that his U.S. Patent No. 5,158,572 entitled "Multifocal Intraocular Lens" is being infringed by the Company's *AcrySof*® *ReSTOR*® intraocular lens. The patent, which expired at the end of October 2009, was previously licensed to Advanced Medical Optics, Inc. The Company filed its Answer January 12, 2009. The Answer included a counterclaim for a declaratory judgment that the patent-in-suit is invalid and not infringed. The case had been set for trial in August 2010 but has been postponed. No new trial date has been set. Summary judgment motions were filed by both parties January 7, 2011. Alcon is seeking summary judgment of noninfringement, invalidity and laches, while Dr. Nielsen is seeking partial summary judgment on invalidity and laches/estoppels. On January 10, 2011, the court ordered that both parties' motions be stricken and refiled in a "cross-motion" format, the briefing for which was extended by the court until the end of March 2011. An adverse ruling by the court, while possible, would not be expected to impact significantly the Company's sales and profits.

On January 22, 2009, Elan Pharma International Ltd. sued two of the Company's subsidiaries, Alcon Laboratories, Inc. and Alcon Research, Ltd., in the U.S. District Court for the Eastern District of Texas in Sherman, alleging infringement of two Elan patents on nanoparticle technology (U.S. Patent Nos. 5,298,262 and 5,429,842).

The complaint claims that the Company's *Azopt*® product and, potentially, other products infringe the two patents. The Company answered and counterclaimed on May 12, 2009. Elan then moved to dismiss certain of the Company's affirmative defenses and counterclaims. The Company has filed an amended answer and counterclaims providing greater detail with respect to the Company's inequitable conduct counterclaims. The case has been set for trial on October 17, 2011. The Company believes that it has strong defenses and intends to defend itself vigorously. An adverse ruling by the court, however, could impact significantly the Company's sales and profits.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

The Company self-insures through captive insurance subsidiaries almost all of its property, business interruption and liability risks.

The Company was self-insured through its captive insurance subsidiary for damages incurred prior to 2006 at one of its sales and distribution facilities and was involved in legal proceedings to seek recovery of its losses and other incremental operating costs from the third parties responsible for the damages. In December 2008, the captive insurance subsidiary settled its claim against the third parties involved. Since no recovery had been recorded previously, the Company recognized a gain in the fourth quarter of 2008 related to the settlement of $15 ($3 in cost of goods sold and $12 in selling, general and administration expenses).

In the normal course of business, the Company has entered into research and development arrangements with third parties that require milestone and royalty payments to the third parties contingent upon certain future events linked to the success of the research and development efforts.

During 2008, Lehman Brothers International (Europe) London filed for administration in England. At that time, the Company's cash and cash equivalents included $707 of short term securities held in a segregated custodial account of Lehman Brothers International (Europe) London pursuant to a Custody Agreement. Nestlé invoiced the Company in December 2008 and, in 2009, the Company reimbursed Nestlé, for a total of $5 in fees paid by Nestlé to the Joint Administrators of Lehman Brothers International (Europe) London (in administration) related to the release of the short-term securities held in the custodial account. This amount of fees is subject to adjustment depending on the final costs incurred to settle the administration of Lehman Brothers International (Europe) London. In order to receive an expedited return of assets held by Lehman Brothers International (Europe) (in administration), Alcon has agreed to return any assets which the Joint Administrators determine should not have been disbursed in settlement. The amount of any funds to be returned, if any, would result from the determination by the Joint Administrators that the rights of another claimant in the proceeding have precedence over the Company's claim.

***Commitments***

The Company leases certain facilities and equipment under operating leases. The total costs of operating leases (inclusive of any adjustments associated with escalating rent, rent holidays, contingent rent or rent concessions) are expensed ratably over the life of the operating lease. Leasehold incentives are capitalized and amortized over the shorter of the life of the lease or the associated asset. Lease expense incurred was $73, $66 and $77 during 2010, 2009 and 2008, respectively. Future minimum aggregate lease payments under noncancelable operating leases with a term of more than one year were as follows:

(in millions, except share data)

| Year | Amount |
|---|---|
| 2011 | $ 67 |
| 2012 | 50 |
| 2013 | 37 |
| 2014 | 24 |
| 2015 | 21 |
| Thereafter | 81 |
| Total minimum lease payments | $ 280 |

The Company has entered into various fixed and variable purchase commitments and license agreements, requiring future minimum royalties, through 2021. All commitments are expected to be fulfilled with no adverse consequences to the Company's operations or financial condition. The total unconditional fixed purchase obligations and future minimum royalties at December 31, 2010 were as follows:

| Year | Amount |
|---|---|
| 2011 | $ 41 |
| 2012 | 21 |
| 2013 | 9 |
| 2014 | 2 |
| 2015 | 1 |
| Thereafter | 2 |
| Total | $ 76 |

Total payments related to the above unconditional purchase commitments and license agreements for the years ended December 31, 2010, 2009 and 2008 were $93, $63 and $97 respectively. In addition, at December 31, 2010, the Company had entered into various contracts with suppliers to purchase raw materials contingent upon forecasted purchases and other manufacturing requirements.

At December 31, 2010, the Company had guaranteed $7 of debt for certain customers. At December 31, 2010, the Company had outstanding letters of credit of $27. The letters of credit typically act as a guarantee of payment to certain third parties in accordance with specified terms and conditions. Additionally, the Company guaranteed $33 to a third party reinsurer for the Company's captive insurance subsidiaries.

## (18) Acquisitions

***LenSx Lasers, Inc.***

*Acquisition in 2010*

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complimentary technology in cataract surgery. The *LenSx*® laser will enable surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and the creation of certain corneal incisions. Previously these steps were done manually with surgical instruments.

(in millions, except share data)

The Company paid approximately $367 in cash at closing to LenSx shareholders for their shares and agreed to maximum contingent payments of approximately $383 based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones.

Between the acquisition date and December 31, 2010, LenSx had no revenues and its expenses were not significant.

The following table summarizes the components of the LenSx purchase price:

| | | |
|---|---|---|
| Cash paid for LenSx share | $ | 367 |
| Cash paid to a LenSx shareholder for intangible asset integral to the purchase | | 12 |
| Estimated fair values of future contingent payments | | 72 |
| Total purchase price | $ | 451 |

The Company engaged a third-party valuation firm to assist it in determining the estimated fair values of identifiable intangible assets and future contingent payments. Such a valuation requires significant estimates and assumptions including but not limited to estimating future cash flows and developing appropriate discount rates. The Company is continuing to obtain information and evaluate these fair value estimates. The Company's fair value estimates for these components of the transaction may change during the allowable allocation period, which is typically up to one year from the acquisition date.

*Fair Values of Future Contingent Payments*

In addition to the cash paid to the shareholders of LenSx at the time of the acquisition, the Company is obligated to make contingent payments of up to $383 based upon the achievement of certain sales objectives through 2015. The fair values of these payments were estimated to be $72 and were included as a cost of the acquisition.

There are a number of milestones that could potentially lead to such payments to the former shareholders of LenSx. This valuation was based on the Company's estimates of the probability and timing of these contingent payments. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement, as described in note 5. Objectives and milestones were assigned individual probabilities based on the respective current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 4.5%, which the Company believes is appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 10% to 65%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately $6.

The fair values of these contingent payments will be reviewed on a periodic basis. Any future changes in this estimated value not associated with the original purchase price valuation will be recorded in the Company's results of operations.

*Purchase Price Allocation*

The allocation of purchase price for acquisitions requires use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in process research and development, and liabilities assumed based on their respective fair values. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in connection with the acquisition of a business. The Company believes that LenSx's use of inputs and processes qualify it as the acquisition of a business.

The LenSx purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

(in millions, except share data)

The valuation of these assets requires significant estimates and assumptions including but not limited to estimating future cash flows and developing appropriate discount rates.

The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

The Company believes the estimated fair values assigned to the assets acquired and liabilities assumed were based on reasonable assumptions. The following table summarizes the estimated fair values of net assets acquired:

| | |
|---|---|
| Current assets | $ 10 |
| Property, plant and equipment | 2 |
| Identifiable intangible assets | 433 |
| Goodwill | 133 |
| Long term deferred income tax assets | 32 |
| Accounts payable and accrued liabilities | (2) |
| Long term deferred income tax liabilities | (157) |
| Net assets acquired | $ 451 |

The Company's fair value estimates for the purchase price allocation may change during the allowable allocation period, which is typically up to one year from the acquisition date.

*Identifiable Intangible Assets*

Acquired identifiable intangible assets include rights for the use of proprietary technologies for the development of products. The estimated amortization period is 15 years based on the projected useful life of the products developed by the use of the technology.

The estimated fair value of the acquired intangible assets was determined based on the use of a discounted cash flow model using an income approach for products developed from the acquired technology. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

*Goodwill*

Goodwill represents the excess of the LenSx purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of LenSx provides the Company access to improved technology and a highly trained LenSx work force as of the acquisition date.

The Company believes that these factors support the $133 of goodwill recognized as a result of the purchase price paid for LenSx. The goodwill was allocated between the two business segments based on the acquisition models' projected revenues. The goodwill acquired in the LenSx acquisition is not expected to be deductible for tax purposes.

***ESBATech AG***

*Acquisition in 2009*

On September 15, 2009, the Company completed the acquisition of ESBATech AG, a Swiss biotechnology company. Alcon paid ESBATech shareholders $150 in cash at closing. In addition, the Company recorded the estimated fair value of possible contingent payments of up to $439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. ESBATech is a clinical-stage biotechnology company that has been developing a pipeline of proprietary single-chain antibody fragment

therapeutics for topical and local delivery for safe and convenient therapy. This acquisition provides the Company with additional research and development capabilities.

The following table summarizes the components of the ESBATech purchase price:

| | | |
|---|---|---|
| Cash paid for ESBATech shares……..... | $ | 150 |
| Estimated fair values of future contingent payments……... | | 71 |
| Total purchase price……..... | $ | 221 |

The Company engaged a third-party valuation firm to assist it in determining the estimated fair values of in process research and development, identifiable intangible assets and certain tangible assets as well as the future contingent payments. Such a valuation requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in process projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates.

*Fair Values of Future Contingent Payments*

In addition to the cash paid to the shareholders of ESBATech at the time of the acquisition, the Company is obligated to make contingent payments of up to $439 based upon the achievement of future research and development milestones that would be expected to create value for Alcon. The fair values of these payments were estimated to be $71 and were included as a cost of the acquisition.

There are a number of milestones that could potentially lead to such payments to the former shareholders of ESBATech. This valuation was based on the Company's estimates of the probability and timing of these contingent payments. The fair value measurement was based on significant inputs not observable in the market and thus represents a Level 3 measurement, as described in note 5. Each milestone was assigned a probability based on its current status. The resultant probability-weighted cash flows were then discounted using a discount rate of 6%, which the Company believes is appropriate and representative of a market participant assumption. The probabilities assigned to payment streams ranged from 5% to 39%. An increase or decrease of 10 percentage points in the probability assumptions would result in an adjustment to the estimated value of approximately $30.

The fair values of these contingent payments will be reviewed on a periodic basis. Any future changes in this estimated value not associated with the original purchase price valuation will be recorded in the Company's results of operations.

*Purchase Price Allocation*

The allocation of purchase price for acquisitions requires use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired, including in process research and development, and liabilities assumed based on their respective fair values. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because a portion of the purchase price can only be allocated to goodwill in connection with the acquisition of a business. The Company believes that ESBATech's use of inputs and processes qualify it as the acquisition of a business.

The ESBATech purchase price was allocated to tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The valuation of these assets requires significant estimates and assumptions including but not limited to determining the timing and estimated costs to complete the in process projects, projecting regulatory approvals, estimating future cash flows, and developing appropriate discount rates.

The excess of the purchase price over the fair value of net assets acquired was allocated to goodwill.

(in millions, except share data)

The Company believes the estimated fair values assigned to the assets acquired and liabilities assumed were based on reasonable assumptions. The following table summarizes the estimated fair values of net assets acquired:

| | |
|---|---|
| Current assets | $ 1 |
| Property, plant and equipment | 2 |
| Identifiable intangible assets | 77 |
| In process research and development | 104 |
| Goodwill | 40 |
| Long term deferred income tax assets | 40 |
| Accounts payable and accrued liabilities | (2) |
| Long term deferred income tax liabilities | (40) |
| Other long term liabilities | (1) |
| Net assets acquired | $ 221 |

*Identifiable Intangible Assets*

Acquired identifiable intangible assets include rights for the use of proprietary technologies for the development of ophthalmic pharmaceuticals. The estimated amortization period is 20 years based on the projected useful life of the products developed by the use of the technology.

The estimated fair value of the acquired intangible assets was determined based on the use of a discounted cash flow model using an income approach for products developed from the acquired technology. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

*In Process Research and Development*

In conjunction with the ESBATech acquisition, the Company allocated $104 of the acquisition price to acquire in process research and development assets.

These in process research and development assets are comprised of projects to develop technologies in the field of ophthalmic pharmaceuticals. These assets were in an early stage of development as of the ESBATech acquisition date of September 15, 2009.

The estimated fair value of the in process research and development assets was determined based on the use of a discounted cash flow model using an income approach for the acquired technologies. Estimated revenues were probability adjusted to take into account the stage of completion and the risks surrounding successful development and commercialization. The estimated after-tax cash flows were then discounted to a present value using discount rates appropriate for the risks associated with these projects.

The major risks and uncertainties associated with the timely and successful completion of the acquired in process projects consist of the ability to confirm the safety and efficacy of the technology based on further research, the data from clinical trials, if necessary, and obtaining necessary regulatory approvals. No assurance can be given that the underlying assumptions used to forecast the cash flows or the timely and successful completion of the projects will materialize as estimated, if at all. For these reasons, among others, actual results may vary significantly from estimated results.

(in millions, except share data)

*Goodwill*

Goodwill represents the excess of the ESBATech purchase price over the sum of the amounts assigned to assets acquired less liabilities assumed. The Company believes that the acquisition of ESBATech provides the Company access to improved technology and a highly trained ESBATech work force as of the acquisition date.

The Company believes that these factors support the $40 of goodwill recognized as a result of the purchase price paid for ESBATech. The goodwill was allocated between the two business segments based on the acquisition models' projected revenues, as shown in note 6, "Intangible Assets and Goodwill." The goodwill acquired in the ESBATech acquisition is expected to be deductible for tax purposes.

**(19) Unaudited Quarterly Information**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, | June 30, | September 30, | December 31, |
| **2010** | | | | |
| Sales | $ 1,721 | $ 1,886 | $ 1,760 | $ 1,812 |
| Operating income | 653 | 751 | 495 | 576 |
| Net earnings | 573 | 670 | 446 | 521 |
| Basic earnings per common share | $ 1.91 | $ 2.23 | $ 1.48 | $ 1.72 |
| Diluted earnings per common share | $ 1.89 | $ 2.21 | $ 1.47 | $ 1.71 |
| **2009** | | | | |
| Sales | $ 1,493 | $ 1,677 | $ 1,614 | $ 1,715 |
| Operating income | 514 | 632 | 578 | 537 |
| Net earnings | 452 | 582 | 515 | 458 |
| Basic earnings per common share | $ 1.51 | $ 1.95 | $ 1.72 | $ 1.53 |
| Diluted earnings per common share | $ 1.51 | $ 1.94 | $ 1.71 | $ 1.51 |

Quarterly sales trends reflect seasonality in several products, including ocular allergy and otic products, in the form of increased sales during the spring months, which occur during the second quarter in the northern hemisphere.

During the three months ended March 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a $24 addition to operating income during the period. However, the U.S. enactment of the Health Care and Education Reconciliation Act of 2010 caused a $25 write-off of deferred tax assets, reducing net earnings in the three months ended March 31, 2010.

In the three months ended March 31, 2010, June 30, 2010, September 30, 2010 and December 31, 2010, the Company incurred pretax expenses totaling $4, $4, $133 and $11, respectively, for costs related to the change of majority ownership discussed in note 16, other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal, and certain costs related to integration as a subsidiary of Novartis.

Operating income and net earnings in 2009 included costs related to a staffing reduction of approximately 260 employee positions of $18 in the three months ended March 31, 2009 and of $1 in the three months ended September 30, 2009.

Net earnings in the three months ended December 31, 2009 included $30 in additional tax reserves from new information related to prior years' provisions.

Operating income and net earnings after September 15, 2009 reflect the operations of ESBATech subsequent to its acquisition effective September 15, 2009, as discussed in note 18.

## ALCON, INC. AND SUBSIDIARIES

Report of the Statutory Auditor on the Consolidated Financial Statements to the General Meeting of Shareholders of

**Alcon, Inc., Hünenberg**

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As statutory auditor, we have audited the accompanying consolidated financial statements (consolidated balance sheet, consolidated statement of earnings, consolidated statement of shareholders' equity and comprehensive income, consolidated statement of cash flows and notes) of Alcon, Inc. and subsidiaries for the year ended December 31, 2010, as included in the Alcon, Inc. 2010 Business Report on pages 8 to 68 and the Swiss disclosure requirements on pages 71 to 73.

*Board of Directors' Responsibility*
The board of directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation 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. 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 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 December 31, 2010 comply with Swiss law and the consolidation and valuation principles as set out in the notes to the consolidated financial statements.

**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.

KPMG AG

/s/ Thomas Affolter
Thomas Affolter
*Licensed Audit Expert*
*Auditor in Charge*

/s/ Danilo Faustinoni
Danilo Faustinoni
*Licensed Audit Expert*

Zug, February 10, 2011

**ALCON, INC. AND SUBSIDIARIES**
**Swiss Disclosure Requirements**
**(in millions of US dollars)**

The consolidated financial statements (consolidated balance sheet, consolidated statement of earnings, consolidated statement of shareholders' equity and comprehensive income, consolidated statement of cash flows and notes) of Alcon, Inc. and subsidiaries (the "Company") for the year ended December 31, 2010 are included in the Alcon, Inc. 2010 Business Report on pages 8 to 68. Swiss law requires additional reporting disclosures which are included in the notes below.

**(1) Significant shareholders**

Alcon, Inc. ("Alcon"), a Swiss corporation, is a majority owned subsidiary of Novartis AG. As of December 31, 2010, Novartis had purchased 231,352,279 Alcon common shares. The remaining common shares are publicly traded at the New York Stock Exchange (NYSE) since March 21, 2002.

Other than Novartis AG, Alcon, Inc. is not aware of any other shareholder beneficially owning 5% or more of Alcon's outstanding common shares at December 31, 2010.

**(2) Investment in subsidiaries**

The following is a list of Alcon, Inc.'s and subsidiaries' major investments as of December 31, 2010. The consolidated ownership of each of these investments as of December 31, 2010 is 100%.

| Name | Domicile | Activity | Issued share capital |
|---|---|---|---|
| Alcon Laboratorios Argentina S.A. | Buenos Aires, Argentina | Distributor | $ 1.7 |
| Alcon Laboratories (Australia) Pty. Ltd. | Frenchs Forest, Australia | Distributor | 2.0 |
| S.A. Alcon-Couvreur N.V. | Puurs, Belgium | Manufacturer and Distributor | 320.6 |
| Trinity River International Investments (Bermuda) Ltd. | Hamilton, Bermuda | Finance | 0.1 |
| Trinity River Insurance Co. Ltd. | Hamilton, Bermuda | Captive Insurance | 0.4 |
| Alcon Laboratorios do Brasil Ltda. | Sao Paulo, Brazil | Manufacturer and Distributor | 10.6 |
| Alcon Canada Inc. | Mississauga, Canada | Distributor | * |
| Alcon Laboratorios Chile Limitada | Santiago, Chile | Distributor | 4.3 |
| Alcon (China) Ophthalmic Product Co., Ltd. | Beijing, China | Manufacturer and Distributor | 2.2 |
| Laboratorios Alcon de Colombia S.A. | Bogota, Colombia | Distributor | 0.4 |
| Laboratoires Alcon S.A. | Rueil-Malmaison, France | Manufacturer and Distributor | 13.5 |
| Alcon Pharma GmbH | Freiburg, Germany | Distributor | 0.5 |
| WaveLight GmbH | Erlangen, Germany | Distributor | 9.7 |

**ALCON, INC. AND SUBSIDIARIES**
**Swiss Disclosure Requirements (continued)**
**(in millions of US dollars)**

**(2) Investment in subsidiaries (continued)**

| Name | Domicile | Activity | | Issued share capital |
|---|---|---|---|---|
| Alcon Laboratories (UK) Limited | Hemel Hempstead, Herts, UK | Distributor | $ | 4.9 |
| Alcon Laboratories Hellas - Commercial & Industrial S.A. | Athens, Greece | Distributor | | 2.3 |
| Alcon Laboratories (India) Private Limited | Bangalore, India | Distributor | | 22.9 |
| Alcon Laboratories Ireland Limited | Cork, Ireland | Manufacturer | | 0.7 |
| Alcon Italia S.p.A. | Milan, Italy | Distributor | | 1.7 |
| Alcon Japan Ltd. | Tokyo, Japan | Distributor | | * |
| Alcon Laboratorios, S.A. de C.V. | Mexico City, Mexico | Manufacturer and Distributor | | 4.7 |
| Alcon Nederland B.V. | Gorinchem, The Netherlands | Distributor | | 0.1 |
| Alcon Polska Sp. ZO.O. | Warsaw, Poland | Distributor | | 0.3 |
| Alcon Portugal -Produtos e Equipamentos Oftalmológicos, LDA | Paco D'Arcos, Portugal | Distributor | | 4.1 |
| Alcon (Puerto Rico) Inc. | Catano, Puerto Rico | Distributor | | 0.1 |
| Alcon Farmacevtika LLC | Moscow, Russia | Distributor | | 1.5 |
| Alcon Singapore Manufacturing Pte Ltd. | Singapore | Manufacturing | | 0.1 |
| Alcon Laboratories (South Africa) (Pty.) Ltd. | Randburg, South Africa | Distributor | | 0.2 |
| Alcon Korea Ltd. | Seoul, South Korea | Distributor | | 28.4 |
| Alcon Cusí S.A. | El Masnou (Barcelona), Spain | Manufacturer and Distributor | | 15.1 |
| Alcon Sverige AB | Bromma, Sweden | Distributor | | 0.1 |
| Alcon Pharmaceuticals Ltd | Fribourg, Switzerland | Distributor | | 0.2 |
| ESBATech | Schlieren, Switzerland | Research | | * |
| Alcon Pharmaceuticals Taiwan Ltd. | Hünenberg, Switzerland | Distributor | | 0.1 |
| Alcon Laboratories (Thailand) Ltd. | Bangkok, Thailand | Distributor | | 0.1 |
| Alcon Laboratuvarlari Ticaret A.S. | Istanbul, Turkey | Distributor | | 19.3 |

**(in millions of US dollars)**

**(2) Investment in subsidiaries (continued)**

| Name | Domicile | Activity | Issued share capital |
|---|---|---|---|
| Alcon Holdings Inc. | Wilmington DE, USA | Holding/Finance | $ 0.1 |
| Alcon Laboratories, Inc. | Wilmington DE, USA | Distributor | 0.1 |
| Alcon Refractive Horizons, Inc. | Wilmington DE, USA | Holding | 0.1 |
| Alcon Research, Ltd. | Fort Worth TX, USA | Manufacturer / Research | 0.1 |
| Falcon Pharmaceuticals, Ltd. | Fort Worth TX, USA | Distributor | 0.1 |
| Alcon LenSx, Inc. | Wilmington, DE, USA | Manufacturer / Research | 0.1 |
| Alcon Pharmaceutical, C.A. | Caracas, Venezuela | Distributor | 0.1 |

* Shares with no nominal value.

**(3) Fixed assets**
The fire insurance value for fixed assets amounts to $3,001 and $2,727 at December 31, 2010 and 2009, respectively.

**(4) Expense by nature**
The following items are allocated to the appropriate headings of expenses by function in the consolidated statements of earnings for the year ended December 31.

| | 2010 | 2009 |
|---|---|---|
| Depreciation of property, plant and equipment | $ 213.8 | $ 193.6 |
| Salaries and welfare expenses | 1,942.3 | 1,759.1 |
| Direct material cost | 601.2 | 580.8 |

**(5) Directors and Senior Management Compensation**
Further information as required by Swiss law relating to remuneration and ownership of shares and options of the members of the board of directors and the senior management team can be found in note 7 of the parent company accounts.

**(6) Risk Assessment Disclosures**
Alcon, Inc. and subsidiaries (“Group”) maintain a global Enterprise Risk Management (“ERM”) process. The ERM process is applied in strategy setting across the Group and designed to identify potential events that may affect entities and manage risks within Group tolerances. Regular reporting is provided to the Board of Directors and Audit Committee. Organizationally, the ERM process is coordinated by the Group Planning and Analysis Department and is applicable to all Group facilities and operations including corporate functions such as Financial Reporting, Treasury, Income Taxes, Legal, and Information Technology.

A risk analysis was performed for the Company's key financial processes for which internal controls over financial reporting were documented and evaluated for existence. This risk analysis will be assessed at least annually.

Report of the Statutory Auditor on the Financial Statements to the General Meeting of Shareholders of

**Alcon, Inc., Hünenberg**

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As statutory auditor, we have audited the accompanying financial statements of Alcon, Inc., which comprise the balance sheet, statement of earnings and retained earnings and notes for the year ended December 31, 2010.

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

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

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

*Opinion*
In our opinion, the financial statements for the year ended December 31, 2010 comply with Swiss law and the company's articles of incorporation.

**Report on Other Legal Requirements**

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

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

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

KPMG AG

/s/ Thomas Affolter
Thomas Affolter
*Licensed Audit Expert*
*Auditor in Charge*

/s/ Danilo Faustinoni
Danilo Faustinoni
*Licensed Audit Expert*

Zug, February 10, 2011

| **Balance Sheet as of December 31,** | **Note** | **2010** | **2009** |
|---|---|---|---|
| (in thousands) | | CHF | CHF |
| **Assets** | | | |
| **Current assets** | | | |
| Cash and banks | | 222,882 | 1,392,192 |
| Accounts receivable due from affiliated companies | | 1,645 | 7,180 |
| Loans due from affiliated companies | | 2,023,153 | - |
| Treasury shares | | 4,558 | 6,687 |
| Prepayments and other current assets | | 306 | 697 |
| Total current assets | | 2,252,544 | 1,406,756 |
| **Non-current assets** | | | |
| Loans due from affiliated companies | | 28,773 | 550,488 |
| Investments in subsidiaries | 3 | 2,541,736 | 2,348,639 |
| Total non-current assets | | 2,570,509 | 2,899,127 |
| Total assets | | 4,823,053 | 4,305,883 |

| **Balance Sheet as of December 31,** | **Note** | | **2010** | **2009** |
|---|---|---|---|---|
| (in thousands) | | | CHF | CHF |
| **Liabilities and Shareholders' Equity** | | | | |
| **Current liabilities** | | | | |
| Accounts payable | | | | |
| due to third parties | | | 307 | 174 |
| due to affiliated companies | | | 3,038 | 9,943 |
| due to shareholders | | | - | 644 |
| Accrued income taxes | | | 258,119 | 263,716 |
| Other accrued liabilities | | | 3,749 | 3,385 |
| Provision for unrealized exchange gain | | | 47,258 | 65,223 |
| Total current liabilities | | | 312,471 | 343,085 |
| **Non-current liabilities** | | | | |
| Other long-term liabilities | | | 7,385 | 9,550 |
| Total non-current liabilities | | | 7,385 | 9,550 |
| **Shareholders' equity** | 4 | | | |
| Share capital | | | 61,009 | 60,803 |
| Legal reserve | | | | |
| from capital contributions | | 836,434 | | |
| from other sources | | 544 | | |
| | | | 836,978 | 628,533 |
| Reserve for own shares | | | | |
| from capital contributions | | 234,776 | | |
| from other sources | | 91,716 | | |
| | | | 326,492 | 516,064 |
| Retained earnings | | | 3,278,718 | 2,747,848 |
| Total shareholders' equity | | | 4,503,197 | 3,953,248 |
| Total liabilities and shareholders' equity | | | 4,823,053 | 4,305,883 |

| **Statement of Earnings and Retained Earnings for the year ended December 31,** | **Note** | **2010** | **2009** |
|---|---|---|---|
| (in thousands) | | CHF | CHF |
| **Income** | | | |
| Dividend income | | 1,765,969 | 1,622,476 |
| Royalty income | | - | 26,232 |
| Other investment income / (expense) | | 2,577 | (18,669) |
| Interest income | | 6,537 | 17,361 |
| Total income | | 1,775,083 | 1,647,400 |
| **Expenses** | | | |
| Royalty expense | | - | 94,144 |
| Outside services and fees | | 4,789 | 2,820 |
| Personnel related expense | | 2,999 | 1,774 |
| Administration and other operating expense | | 64,735 | 32,440 |
| Interest and other financial expense | | 465 | 2,155 |
| Withholding and miscellaneous taxes | | 2,214 | 1,710 |
| Foreign exchange (gains) / losses, net | | (5,661) | 1,686 |
| Change in valuation of treasury shares | | - | (3,520) |
| Total expenses | | 69,541 | 133,209 |
| **Earnings before income taxes** | | 1,705,542 | 1,514,191 |
| Income tax expense | | 783 | 104,478 |
| **Net earnings** | | 1,704,759 | 1,409,713 |
| Retained earnings at beginning of the year | | 2,747,848 | 2,470,962 |
| Dividend distribution | 4 | (1,186,405) | (1,179,605) |
| Transfer to reserve for own shares | 4 | 12,516 | (2,152) |
| Capital reduction | 4 | - | 48,930 |
| Retained earnings at end of the year | | 3,278,718 | 2,747,848 |

**Notes to the Financial Statements**

## 1. General

The Company is registered in Hünenberg in the Canton of Zug, Switzerland. Its principal activity is holding of investments.

The Company, a Swiss corporation, is a majority owned subsidiary of Novartis AG. As of December 31, 2010, Novartis had purchased 231,352,279 Alcon common shares. The remaining common shares are publicly traded at the New York Stock Exchange (NYSE) since March 21, 2002.

Other than Novartis AG, Alcon, Inc. is not aware of any other shareholder beneficially owning 5% or more of Alcon, Inc.'s outstanding common shares at December 31, 2010.

## 2. Significant Accounting Policies

The accounting policies followed for dealing with items which are judged material or critical in determining the results for the year and stating the financial position are as follows:

### *2.1 Foreign Currency Translation*

The accounting records are kept in USD, which is the functional currency of the Company. Assets and liabilities which arise in currencies other than USD are translated at the rates of exchange prevailing at year-end; revenues and expenses are converted at monthly booking rates.

For statutory purposes, the financial statements are translated into CHF at the following rates:

| | |
|---|---|
| Investments and dividend income | - at historical rates |
| Other assets and liabilities | - at year-end rates |
| Treasury shares and equity | - at historical rates |
| Income and expenses | - at average rates |

Profits and losses on exchange are taken into account in arriving at the net earnings, with the exception of unrealized gains, which are deferred.

### *2.2 Investments*

Investments are recorded at cost or are written down on a conservative basis, taking into account the profitability of the company concerned.

### *2.3 Treasury Shares*

Treasury shares are carried at the lower of historical cost or market.

### *2.4 Taxation*

Provision has been made for all Federal and Cantonal income and capital taxes estimated to be payable on the basis of earnings reported through December 31, 2010.

## 3. Investments in Subsidiaries

The following is a list of the Company's major investments:

| *Name* | *Domicile* | *Activity* | *Issued share capital* | | *Ownership* |
|---|---|---|---|---|---|
| S.A. Alcon-Couvreur N.V. | Puurs Belgium | Manufacturer and Distributor | EUR | 362,062,425 | 99.98% |
| Alcon Cusí S.A. | El Masnou (Barcelona) Spain | Manufacturer and Distributor | EUR | 11,599,783 | 100.00% |
| Laboratoires Alcon S.A. | Rueil-Malmaison France | Manufacturer and Distributor | EUR | 12,579,102 | 100.00% |
| Alcon Laboratories (UK) Limited | Hemel Hempstead UK | Distributor | GBP | 3,100,000 | 100.00% |
| Alcon Pharmaceuticals Ltd | Fribourg Switzerland | Distributor | CHF | 200,000 | 100.00% |
| Alcon Japan Ltd. | Tokyo Japan | Distributor | JPY | (Shares with no nominal value) | 100.00% |
| Alcon Laboratories (Australia) Pty. Ltd. | Frenchs Forest Australia | Distributor | AUD | 2,550,000 | 100.00% |
| Alcon Canada Inc. | Mississauga Canada | Distributor | CAD | (Shares with no nominal value) | 100.00% |
| Alcon (Puerto Rico) Inc. | Catano Puerto Rico | Distributor | USD | 100 | 100.00% |
| Alcon Laboratorios do Brasil Ltda. | Sao Paulo Brazil | Manufacturer and Distributor | BRL | 7,729,167 | 100.00% |
| Alcon Laboratorios, S.A. de C.V. | Mexico City Mexico | Manufacturer and Distributor | MXN | 5,915,300 | 100.00% |
| Alcon Laboratorios Argentina S.A. | Buenos Aires Argentina | Distributor | ARS | 3,912,580 | 95.00% |
| Alcon Laboratorios Chile Limitada | Santiago Chile | Distributor | CLP | 2,021,238,071 | 99.99% |
| Laboratorios Alcon de Columbia, S.A. | Bogota Colombia | Distributor | COP | 20,872,000 | 94.90% |
| Alcon Laboratories Hellas – Commercial and Industrial S.A. | Athens Greece | Distributor | EUR | 1,657,189 | 100.00% |
| Alcon Nederland B.V. | Gorinchem The Netherlands | Distributor | EUR | 18,151 | 100.00% |
| Alcon Polska Sp.z o.o. | Warsaw Poland | Distributor | PLN | 750,000 | 100.00% |
| Alcon Portugal – Produtos e Equipamentos Oftalmologicos Ltd. | Paço d'Arcos Portugal | Distributor | EUR | 4,500,000 | 100.00% |

## 3. Investments in Subsidiaries (continued)

| *Name* | *Domicile* | *Activity* | *Issued share capital* | | *Ownership* |
|---|---|---|---|---|---|
| Alcon Sverige AB | Bromma Sweden | Distributor | SEK | 100,000 | 100.00% |
| Alcon Farmacevtika LLC | Moscow Russia | Distributor | RUB | 44,055,000 | 100.00% |
| Alcon Laboratories (Thailand) Ltd. | Bangkok Thailand | Distributor | THB | 2,100,000 | 47.62% |
| Alcon Pharmaceutical, C.A. | Caracas Venezuela | Distributor | VEF | 5,545,761 | 100.00% |
| Alcon Singapore Manufacturing Pte Ltd. | Singapore | Manufacturing | SGD | 101,000 | 100.00% |
| Alcon (China) Ophthalmic Product Co., Ltd. | Beijing China | Manufacturer and Distributor | USD | 2,164,635 | 100.00% |
| Alcon Laboratories Ireland Limited | Cork Ireland | Manufacturer | EUR | 541,251 | 100.00% |
| Alcon Italia S.p.A. | Milan Italy | Distributor | EUR | 1,300,000 | 99.00% |
| Alcon Laboratuvarlari Ticaret A.S. | Istanbul Turkey | Distributor | TRY | 25,169,000 | 100.00% |
| Alcon Pharma GmbH | Freiburg Germany | Distributor | EUR | 511,292 | 100.00% |
| Alcon Holdings Inc. | Wilmington USA | U.S. Sub-Holding | USD | 10 | 100.00% |
| Trinity River International Investments (Bermuda) Ltd. | Hamilton Bermuda | Finance | USD | 12,000 | 100.00% |
| Trinity River Insurance Co. Ltd. | Hamilton Bermuda | Captive Insurance | USD | 370,000 | 100.00% |
| Alcon Laboratories (India) Private Limited | Bangalore India | Distributor | INR | 1,129,953,000 | 100.00% |
| Alcon Korea Ltd. | Seoul Korea | Distributor | KRW | 33,800,000,000 | 100.00% |
| Alcon Laboratories (South Africa) (Pty.) Ltd. | Randburg South Africa | Distributor | ZAR | 201,820 | 100.00% |
| Alcon Pharmaceuticals Taiwan Ltd. | Hünenberg Switzerland | Distributor | CHF | 50,000 | 100.00% |

## 4. Shareholders' Equity

As of December 31, 2010 the Company's share capital comprises 305,044,983 issued and fully paid registered shares with a nominal value of CHF 0.20 each (2009: 304,016,290 shares).

### Equity Reconciliation

| in CHF '000 | Number of Shares | Share Capital | Legal Reserve | Reserve for Treasury Shares | Retained Earnings | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2008 | 304,722,706 | 60,944 | 560,525 | 715,633 | 2,470,962 | 3,808,064 |
| Dividend payment | - | - | - | - | -1,179,605 | -1,179,605 |
| Cancellation of shares | -1,043,400 | -208 | -3,541 | -141,994 | 48,930 | -96,813 |
| Exercise of stock options | 336,984 | 67 | 11,822 | - | - | 11,889 |
| Changes in reserves for treasury shares | - | - | 59,727 | -57,575 | -2,152 | - |
| Net result | - | - | - | - | 1,409,713 | 1,409,713 |
| Balance, December 31, 2009 | 304,016,290 | 60,803 | 628,533 | 516,064 | 2,747,848 | 3,953,248 |
| Dividend payment | - | - | - | - | -1,186,405 | -1,186,405 |
| Exercise of stock options | 1,028,693 | 206 | 31,389 | - | - | 31,595 |
| Changes in reserves for treasury shares | - | - | 177,056 | -189,572 | 12,516 | - |
| Net result | - | - | - | - | 1,704,759 | 1,704,759 |
| Balance, December 31, 2010 | 305,044,983 | 61,009 | 836,978 | 326,492 | 3,278,718 | 4,503,197 |

### Conditional Share Capital

The General Meeting held on February 25, 2002 approved Conditional Capital in an amount not to exceed CHF 6 million. The share capital may be increased through the issuance of up to 30,000,000 fully paid registered shares with a nominal value of CHF 0.20 per share in connection with the issuance of new shares for share-based awards to employees or directors of the Company and Group companies under the Amended 2002 Alcon Incentive Plan.

During the year 2010, 1,028,693 (2009: 336,984) new shares were issued based on exercises of stock options by employees and directors. As of December 31, 2010 the Conditional Share Capital amounts to 15,209,217 (2009: 16,237,910) registered shares at CHF 0.20 each, representing a total of CHF 3,041,843 (2009: CHF 3,247,582).

## 4. Shareholders' Equity (continued)

### Legal Reserve

The Company appropriates earnings to a legal reserve in accordance with the provisions of Swiss law. For holding companies such a reserve is, to the extent of 20% of the share capital, not readily available for distribution.

As a result of 1,028,693 (2009: 336,984) new shares issued during 2010, the legal reserve increased by CHF 31,576,826 (2009: CHF 11,822,042), reduced by a reclassification of CHF 188,196.

### Reserve for Own Shares

During the year a total of 209,669 (2009: 81,458) shares, including 2,341 (2009: 1,216) shares for a deferred compensation plan, were acquired by Alcon, Inc. and subsidiaries at a cost of CHF 35,138,877 (2009: CHF 8,995,077). 2,068,014 (2009: 675,557) shares, whereof 49,846 (2009: 29,919) related to a deferred compensation plan, were disposed and the reserve was reduced by CHF 224,710,824 (2009: 66,569,715) representing the historical average cost of these shares.

The total of 2,725,392 (2009: 4,583,737) own shares, including 70,675 (2009: 118,180) shares for a deferred compensation plan, held on December 31, 2010, represents 0.9% (2009: 1.5%) of Alcon, Inc.'s share capital. These shares will be recorded in the Share Register as being without voting rights and will not rank for dividend. Shares for a deferred compensation plan have no voting rights but rank for dividend.

At December 31, 2010 the shareholding of a Group company was 2,637,879 (2009: 4,446,616) shares at an acquisition cost of CHF 321,934,005 (2009: CHF 509,376,621).

### Change of Control and Proposed Merger

On April 6, 2008, Nestlé and Novartis executed the Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of $143.18 per share. That sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

## 4. Shareholders' Equity (continued)

The Purchase and Option Agreement between Nestlé and Novartis also contained put and call option rights on the balance of approximately 156 million Alcon shares owned by Nestlé. The option rights commenced on January 1, 2010. As outlined by the two parties, these rights granted (i) Novartis a call option to buy all but 4.1 million (or 2.5%) of Nestlé's remaining Alcon shares at a fixed price of $181 per share and the 4.1 million shares at the first stage price of $143.18 per share, and (ii) Nestlé a put option to sell to Novartis all but 4.1 million of its remaining Alcon shares to Novartis at the lower of Novartis's call price of $181 per share or a premium of approximately 20.5% above the then-market price of Alcon shares, calculated as the average market price of Alcon shares during the five trading days immediately preceding the exercise date of the put option, with the 4.1 million share balance to be sold at the first stage closing price of $143.18 per share.

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of $180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards plan (including the vesting of certain outstanding share-based awards) and other agreements.

On January 4, 2010, Novartis also announced that it submitted to the Alcon board of directors a proposal for a merger of Alcon with and into Novartis to be effected under Swiss merger law. Under the terms of the merger proposal, holders of the Alcon shares that are publicly traded would receive 2.8 Novartis shares for each Alcon share. The proposed merger would be contingent upon, among other things, approval by the Alcon board of directors. The Company believes that Alcon's Organizational Regulations provide that the Alcon board of directors may only approve the proposed merger if a majority of the Independent Director Committee so recommends; however, management cannot predict the outcome of any proceeding that might be initiated to interpret or challenge this position.

The Independent Director Committee was formed in 2008 in connection with Novartis's initial purchase of slightly less than 25% of the Alcon shares from Nestlé to evaluate transactions such as the merger proposed by Novartis. The Independent Director Committee engaged independent financial and legal advisors in connection with its evaluation of the proposed merger. On January 20, 2010, the Independent Director Committee issued its formal response rejecting the Novartis merger proposal. The committee rejected the merger proposal based on its assessment that the price offered and other terms were not acceptable and that Novartis's merger proposal was not in the best interests of Alcon and its minority shareholders.

## 4. Shareholders' Equity (continued)

### Merger Agreement of December 14, 2010

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at $168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares and, if necessary, a cash contingent value amount to result in a total value of $168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares on the SIX Swiss Exchange and American Depository Shares on the New York Stock Exchange to be issued as merger consideration. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic medicines will be integrated into Alcon.

### Independent Director Committee Trust

On July 8, 2010, the Independent Director Committee announced the creation and funding of the Alcon Litigation Trust, an irrevocable trust established under New York law pursuant to a resolution of the Alcon board of directors. The members of the Independent Director Committee were the trustees of the trust. The trust was created and funded on July 7, 2010 with $50 million. The trust was created to provide the financial means to commence, defend or maintain litigation relating to any transaction between Alcon and a majority shareholder, including the transaction contemplated by the merger proposal announced by Novartis on January 4, 2010, and ensure the protection of the interests of Alcon and its minority shareholders in connection with any such transaction.

In connection with the merger agreement of December 14, 2010, the trust was terminated and the trust property was returned to Alcon in December 2010.

## 5. Commitments and Contingent Liabilities

The Company issued guarantees to third parties on behalf of subsidiaries that amount to approximately CHF 35.2 million (2009: approximately CHF 39.9 million).

Alcon, Inc. was part of the Nestlé Swiss Value-Added-Tax ("VAT") Group until October 2010 when a new Swiss Alcon VAT Group was formed. Alcon, Inc. is jointly and severally liable for any VAT liabilities of all other Swiss Alcon Group participants effective October 2010.

## 6. Risk Assessment

Alcon, Inc. is the parent company of the Alcon Group and is integrated in the group-wide Enterprise Risk Management ("ERM") process. The ERM process is applied in strategy setting across the Alcon Group and designed to identify potential events that may affect entities and manage risks within Group tolerances. Regular reporting is provided to the Board of Directors and Audit Committee. Organizationally, the ERM process is coordinated by the Group Planning and Analysis Department and is applicable to all Group's facilities and operations including corporate functions such as Financial Reporting, Treasury, Income Taxes, Legal, and Information Technology.

A risk analysis was performed for the Company's key financial processes for which internal controls over financial reporting were documented and evaluated for existence. This risk analysis will be assessed at least annually.

## 7. Directors and Senior Management Compensations

### A) DIRECTORS AND SENIOR MANAGEMENT

#### Directors

Below is information with respect to our current directors as of December 31, 2010. Unless otherwise indicated, the business address of all of our directors is c/o Alcon, Inc., Bösch 69, P.O. Box 62, 6331, Hünenberg, Switzerland.

| Name | Title and Function |
|---|---|
| Dr. Daniel L. Vasella | Chairman and Director |
| Cary R. Rayment | Vice Chairman and Director |
| Kevin Buehler | President, Chief Executive Officer and Director |
| Dr. Urs Bärlocher | Director |
| Dr. Paul Choffat | Director |
| Lodewijk J.R. de Vink | Director |
| Dr. Joan W. Miller | Director |
| Thomas G. Plaskett | Director, Audit Committee Chairman |
| Dr. Jacques Seydoux | Director |
| Dr. Enrico Vanni | Director |
| Norman Walker | Director |

Daniel Vasella, M.D., joined the Alcon, Inc. board of directors in July 2008. On October 24, 2010, Dr. Vasella was elected Chairman of the Alcon, Inc. board of directors.

Francisco Castañer, Dr. Werner Bauer, Paul Bulcke, James Singh and Hermann Wirz resigned from the board of directors effective with the change of control on August 25, 2010. Dr. Urs Bärlocher, Dr. Paul Choffat, Dr. Jacques Seydoux, Dr. Enrico Vanni and Norman Walker were elected to the board of directors in August, 2010.

On January 8, 2009, Cary Rayment announced his retirement as President and Chief Executive Officer of Alcon, Inc. effective March 31, 2009. Alcon entered into a service agreement with Mr. Rayment commencing April 1, 2009 under which he served as a director and the non-executive chairman of the board. On October 24, 2010, Mr. Rayment became Vice Chairman of the Alcon, Inc. board of directors.

On January 8, 2009, Kevin Buehler was named President and Chief Executive Officer of Alcon, Inc. effective April 1, 2009. At the annual general meeting held on May 5, 2009, the shareholders elected Mr. Buehler as a board member.

## 7. Directors and Senior Management Compensations (continued)

### Senior Management

Our principal subsidiary in the United States is Alcon Laboratories, Inc. Under the supervision of our board of directors, the executive officers of Alcon, Inc. and Alcon Laboratories, Inc. provide global management services with respect to the ongoing business and operations of our operating subsidiaries, including research and development, manufacturing, sales and distribution, marketing, financing and treasury.

Below is information with respect to the current executive officers of Alcon Laboratories, Inc. as of December 31, 2010. Unless otherwise indicated, the business address of all of these officers is c/o Alcon Laboratories, Inc., 6201 South Freeway, Fort Worth, Texas 76134-2099.

| Name | Title and Function |
|---|---|
| Kevin J. Buehler | Chairman, President and Chief Executive Officer |
| Robert Karsunky | Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer |
| William K. Barton | Senior Vice President, International Markets |
| Dr. Sabri Markabi | Senior Vice President, Research & Development and Chief Medical Officer |
| Merrick McCracken | Senior Vice President, Global Human Resources |
| Ed McGough | Senior Vice President, Global Manufacturing and Technical Operations |
| Elaine E. Whitbeck | Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary |

On January 8, 2009, Kevin Buehler was named Chairman, President and Chief Executive Officer of Alcon Laboratories, Inc. effective April 1, 2009.

On November 30, 2010, Richard J. Croarkin separated from service with Alcon, Inc.

***Robert Karsunky.*** Mr. Karsunky was named Senior Vice President, Finance, Chief Financial Officer and Corporate Strategy Officer effective November 1, 2010. His global responsibilities include management of all financial functions for the Company as well as Information Technology, Investor Relations, Business Development and coordination of the development and execution of corporate strategy.

***William K. Barton.*** Mr. Barton was named Senior Vice President, International Markets of Alcon Laboratories, Inc., effective April 1, 2009. In this role, Mr. Barton is responsible for the management of International Markets and the Global Marketing Committee.

***Merrick McCracken.*** Mr. McCracken joined Alcon Laboratories, Inc. as Senior Vice President, Global Human Resources on January 18, 2010. Mr. McCracken leads Alcon's global Human Resources organization and is responsible for the development and implementation of human resources strategies, processes and solutions in support of the Alcon business.

## 7. Directors and Senior Management Compensations (continued)

### B) COMPENSATION

We provide our board of directors with compensation and benefits that will attract and retain qualified directors. In 2010, all members of our board of directors, except for our President and Chief Executive Officer, received an annual cash retainer of $100,000 with an additional $15,000 for the audit committee chairperson and an additional $10,000 each for the chairpersons of the compensation, nominating/corporate governance and independent director committees. We refer to a director who is not a full-time employee of Alcon as a non-employee director. The non-employee directors also receive a meeting fee of $2,000 per non-regularly scheduled meeting, not to exceed $50,000 in a board year. The additional meeting fee is in consideration of their attendance at meetings beyond the regularly scheduled board and committee meetings.

In accordance with the service contract discussed below, Mr. Rayment also received additional cash compensation for serving as non-executive chairman of our board from January 1, 2010 through October 24, 2010. At the December 2010 meeting, the board approved renewing Mr. Rayment's pay through the next annual general meeting of shareholders for his service as vice chairman of the board. The board also determined to pay Dr. Vasella the same chairman retainer of $290,000 per year through the next annual general meeting of shareholders. For the year ended December 31, 2010, Mr. Rayment received $290,000 for fees as chairman and vice chairman. Dr. Vasella received a lump sum of $169,166 in December 2010 for chairman fees from November 2010 through the next annual general meeting of shareholders.

In 2010, restricted share units ("RSUs") were awarded to non-employee directors in the amount of $125,000. The number of RSUs was determined using the value of one common share on the date of grant. Each of the non-employee directors on the board after the May 2010 Annual General Meeting was awarded 850 RSUs. In August 2010, Mr. Walker and Drs. Bärlocher, Choffat, Seydoux and Vanni were elected as non-employee directors. After board approval at the September 2010 meeting, each of the new directors were granted 775 RSUs. In the fiscal years ended December 31, 2010 and 2009, our directors did not receive any other compensation or benefits-in-kind from Alcon, Inc. in their capacity as directors except as noted above and directly below.

We have service contracts with two of our directors. Alcon entered into a service agreement with Cary Rayment that commenced April 1, 2009, after his retirement as President and Chief Executive Officer of Alcon, Inc. effective March 31, 2009, under which he served as a director and the non-executive chairman of the board. The service agreement automatically renews on an annual basis until termination. On October 24, 2010, the board approved extending the agreement with the same remuneration on a monthly basis for his service as Vice Chairman of the board until the next annual general meeting of the shareholders. Kevin Buehler was named President and Chief Executive Officer of Alcon, Inc. and Alcon Laboratories, Inc. effective April 1, 2009 and has an employment agreement with Alcon Laboratories, Inc.

In addition, Timothy R.G. Sear, our former Chairman and Chief Executive Officer, was provided an office by the Company through May 2010. Mr. Sear vacated the office space on April 30, 2010.

During 2010, the executive officers received RSUs from Alcon, Inc. as indicated in this Compensation section. In 2011, we expect to grant our executive officers 100% RSUs for the equity portion of their compensation.

**Currency Conversion**
All amounts presented in the tables throughout this note were converted from USD into CHF at the following rates:

| | 2010 | 2009 |
|---|---|---|
| Annual average rate | 1.0431 | 1.0868 |
| End of year rate | 0.9377 | 1.0309 |

## 7. Directors and Senior Management Compensations (continued)

The following compensation table sets forth information regarding compensation and benefits-in-kind paid during the fiscal years ended December 31, 2010 and 2009 to the directors of Alcon, Inc.

### Directors

Board Compensation - Awards

| Name and Function | Year | Cash Retainer/Fees (3) | | SSAR's (4) | | | Restricted Share Units (5) | | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | USD | CHF | # | USD | CHF | # | USD | CHF | USD | CHF |
| Dr. Daniel L. Vasella, Non-Executive Chairman and Director & Nominating / Corporate Governance Committee Chairman | 2010 | 279,166 | 291,198 | – | – | – | 850 | 116,875 | 121,912 | 396,041 | 413,110 |
| | 2009 | 95,000 | 103,246 | 3,150 | 67,700 | 73,576 | 700 | 67,214 | 73,048 | 229,914 | 249,870 |
| Cary R. Rayment, Non-Executive Vice Chairman and Director (2) | 2010 | 390,000 | 406,809 | – | – | – | 850 | 116,875 | 121,912 | 506,875 | 528,721 |
| | 2009 | 302,500 | 328,757 | 3,150 | 67,700 | 73,576 | 700 | 67,214 | 73,048 | 437,414 | 475,381 |
| Kevin Buehler, President, Chief Executive Officer and Director (2) | 2010 | – | – | – | – | – | – | – | – | – | – |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| Dr. Urs Bärlocher, Director | 2010 | 100,000 | 104,310 | – | – | – | 775 | 130,200 | 135,812 | 230,200 | 240,122 |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| Dr. Werner J. Bauer, Director (1) | 2010 | 100,000 | 104,310 | – | – | – | – | – | – | 100,000 | 104,310 |
| | 2009 | 85,000 | 92,378 | – | – | – | – | – | – | 85,000 | 92,378 |
| Paul Bulcke, Director (1) | 2010 | 100,000 | 104,310 | – | – | – | – | – | – | 100,000 | 104,310 |
| | 2009 | 85,000 | 92,378 | – | – | – | – | – | – | 85,000 | 92,378 |
| Francisco Castañer, Vice Chairman and Director (1) | 2010 | 100,000 | 104,310 | – | – | – | 850 | 116,875 | 121,912 | 216,875 | 226,222 |
| | 2009 | 85,000 | 92,378 | – | – | – | – | – | – | 85,000 | 92,378 |
| Dr. Paul Choffat, Director | 2010 | 100,000 | 104,310 | – | – | – | 775 | 130,200 | 135,812 | 230,200 | 240,122 |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| Lodewijk J.R. de Vink, Director, Compensation Committee Chairman | 2010 | 150,000 | 156,465 | – | – | – | 850 | 116,875 | 121,912 | 266,875 | 278,377 |
| | 2009 | 95,000 | 103,246 | 3,150 | 67,700 | 73,576 | 700 | 67,214 | 73,048 | 229,914 | 249,870 |
| Dr. Joan W. Miller, Director | 2010 | 174,000 | 181,499 | – | – | – | 850 | 116,875 | 121,912 | 290,875 | 303,411 |
| | 2009 | 85,000 | 92,378 | 3,150 | 67,700 | 73,576 | 700 | 67,214 | 73,048 | 219,914 | 239,002 |
| Thomas G. Plaskett, Director, Audit Committee Chairman & Independent Director Committee Chairman | 2010 | 211,000 | 220,094 | – | – | – | 850 | 116,875 | 121,912 | 327,875 | 342,006 |
| | 2009 | 110,000 | 119,548 | 3,150 | 67,700 | 73,576 | 700 | 67,214 | 73,048 | 244,914 | 266,172 |
| Dr. Jacques Seydoux, Director | 2010 | 100,000 | 104,310 | – | – | – | 775 | 130,200 | 135,812 | 230,200 | 240,122 |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| James Singh, Director (1) | 2010 | 100,000 | 104,310 | – | – | – | – | – | – | 100,000 | 104,310 |
| | 2009 | 85,000 | 92,378 | – | – | – | – | – | – | 85,000 | 92,378 |
| Dr. Enrico Vanni, Director | 2010 | 100,000 | 104,310 | – | – | – | 775 | 130,200 | 135,812 | 230,200 | 240,122 |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| Norman Walker, Director | 2010 | 100,000 | 104,310 | – | – | – | 775 | 130,200 | 135,812 | 230,200 | 240,122 |
| | 2009 | – | – | – | – | – | – | – | – | – | – |
| Hermann Wirz, Director (1) | 2010 | 100,000 | 104,310 | – | – | – | – | – | – | 100,000 | 104,310 |
| | 2009 | 85,000 | 92,378 | – | – | – | – | – | – | 85,000 | 92,378 |
| Total | 2010 | 2,204,166 | 2,299,165 | – | – | – | 8,975 | 1,352,250 | 1,410,532 | 3,556,416 | 3,709,697 |
| | 2009 | 1,112,500 | 1,209,065 | 15,750 | 338,500 | 367,880 | 3,500 | 336,070 | 365,240 | 1,787,070 | 1,942,185 |

**7. Directors and Senior Management Compensations (continued)**

(1) Cash Retainer for Nestlé representatives paid directly to Nestlé S.A., Vevey. Francisco Castañer became an independent director in 2010. Once he was independent, the retainer was paid directly to him.

(2) Excluding compensation received for function as Chief Executive Officer which is included in the next section. For Cary Rayment, this only applies to 2009.

(3) In addition to the cash retainer, this column includes meeting fees received during 2010 by non-employee directors for non-regularly scheduled meetings.

(4) SSARs were granted in 2009 pursuant to the Amended 2002 Alcon Incentive Plan as amended. No SSARs were granted in 2010. The value shown is based on the Black-Scholes model of option valuation to determine grant date "fair value." The actual value, if any that may be realized will depend on the excess of the stock price over the exercise price on the date the SSAR is exercised, so there is no assurance the value realized will be at or near the value estimated by this model. The following assumptions were used in the Black-Scholes model for 2009: expected volatility, 31.5%; risk-free interest rate, 2.15%; dividend yield, 3.0%; expected life, 5 years.

(5) Restricted share units were granted in 2010 and 2009; the value shown is as of the grant date.

In 2010 and 2009, no compensation was paid directly or indirectly to persons closely related to a member of the board of directors by the Company or one of its subsidiaries.

There was no compensation paid directly or indirectly to former members of the board of directors.

## 7. Directors and Senior Management Compensations (continued)

### Senior Management

The following compensation table sets forth information regarding compensation and benefits-in-kind paid during the fiscal years ended December 31, 2010 and 2009 to the executive officers of Alcon Laboratories, Inc.

Summary Compensation Table in $

| | | Annual Compensation | | | Long term Compensation | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Salary | Bonus | Other Compensation | Restricted Share Awards | Securities Underlying Options SSARs | Performance Share Unit Awards | All Other Compensation | |
| | | $ | $ | $ | $ | $ | $ | $ | $ |
| **Name and Function** | **Year** | | (1) | (2) | (3) | (4) | (5) | (6) | |
| Kevin J. Buehler, Chairman, President and Chief Executive Officer | 2010 | 1,027,500 | 1,455,000 | 32,074 | 5,527,314 | – | – | 689,914 | 8,731,802 |
| | 2009 | 866,250 | 460,000 | 30,500 | 1,269,250 | 2,483,263 | 1,259,048 | 328,170 | 6,696,481 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | 2010 | 95,833 | – | 2,500 | 3,468,497 | – | – | 70,548 | 3,637,378 |
| | 2009 | – | – | – | – | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | 2010 | 563,333 | 1,020,800 | 21,436 | 1,909,490 | – | – | 1,412,825 | 4,927,884 |
| | 2009 | 585,000 | 430,000 | 20,641 | 470,896 | 921,292 | 467,111 | 144,044 | 3,038,984 |
| William K. Barton, Senior Vice President, International Markets | 2010 | 533,333 | 438,000 | 31,861 | 1,507,492 | – | – | 418,622 | 2,929,308 |
| | 2009 | 490,000 | 245,000 | 31,861 | 355,414 | 695,314 | 352,558 | 175,384 | 2,345,531 |
| Dr. Sabri Markabi, Senior Vice President Research & Development and Chief Medical Officer | 2010 | 591,667 | 470,000 | 20,824 | 2,110,489 | – | – | 151,246 | 3,344,226 |
| | 2009 | 541,667 | 298,000 | 19,250 | 507,735 | 993,309 | 503,654 | 124,528 | 2,988,143 |
| Merrick McCracken, Senior Vice President Global Human Resources | 2010 | 383,334 | – | 65,781 | 1,201,017 | – | – | 95,603 | 1,745,735 |
| | 2009 | – | – | – | – | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 2010 | 412,500 | 305,000 | 30,123 | 1,004,995 | – | – | 272,591 | 2,025,209 |
| | 2009 | 396,667 | 255,000 | 27,822 | 253,867 | 496,645 | 251,827 | 123,145 | 1,804,973 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | 2010 | 541,667 | 380,000 | 35,412 | 1,457,164 | – | – | 439,123 | 2,853,366 |
| | 2009 | 520,833 | 335,000 | 35,769 | 365,517 | 715,183 | 362,579 | 218,811 | 2,553,692 |
| **Total** | 2010 | 4,149,167 | 4,068,800 | 240,011 | 18,186,458 | – | – | 3,550,472 | 30,194,908 |
| | 2009 | 3,400,417 | 2,023,000 | 165,843 | 3,222,679 | 6,305,006 | 3,196,777 | 1,114,082 | 19,427,804 |

## 7. Directors and Senior Management Compensations (continued)

Summary Compensation Table in CHF

| | | Annual Compensation | | | Long term Compensation | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | Salary | Bonus | Other Compensation | Restricted Share Awards | Securities Underlying Options SSARs | Performance Share Unit Awards | All Other Compensation | |
| | | CHF | CHF | CHF | CHF | CHF | CHF | CHF | CHF |
| **Name and Function** | **Year** | | **(1)** | **(2)** | **(3)** | **(4)** | **(5)** | **(6)** | |
| Kevin J. Buehler, Chairman, President and Chief Executive Officer | 2010 | 1,071,785 | 1,517,711 | 33,456 | 5,765,541 | – | – | 719,649 | 9,108,142 |
| | 2009 | 941,441 | 499,928 | 33,147 | 1,379,421 | 2,698,810 | 1,368,333 | 356,655 | 7,277,735 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | 2010 | 99,963 | – | 2,608 | 3,617,989 | – | – | 73,589 | 3,794,149 |
| | 2009 | – | – | – | – | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | 2010 | 587,613 | 1,064,796 | 22,360 | 1,991,789 | – | – | 1,473,718 | 5,140,276 |
| | 2009 | 635,778 | 467,324 | 22,433 | 511,770 | 1,001,260 | 507,656 | 156,547 | 3,302,768 |
| William K. Barton, Senior Vice President, International Markets | 2010 | 556,320 | 456,878 | 33,234 | 1,572,465 | – | – | 436,665 | 3,055,562 |
| | 2009 | 532,532 | 266,266 | 34,627 | 386,264 | 755,667 | 383,160 | 190,607 | 2,549,123 |
| Dr. Sabri Markabi, Senior Vice President Research & Development and Chief Medical Officer | 2010 | 617,168 | 490,257 | 21,722 | 2,201,451 | – | – | 157,765 | 3,488,363 |
| | 2009 | 588,684 | 323,866 | 20,921 | 551,806 | 1,079,528 | 547,371 | 135,337 | 3,247,513 |
| Merrick McCracken, Senior Vice President Global Human Resources | 2010 | 399,856 | – | 68,616 | 1,252,781 | – | – | 99,723 | 1,820,976 |
| | 2009 | – | – | – | – | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 2010 | 430,279 | 318,146 | 31,421 | 1,048,310 | – | – | 284,340 | 2,112,496 |
| | 2009 | 431,098 | 277,134 | 30,237 | 275,903 | 539,754 | 273,686 | 133,834 | 1,961,646 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | 2010 | 565,013 | 396,378 | 36,938 | 1,519,968 | – | – | 458,049 | 2,976,346 |
| | 2009 | 566,041 | 364,078 | 38,874 | 397,244 | 777,261 | 394,051 | 237,804 | 2,775,353 |
| **Total** | 2010 | 4,327,997 | 4,244,166 | 250,355 | 18,970,294 | – | – | 3,703,498 | 31,496,310 |
| | 2009 | 3,695,574 | 2,198,596 | 180,239 | 3,502,408 | 6,852,280 | 3,474,257 | 1,210,784 | 21,114,138 |

In 2010 and 2009, no compensations were paid directly or indirectly to persons closely related to a member of the senior management by the Company or one of its subsidiaries.

(1) Bonus paid in 2010 was for 2009 performance. Bonus paid in 2009 was for 2008 performance. Mr. Croarkin's bonus for 2010 performance was also paid in 2010 in the pay period following his separation from employment with Alcon, Inc. and is included in the 2010 bonus section of the compensation table.

(2) Includes payments made for car allowance, financial consulting services, executive physicals and other allowances. Also included are additional payments related to relocation for Mr. McCracken in 2010.

## 7. Directors and Senior Management Compensations (continued)

(3) Restricted share units were granted in 2010 and 2009. The value shown is as of the grant date. Summarized below are the total restricted share units and restricted shares outstanding at December 31, 2010 and the value by vesting date. The value is based on the closing price of the shares on the NYSE on December 31, 2010 and 2009, respectively. Due to the change of control provisions in the 2008 restricted stock unit grant agreement, the vesting of 2008 restricted stock units was accelerated and vested at the change of control on August 25, 2010. The holders of restricted share units do not have voting rights but have the right to receive a dividend equivalent thereon. The holders of restricted shares have voting rights and the right to receive a dividend equivalent thereon.

December 31, 2010:

| | Total Restricted Shares at 12/31/10 | Total Restricted Share Units at 12/31/10 | Value Vesting in 2011 | Value Vesting in 2011 | Value Vesting in 2012 | Value Vesting in 2012 | Value Vesting in 2013 | Value Vesting in 2013 |
|---|---|---|---|---|---|---|---|---|
| **Name** | (#) | (#) | (USD) | (CHF) | (USD) | (CHF) | (USD) | (CHF) |
| Kevin J. Buehler | – | 49,608 | – | – | 2,381,392 | 2,233,031 | 5,724,556 | 5,367,916 |
| Robert Karsunky | – | 21,363 | 957,459 | 897,809 | 2,054,526 | 1,926,529 | 478,729 | 448,904 |
| Richard J. Croarkin | – | – | – | – | – | – | – | – |
| William K. Barton | – | 13,636 | – | – | 666,835 | 625,292 | 1,561,287 | 1,464,019 |
| Dr. Sabri Markabi | – | 19,207 | – | – | 952,622 | 893,274 | 2,185,802 | 2,049,626 |
| Merrick McCracken | – | 7,551 | – | – | – | – | 1,233,833 | 1,156,966 |
| Ed McGough | – | 9,285 | – | – | 476,311 | 446,637 | 1,040,858 | 976,013 |
| Elaine E. Whitbeck | – | 13,433 | – | – | 685,790 | 643,065 | 1,509,162 | 1,415,142 |

December 31, 2009:

| | Total Restricted Shares at 12/31/09 | Total Restricted Share Units at 12/31/09 | Value Vesting in 2010 | Value Vesting in 2010 | Value Vesting in 2011 | Value Vesting in 2011 | Value Vesting in 2012 | Value Vesting in 2012 |
|---|---|---|---|---|---|---|---|---|
| **Name** | (#) | (#) | (USD) | (CHF) | (USD) | (CHF) | (USD) | (CHF) |
| Kevin J. Buehler | 3,597 | 17,602 | 591,167 | 609,434 | 497,652 | 513,029 | 2,395,237 | 2,469,250 |
| Robert Karsunky | – | – | – | – | – | – | – | – |
| Richard J. Croarkin | 1,265 | 8,003 | 207,903 | 214,327 | 426,653 | 439,837 | 888,640 | 916,099 |
| William K. Barton | 2,398 | 5,509 | 394,111 | 406,289 | 234,692 | 241,944 | 670,712 | 691,437 |
| Dr. Sabri Markabi | – | 8,924 | 250,469 | 258,208 | 258,030 | 266,003 | 958,161 | 987,768 |
| Merrick McCracken | – | – | – | – | – | – | – | – |
| Ed McGough | 689 | 4,299 | 113,237 | 116,736 | 227,460 | 234,489 | 479,080 | 493,884 |
| Elaine E. Whitbeck | 2,997 | 6,620 | 492,557 | 507,777 | 398,220 | 410,525 | 689,777 | 711,091 |

**7. Directors and Senior Management Compensations (continued)**

(4) Share-settled stock appreciation rights were granted in 2009 and 2008. No share-settled stock appreciation rights were granted in 2010.

Summarized below are the total securities underlying options, non-qualified stock options and SSARs outstanding.

December 31, 2010:

| Name | Total Securities underlying options at December 31, 2010 (#) | Black-Scholes Value ($) | Black-Scholes Value (CHF) |
|---|---|---|---|
| Kevin J. Buehler | 254,658 | 6,661,800 | 6,246,770 |
| Robert Karsunky | – | – | – |
| Richard J. Croarkin | – | – | – |
| William K. Barton | 36,920 | 695,314 | 651,996 |
| Dr. Sabri Markabi | 69,659 | 1,634,476 | 1,532,648 |
| Merrick McCracken | – | – | – |
| Ed McGough | 45,254 | 1,254,250 | 1,176,110 |
| Elaine E. Whitbeck | 96,744 | 3,133,441 | 2,938,228 |

December 31, 2009:

| Name | Total Securities underlying options at December 31, 2009 (#) | Black-Scholes Value ($) | Black-Scholes Value (CHF) |
|---|---|---|---|
| Kevin J. Buehler | 254,658 | 6,661,800 | 6,867,650 |
| Robert Karsunky | – | – | – |
| Richard J. Croarkin | 77,912 | 2,059,111 | 2,122,738 |
| William K. Barton | 82,352 | 2,405,722 | 2,480,059 |
| Dr. Sabri Markabi | 69,659 | 1,634,476 | 1,684,981 |
| Merrick McCracken | – | – | – |
| Ed McGough | 61,581 | 1,655,358 | 1,706,509 |
| Elaine E. Whitbeck | 96,744 | 3,133,441 | 3,230,264 |

## 7. Directors and Senior Management Compensations (continued)

(5) The 2009 performance share unit awards have three consecutive performance targets during a three-year service period from 2009 through 2011. No performance share unit awards were granted in 2010. The awards represent 25% of each participant's total share-based award value granted in 2009. The table below represents the potential number of performance share units to be paid in Alcon shares at minimum, target and maximum.

| | | Estimated Future Performance Share Unit Payout | | |
|---|---|---|---|---|
| **Name** | **Grant date** | **Minimum #** | **Target #** | **Maximum #** |
| Kevin J. Buehler | 17 February 2009 | - | 14,574 | 29,148 |
| | 11 February 2008 | - | 3,028 | 6,056 |
| Robert Karsunky | 17 February 2009 | - | - | - |
| | 11 February 2008 | - | - | - |
| Richard J. Croarkin | 17 February 2009 | - | - | - |
| | 11 February 2008 | - | - | - |
| William K. Barton | 17 February 2009 | - | 4,081 | 8,162 |
| | 11 February 2008 | - | 1,428 | 2,856 |
| Dr. Sabri Markabi | 17 February 2009 | - | 5,830 | 11,660 |
| | 11 February 2008 | - | - | - |
| Merrick McCracken | 17 February 2009 | - | - | - |
| | 11 February 2008 | - | - | - |
| Ed McGough | 17 February 2009 | - | 2,915 | 5,830 |
| | 11 February 2008 | - | 1,384 | 2,768 |
| Elaine E. Whitbeck | 17 February 2009 | - | 4,197 | 8,394 |
| | 11 February 2008 | - | 2,423 | 4,846 |

Mr. Croarkin vested in his 2008 and 2009 performance share units upon his separation from Alcon and received 8,003 shares of Alcon common stock.

The 2008 performance share units will be paid out after the final numbers are approved at the Board of Director’s meeting in February, 2011.

(6) Provides the aggregate amount of employer contributions to the Alcon 401(k) and Retirement Plans, including Company contributions and earnings on allocations made to the Excess 401(k) Plan, additional compensation for premiums paid for Executive Universal Life Insurance and the Umbrella Liability Insurance, hire-on bonus (Mr. McCracken) and payout of grandfathered sick leave. Mr. Karsunky's other compensation includes payment of Swiss taxes on pension benefits made by the Company on his behalf due to his relocation to the United States. Mr. Croarkin's other compensation includes severance and accrued vacation time received upon his separation from Alcon and a deposit of golden parachute (IRC §280G) excise taxes that are not taxable, if at all, until 2011.

## 7. Directors and Senior Management Compensations (continued)

### SSAR Grant Table

The following table sets forth the SSARs granted during 2009. There were no SSARs granted during 2010.

| Name and Function | Year | Alcon SSARS Granted # (1) | Exercise or Base Price (USD) | Expiration Date | Grant Date Present Value (USD) (2) | Grant Date Present Value (CHF) (2) |
|---|---|---|---|---|---|---|
| Kevin J. Buehler, Chairman, President and Chief Executive Officer | 2009 | 131,857 | 87.09 | 17-Feb-2019 | 2,483,263 | 2,698,810 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | 2009 | – | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | 2009 | 48,919 | 87.09 | 17-Feb-2019 | 921,292 | 1,001,260 |
| William K. Barton, Senior Vice President, International Markets | 2009 | 36,920 | 87.09 | 17-Feb-2019 | 695,314 | 755,667 |
| Dr. Sabri Markabi, Senior Vice President Research & Development and Chief Medical Officer | 2009 | 52,743 | 87.09 | 17-Feb-2019 | 993,309 | 1,079,528 |
| Merrick McCracken, Senior Vice President Global Human Resources | 2009 | – | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 2009 | 26,371 | 87.09 | 17-Feb-2019 | 496,645 | 539,754 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | 2009 | 37,975 | 87.09 | 17-Feb-2019 | 715,183 | 777,261 |

(1) SSARs were granted in 2009 pursuant to the Amended 2002 Alcon Incentive Plan. No SSARs were granted in 2010. In general, these share-based instruments will vest in full on the third anniversary of the date of grant, or upon a participant's death or permanent disability. Where the termination of employment is due to retirement, vesting will occur according to the normal vesting schedule. Upon the involuntary termination of a participant's employment with Alcon (not as a result of disability or death), all vested instruments will be exercisable for 30 days following the date of the involuntary termination. After the 30-day period, all unvested and unexercised instruments will be forfeited. Where the termination of employment is due to death or disability, the instruments vest and may be exercisable for 60 months not to exceed the remaining term. Upon voluntary termination, all unvested and vested unexercised instruments will be forfeited.

(2) The value shown is based on the Black-Scholes model of option valuation to determine grant date "fair value". The actual value, if any that may be realized will depend on the excess of the stock price over the exercise price on the date the SSAR is exercised, so there is no assurance the value realized will be at or near the value estimated by this model. The following assumptions were used in the Black-Scholes model for 2009: expected volatility, 31.5%; risk-free interest rate, 1.65%; dividend yield, 3.0%; expected life, 5 years.

## 7. Directors and Senior Management Compensations (continued)

### Aggregated Option / SSAR Exercises and Year End Option / SSAR Value Table

December 31, 2010:

| Name and Function | Shares Acquired on Exercise | Value Realized (USD) | Number of Securities underlying Unexercised Options/ SSARs at Dec 31, 2010 | | Value of Unexercised In-the-Money Options/ SSARs at Dec. 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | | Unexercisable | |
| | | | | | USD | CHF | USD | CHF |
| Kevin J. Buehler, Chairman, President and Chief Executive Officer | – | – | 122,801 | 131,857 | 6,902,894 | 6,472,844 | 10,062,008 | 9,435,145 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | – | – | – | – | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | 77,912 | 4,304,074 | – | – | – | – | – | – |
| William K. Barton, Senior Vice President, International Markets | 45,432 | 1,852,280 | – | 36,920 | – | – | 2,817,365 | 2,641,843 |
| Dr. Sabri Markabi, Senior Vice President Research & Development and Chief Medical Officer | – | – | 16,916 | 52,743 | 313,453 | 293,925 | 4,024,818 | 3,774,072 |
| Merrick McCracken, Senior Vice President Global Human Resources | – | – | – | – | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 16,327 | 1,538,399 | 18,883 | 26,371 | 473,165 | 443,687 | 2,012,371 | 1,887,000 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | – | – | 58,769 | 37,975 | 1,761,744 | 1,651,987 | 2,897,872 | 2,717,335 |

## 7. Directors and Senior Management Compensations (continued)

December 31, 2009:

| Name and Function | Shares Acquired on Exercise | Value Realized (USD) | Number of Securities underlying Unexercised Options/ SSARs at Dec 31, 2009 | | Value of Unexercised In-the-Money Options/ SSARs at Dec. 31, 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | | Unexercisable | |
| | | | | | USD | CHF | USD | CHF |
| Kevin J. Buehler, Chairman, President and Chief Executive Officer | – | – | 72,260 | 182,398 | 5,688,577 | 5,864,354 | 11,518,249 | 11,874,163 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | – | – | – | – | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | – | – | – | 77,912 | – | – | 4,372,657 | 4,507,772 |
| William K. Barton, Senior Vice President, International Markets | – | – | 16,070 | 66,282 | 894,382 | 922,018 | 3,666,936 | 3,780,244 |
| Dr. Sabri Markabi, Senior Vice President Research & Development and Chief Medical Officer | – | – | 5,582 | 64,077 | 108,737 | 112,097 | 4,295,711 | 4,428,448 |
| Merrick McCracken, Senior Vice President Global Human Resources | – | – | – | – | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | – | – | 19,631 | 41,950 | 1,659,036 | 1,710,300 | 2,391,576 | 2,465,476 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | 30,477 | 1,626,944 | 17,391 | 79,353 | 720,857 | 743,131 | 4,030,665 | 4,155,213 |

## 7. Directors and Senior Management Compensations (continued)

### Board of Directors Participation Rights

The following table sets forth the aggregate number of participation rights held by the members of the board of directors.

December 31, 2010:

| Name and Function | Total of number of Shares Held or Beneficially owned | Total number of options held | Total of number of SSARs held | Total number of Restricted Share Units held (2) |
|---|---|---|---|---|
| Dr. Daniel L. Vasella,, Non- Executive Chairman and Director & Nominating / Corporate Governance Committee Chairman | 375 | – | 4,500 | 1,550 |
| Cary R. Rayment, Non- Executive Vice Chairman and Director (3) | 52,989 | 199,400 | 324,634 | 15,281 |
| Kevin Buehler, President, Chief Executive Officer and Director (1) | – | – | – | – |
| Dr. Urs Bärlocher, Director | 25 | – | – | 775 |
| Dr. Paul Choffat, Director | 10 | – | – | 775 |
| Lodewijk J.R. de Vink, Director, Compensation Committee Chairman | 5,000 | 17,500 | 8,850 | 1,550 |
| Joan W. Miller M.D., Director | – | – | 3,150 | 1,550 |
| Thomas G. Plaskett, Director, Audit Committee Chairman & Independent Director Committee Chairman | 2,485 | – | 3,150 | 1,550 |
| Dr. Jacques Seydoux, Director | 10 | – | – | 775 |
| Dr. Enrico Vanni, Director | 1 | – | – | 775 |
| Norman Walker, Director | 100 | – | – | 775 |
| **Total** | **60,995** | **216,900** | **344,284** | **25,356** |

December 31, 2009:

| Name and Function | Total of number of Shares Held or Beneficially owned | Total number of options held | Total of number of SSARs held | Total number of Restricted Share Units held (2) |
|---|---|---|---|---|
| Cary R. Rayment, Non-Executive Chairman and Director (3) | 35,695 | 199,400 | 324,634 | 14,431 |
| Kevin J. Buehler, President and Chief Executive Officer and Director (1) | – | – | – | – |
| Dr. Werner J. Bauer, Director | 2,000 | – | – | – |
| Paul Bulcke, Director | 250 | – | – | – |
| Francisco Castañer, Vice Chairman and Director | 2,500 | – | – | – |
| Lodewijk J.R. de Vink, Director | 5,000 | 17,500 | 8,850 | 1,400 |
| Joan Miller, Director | – | – | 3,150 | 700 |
| Thomas G. Plaskett, Director, Audit Committee Chairman | 1,343 | – | 6,650 | 1,400 |
| James Singh, Director | 1,000 | – | – | – |
| Dr. Daniel L. Vasella, Director | – | – | 4,500 | 1,075 |
| Hermann Wirz, Director | – | – | – | – |
| **Total** | **47,788** | **216,900** | **347,784** | **19,006** |

(1) See "Senior Management Participation Rights" on the next page.
(2) Includes Restricted Shares, Restricted Share Units and Performance Share Units.
(3) Includes share-based awards received in prior years as Chairman, President, Chief Executive Officer and Director of Alcon Laboratories, Inc.

## 7. Directors and Senior Management Compensations (continued)

In 2010 and 2009, no participation rights were held directly or indirectly by persons closely related to a member of the board of directors by the Company or one of its subsidiaries.

All directors mentioned above had direct or beneficial membership of less than 1% of the outstanding shares and voting rights.

### Senior Management Participation Rights

The following table sets forth the aggregate number of participation rights held by the members of the senior management.

December 31, 2010:

| Name and Function | Total of number of Shares Held or Beneficially owned | Total number of options held | Total of number of SSARs held | Total number of Restricted Share Units held (1) |
|---|---|---|---|---|
| Kevin J. Buehler, Chairman, President, Chief Executive Officer and Director | 8,753 | 57,477 | 197,181 | 67,210 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | – | – | – | 21,363 |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | – | – | – | – |
| William K. Barton, Senior Vice President, International Markets | – | – | 36,920 | 19,145 |
| Dr. Sabri Markabi, Senior Vice President, Research & Development and Chief Medical Officer | 3,375 | – | 69,659 | 25,037 |
| Merrick McCracken, Senior Vice President Global Human Resources | – | – | – | 7,551 |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 1,978 | – | 45,254 | 13,584 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | – | – | 96,744 | 20,053 |
| **TOTAL** | **14,106** | **57,477** | **445,758** | **173,943** |

## 7. Directors and Senior Management Compensations (continued)

December 31, 2009:

| Name and Function | Total of number of Shares Held or Beneficially owned | Total number of options held | Total of number of SSARs held | Total number of Restricted Share Units held (1) |
|---|---|---|---|---|
| Kevin J. Buehler, Chairman, President, Chief Executive Officer and Director | 2,128 | 57,477 | 197,181 | 38,801 |
| Robert Karsunky, Senior Vice President, Finance and Chief Financial Officer | – | – | – | – |
| Richard J. Croarkin, Senior Vice President, Finance and Chief Financial Officer | – | – | 77,912 | 17,271 |
| William K. Barton, Senior Vice President, International Markets | 11,099 | 5,200 | 77,152 | 13,416 |
| Dr. Sabri Markabi, Senior Vice President, Research & Development and Chief Medical Officer | – | – | 69,659 | 14,754 |
| Merrick McCracken, Senior Vice President Global Human Resources | – | – | – | – |
| Ed McGough, Senior Vice President, Global Manufacturing and Technical Operations | 320 | 16,327 | 45,254 | 9,287 |
| Elaine E. Whitbeck, Senior Vice President, Chief Legal Officer/ General Counsel and Corporate Secretary | 1,794 | – | 96,744 | 16,237 |
| **TOTAL** | **15,341** | **79,004** | **563,902** | **109,766** |

(1) Includes Restricted Shares and Restricted Share Units and Performance Share Units.

In 2010 and 2009, no participation rights were held directly or indirectly by persons closely related to a member of the senior management by the Company or one of its subsidiaries.

All officers mentioned above had direct or beneficial membership of less than 1% of the outstanding shares and voting rights.

### Loans and Credits

There were no outstanding loans or credits granted to any current or former member of the board of directors, senior management, or any person closely related to a member of the board of directors or senior management as at December 31, 2010 and as at December 31, 2009.

## 7. Directors and Senior Management Compensations (continued)

### Amended 2002 Alcon Incentive Plan

***Eligibility and Award Limits***

Our employees, non-employee directors and employees of our subsidiaries and affiliates are eligible to receive awards under the Amended 2002 Alcon Incentive Plan.

Under the Amended 2002 Alcon Incentive Plan, limits are placed on the maximum award amounts that may be granted to any employee in any plan year. The maximum number of shares subject to stock options/stock appreciation rights that may be issued to any participant during any calendar year shall not exceed 750,000. The maximum number of shares that may be issued to any participant as restricted shares during any calendar year shall not exceed 200,000.

***Administration***

The Amended 2002 Alcon Incentive Plan is administered by the compensation committee of our board of directors, which has the authority to recommend and set the terms and conditions of the grant awards. Our board of directors is responsible for approving the recommendations of the compensation committee.

For our employees who are not considered executive officers, the compensation committee may delegate its authority under the Alcon Incentive Plan to our executive officers, subject to certain guidelines.

***Shares Reserved for Awards***

Under the Amended 2002 Alcon Incentive Plan, a total of up to 40.0 million common shares may be issued for awards. Through December 31, 2010, approximately 20.4 million of these common shares had been issued under this plan.

Of the total shares available to grant, the board of directors has allocated a small portion to the President and CEO to use at his discretion. These shares are to be used for awards beyond the annual long term incentive awards and may be awarded to recognize increased responsibilities or special contributions, to attract new hires, to retain executives or to recognize certain other special circumstances. The amounts of these awards are set to provide a strong additional retention incentive. Generally, these share-based awards are subject to a three-year vesting schedule. Although the awards are at the President and CEO's discretion, he must report any shares used to the compensation committee at the quarterly meetings. As of December 31, 2010, there are 110,909 shares available for President and CEO's discretionary awards.

Our board of directors has the authority to make appropriate adjustments to the limits described above, as well as to the terms of outstanding awards, in the event of any transaction that affects our common shares such as share splits, share dividends or other similar events.

Awards of stock options that expire unexercised, stock appreciation rights or restricted shares that are forfeited under the terms of this plan or stock appreciation rights that are exercised for cash are not included in applying the maximum limit for our common shares available for grant under this plan.

## 7. Directors and Senior Management Compensations (continued)

***Annual and Long Term Incentive Awards***

Annual and long term incentive awards may be granted under the Amended 2002 Alcon Incentive Plan. The awards are considered earned only if corporate, business segment or performance goals over the performance period satisfy the conditions established by the compensation committee and approved by our board of directors. The performance objectives, which may vary from employee to employee, are based on one or more financial measures and additional non-financial measures.

Our board of directors determines whether awards are paid in the form of cash, common shares or any combination of these items. Under the Amended 2002 Alcon Incentive Plan, selected executive officers may be awarded performance-based incentive awards, subject to a maximum limit.

***Stock Options***

Under the Amended 2002 Alcon Incentive Plan, we may grant to eligible employees stock options that are either incentive stock options or nonqualified stock options. To date, the stock options granted have been nonqualified stock options, which do not and will not qualify as incentive stock options for federal income tax purposes under Section 422 of the U.S. Internal Revenue Code of 1986.

The compensation committee will recommend to our board of directors for approval the number and type of stock options to grant, as well as the exercise price, applicable vesting schedule, option term and any applicable performance criteria. Unless otherwise decided by our board of directors, stock options will vest in full on the third anniversary of the date of grant, or on an option holder's death, permanent disability or retirement (as defined in the Amended 2002 Alcon Incentive Plan and/or award agreements). Beginning with awards granted in 2006, vesting of stock option awards will not be accelerated upon the option holder's retirement, but will vest according to the regular vesting schedule. Upon the involuntary termination of an option holder's employment with us, all vested options will be exercisable for 30 days; provided, however, that where the termination of employment is due to (i) retirement or (ii) death or disability, they may be exercisable for their remaining term, or for 60 months not to exceed the remaining term, respectively. Some vesting requirements have been modified in accordance with local laws and the approval of the board. Upon voluntary termination of employment, all options (vested and unvested) forfeit on the date of termination. The grant price for any stock option will be not less than the fair market value of our common shares on the grant date. Unless our board of directors provides for a different period, stock options will have a term of ten years.

***Stock Appreciation Rights***

We may grant stock appreciation rights, which will entitle the holder to receive an amount equal to the difference between the fair market value and the grant price. The compensation committee will recommend to our board of directors for approval the number of stock appreciation rights to grant, as well as the exercise price, applicable vesting schedule, term and any applicable performance criteria. The amount may be settled either in stock or in cash, as designated by the award agreement.

Unless determined otherwise by our board of directors, stock appreciation rights will vest in full on the third anniversary of the date of grant or on a holder's death, permanent disability or retirement (as defined in the Amended 2002 Alcon Incentive Plan and/or award agreements). Beginning with awards granted in 2006, vesting of stock appreciation rights will not be accelerated upon the holder's retirement, but will vest according to the regular vesting schedule. Upon the involuntary termination of a holder's employment with us, all vested stock appreciation rights will be exercisable for 30 days; provided, however, that where the termination is due to (i) retirement or (ii) death or disability, they may be exercisable for the remaining term, or for 60 months not to exceed the remaining term, respectively. Some vesting requirements have been modified in accordance with local laws and the approval of the board. Upon voluntary termination of employ-

**7. Directors and Senior Management Compensations (continued)**

ment, all stock appreciation rights (vested and unvested) forfeit on the date of termination. Stock appreciation rights granted in tandem with stock options can be exercised only if the related stock option is exercisable at that time. Unless our board of directors provides for a different period, stock appreciation rights will have a term of ten years.

***Restricted Shares/Restricted Share Units***

The Company may grant restricted shares/restricted share units. Restricted shares are common shares granted to a participant subject to restrictions determined by the board of directors. Restricted share units entitle the recipient to receive a specified number of common shares or the cash equivalent equal to the fair market value of such shares on the date of vesting. A restricted share or restricted share unit will vest and become transferable upon satisfaction of the conditions set forth in the restricted share/restricted share unit award agreements. Restricted share/restricted share unit awards will be forfeited if a recipient's employment terminates prior to vesting of the award. The compensation committee will recommend to our board of directors for approval the number of restricted share/restricted share unit awards to grant, applicable vesting schedule, term and any applicable performance criteria.

Unless otherwise specified in the restricted share/restricted share unit award agreements, restricted share/restricted share unit awards will vest upon a holder's death or permanent disability or retirement at or after age 62. Restricted share awards/restricted share unit awards granted in 2009 do not vest automatically upon a holder's retirement after age 55 with 10 years of service and prior to age 62. For each year of service, 33% of the award will become non-forfeitable and will continue to vest as if there had been no termination of service. Restricted share unit awards granted in 2010 do not vest automatically upon a holder's retirement after age 55 with 10 years of service and prior to age 62. In the first twenty-three months following the grant, the individual will forfeit 100% of the award upon termination. In the twenty fourth month until the normal vesting date, 33% of the award will forfeit upon termination. The non-forfeited, unvested portion of the award will continue to vest as if there had been no termination of service. Holders of restricted shares will have voting rights and receive dividend equivalents prior to vesting. Holders of restricted share units have no voting rights and receive dividend equivalents prior to vesting.

During 2010, Alcon made a special retention grant of restricted share units to 201 individuals for a total accounting value of $30 million. This special retention grant was made at the date of the change of majority ownership to enhance the retention of employees with key talent and/or in business critical positions. The actual provisions for this award were modified from the annual award guidelines to remove retirement vesting. In order to receive the full award amount, the recipients must stay with the Company for three years. However, if the employee is terminated due to position elimination or the employee resigns for “good reason,” then the award may vest on a pro-rata basis.

## 7. Directors and Senior Management Compensations (continued)

***Performance Share Units***

Performance share units vest upon a service requirement and achievement of specific Alcon business objectives as selected by the compensation committee in its discretion and approved by Alcon's board of directors.

The metrics for the 2009 grant consist of three one-year earnings per share ("EPS") growth targets during a three-year service period with a cumulative three-year relative total shareholder return ("TSR") as a modifier. At the beginning of the performance period, the compensation committee establishes a total equity award value for each participant. The performance share unit portion reflects 25% of the established total value for 2009 recipients. The actual value of the units awarded to the employee will be adjusted based on Alcon's three one-year EPS targets and cumulative TSR during the three-year service period. The adjustment will be accomplished by multiplying the target award by the applicable EPS award percentage and the TSR multiplier, which may result in an award from 0 to 200%.

The metrics for the 2008 grant consist of a cumulative three-year EPS growth target for the three-year service period with a cumulative three-year relative TSR as a modifier. At the beginning of the performance period, the compensation committee establishes a total equity award value for each participant. The performance share unit portion reflects 25% of the established total value for 2008 recipients. The actual value of the units awarded to the employee will be adjusted based on Alcon's cumulative three-year EPS target and cumulative TSR during the three-year service period. The adjustment will be accomplished by multiplying the target award by the applicable EPS award percentage and the TSR multiplier, which may result in an award from 0 to 200%.

The compensation committee will recommend to our board of directors for approval the number of performance share units to grant, applicable vesting schedule, term and any applicable performance criteria. Unless otherwise specified in the award agreement, the performance share unit awards will vest upon a holder's death or permanent disability. Vesting of performance share unit awards upon a holder's retirement after age 62 will continue as if there was no termination of employment. If the employee's termination of employment is voluntary and after age 55 with not less than 10 years of service but prior to retirement, the employee will forfeit unvested performance share units (have his/her target award reduced) by 33% for each year remaining in the vesting schedule of the award. If an employee's termination is a result of a change of control due to position elimination or for "good reason" as defined in the award agreements, the employee will vest 100% in the award and will be paid out with an EPS award percentage of 100% and a TSR multiple of 1.0. Unvested non-forfeited performance share units will continue to vest according to the award agreement as if there had been no termination of employment. Holders of performance share units have no voting rights and do not receive dividend equivalents prior to vesting.

## 7. Directors and Senior Management Compensations (continued)

***Other Share-Based Awards***

The Amended 2002 Alcon Incentive Plan also allows us to provide awards that are denominated in or valued by reference to our common shares. The grant price for the award will not be less than the fair market value of our common shares on the grant date. The compensation committee will recommend to our board of directors for approval the number and type of award to grant, applicable vesting schedule, term and any applicable performance criteria.

***Change-of-Control Provisions***

Upon the change-of-control (as defined under the Amended 2002 Alcon Incentive Plan) in August 2010, the following events occurred for annual share-based awards granted prior to December 31, 2008, if the agreement covering the award so provided:

- all stock options and stock appreciation rights became fully vested and exercisable;
- all restrictions on outstanding restricted shares and restricted share units lapsed;
- all outstanding cash incentive awards vested and paid out on a prorated basis; and
- all performance share unit awards continue to vest under their original terms unless achievement of performance goals can no longer be measured, in which case 100% of each employee's awards vest upon completion of the individual service requirements.

For share-based awards granted on or after January 1, 2009, the board approved modifications to the change-of-control provisions. Vesting of future awards will accelerate upon the occurrence of both a change-of-control and either involuntary termination, other than "for cause," or voluntary termination for "good reason" within six months preceding or during the two years following the change-of-control. Therefore, awards made in 2010 and 2009 did not vest on the change-of-control.

Upon the completion of the merger discussed in note 4, management expects that Novartis common shares would be substituted for Alcon common shares under the outstanding share-based awards at the merger date. The substitution ratio would be based on the price of a Novartis share in the merger relative to $168 for an Alcon share, but no cash would be paid.

***Alcon Executive Deferred Compensation Plan***

The Company adopted the Alcon Executive Deferred Compensation Plan (the "DCP") effective October 25, 2002. The DCP allows certain U.S. employees the opportunity to defer the receipt of salary, bonus and restricted shares. The DCP further provides that restricted shares deferred by eligible executives can only be invested in Alcon common shares and distributed as Alcon common shares at the end of the deferral period. The named executives in this report do not have any deferred restricted shares at December 31, 2010 or December 31, 2009.

## 8. Subsequent events

Alcon, Inc.’s Board of Directors approved the merger agreement with Novartis AG on December 14, 2010. In addition, Novartis has agreed to vote its shares (which exceed the two-thirds necessary) in favour of the merger, subject to certain conditions. As a result thereof, Alcon, Inc. is expected to be merged with and into Novartis AG in the first half of 2011.

**Proposed Appropriation of Retained Earnings**

According to the proposal submitted by the Board of Directors, the retained earnings of CHF 3,278,718,286 are to be appropriated as follows:

| | CHF |
|---|---|
| Balance to be carried forward | 3,278,718,286 |

**ALCON, INC. AND SUBSIDIARIES**
**OPERATING REVIEW**

*You should read the following discussion and analysis in conjunction with our financial statements and notes thereto included elsewhere in this report.*

**Overview of Our Business**

*General*

Alcon, Inc. ("Alcon") and its subsidiaries (collectively, the "Company") develop, manufacture and market pharmaceuticals, surgical equipment and devices and consumer eye care products that treat eye diseases and disorders and promote the general health and function of the human eye. Founded in 1945, we have local operations in over 75 countries and our products are sold in more than 180 countries around the world. In 1977, we were acquired by Nestlé S.A. Since then, we have operated largely as an independent company, separate from most of Nestlé's other businesses, and have grown our annual sales from $82 million to more than $7 billion primarily as a result of internal development and selected acquisitions. In March 2002, Nestlé sold slightly less than 25% of its ownership of Alcon through an initial public offering. In two transactions in 2008 and 2010, Nestlé sold all of its Alcon common shares to Novartis AG, a Swiss corporation that now owns the majority of Alcon's common shares. The remaining shares continue to be traded on the New York Stock Exchange.

We conduct our global business through two business segments: Alcon United States and Alcon International. Alcon United States includes sales to unaffiliated customers located in the United States of America, excluding Puerto Rico. Alcon United States operating profit is derived from operating profits within the United States. Alcon International includes sales to all other unaffiliated customers.

Each business segment markets and sells products principally in three product categories of the ophthalmic market: (i) pharmaceutical (prescription drugs); (ii) surgical equipment and devices (cataract, vitreoretinal and refractive); and (iii) consumer eye care (contact lens disinfectants and cleaning solutions, artificial tears and ocular vitamins). Business segment operations generally do not include research and development, manufacturing, share-based compensation and other corporate functions. We market our products to eye care professionals as well as to the direct purchasers of our products, such as hospitals, surgery centers, managed care organizations, health maintenance organizations, government agencies/entities and individuals.

*Change of Majority Ownership*

On April 6, 2008, Nestlé and Novartis executed a Purchase and Option Agreement pursuant to which Nestlé agreed to sell approximately 74 million of its shares of Alcon common stock to Novartis in a cash transaction at a price of $143.18 per share. That sale was consummated on July 7, 2008, and Novartis acquired a minority stake in Alcon of slightly less than 25% of Alcon's outstanding shares, while Nestlé remained Alcon's majority shareholder with approximately 156 million Alcon shares comprising approximately 52% of the Company's outstanding shares.

On January 4, 2010, Novartis announced that it had exercised its option to purchase the remaining approximately 156 million Alcon shares owned by Nestlé at a weighted average price of $180 per share in cash, pursuant to the Purchase and Option Agreement. After consummation of the purchase on August 25, 2010, Novartis owned an approximate 77% interest in Alcon with the 23% balance being the publicly traded shares.

The consummation triggered certain change of control provisions in certain retirement plans for Company employees, the Company's share-based awards (including the vesting of certain outstanding share-based awards) and other agreements.

*Merger Agreement of December 14, 2010*

On December 15, 2010, Alcon announced that its board of directors approved a merger agreement with Novartis, whereby Novartis will pay a total merger consideration valued at $168 per share for the Alcon shares it does not currently own. Under the terms of the deal, the merger consideration will be comprised of a combination of Novartis shares and, if necessary, a cash contingent value amount to result in a total value of $168 per share. The exact exchange ratio and cash contingent value amount will be calculated based upon formulas set forth in the merger agreement.

In accordance with Alcon's Organizational Regulations and after receiving a fairness opinion from its independent financial adviser, Greenhill & Co., the Independent Director Committee recommended approval of the merger agreement to the Alcon board. The board also received a separate fairness opinion rendered by Lazard Frères & Co. LLC in connection with the transaction. After considering these items and other appropriate information and factors, the Alcon board approved the merger proposal.

The merger will be effected under Swiss merger law. Completion is conditional, among other things, on two-thirds approval by the shareholders of both Novartis and Alcon voting at their respective meetings, and the registration and listing of Novartis shares on the SIX Swiss Exchange and American Depository Shares on the New York Stock Exchange to be issued as merger consideration. At December 31, 2010, Novartis owned more than the required two-thirds of the outstanding common shares of Alcon and has agreed, subject to certain conditions, to vote all of its Alcon shares to approve the merger. The merger is expected to be completed during the first half of 2011.

Upon completion of the merger, Alcon will become the second largest division within Novartis. Novartis has proposed that its CIBA VISION operations and select Novartis ophthalmic medicines will be integrated into Alcon.

Notes 16 and 17 to the consolidated financial statements provide additional information about the change of majority ownership and merger negotiations. Further information concerning the proposed merger is included in the registration statement on Form F-4 filed by Novartis with the United States Securities and Exchange Commission on December 23, 2010 and subsequent amendments thereto.

*LenSx Lasers Acquisition*

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complementary technology in cataract surgery. LenSx's laser will enable surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and creation of certain corneal incisions. Previously these steps were done manually with surgical instruments.

The Company paid approximately $367 million in cash at closing to LenSx shareholders for their shares and agreed to maximum contingent payments of approximately $383 million based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones. The Company recorded, as part of the purchase price, $72 million for the estimated fair value of the contingent consideration and $12 million in cash paid to a LenSx shareholder for an intangible asset integral to the purchase.

Between the acquisition date and December 31, 2010, LenSx had no revenues and its costs and expenses were not significant. Note 18 to the consolidated financial statements provides more information on this acquisition.

*U.S. Healthcare Reform*

In March 2010, the United States government enacted legislation that is expected to have far reaching implications for the healthcare industry. The U.S. Department of Health and Human Services has broad discretion to interpret certain sections of these new laws, and numerous regulations are anticipated to follow. The more significant changes and their estimated effects on the Company for 2010 and future years are discussed below.

- Beginning January 1, 2010, the legislation increases the Medicaid drug rebate minimum percentage for single source and innovator multiple source drugs from 15.1% to 23.1% of average manufacturer price and for non-innovator multiple source drugs from 11% to 13%. The legislation further extends this drug rebate to utilization made through risk-based, Medicaid managed care plans. This portion of the legislation was effective as of the date of enactment (March 23, 2010). The impact of this legislation has been to increase rebates paid by Alcon. It also may have an indirect impact on overall rebates paid to managed care organizations.

- Beginning January 1, 2011, pharmaceutical manufacturers must enter into agreements with the U.S. government to provide a 50% discount on covered brand name Medicare Part D drugs for eligible Part D enrollees in the coverage gap. The legislation required the U.S. government to establish a model agreement with pharmaceutical manufacturers. This has been completed and most manufacturers, including the Company, have signed the agreement. The discounts are excluded from "Best Price" for Medicaid rebate purposes. This will increase the Company's discounts beginning in 2011. To the extent patients were foregoing purchasing their medicines once they entered the Medicare Part D coverage gap, this provision could result in a modest increase in prescriptions, although at a lower price.

- The legislation also expands the section 340B drug discount program eligibility to the outpatient settings of qualified children's hospitals, free-standing cancer centers, critical access hospitals, rural referral facilities, and sole community hospitals with disproportionate share adjustment percentages equal to or greater than 8%. This will effectively increase volume to those facilities where we offer larger discounts.

- The legislation imposes a non-deductible pharmaceutical industry fee, requiring brand manufacturers to pay an annual fee in the aggregate of $2.5 billion in 2011, escalating to $4.1 billion in 2018. The fee is allocated to individual companies based on each manufacturer's proportion of total specified government program sales as a percentage of the entire brand manufacturing industry total of specified government program sales. There were no fees recognized in 2010. If the legislation had applied to 2010 and based on our 2009 sales and our assumptions about which sales will be subject to the fee, we estimate its effect on the Company would have been less than $10 million.

- The legislation imposes a 2.3% excise tax on the sale of medical devices (as defined in section 201(h) of the Federal Food, Drug and Cosmetic Act) intended for humans. This provision becomes effective for sales after December 31, 2012 and will likely be imposed on a majority of the Company's surgical revenue but will exclude sales of our over-the-counter products such as contact lens disinfectants, artificial tears, and ocular vitamins. If the legislation had applied to 2010 and based on our 2009 sales and our assumptions about which products will be subject to the tax, we estimate its effect on the Company would have been less than $30 million.

- The legislation likely will increase the population that will have access to drugs by expanding Medicaid eligibility to 133% of the Federal Poverty Level. It also will create separate health benefit exchanges through which individuals and small businesses can purchase coverage. Quantifying this impact is not possible at this time. This portion of the legislation does not go into effect until January 1, 2014.

- Finally, the legislation changes the taxation of subsidies received by employers as a result of funding prescription drug benefits for retirees under the Medicare Prescription Drug Improvement and Modernization Act of 2003. The elimination of this benefit resulted in an initial $25 million charge to income taxes in the first quarter of 2010 and is expected to add an annual income tax cost of approximately $4 million at today's tax rates.

The provisions in the first and third bulleted paragraphs above decreased sales by approximately $20 million in 2010.

*Market Environment*

Demand for healthcare products and services is increasing in established markets as a result of aging populations and the emergence of new drug therapies and medical devices. Likewise, demand for healthcare products and services in emerging markets is increasing primarily due to the adoption of medically advanced technologies and improvements in living standards. As a result of these factors, healthcare costs are rising at a faster rate than macroeconomic growth in many countries. This faster rate of growth has led governments and other purchasers of healthcare products and services, either directly or through patient reimbursement, to exert pressure on the prices of healthcare products and services. These cost-containment efforts vary by market.

In the United States, Medicare reimbursement policies and the influence of managed care organizations continue to impact the pricing of healthcare products and services. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 continues to present opportunities and challenges for pharmaceutical companies. Many states also have implemented more aggressive price control programs and more liberal generic substitution rules that could result in price reductions. In addition, managed care organizations use formularies and their buying power to demand more effective treatments at lower prices. Both governments and managed care organizations support increased use of generic pharmaceuticals at the expense of branded pharmaceuticals. We are well-positioned to address this market opportunity with Falcon Pharmaceuticals, Ltd., our generic pharmaceutical business. We also use third-party data to demonstrate both the therapeutic and cost effectiveness of our branded pharmaceutical products. Moreover, to achieve and maintain attractive positions on formularies, we continue to introduce medically advanced products that differentiate us from our competitors.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 placed additional pressure on policy makers to offset the cost of the prescription drug benefit by controlling budgets for reimbursement to surgical facilities. This may affect our industry's ability to maintain current pricing levels. New technologies for surgical procedures are being challenged to substantiate that their higher costs are accompanied by clinical improvements for Medicare beneficiaries. We prepare for these challenges by gathering the scientific and clinical data that demonstrate to Medicare that the products in our pipeline are cost-effective when their higher costs are compared to their measurable benefits.

Outside the United States, third-party payor reimbursement of patients and healthcare providers and prices for healthcare products and services vary significantly and, in the case of pharmaceuticals, are generally lower than those in the United States. In Western Europe, where government reimbursement of healthcare costs is widespread, governments often require price reductions. The economic integration by European Union members and the introduction of the euro also have impacted pricing in these markets, as more affluent member countries are requesting prices for healthcare products and services comparable to those in less affluent member countries.

In most of the emerging markets in Latin America and Asia, average income levels are relatively low, government reimbursement for the cost of healthcare products and services is limited and prices and demand are sensitive to general economic conditions. However, demand for our products in many developing countries has been rising.

In Japan, longer regulatory approval times impact the timing of marketing our pharmaceutical products there in comparison to other markets. In addition, the Japanese National Health Ministry reviews prices of individual pharmaceutical products and health services biannually. These reviews have resulted in price decreases, including a 5.75% decline in overall drug reimbursement in 2010. Reductions in reimbursement levels put downward price pressure on products we supply.

*Currency Fluctuations*

Our products are sold in over 180 countries and we sell products in a number of currencies in our Alcon International business segment. Our consolidated financial statements, which are presented in U.S. dollars, are impacted by currency exchange rate fluctuations through both translation risk and transaction risk. Translation risk is the risk that our financial statements for a particular period are affected by changes in the prevailing exchange rates of the various currencies of our subsidiaries relative to the U.S. dollar. Transaction risk is the risk that the currency structure of our costs and liabilities deviates to some extent from the currency structure of our sales proceeds and assets.

Our translation risk exposures are principally to the euro, Japanese yen, Brazilian real and Canadian dollar. With respect to transaction risk, because a significant percentage of our operating expenses are incurred in the currency in which sales proceeds are received, we do not have a significant net exposure. In addition, most of our assets that are denominated in currencies other than the U.S. dollar are supported by loans or other liabilities of similar amounts denominated in the same currency. From time to time, we purchase or sell currencies forward to hedge currency risk in obligations or receivables; these transactions are designed to address transaction risk, not translation risk. More recently, Venezuela has experienced an official currency devaluation and high inflation, but our exposure

there is not significant to our consolidated financial condition.

Generally, a weakening of the U.S. dollar against other currencies has a positive effect on our overall sales and, to a lesser extent, profits, while a strengthening of the U.S. dollar against other currencies has a negative effect on our overall sales and, to a lesser extent, profits. We experienced positive currency impacts during 2010 and 2008. During these years the U.S. dollar weakened against most major currencies, positively impacting our sales and, to a lesser extent, profits. However, in 2009, as other major currencies weakened against the dollar, our sales and profits were negatively affected. We refer to the effects of currency fluctuations and exchange rate movements throughout this Operating Review, which we have computed by applying translation rates from the prior comparative period to the more recent period amounts and comparing those results to the more recent period actual results.

*Operating Revenues and Expenses*

We generate revenues largely from sales of ophthalmic pharmaceutical products, ophthalmic surgical equipment and devices and consumer eye care products. Our operating revenues and operating income are affected by various factors, including unit volume, price, currency fluctuations, acquisitions, licensing and the mix between lower-margin and higher-margin products.

Sales of ophthalmic pharmaceutical products are primarily driven by the development of safe and effective products that can be differentiated from competing products in the treatment of ophthalmic diseases and disorders and increased market acceptance of these new products. Inclusion of pharmaceutical products on managed care formularies covering the largest possible number of patients is another key competitive factor. We face significant competition in ophthalmic pharmaceuticals, including competition from other companies with an ophthalmic focus and from larger pharmaceutical companies. In general, sales of our pharmaceutical products are not affected by general economic conditions, although we face pressure from governments and from managed care organizations in the United States to reduce prices. Alcon has continued to increase market share in most of its major specialties, which has provided some offset to the recent market softness. We experience seasonality in our ocular allergy medicines, with a large increase in sales in the spring and a lesser increase during the fall and also in our otic products, which have significantly larger sales in the summer months than at other times of the year. Costs of goods sold for our pharmaceutical products include materials, labor, overhead and royalties.

Our surgical product category includes three product lines: cataract, vitreoretinal and refractive. Sales of our products for cataract and vitreoretinal surgery are driven by technological innovation and aging demographic trends. The number of cataract and vitreoretinal surgical procedures is not generally affected by economic conditions; however, because cataract patients now have the ability to pay out of their own pockets for certain premium technologies, sales of advanced technology intraocular lenses could be affected by economic conditions. We believe that our innovative technology and our ability to provide customized (i.e., tailored to each surgeon's preference) surgical procedure packs with a broad range of proprietary products are important to our success in these product categories. Sales of our refractive surgical equipment and the related technology fees are driven by consumer demand for laser refractive surgery. We sell lasers and other surgical equipment used to perform laser refractive surgeries and, in the United States, charge a technology fee for each surgery performed (one eye equals one surgery). Outside the United States, we generally do not charge a technology fee. Because governments and private insurance companies generally do not cover the costs of laser refractive surgery, sales of laser refractive surgical products and related technology fees are sensitive to changes in general economic conditions and consumer confidence. There is no significant seasonality in our surgical business. Costs of goods sold for our surgical products include raw materials, labor, overhead, royalties and warranty costs. Operating income from cataract and vitreoretinal products is driven by the number of procedures in which our products are used and the types of products used. Operating income from laser refractive surgical equipment depends primarily on the number of procedures for which we are able to collect technology fees. In the weaker economy since 2008, the number of refractive procedures in the United States market declined. Our refractive sales increased as a result of sales of *WaveLight*® products and procedures following our acquisition of an initial majority interest in WaveLight in late 2007.

Sales of our consumer eye care products are influenced by ophthalmologist, optometrist and optician recommendations of lens care systems, our provision of starter kits to eye care professionals, advertising and consumer preferences for more convenient contact lens care solutions. Contact lens care products compete largely

on product attributes, brand familiarity, professional recommendations and price. The use of less-advanced cleaning methods, especially outside the United States, also affects demand for our contact lens care products. There is no seasonality in sales of contact lens care products, but we have experienced some impact from general economic conditions to date, as in low-growth economic environments some consumers may switch to lower-priced brands. Costs of goods sold for contact lens care products include materials, labor, overhead and royalties. Operating income from contact lens care products is driven by market penetration and unit volumes.

During the year ended December 31, 2010, advancements in its sales reporting system permitted the Company to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a $24 million addition to U.S. operating income for the year.

On February 11, 2009, the Company announced that it initiated programs to align its operations with the evolving economic conditions and market environment. These programs included a staffing reduction of approximately 260 employee positions that resulted in a pre-tax charge of $19 million, primarily incurred in the first quarter of 2009. The staffing reduction is expected to deliver ongoing annualized savings of approximately $40 million, which began in the second quarter of 2009, with the full effect realized thereafter.

Our selling, general and administrative costs include the costs of selling, promoting and distributing our products and managing the organizational infrastructure of our business. The largest portion of these costs is salaries and commissions for sales and marketing staff.

Research and development costs include basic research, pre-clinical development of products, clinical trials, regulatory expenses and certain technology licensing costs. The largest portion of our research and development expenses relates to the research, development and regulatory approval of pharmaceutical products. As part of the Company's commitment to develop treatments for diseases, disorders and other conditions of the eye, we normally plan to spend approximately 10% to 11% of sales for research and development.

Our amortization costs relate to acquisitions and the licensing of intangible assets. Due to acquisitions and purchases in 2009 and early 2010, annual amortization expense on intangible assets with definite useful lives is estimated to increase to $78 million in 2011 and decrease to $65 million in 2015.

Our other operating expenses of $152 million in 2010 primarily represented costs related to the change of majority ownership arising from Novartis's purchase of its majority interest in Alcon from Nestlé on August 25, 2010, as discussed in note 16 to the consolidated financial statements, and legal and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. The change of control accelerated the recognition of certain compensation expenses, including pensions ($97 million) and share-based payments ($8 million).

*Material Opportunities, Challenges and Risks*

The Company is focused on its ability to bring new products successfully to market in a competitive industry environment. The Company's long term profitability is dependent upon the ability of its research and development activities to provide a pipeline of new products that are successful in the marketplace. In general, we are able to generate higher margins from the sales of our products that are under patents or licenses restricting the production or sale of such products by others. Our goal is to consistently advance the state of our research and development so as to be in a position, as existing products approach the end of their patent or license protection periods, to introduce new products that provide greater efficacy, broader application or more convenience. Such products under new patents or licenses provide opportunities to maintain and grow our sales.

Part of our strategy is to devote significant resources to research and development efforts. Development of new products can be a long and expensive process. Over the past three years, we have invested approximately 10% of annual revenues into research and development. We strive to be the first to introduce new products in the marketplace or to provide greater efficacy in treatment of ophthalmic conditions. Being first to the marketplace with a product category can often result in a significant marketing advantage, particularly as larger pharmaceutical companies increase their focus on the ophthalmology field.

Our ability to maintain profit margins on our products may be affected by a number of regulatory activities

throughout the world, from restrictive medical reimbursements for managed care to reduced regulation for imports of pharmaceutical products from other countries to the United States. We monitor these regulatory activities and the effects on product pricing in our major markets. Where appropriate, we share information with applicable regulatory bodies on the cost of developing new products and the importance of pricing and return of investment as an incentive to develop new and more effective therapeutic treatments. We also monitor regulatory activities to identify initiatives that could undercut consumer protections by the introduction of nonregulated products into the U.S. distribution chain.

We are aware of and are monitoring issues regarding climate change regulations but have not identified impacts on our operations of a material nature.

We also focus on cost management. In addition to a strict evaluation of general and administrative expenses, the Company seeks to reduce manufacturing costs through its continuous improvement program.

As indicated earlier, our industry is dependent on proprietary technology and we vigilantly strive to protect ours. From time to time, competitors challenge our intellectual property rights, as further discussed in note 17 to the consolidated financial statements.

The Company and its subsidiaries are parties to a variety of other legal proceedings arising out of the ordinary course of business, including proceedings relating to product liability and patent infringement. The Company believes that it has valid defenses and is vigorously defending the litigation pending against it.

While the results of the aforementioned contingencies cannot be predicted with certainty, management believes that the ultimate liability, if any, will not have a material adverse effect on the Company's consolidated financial position or results of operations. Litigation contingencies are subject to change based on settlements and court decisions.

The Company may be subject to future litigation and infringement claims, which could cause the Company to incur significant expenses or prevent the Company from selling its products. The Company operates in an industry susceptible to significant product liability claims. Product liability claims may be asserted against the Company in the future arising out of events not known to the Company at the present time.

The Company self-insures through captive insurance subsidiaries almost all of its property and casualty, business interruption and liability risks.

On May 6, 2010, we commenced a voluntary corrective action on our *CONSTELLATION*® vision system that the U.S. Food and Drug Administration ("FDA") classified as a Class 1 recall. We submitted a 510(k) application to the FDA requesting approval of software and hardware modifications to the system. In November 2010, we received a clearance letter from the FDA on our application. This action did not have a material impact on our financial results.

## Results of Operations

The following table sets forth, for the periods indicated, selected items from our consolidated financial statements.

| | 2010 | 2009 | 2008 | As a % of Total Sales 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | | |
| Sales: | | | | | | |
| United States | $ 3,177 | $ 2,914 | $ 2,807 | 44.3% | 44.8% | 44.6% |
| International | 4,002 | 3,585 | 3,487 | 55.7 | 55.2 | 55.4 |
| Total sales | 7,179 | 6,499 | 6,294 | 100.0 | 100.0 | 100.0 |
| Costs of goods sold | 1,675 | 1,614 | 1,472 | 23.3 | 24.8 | 23.4 |
| Gross profit | 5,504 | 4,885 | 4,822 | 76.7 | 75.2 | 76.6 |
| Selling, general and administrative | 2,070 | 1,935 | 1,961 | 28.8 | 29.8 | 31.1 |
| Research and development | 747 | 665 | 619 | 10.4 | 10.2 | 9.8 |
| Amortization of intangibles | 60 | 24 | 29 | 0.9 | 0.4 | 0.5 |
| Other operating expenses | 152 | -- | -- | 2.1 | -- | -- |
| Operating income | 2,475 | 2,261 | 2,213 | 34.5 | 34.8 | 35.2 |
| Gain (loss) from foreign currency, net | (3) | (3) | (21) | -- | -- | (0.4) |
| Interest income | 29 | 46 | 76 | 0.4 | 0.7 | 1.2 |
| Interest expense | (9) | (16) | (51) | (0.1) | (0.3) | (0.8) |
| Other, net | 35 | 25 | (134) | 0.4 | 0.4 | (2.1) |
| Earnings before income taxes | 2,527 | 2,313 | 2,083 | 35.2 | 35.6 | 33.1 |
| Income taxes | 317 | 306 | 36 | 4.4 | 4.7 | 0.6 |
| Net earnings | $ 2,210 | $ 2,007 | $ 2,047 | 30.8% | 30.9% | 32.5% |

This Operating Review discusses several factors affecting the comparability of certain items in the above table.

The following table sets forth, for the periods indicated, our sales and operating income by business segment.

| | 2010 | 2009 | 2008 | As a % of Total Sales 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | | |
| **Alcon United States:** | | | | | | |
| Pharmaceutical | $ 1,555 | $ 1,353 | $ 1,321 | 49.0% | 46.4% | 47.1% |
| Surgical | 1,214 | 1,167 | 1,084 | 38.2 | 40.1 | 38.6 |
| Consumer eye care | 408 | 394 | 402 | 12.8 | 13.5 | 14.3 |
| Total sales | $ 3,177 | $ 2,914 | $ 2,807 | 100.0% | 100.0% | 100.0% |
| Segment operating income (1) | $ 1,896 | $ 1,664 | $ 1,554 | 59.7% | 57.1% | 55.4% |
| **Alcon International:** | | | | | | |
| Pharmaceutical | $ 1,511 | $ 1,324 | $ 1,240 | 37.8% | 36.9% | 35.6% |
| Surgical | 2,006 | 1,830 | 1,797 | 50.1 | 51.1 | 51.5 |
| Consumer eye care | 485 | 431 | 450 | 12.1 | 12.0 | 12.9 |
| Total sales | $ 4,002 | $ 3,585 | $ 3,487 | 100.0% | 100.0% | 100.0% |
| Segment operating income (1) | $ 1,728 | $ 1,507 | $ 1,472 | 43.2% | 42.0% | 42.2% |

(1) Certain manufacturing costs and manufacturing variances are not assigned to business segments because most manufacturing operations produce products for more than one business segment. Research and development costs, excluding regulatory costs which are included in the business segments, and share-based compensation are treated as general corporate costs and are not assigned to business segments.

The following table sets forth, for the periods indicated, sales by product category for Alcon United States, Alcon International and our consolidated operations and includes the change in sales and change in sales in constant currency calculated by applying rates from the earlier period. All sales for Alcon United States are recorded in U.S. dollars and, therefore, this business segment does not experience any currency translation gains or losses.

| | 2010 | 2009 | Change | Foreign Currency Change | Change in Constant Currency (a) | 2009 | 2008 | Change | Foreign Currency Change | Change in Constant Currency (a) |
|---|---|---|---|---|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | | | | | | |
| **Alcon United States:** | | | | | | | | | | |
| Pharmaceutical | $ 1,555 | $ 1,353 | 14.9% | --% | 14.9% | $ 1,353 | $ 1,321 | 2.4% | --% | 2.4% |
| Surgical | 1,214 | 1,167 | 4.0 | -- | 4.0 | 1,167 | 1,084 | 7.7 | -- | 7.7 |
| Consumer eye care | 408 | 394 | 3.6 | -- | 3.6 | 394 | 402 | (2.0) | -- | (2.0) |
| Total sales | $ 3,177 | $ 2,914 | 9.0 | -- | 9.0 | $ 2,914 | $ 2,807 | 3.8 | -- | 3.8 |
| **Alcon International:** | | | | | | | | | | |
| Pharmaceutical | $ 1,511 | $ 1,324 | 14.1 | 1.7 | 12.4 | $ 1,324 | $ 1,240 | 6.8 | (6.3) | 13.1 |
| Surgical | 2,006 | 1,830 | 9.6 | 2.4 | 7.2 | 1,830 | 1,797 | 1.8 | (4.9) | 6.7 |
| Consumer eye care | 485 | 431 | 12.5 | 3.7 | 8.8 | 431 | 450 | (4.2) | (6.0) | 1.8 |
| Total sales | $ 4,002 | $ 3,585 | 11.6 | 2.3 | 9.3 | $ 3,585 | $ 3,487 | 2.8 | (5.5) | 8.3 |
| **Total:** | | | | | | | | | | |
| Pharmaceutical | $ 3.066 | $ 2,677 | 14.5 | 0.8 | 13.7 | $ 2,677 | $ 2,561 | 4.5 | (3.1) | 7.6 |
| Surgical | 3,220 | 2,997 | 7.4 | 1.4 | 6.0 | 2,997 | 2,881 | 4.0 | (3.1) | 7.1 |
| Consumer eye care | 893 | 825 | 8.2 | 1.9 | 6.3 | 825 | 852 | (3.2) | (3.2) | -- |
| Total sales | $ 7,179 | $ 6,499 | 10.5 | 1.3 | 9.2 | $ 6,499 | $ 6,294 | 3.3 | (3.0) | 6.3 |

(a) Change in constant currency (as referenced throughout this discussion) is determined by comparing adjusted 2010 reported amounts, calculated using 2009 monthly average exchange rates, to the actual 2009 reported amounts. The same process was used to compare 2009 to 2008. Change in constant currency in this table includes sales growth from acquisitions. Sales change in constant currency is not a U.S. GAAP defined measure of revenue growth. Change in constant currency calculates sales growth without the impact of foreign exchange fluctuations. Management believes constant currency sales growth is an important measure of the Company's operations because it provides investors with a clearer picture of the core rate of sales growth due to changes in unit volumes and local currency prices. Sales change in constant currency, as defined and presented by the Company, may not be comparable to similar measures reported by other companies.

***Year ended December 31, 2010 Compared to Year ended December 31, 2009***

*Sales*

The Company's global sales increased 10.5% to $7,179 million for the year ended December 31, 2010 from 2009. The effect of favorable exchange rates increased global sales 1.3%. Excluding the effect of foreign exchange fluctuations, global sales would have grown 9.2%, including 0.6% combined for additional surgical sales subsequent to the January 2010 acquisition of Optonol Ltd. and pharmaceutical sales of *DUREZOL*® ophthalmic steroid subsequent to the March 2010 asset purchase. Sales reflected broad-based sales performance across all product lines and geographic areas with the United States, developed international and emerging international markets growing 9.0%, 7.0% (5.6% in constant currency) and 21.3% (17.1% in constant currency), respectively. This improvement primarily reflected volume growth and, to a lesser extent, price increases during 2010.

Alcon United States sales increased 9.0% to $3,177 million for 2010, from $2,914 million for 2009. The majority of the increase was due to volume growth in all major pharmaceutical product categories, in artificial tears and in intraocular lenses, especially our advanced technology intraocular lenses, *AcrySof*® *ReSTOR*® and *AcrySof*® *Toric* intraocular lenses. Sales of pharmaceutical products to treat infections and inflammation increased 20.7%,

primarily attributable to the strong performance of *Vigamox*® ophthalmic solution and *NEVANAC*® ophthalmic suspension. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. and pharmaceutical sales of *DUREZOL*® ophthalmic steroid subsequent to the March 2010 asset purchase added 1.3% to the growth. The overall improvement occurred against the backdrop of U.S. healthcare reform legislation, which reduced U.S. pharmaceutical sales by approximately $20 million. This reduction included the impact of healthcare reform legislation rebate increases on sales made during the fourth quarter of 2009 that were still in the wholesale and retail distribution channels at the beginning of 2010, as well as sales made during 2010.

Alcon International sales increased 11.6% to $4,002 million in 2010, from $3,585 million in 2009. The effect of favorable exchange rates increased Alcon International sales 2.3%. Excluding the effect of foreign exchange fluctuations, Alcon International sales would have grown 9.3%, primarily reflecting volume growth during 2010. International sales grew on a constant currency basis across all product lines and geographic areas. Solid pharmaceutical sales growth across all geographic areas, particularly from our infection/inflammation products and our glaucoma franchise, and the sales growth in emerging markets were the main contributors to this performance. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. were 0.1 percentage points of the growth.

| GLOBAL PRODUCT SALES | 2010 | 2009 | Change | Foreign Currency Change | Change in Constant Currency (a) |
|---|---|---|---|---|---|
| | (in millions, except percentages) | | | | |
| Infection/inflammation | $ 980 | $ 829 | 18.2 % | 0.6 % | 17.6% |
| Glaucoma | 1,277 | 1,121 | 13.9 | 0.8 | 13.1 |
| Allergy | 539 | 486 | 10.9 | 1.0 | 9.9 |
| Otic/nasal | 409 | 355 | 15.2 | 0.3 | 14.9 |
| Other pharmaceuticals/rebates | (139) | (114) | * | * | * |
| **Total Pharmaceutical** | **3,066** | **2,677** | **14.5** | **0.8** | **13.7** |
| Intraocular lenses | 1,208 | 1,133 | 6.6 | 1.7 | 4.9 |
| Cataract/vitreoretinal/other | 1,895 | 1,759 | 7.7 | 1.4 | 6.3 |
| Refractive | 117 | 105 | 11.4 | -- | 11.4 |
| **Total Surgical** | **3,220** | **2,997** | **7.4** | **1.4** | **6.0** |
| Contact lens disinfectants | 471 | 448 | 5.1 | 1.8 | 3.3 |
| Artificial tears | 333 | 283 | 17.7 | 2.2 | 15.5 |
| Other | 89 | 94 | (5.3) | 2.1 | (7.4) |
| **Total Consumer Eye Care** | **893** | **825** | **8.2** | **1.9** | **6.3** |
| **Total Global Sales** | **$ 7,179** | **$ 6,499** | **10.5** | **1.3** | **9.2** |

* Not Meaningful
See (a) on previous table.

Pharmaceutical

Global sales of our pharmaceutical products grew 14.5% during 2010. The effect of favorable exchange rates increased global sales of our pharmaceutical products 0.8%. Excluding the effect of foreign exchange fluctuations, our sales of pharmaceutical products would have grown 13.7%. Sales of key products in all major therapeutic categories reflected volume gains and share growth.

Our prostaglandin family of glaucoma products includes *TRAVATAN*® ophthalmic solution, *TRAVATAN Z*® ophthalmic solution and *DuoTrav*® ophthalmic solution. Combined sales of our family of *TRAVATAN*® products grew 12.2% for the year ended December 31, 2010, reflecting volume growth and price increases. During the year ended December 31, 2010, *Azopt*® ophthalmic suspension, the Company's topical anhydrase inhibitor, and *AZARGA*® ophthalmic suspension, a combination formulation of brinzolamide and timolol, posted a 15.8% combined sales increase as a result of market share gains for *Azopt*® and increasing acceptance of *AZARGA*® by physicians.

Sales of *Vigamox* ®ophthalmic solution, our leading fluoroquinolone anti-infective drug, increased 15.5% (14.6% excluding the 0.9% positive effect of foreign exchange fluctuations) compared to 2009, reflecting U.S. price increases and volume growth in the International business segment. (Moxifloxacin, the primary ingredient in *Vigamox*®, is licensed to Alcon by Bayer Schering Pharma AG.) *NEVANAC*® ophthalmic suspension is our non-steroidal anti-inflammatory drug ("NSAID") for the treatment of pain and inflammation associated with cataract surgery. Sales of *NEVANAC*® grew 41.2% in the year ended December 31, 2010 over the prior year, due to market share gains, price increases and new product registrations outside the United States. Sales of *DUREZOL*® ophthalmic steroid subsequent to the March 2010 asset acquisition provided 3.2 percentage points of the growth in sales of infection and inflammation products.

Pursuant to a prior legal settlement, a competitor to Alcon launched a generic version of Alcon's branded *TobraDex*® ophthalmic suspension in the United States on January 1, 2009. Falcon Pharmaceuticals, our generic pharmaceutical subsidiary, also launched a generic version of *TobraDex*® ophthalmic suspension on January 2, 2009. During the year ended December 31, 2010, combined sales of *TobraDex*® ophthalmic suspension and Falcon's generic version of *TobraDex*® increased 3.7% globally, including the 2010 rollout of *TobraDex*®*ST* ophthalmic suspension in the United States, over the same period of 2009.

Global sales of our leading allergy products, *Patanol*® and *Pataday*™ ophthalmic solutions, grew 11.8% in the year ended December 31, 2010. Sales of our allergy products benefited from severe spring and fall allergy seasons in the United States during the second and fourth quarters of 2010.

Sales of otic/nasal products increased 15.2% in the year ended December 31, 2010 over 2009. Sales of *CIPRODEX*® otic suspension were positively influenced by price increases and volume growth from increased demand due to a severe ear infection season. (*CIPRODEX*® is a registered trademark of Bayer AG, licensed to Alcon by Bayer Schering Pharma AG.) *Patanase*® nasal spray continued to gain market share in 2010.

Pharmaceuticals rebates grew for the year ended December 31, 2010, compared to 2009, due to increased statutory rebate levels related to the U.S. healthcare reform legislation, increasing utilization of U.S. government programs and higher commercial rebates. As a result of healthcare reform legislation in the United States, we recognized provisions totaling approximately $20 million for additional rebates primarily related to Medicaid.

Surgical

Global sales of our surgical products grew 7.4% to $3,220 million in the year ended December 31, 2010, compared to 2009. The effect of favorable exchange rates increased global sales of our surgical products 1.4%. Excluding the effect of foreign exchange fluctuations, our sales of surgical products would have increased 6.0%. Higher sales of intraocular lenses and cataract and vitreoretinal products (which include surgical equipment, devices and disposable products) accounted for most of the constant currency growth.

Sales of intraocular lenses increased 6.6% in the year ended December 31, 2010 over 2009. Excluding the 1.7% positive effect of foreign exchange fluctuations, intraocular lens sales would have increased 4.9%. Global sales of our advanced technology lenses, such as the *AcrySof*® *ReSTOR*® and the *AcrySof*® *Toric*, increased 21.4% in the year ended December 31, 2010 and would have grown 19.7% without the 1.7% favorable effect of foreign exchange fluctuations. Sales of our advanced technology lenses rose with increased adoption by surgeons of the *AcrySof*® *Toric* intraocular lens that corrects pre-existing astigmatism and volume gains for the *AcrySof*® *ReSTOR*® multifocal intraocular lens that corrects presbyopia.

Alcon received the European CE Mark of approval for the *AcrySof® IQ ReSTOR® Toric* intraocular lens during the second quarter of 2010. This lens was introduced to ophthalmologists at the European Society of Cataract and Refractive Surgeons meeting in Paris, France, and became available in the final quarter of 2010 in many major markets that recognize the CE Mark. The Company plans to file a Pre-Market Application ("PMA") for this lens with the FDA in early 2012.

Solid constant currency sales growth came from most other major product categories within the cataract and vitreoretinal segments. Sales of these surgical products grew somewhat faster on a constant currency basis in the International business segment due to growth of phaco surgery in emerging markets, increased acceptance of advanced technology products and market share growth. Sales of surgical glaucoma products subsequent to the January 2010 acquisition of Optonol Ltd. provided 0.7 percentage points of the sales growth in this category.

The increase in refractive sales for the year ended December 31, 2010 reflected global share growth.

Consumer Eye Care

Our global consumer eye care sales, consisting of contact lens care, artificial tears and other general eye care products, rose 8.2% to $893 million in the year ended December 31, 2010, compared to $825 million in 2009. The effect of favorable exchange rates increased global sales of our consumer eye care products 1.9%. Excluding the effect of foreign exchange fluctuations, our sales of consumer eye care products would have grown 6.3% over the prior year.

Sales of our contact lens disinfectants climbed 5.1% in the year ended December 31, 2010 compared to 2009, mostly as a result of volume growth. The impact of foreign exchange fluctuations increased sales of contact lens disinfectants by 1.8%.

Sales of our artificial tears products grew 17.7% over 2009. Excluding the 2.2% effect of foreign exchange fluctuations, sales of our artificial tears products would have improved 15.5%, primarily from volume growth in both the United States and International business segments. Market share growth of the *Systane®* family of lubricant eye drops drove this performance.

Sales of our other consumer eye care products declined by 5.3% to $89 million in the year ended December 31, 2010 from $94 million in 2009. Excluding the 2.1% effect of foreign exchange fluctuations, sales of our other consumer eye care products would have decreased 7.4%. The constant currency decrease reflected growth in retailer and coupon discounts on consumer eye products.

***Gross Profit***

Gross profit increased 12.7% to $5,504 million in the year ended December 31, 2010 from $4,885 million in 2009. Gross profit increased as a percent of sales to 76.7% in the year ended December 31, 2010 from 75.2% in 2009.

During the year ended December 31, 2010, advancements in our sales reporting system permitted us to better estimate allowable deductions from sales in the calculation of accrued royalties. This change in estimate resulted in a $24 million addition to gross profit during the first quarter of 2010. The remaining gross profit margin reflected differences in foreign currency exchange rates, the effects of price increases in the United States, expiration of a royalty agreement lapping the $3 million of severance charges for the first quarter of 2009 and improvements in product sales mix, which were offset somewhat by increased rebates from the enactment of U.S. healthcare reform legislation.

***Operating Expenses***

Selling, general and administrative expenses increased 7.0% to $2,070 million in the year ended December 31, 2010 from $1,935 million in 2009, primarily due to foreign exchange impacts and bad debt provisions in Europe, which were partially offset by lapping the 2009 charges for a reduction in force. In 2009, we experienced in-period costs of $10 million for a reduction in workforce. Selling, general and administrative expenses decreased as a

percentage of sales to 28.8% from 29.8% in 2009. Although these expenses rose in 2010, disciplined cost management controlled their increase to levels below sales growth.

Research and development expenses increased 12.3% to $747 million (or 10.4% of sales) in the year ended December 31, 2010 from $665 million (or 10.2% of sales) in 2009. The increase in research and development expenses represented a continued investment across pharmaceutical, surgical and consumer eye care product lines. The 2009 expense included $6 million of in-period costs for reductions in workforce. The increase in research and development expenses included operations of our ESBATech biotech laboratories, acquired in September 2009, and our *LenSx*® laser development, acquired in August 2010.

Amortization of intangibles increased to $60 million in the year ended December 31, 2010, from $24 million in 2009. The increase arose from amortization of licenses and technology related to ESBATech, acquired in September 2009, and other acquisitions and asset purchases in 2010.

Other operating expenses of $152 million for the year ended December 31, 2010 represented costs related to the change of majority ownership arising from Novartis's purchase of its majority interest in Alcon from Nestlé on August 25, 2010, as discussed in note 16 to the condensed consolidated financial statements, and legal and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal. The change of control accelerated the recognition of certain compensation expenses, including pension ($97 million) and share-based payments ($8 million).

***Operating Income***

Operating income increased 9.5% to $2,475 million in the year ended December 31, 2010 from $2,261 million in 2009. The improvement in 2010 reflected the sales growth, the change in estimating royalties, lapping the 2009 charges for a reduction in force, disciplined cost management discussed above and foreign currency exchange fluctuations. These were offset somewhat by increases in amortization, effects of the U.S. healthcare reform legislation and the change of majority ownership costs mentioned above.

Alcon United States business segment operating income increased 13.9% to $1,896 million, or 59.7% of sales, in the year ended December 31, 2010 from $1,664 million, or 57.1% of sales, in 2009. Operating income as a percent of sales improved in 2010 as a result of sales volume growth, price increases, change in the estimating of royalties and disciplined cost management.

Alcon International business segment operating income increased 14.7% to $1,728 million, or 43.2% of sales, in the year ended December 31, 2010 from $1,507 million, or 42.0% of sales in 2009. In 2010, the operating income margin improved as a result of sales growth, foreign exchange fluctuations, and improved gross margin.

Operating income for the Alcon United States and Alcon International business segments does not include: (1) certain manufacturing costs (e.g., manufacturing operation period costs and manufacturing variances); (2) all research and development costs other than regulatory costs; (3) certain other general corporate expenses; and (4) share-based compensation. Other operating expenses related to the change in majority ownership and other costs to support Alcon's board of directors in its evaluation of Novartis's merger proposal were included in other general corporate expenses.

***Interest and Other Income (Expenses)***

Interest income fell 37.0% to $29 million in the year ended December 31, 2010 from $46 million in 2009, primarily as a result of lower short term interest rates, partially offset by higher average balances of cash and cash equivalents in 2010. Interest expense decreased 43.8% to $9 million in the year ended December 31, 2010 from $16 million in 2009, resulting from decreased borrowings and slightly lower interest rates.

Other, net, included gains (losses) on investments for the year ended December 31, 2010 and 2009 as follows:

| | Years ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Realized gains (losses) on sale of investments | $ 30 | $ (49) |
| Unrealized gains (losses) on investments classified as trading securities | 6 | 76 |
| Other | (1) | (2) |
| Total | $ 35 | $ 25 |

Alcon and its subsidiaries invest cash generated from operations to fund ongoing operating expenses, research and development and long term corporate liabilities. The majority of the funds needed to accommodate expenses and liabilities are invested in cash and cash equivalents, the income from which is recorded in interest income. Despite the significant weighting to cash, the Company does have material exposure to fixed income securities. Investment gains during the year ended December 31, 2010 reflected the liquidation of the Company's remaining positions in a bank loans fund, a mortgage-backed securities fund and equities.

The Company had material exposure during the first half of 2009 to the following investment markets: fixed income securities, hedge funds, senior secured bank loans funds, equities and real estate investment trusts. The Company sold its investments in real estate investment trusts, a portion of its fixed income securities and a portion of the senior secured bank loans funds portfolio in the first quarter of 2009. The realized losses on sale of investments in the year ended December 31, 2009 reflected the sale of these instruments, for which the majority of the losses were recognized as unrealized losses on trading securities during fiscal year 2008. The Company also requested redemption of its investments in hedge funds in 2009 and the balance in hedge funds has declined to $6 million at December 31, 2010.

***Income Tax Expense***

Income tax expense increased to $317 million in the year ended 2010 from $306 million in 2009. The effective tax rate was 12.5% in the year ended December 31, 2010, compared to 13.2% in 2009.

The lower effective tax rate for the year ended December 31, 2010 reflected differences in product and geographic earnings mix and period benefits related to change of majority ownership charges, progression on prior year audits and reserve releases from the expiration of statutes of limitations. These were offset by a $25 million tax charge from the newly enacted provisions of U.S. healthcare reform laws (discussed above).

***Net Earnings***

Net earnings increased 10.1% to $2,210 million in the year ended December 31, 2010 from $2,007 million in 2009. This increase resulted from 2010 sales growth, the change in estimating royalties, disciplined cost management, the costs recognized in 2009 for the reduction in workforce and improved financial investment returns. Together they exceeded the costs related to the U.S. healthcare reform legislation, the change of majority ownership and the Alcon board's evaluation of Novartis's merger proposal.

**Liquidity and Capital Resources**

***Cash, Debt and Liquidity***

At December 31, 2010, the Company reported cash and cash equivalents of $2,525 million, total short term borrowings and debt of $399 million and consolidated shareholders' equity of $7,252 million. As part of our cash management strategy, the Company maintains large balances of cash and cash equivalents in Switzerland and Bermuda, while the Company's debt is borrowed in subsidiary operating companies located elsewhere.

The Company continued to generate significant cash flow from operations in 2010 and used $306 million to repay short term debt. In addition, the Company used $1,037 million to pay dividends on common shares and $33

million to purchase treasury shares, as discussed below. Acquisitions and financing activities led to a decrease of $482 million in cash and cash equivalents at December 31, 2010 from the prior year.

The Company maintains an irrevocable Rabbi trust to be held and invested in an unfunded arrangement for the payment of benefits to participants under certain defined benefit pension plans of the Company. The assets of the trust are restricted to the payment of pension benefits except under certain conditions, such as the Company's insolvency or termination of the trust. The Alcon Executive Retirement Plans Grantor Trust Agreement provides for the Company to fund the current actuarially determined present value of the aggregate accrued pension benefits of all participants upon the change of control (discussed in note 16 to the consolidated financial statements). Based on actuarially determined pension benefit projections and market conditions, the Company contributed $152 million during the third quarter of 2010 to satisfy this requirement. The assets of the trust were primarily the cash surrender value ($279 million as of December 31, 2010) of company owned life insurance policies purchased from a related captive insurance company subsidiary and cash equivalents ($152 million as of December 31, 2010).

Withholding taxes of approximately $107 million have not been provided on approximately $2,133 million of unremitted earnings of certain subsidiaries since such earnings are, or will be, reinvested in operations indefinitely. Taxes of approximately $17 million have not been provided on temporary differences of approximately $212 million for permanent investments in certain subsidiaries that will be taxable upon liquidation. Management believes that investing indefinitely in these operations will not adversely affect the Company's ability to meet its current and long term working capital and liquidity needs.

In order to receive an expedited return in 2009 of assets held by Lehman Brothers International (Europe) (in administration) as discussed in note 14 to the consolidated financial statements, Alcon has agreed to return any assets which the Joint Administrators determine should not have been disbursed in settlement. The amount of funds to be returned, if any, would result from the determination by the Joint Administrators that the rights of another claimant in the proceeding have precedence over the Company's claim.

***Cash Flows***

During the year ended December 31, 2010, the Company generated operating cash flow of $2,375 million, compared to $2,416 million in 2009. The decrease primarily reflected the Company's working capital requirements.

The operating cash flow was used for payment of dividends on common shares, the purchase of Alcon common shares, the repayment of short term borrowings, acquisitions and capital expenditures, including improvements and upgrades to our manufacturing plants and certain other facilities.

***Financing Activities***

During the year ended December 31, 2010, short term borrowings decreased by $270 million. Our short term borrowings are discussed more fully under "Credit Facilities and Debt" below.

Since 2002, the Company's board of directors has authorized the purchase on the open market of up to 27 million Alcon common shares, to, among other things, satisfy the exercise of equity awards granted to employees that became or are scheduled to become exercisable in 2007 through 2012. To the extent such share purchases are not required for employee awards, the board may present the shares for approval of cancellation at future shareholders' meetings. Through December 31, 2010, we cumulatively have purchased approximately 25.6 million Alcon common shares (including approximately 207,000 shares in 2010) for $2,740 million (including $33 million in 2010).

In December 2008, as a result of the agreement between Novartis and Nestlé discussed in note 16 to the consolidated financial statements, the Company discontinued the purchase of Alcon common shares in the open market under all share repurchase programs. However, the Company continues to acquire shares withheld from employees' exercises of share-based awards to cover their taxes.

We intend to issue new common shares from conditional capital for the exercise of stock options held by employees that became exercisable in 2006 and 2005, as well as for share-based awards granted after December 31,

2007. In February 2010, approximately 1.3 million share-settled stock appreciation rights and approximately 168,000 stock options granted to employees in 2007 became exercisable. In connection with the change in control, on August 25, 2010, almost 1.0 million employee share-settled stock appreciation rights and approximately 145,000 employee stock options became exercisable. In addition, over 1,000 restricted shares and approximately 234,000 restricted share units vested at that time. During 2010, approximately 2.4 million options were exercised, providing proceeds of $169 million to the Company, and more than 1.5 million share-settled stock appreciation rights were exercised.

In June 2010, we paid our shareholders cash dividends of $1,037 million (CHF 3.95 per common share, or approximately $3.44 per common share). The merger agreement with Novartis dated December 14, 2010 precludes the payment of dividends.

***Investing Activities***

Net cash used in investing activities in the year ended December 31, 2010 and 2009 was $1,705 million and $390 million, respectively. The Company increased its investing activities in 2010 through two acquisitions, the purchase of intangible assets and adjustments to the investment portfolio. In 2010, more cash was used to acquire financial investments than in 2009, as certain adjustments were made in the investment portfolio. Capital expenditures decreased slightly in 2010, when compared to 2009, but the decrease was more than offset by purchases of intangible assets. Our annual capital expenditures over the last three years were $309 million in 2010, $342 million in 2009 and $302 million in 2008, principally to expand and upgrade our manufacturing and research and development facilities and other infrastructure. In 2010, capital expenditures were made to add manufacturing capacity and upgrades to our Fort Worth, Texas, Puurs, Belgium, Huntington, West Virginia, Cork, Ireland, Kaysersberg, France, Houston, Texas, and Sinking Spring, Pennsylvania, manufacturing facilities and to continue construction of a new manufacturing plant in Singapore. In 2009, we broke ground to build the facility in Singapore that will manufacture pharmaceuticals to be distributed throughout most of Asia. We plan for the 331,000 square foot facility to be fully functional in 2012. Capital expenditures in 2010 were also made to upgrade and expand our research and development facilities and administrative facilities in Fort Worth and in Zurich, Switzerland (ESBATech).

We had capital expenditure commitments of $53 million at December 31, 2010. We expect to fund these capital projects through operating cash flow and, if necessary, short term borrowings.

In January 2010, we acquired Optonol, Ltd., a medical device company that develops, manufactures and markets novel miniature surgical implants used to lower intraocular pressure in patients with glaucoma. With this acquisition, Alcon acquired Optonol's *EX-PRESS*® glaucoma filtration device. This medical device will complement Alcon's pharmaceutical products that lower intraocular pressure in patients with glaucoma and ocular hypertension, and will be additive to the Company's growth opportunities.

The device is currently reimbursed in the U.S by Medicare and other payors, and it is also approved and currently marketed in Europe, Canada, Australia and several other countries. Because the product is already approved in the United States and other major markets, it began contributing commercially in the first quarter of 2010.

In the first quarter of 2010, we also purchased certain intangible assets. The intangible assets included the technology and licenses to manufacture, market and sell *DUREZOL*® ophthalmic steroid for post-surgical ocular pain and inflammation.

On August 18, 2010, the Company acquired 100% of the outstanding common shares of LenSx Lasers, Inc. LenSx is a privately held company that has developed the first femtosecond laser to receive U.S. Food and Drug Administration clearance for use as a complementary technology in cataract surgery. LenSx's laser enables surgeons to perform specific steps of the traditional cataract procedure with micron-level laser precision, including anterior capsulorhexis, phacofragmentation and the creation of certain corneal incisions. Without this technology, these steps must be performed manually with hand-held surgical instruments.

The Company paid $367 million in cash at closing to *LenSx*® shareholders for their shares. The acquisition also provides for maximum contingent payments of $383 million based upon the achievement and over-achievement of future femtosecond unit and procedure fee revenue milestones.

During 2010, although we sold portions of our investments receiving proceeds of $2,149 million, we added to our financial portfolio, investing $2,881 million. Total investments (short term and long term) were included in the consolidated balance sheets at a fair value of $1,287 million as of December 31, 2010, as compared with $552 million as of December 31, 2009. These investments were primarily denominated in U.S. dollars. The Company has invested in mostly debt investments primarily to plan for obligations under certain deferred compensation arrangements and to generate additional returns within established risk parameters. More information on our investments is provided in notes 4 and 5 to the consolidated financial statements.

***Off-Balance Sheet Arrangements***

The Company has obligations under certain guarantees, letters of credit, indemnifications and other contracts that contingently require the Company to make payments to guaranteed parties upon the occurrence of specified events. The Company believes that any payments required under these contingencies would not pose potential material risk to the Company's future liquidity, capital resources and financial condition. See the notes to the consolidated financial statements for further descriptions and discussions regarding the Company's obligations.

We acquire assets still in development and enter into research and development arrangements with third parties that often require milestone and royalty payments to such third party contingent upon the occurrence of certain future events linked to the success of the asset in development. Milestone payments may be required contingent upon the successful achievement of an important point in the development life cycle of the pharmaceutical product (e.g., approval of the product for marketing by the appropriate regulatory agency). If required by the arrangement, we may have to make royalty payments based upon a predetermined percentage of the sales of the pharmaceutical product in the event that regulatory approval for marketing such product is obtained.

These arrangements are not individually material to the Company's future liquidity, capital resources and financial condition. However, if milestones for multiple products covered by such arrangements would happen to be reached in the same accounting period, the aggregate charge to expense could be material to the results of operations in any one period. These arrangements often give us the discretion to unilaterally terminate development of the product, which would allow us to avoid making the contingent payments; however, we are unlikely to cease development if the potential product successfully achieves clinical testing objectives.

***Capital Resources***

We expect to meet our current working capital and liquidity needs principally through cash and cash equivalents, the liquidation of short term investments and, to the extent necessary, short term borrowings. We expect to meet future liquidity requirements through our operating cash flows, the liquidation of short term investments and, to the extent necessary, issuance of short term or long term debt. We believe this combination would be sufficient to meet our liquidity requirements, even if our sales were adversely affected as compared to expectations.

***Credit Facilities and Debt***

During 2010, the Company repaid and terminated its commercial paper facility. An Alcon subsidiary had an available commitment of $12 million under an unsecured line of credit with a subsidiary of Novartis; at December 31, 2010, $4 million was outstanding under this credit facility. Alcon's subsidiaries had third-party lines of credit, including bank overdraft facilities, totaling approximately $845 million under which there was an aggregate outstanding balance of $333 million at December 31, 2010. These third-party credit facilities are arranged or provided by a number of international financial institutions, the most significant of which had the following aggregate limits: Citibank ($395 million); Mitsui-Sumitomo Bank ($105 million); Mizuho Bank ($99 million); and Bank of Tokyo – Mitsubishi UFJ ($61 million). Most of the credit facilities have terms of less than one year and accrue interest at a rate consistent with local borrowing rates. In aggregate, these facilities had a weighted average interest rate of 2.5% at December 31, 2010.

As of December 31, 2010, the Company had a bank loan for Japanese yen 5.0 billion ($62 million) maturing in January 2011 arranged by ABN AMRO for our subsidiary in Japan. The balance of the loan was repaid in January 2011.

**Market Risk**

***Interest Rate Risks***

We are exposed to interest rate risks through short term floating rate investments that exceed our short term floating rate loans. Rising interest rates will increase net interest income, while falling rates will reduce it. We evaluate the use of interest rate swaps and periodically use such agreements to manage our interest rate risk on selected debt instruments.

***Credit Risks***

In the normal course of our business, we incur credit risk because we extend trade credit to our customers. We believe that these credit risks are well diversified, and our internal staff actively manages these risks. Our principal concentrations of trade credit are generally with large and financially sound corporations, such as large retailers and grocery chains, drug wholesalers and governmental agencies. It is not unusual for our five largest customers in the United States to represent in the aggregate approximately 16% of the outstanding balance of our gross accounts receivable; however, no single customer accounted for more than 10% of the Company's consolidated sales in the year ended December 31, 2010.

In connection with our sales of surgical equipment, we frequently finance the purchase of our equipment and enter into leases and other financial transactions with our customers. In general, these loans and other transactions range in duration from one to five years and in principal amount range from $15,000 to $500,000. We conduct credit analyses of the customers to whom we extend credit and secure the loans and leases with the purchased surgical equipment. Over the last 24 years, we have offered financing programs for surgical equipment and losses have not been material to our operations. In countries that may be subject to high inflation, the credit risks to which we are exposed can be larger and less predictable.

We conduct some of our business through export operations and are exposed to country credit risk. This risk is mitigated by the use, where applicable, of letters of credit confirmed by large commercial banks in Switzerland and the United States.

In certain countries in the European Union, many of our government customers have significantly delayed payment of amounts owed to us for their purchase of our products. This has increased our exposure to credit risk in these countries. We regularly review these risks and take appropriate actions related to them.

We have significant outstanding receivable balances that are dependent upon either direct or indirect payment by various governmental entities across the world. The ultimate payment of these receivables is dependent on the ability of these governments to maintain liquidity primarily through borrowing capacity, particularly in the European Union. If certain governments are not able to maintain access to liquidity through borrowing capacity, the ultimate payment of their respective portion of these outstanding receivables could be at risk and impact profits and cash flow.

***Currency Risks***

We are exposed to market risk from changes in currency exchange rates that could impact our results of operations and financial position. We manage our exposure to these currency risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We use foreign currency derivative financial instruments as risk management tools.

We use foreign currency forward contracts and options to manage the volatility of non-functional currency cash flows resulting from changes in exchange rates. Foreign currency forward contracts are primarily used to hedge intercompany purchases and sales. The use of these derivative financial instruments allows us to reduce our overall exposure to exchange rate fluctuations, since the gains and losses on these derivative contracts substantially offset losses and gains on the assets and liabilities being hedged.