
COMPENSATION

REPORT



COMPENSATION REPORT**Compensation Committee****Compensation system****Additional contractual elements****Compensation for the members of the Board of Directors and Group Management Board (KL/EKL)****232****233****234****236****237**

Ladies and Gentlemen

In accordance with the Ordinance against Excessive Compensation in Listed Stock Corporations (Compensation Ordinance; Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV), which came into force on 1 January 2014, all information regarding the compensation of the Board of Directors and the Group Management Board (Executive Group Management Board and Extended Group Management Board) is presented in the Compensation Report.

With the Compensation Report, the Board of Directors and the Compensation Committee give an account of the material elements of the compensation principles, of the tasks and competences in the field of compensation, of the composition and function of the Compensation Committee, and of the various compensation elements.

The aim of the Compensation Report is to create transparency regarding the compensation provided by the company.

The Compensation Report is divided into the following sections:

- one section with information regarding the structure and decision-making processes within the Compensation Committee and the Board of Directors;
- one section with the description of the compensation system;
- one section that sets out the specific compensation in the year under review and the previous year.

The Compensation Report fulfils the provisions of the Ordinance against Excessive Compensation in Listed Stock Corporations, which came into force on 1 January 2014, and accordingly the provisions of the Swiss Code of Obligations. The Report essentially follows the recommendations of the Swiss Code of Best Practices for Corporate Governance issued by economiesuisse and the Guidelines on Corporate Governance issued by SIX Swiss Exchange Regulation AG.

Compensation for the year under review and the previous year (Note 4a-e) were audited by PriceWaterhouseCoopers AG. Disclosure is made according to the « accrual principle ».

1. Compensation Committee**1.1 Composition of the Compensation Committee**

As the Board of Directors of the Swatch Group is intentionally kept small in number (currently 6 members), it functions at the same time as the Compensation Committee. This eliminates the need for demarcating the areas of responsibility and ensuring the flow of information.

The Compensation Committee is chaired by Mr Ernst Tanner, Vice-Chairman of the Board of Directors.

All members of the Board of Directors abstain from discussions and decisions regarding their compensation and from discussions and decisions regarding compensation of persons closely related to them (such as family members).

No members having any cross-involvement belong to the Compensation Committee, such that no conflicts of interest arise from this point of view as well.

1.2 Tasks / Competences

The Compensation Committee handles the compensation policy of the company. It assists the Board of Directors in determining the compensation system and the principles of compensation, and in the preparation of motions to the Annual General Meeting for approving compensation. The Compensation Committee may submit proposals and recommendations to the Board of Directors in all matters pertaining to compensation.

According to the Articles of Association of the Swatch Group, the Compensation Committee attends to all issues related to compensation, and proposes solutions for the attention of the Board of Directors. The decision-making body is the Board of Directors. The Board of Directors will submit the necessary resolutions to the Annual General Meeting for its approval.

At the Annual General Meeting of the year under review, the fixed remuneration for members of the Board of Directors until the next annual general meeting, as well as the fixed remuneration for the year under review and the variable remuneration for the previous year for executive functions for members of the Board of Directors was voted upon. In addition, fixed remuneration for members of the Management Board and the Extended Management Board for the year under review, as well as variable remuneration for the previous year was voted upon.

1.3 Meetings

The Compensation Committee met twice during the year under review.

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2. Compensation system

2.1 General principles of compensation

The members of the Board of Directors and the Executive Management are entitled to compensation corresponding to their job function and degree of responsibility.

The company may award compensation for activities in entities that are directly or indirectly controlled by the company and for activities at the order of the undertaking. The compensation may be awarded by the company or by the companies that it controls.

The compensation of the non-executive members of the Board of Directors comprises only fixed compensation elements.

The compensation of executive members of the Board of Directors and the members of the Executive Management comprises fixed and variable compensation elements. The fixed compensation comprises base salary and may include additional compensation elements. The variable compensation is guided by the achievement of defined performance objectives.

The performance objectives may include personal goals, company-specific and division-specific objectives, along with key economic or market-related figures. In doing so, the function and the level of responsibility of the recipient of the variable compensation are taken into account.

At the request of the Compensation Committee, the Board of Directors sets the performance values and objectives of the variable compensation elements and their achievement.

The compensation system of the Swatch Group is in line with market conditions and based on performance. It is reviewed on an annual basis and adjusted when necessary.

2.2 Compensation elements

a) Non-executive members of the Board of Directors

The non-executive members of the Board of Directors receive fixed compensation. It is graduated according to functions.

b) Executive members of the Board of Directors, members of the Executive and Extended Group Management Board

The compensation system for the executive members of the Board of Directors and the members of the Executive and Extended Group Management Board provides for the following elements:

- a base salary;
- an expense allowance;
- a bonus program with variable compensation;
- a share program with annual share allocations and a minimal guaranteed value;
- payments to the pension fund (Swatch Group Pension Fund) and to the Management Fund of the Swatch Group (in one specific case where the EKL-member is a foreign national, payment was made to the local pension fund).

2.3 Information on individual elements

2.3.1 Base salary

The base salary is usually paid out monthly in 13 equal instalments. The 13th instalment is paid each year in December. The degree of responsibility and the position are taken into account in the base salary.

2.3.2 Expense allowance

Members of the Board of Directors and the Executive Group Management Board receive an expense allowance of CHF 30 000; members of the Extended Group Management Board receive up to CHF 24 000. This expense allowance covers representation and small expenses, and was approved by the tax authority of the Canton of Bern. Executive members of the Board of Directors who at the same time belong to the Executive Management receive the expense allowance only once.

2.3.3 Bonus programs

The executive members of the Board of Directors, of the Executive Group Management Board and of the Extended Group Management Board annually receive a variable bonus, which depends on the development of the Group and the business division entrusted to the respective person (brands, countries, functional area) as well as individual performance.

At the start of the year, a so-called bonus potential is defined, which is paid out if the objectives are achieved. If the objectives are surpassed, more than 100% of the bonus potential can be paid. If individual objectives are not achieved, a proportionate reduction can be made.

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The bonus is determined and paid out at the start of the following year, once the financial statements are available. A recipient with a Swiss contract and residence in Switzerland receives an advance payment in December. This is usually 70% of the bonus potential, provided that the set objectives (sales, operating income, etc.) will foreseeably be achieved; if not, a payment of 50% will be made.

The assessment criteria that apply are, among other things: sales development, development of operating income, changes in market share, development of inventory and receivables, accomplishment of development and set-up projects, success in negotiations, successful implementation of cost reduction programs, personnel fluctuation, and motivation of employees. The assessment criteria are individually tailored to the function holders and weighted accordingly.

For the particular promotion of the Group's interests, a part of the bonus is awarded as a Group bonus. The percentage share of the Group component varies according to function.

2.3.4 Share program

On an annual basis, a number of registered shares with a low exercise price are offered to the executive members of the Board of Directors and the members of the Executive Group Management Board and the Extended Group Management Board. In the year under review and the previous year, this amounted to CHF 4.00 per share. One-third of the allocation may be exercised and subscribed immediately. In one and two years respectively, an additional one-third may be exercised and subscribed. Once exercised, the shares may be freely disposed of. Optionally these can be subject to a blocking period of either 5 or 10 years. In the event of an early departure, the allocations for non-exercised options expire; upon retirement, they are immediately available.

The allocation of the share subscription rights takes place through the Board of Directors after the Annual General Meeting. A certain minimum allocation value was contractually guaranteed to the executive members of the Board of Directors and the members of the Executive Group Management Board and the Extended Group Management Board. For executive members of the Board of Directors and members of the Executive Group Management Board, this amounted to CHF 50 000; for members of the Extended Group Management Board, this generally amounted to CHF 25 000 per year (allocation value = share price minus CHF 4.00 exercise price).

The calculation basis for payment of allotted shares and options is the day value at grant date. The day value corresponds to the share price on the grant date less the exercise price.

The following values were in force for the year under review and the previous year:

		2019	2018
Grant date		31.05.2019	31.05.2018
Share price on grant date	CHF	48.36	87.55
Exercise price	CHF	4.00	4.00
Day value on grant date	CHF	44.36	83.55

2.3.5 Pension Fund / Management Fund

The executive members of the Board of Directors and the members of the Executive Group Management Board and of the Extended Group Management Board respectively, are insured by the Swatch Group Pension Fund and the Swatch Group Management Fund.

The Swatch Group Pension Fund insures incomes of up to CHF 320 000.

The Management Fund covers income components between CHF 320 000 and CHF 853 000.

The Management Fund provides for contributions of 10% of which 75% are assumed by the employer.

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3. Additional contractual elements**3.1 Term and termination periods of employment contracts**

All employment contracts of the Executive Group Management Board and of the Extended Group Management Board are concluded for an indefinite term.

They may be terminated by either party with a notice period of six months as per the end of a month.

3.2 Payment of salaries

Salaries are paid on a monthly basis. No advance payments are made, either for the current month or for longer periods. The same applies to compensation within the framework of mandate relationships.

3.3 Compensation upon commencement of the employment relationship

Swatch Group does not pay any compensation upon the conclusion of an employment contract or upon the start of work ("golden hellos"/"golden handshakes").

Moreover, no compensation is provided to settle share options or other financial benefits of a prior employer that were rendered void through the job change.

3.4 Loans and credits to members of governing bodies

The company or companies controlled by it may grant loans and credits to executive members of the Board of Directors and the Group Management Board on market terms. Such loans and credits may not exceed the amount of the fixed annual compensation of the person concerned. The fixed annual compensation of the previous year shall be taken as the basis for the grant of credit or loan (Article 41 of the Articles of Association).

In addition, just like all employees of the Swatch Group in Switzerland, the executive members of the Board of Directors and the members of the Executive Group Management Board and of the Extended Group Management Board respectively, have the option of taking out a mortgage loan with the Swatch Group Pension Fund to finance the purchase of real estate in Switzerland. The applicable conditions are the same as those that apply to all employees of the Swiss Swatch Group companies (lending limit, interest rate, etc.).

3.5 Membership in governing bodies of Group companies

It regularly occurs that executive members of the Board of Directors and members of the Executive Group Management Board and of the Extended Group Management Board sit on governing bodies of subsidiaries, both in Switzerland and abroad (as board members, members of supervisory boards, members of advisory boards, or as managers). No additional compensation is awarded for such tasks and functions, either by the Swatch Group or by the relevant Group company.

3.6 Severance payments

The employment contracts of the members of the Executive Group Management Board or the Extended Group Management Board do not provide for severance payments or any payments whatsoever upon termination of the employment relationship.

In addition, no payments ("golden parachutes", etc.) are provided in the event of a change of control.

3.7 Mandates with former members of the Executive Group Management Board or the Extended Group Management Board

It may occur that members of the Executive Group Management Board and the Extended Group Management Board who have resigned from their functions are employed on a mandate basis by the Group from time to time. In all such cases, clear written mandate contracts are concluded; these must be approved by the President of the Executive Group Management Board. Such mandate contracts contain the same restrictive conditions as employment contracts (contractual term, payments, etc.).

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4. Compensation for the members of the Board of Directors and Group Management Board (KL/EKL)

This part of the report is subject to audit by PricewaterhouseCoopers AG.

a. Board of Directors (BoD)

2019	Name	Function	Compensation for functions in the BoD 1) (CHF)	Compensation for executive functions			Total 6) (CHF)
				Base compensation 2) (CHF)	Bonus 3) (CHF)	Share options 4) (CHF)	
	Nayla Hayek	Chairwoman	230 448	1 002 108	1 500 000	887 200	3 965 326
	Ernst Tanner	Vice-Chairman	166 225				175 833
	Daniela Aeschlimann	Member	158 086				169 811
	Georges Nicolas Hayek 7)	Member	157 158				167 620
	Prof. Dr. h.c. Claude Nicollier	Member	155 675				164 446
	Dr. Jean-Pierre Roth	Member	155 675				164 446
	Total		1 023 267	1 002 108	1 500 000	887 200	4 807 482

2018	Name	Function	Compensation for functions in the BoD 1) (CHF)	Compensation for executive functions			Total 6) (CHF)
				Base compensation 2) (CHF)	Bonus 3) (CHF)	Share options 4) (CHF)	
	Nayla Hayek	Chairwoman	230 264	1 002 108	1 400 000	1 671 000	4 650 390
	Ernst Tanner	Vice-Chairman	166 115				175 690
	Daniela Aeschlimann	Member	157 966				169 643
	Georges Nicolas Hayek 7)	Member	157 152				167 992
	Prof. Dr. h.c. Claude Nicollier	Member	155 575				164 304
	Dr. Jean-Pierre Roth	Member	155 575				164 304
	Total		1 022 647	1 002 108	1 400 000	1 671 000	5 492 323

1) Total annual compensation allocated on a cash or accrual basis, not including any reimbursement for travel and other business expenses incurred.

The compensation contains an amount of CHF 20 000 for functions in the Compensation Committee and the Audit Committee as well as expense allowance payments in the amount of CHF 30 000 per year.

2) Total annual compensation allocated on a cash or accrual basis, not including any reimbursement for travel and other business expenses incurred.

3) Bonus payments allocated on a cash or accrual basis.

4) The allocation and valuation of share options takes place in accordance with the conditions described in Section 2.3.4. In the year under review and the previous year, Mrs N. Hayek was allocated 20 000 share options.

5) Other compensation includes pension benefits in the amount of CHF 65 592 (previous year: CHF 65 064). The remaining social benefits (employer's contributions) amounted to CHF 329 315 (previous year: CHF 331 504). No long-term service awards were paid out either in the year under review or the previous year.

6) All amounts are gross amounts (i.e., before deduction of the social insurance contributions to be taken on by the employee).

7) The compensation for the executive functions is set forth in paragraph b. of this chapter.

b. Executive Group Management Board (KL) and Extended Group Management Board (EKL)

2019	Base com- pensation 1)	Bonus 2)	Share options 3)	Share options 3)	Other com- pensation 4)	Total 5)
	(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
Georges Nicolas Hayek (MB President / CEO)	1 502 105	3 120 000	24 000	1 064 640	561 754	6 248 499
Total other members	4 845 689	10 828 775	97 100	4 307 356	2 165 392	22 147 212
Total	6 347 794	13 948 775	121 100	5 371 996	2 727 146	28 395 711

The calculation basis for share options is the day value at grant date (see Section 2.3.4). In the year under review, this corresponded to a value of CHF 44.36 per option (previous year: CHF 83.55 per option). The valuation of the share options at prior-year value would result in a total value of CHF 10 117 905 (-9.0%).

2018	Base com- pensation 1)	Bonus 2)	Share options 3)	Share options 3)	Other com- pensation 4)	Total 5)
	(CHF)	(CHF)	(number)	(CHF)	(CHF)	(CHF)
Georges Nicolas Hayek (MB President / CEO)	1 502 105	3 120 000	24 000	2 005 200	630 281	7 257 586
Total other members	4 980 676	11 672 558	109 100	9 115 305	4 177 929	29 946 468
Total	6 482 781	14 792 558	133 100	11 120 505	4 808 210	37 204 054

1) Total annual base compensation allocated on a cash or accrual basis, including expense allowance payments, but not including any reimbursement for travel and other business expenses incurred.

2) Variable bonus payments allocated on a cash or accrual basis.

3) The allocation and valuation of share options takes place in accordance with the conditions described in Section 2.3.4.

4) Other compensation includes pension benefits in the amount of CHF 507 081 (previous year: CHF 1 142 181). The remaining social benefits (employer's contributions) amounted to CHF 2 158 586 for the year under review (previous year: CHF 3 631 597). Other compensation also includes further benefits and long-term service awards in the amount of CHF 61 479 (previous year: CHF 34 432).

5) All amounts are gross amounts (i.e., before deduction of the social insurance contributions to be taken on by the employee).

The figures presented include all direct and indirect compensation. Mr G.N. Hayek, as the CEO, received the highest compensation.

In the year under review, no payments were made to former members of the Executive Group Management Board and the Extended Group Management Board in connection with their past activities as members of the Company's governing bodies (previous year: none).

c. Loans and credits to the Board of Directors and the Group Management

In the year under review, no loans or credits were granted to members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively. Moreover, no loans or credits were granted to former members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively. The same holds true for the previous year.

At the end of the year under review, as in the previous year, there were no credit or loans outstanding to (current or former) members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board.

d. Compensation, loans, and credits to closely related persons

In the year under review and the previous year, no non-market-based compensation was awarded to persons who are closely related to the members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.

e. Impermissible compensation

In the year under review and the previous year, the company did not award any severance payments to the members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.

Likewise, in the year under review and the previous year, no compensation was paid in advance to members of the Board of Directors, the Executive Group Management Board or the Extended Group Management Board respectively.

Report of the statutory auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

We have audited the content of sections 4a-e of the compensation report dated 26 February 2020 of The Swatch Group Ltd for the year ended 31 December 2019.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of The Swatch Group Ltd for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Thomas Brüderlin
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 26 February 2020



