

SWATCH GROUP

ANNUAL REPORT
2020





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Swatch Group's Annual Report and Compensation Report are published in French, German and English. Pages 4 to 24 are originally published in French and pages 2 to 3 and 25 to 118, as well as the Compensation Report, in German. These original versions are binding.

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MESSAGE FROM THE CHAIR

DEAR MADAM, DEAR SIR, DEAR FELLOW SHAREHOLDERS

The year 2020 put all of us in an unprecedented situation. January was very positive for Swatch Group, and then unfortunately, things became very difficult due to the Corona pandemic. First in Asia, then in Europe, and then, worldwide, one country followed another. Stores were forced to close everywhere; production had to be halted or massively reduced as mandated by governments. The lockdown – this word that followed us throughout the entire year and which continues to do so now – is also the topic of our Annual Report. Because we had almost no traditional activities during the year due to the lockdown, we have chosen to illustrate the reports from our brands and countries through artists' interpretations of the lockdown. As usual, our Financial Statements and Governance Reports for 2020 are included in this report.

Swatch Group did everything in its power to protect its employees worldwide to the greatest extent possible – that was the priority – while, of course, continuing to keep its stores and production running wherever and whenever it could. It was a very stressful undertaking for everyone to remain cool-headed at all times. I would like to thank all our employees, our management and our Board of Directors for their constant support, and particularly those employees whose workplaces were closed, who had to stay at home and wait to see what would happen next. Nevertheless, as you have all seen,

and can read in this Annual Report, at the end of the year there was a loss in Swatch Group's net result. We do not blame this on management mistakes or a change in consumer behavior, but on the futile policy of total lockdown. All our boutiques and those of our partners had to remain closed for weeks. To this day, we have tried to keep open as many of our stores as possible, which unfortunately was not 100% achievable. Also, because of the restrictions that have been enforced, we have only been able to continue our production at a very reduced level.

But we are not just here for the next year or two with our company; we are here for the long term. We have remained committed to our long-term strategy, which is why, as always, we have continued to develop our products, applied for more than 200 new patents, and invested in research and development for the future. We also carried out a generational change of presidents at some of our brands during this period. The strength of our brands in Asia helped us at the end of the year as did the development of new products such as Breguet's Double Tourbillon, Omega's Speedmaster "Silver Snoopy Award" 50th Anniversary, the Longines Spirit collection, the T-Touch Connect Solar from Tissot and Swatch's bioreloaded. Our design staff maintained its positive spirit, even when faced with the difficult option of working extensively from their home offices with fewer social



contacts to spark creativity. Participating in Skype meetings while not being able to travel has a limited emotional appeal and an impact on teamwork. We hope this will soon come to an end and we can all see and greet each other again in person and return to a more normal life.

Swatch Group, however, managed to report an operating profit due to a strong second half. This was in spite of high currency losses.

Thanks to the strong operating cash flow in the second half of the year, the Board of Directors proposes a dividend of CHF 3.50 per bearer share and CHF 0.70 per registered share (previous year: CHF 5.50 per bearer share; CHF 1.10 per registered share). This is a clear message and an expression of Swatch Group's confidence and solidity.

As a result of the closures of retail stores, the situation in Hong Kong and the reduction of Calvin Klein's activity, the headcount decreased by approximately 10% compared to the previous year.

And now let's look positively into the future. We will all learn to live with Covid and of course, this year, you will also receive the special General Assembly Swatch – as described in the invitation to the General Assembly.

As I conclude this review, I would like to thank once again all our employees, the management boards, the Board of Directors and you, valued shareholders, for your support in these difficult times.

Nayla Hayek
Chair of the Swatch Group Board of Directors

SWATCH GROUP

OPERATIONAL ORGANIZATION

as at December 31, 2020

SWATCH GROUP BRANDS AND COMPANIES

WATCHES	RETAILING	PRODUCTION	ELECTRONIC SYSTEMS	CORPORATE
Prestige and Luxury Range Breguet Harry Winston Blancpain Glashütte Original Jaquet Droz Léon Hatot Omega <hr/> High Range Longines Rado Union Glashütte <hr/> Middle Range Tissot Balmain Certina Mido Hamilton Calvin Klein <hr/> Basic Range Swatch Flik Flak	Tourbillon <hr/> Hour Passion	Watches ETA Meco CHH Microtechnique Nivarox-FAR Comadur Rubattel et Weyermann MOM Le Prélet Universo Manufacture Ruedin Lascor Simon Et Membrez Novi Swatch Group Assembly <hr/> Jewelry Dress Your Body (DYB)	EM Microelectronic <hr/> Renata <hr/> Micro Crystal <hr/> Swiss Timing and ST Sportservice	Swatch Group Research and Development Asulab Moebius CDNP <hr/> ICB Ingénieurs Conseils en Brevets <hr/> Swatch Group Quality Management <hr/> Swatch Group Services European Distribution Center Swatch Group Logistics Swatch Group Information Technologies Swatch Group Corporate Customer Service Swatch Group Gems Real Estate Development <hr/> Swatch Group Immeubles <hr/> Belenos Clean Power

SWATCH GROUP

ORGANIZATION AND DISTRIBUTION IN THE WORLD

as at December 31, 2020

SWATCH GROUP SUBSIDIARIES

EUROPE	AMERICAS	OCEANIA	FAR EAST	MIDDLE EAST	AFRICA
Austria Belgium France Germany Greece Italy Luxemburg The Netherlands Nordic Countries (Denmark, Finland, Norway, Sweden) Poland Russia Spain Switzerland Turkey United Kingdom and Ireland	Canada Mexico USA, Caribbean and Latin America	Australia	China Hong Kong India Japan Macau Malaysia Singapore South Korea Taiwan Thailand	United Arab Emirates	South Africa

In countries where Swatch Group has no actual distribution subsidiary, the company is represented by local distributors.

SWATCH GROUP

BOARD OF DIRECTORS

as at March 1, 2021



NAYLA HAYEK
Chair of the Board of Directors



ERNST TANNER
Vice-Chairman



DANIELA AESCHLIMANN



NICK HAYEK



PROF. DR. H.C. CLAUDE NICOLLIER



DR. JEAN-PIERRE ROTH

Company Secretary
Jennifer Meyer-Kluge

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PricewaterhouseCoopers
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Registered Offices
Faubourg de l'Hôpital 3
CH-2000 Neuchâtel

The function descriptions and responsibilities of the Board of Directors members at December 31, 2020 are outlined in the Corporate Governance chapter on pages 45 and 46 of the present Annual Report.

SWATCH GROUP

EXECUTIVE GROUP MANAGEMENT BOARD

as at March 1, 2021



NICK HAYEK
President of the Group Management Board



**FLORENCE
OLLIVIER-LAMARQUE**



RAYNALD AESCHLIMANN



PIERRE-ANDRÉ BÜHLER



DR. MOUGAHED DARWISH



MARC A. HAYEK



DR. THIERRY KENEL



DR. PETER STEIGER



FRANÇOIS THIÉBAUD

SWATCH GROUP

EXTENDED GROUP MANAGEMENT BOARD

as at March 1, 2021



MIREILLE KOENIG



MATTHIAS BRESCHAN



SYLVAIN DOLLA



DANIEL EVERTS



YANN GAMARD



HANS RUDOLF GOTTIER



ROGER JUILLET



LIONEL A. MARCA



CALOGERO POLIZZI

The function descriptions and responsibilities of the members of the Executive Group Management Board and of the Extended Group Management Board at December 31, 2020 are outlined in the Corporate Governance chapter on pages 48 to 50 of the present Annual Report.

DEVELOPMENT OF SWATCH GROUP

Swatch Group consolidated		2020	2019	2018	2017	2016
Net sales	CHF million	5 595	8 243	8 475	7 989	7 553
- Change from previous year	%	-32.1%	-2.7%	6.1%	5.8%	-10.6%
Operating result	CHF million	52	1 023	1 154	1 002	805
- As a % of net sales	%	0.9%	12.4%	13.6%	12.5%	10.7%
Net result	CHF million	-53	748	867	755	593
- As a % of net sales	%	-0.9%	9.1%	10.2%	9.5%	7.9%
- Change from previous year	%	-107.1%	-13.7%	14.8%	27.3%	-47.0%
Cash flow from operating activities	CHF million	819	1 224	943	1 264	1 010
- As a % of net sales	%	14.6%	14.8%	11.1%	15.9%	13.4%
Equity	CHF million	10 965	11 493	11 274	11 289	11 073
- As a % of balance sheet total	%	85.0%	83.9%	82.5%	83.8%	84.5%
Balance sheet total	CHF million	12 897	13 692	13 661	13 479	13 106
Personnel as at 31.12.	Employees	32 424	36 089	37 123	35 360	35 705
Annual average	Employees	33 870	36 596	36 074	35 057	35 827
Personnel expense	CHF million	-1 972	-2 578	-2 563	-2 339	-2 342
The Swatch Group Ltd						
		2020	2019	2018	2017	2016
Dividend income	CHF million	645	909	1 004	848	1 005
Net income	CHF million	533	911	995	840	992
Investments	CHF million	4 196	4 375	3 530	3 475	3 422
Share capital	CHF million	118	118	125	125	125
Equity	CHF million	8 080	7 801	7 326	7 100	6 808
- As a % of balance sheet total	%	97.7%	96.3%	94.3%	96.7%	95.1%
Balance sheet total	CHF million	8 269	8 100	7 768	7 343	7 162
Dividend 1) 2)	CHF million	183	284	413	394	357
- As a % of share capital	%	155.1%	240.7%	330.4%	315.2%	285.6%

1) No dividend paid on own shares held by the Group.

2) For the year under review: Board of Directors' proposal

ART IN ...

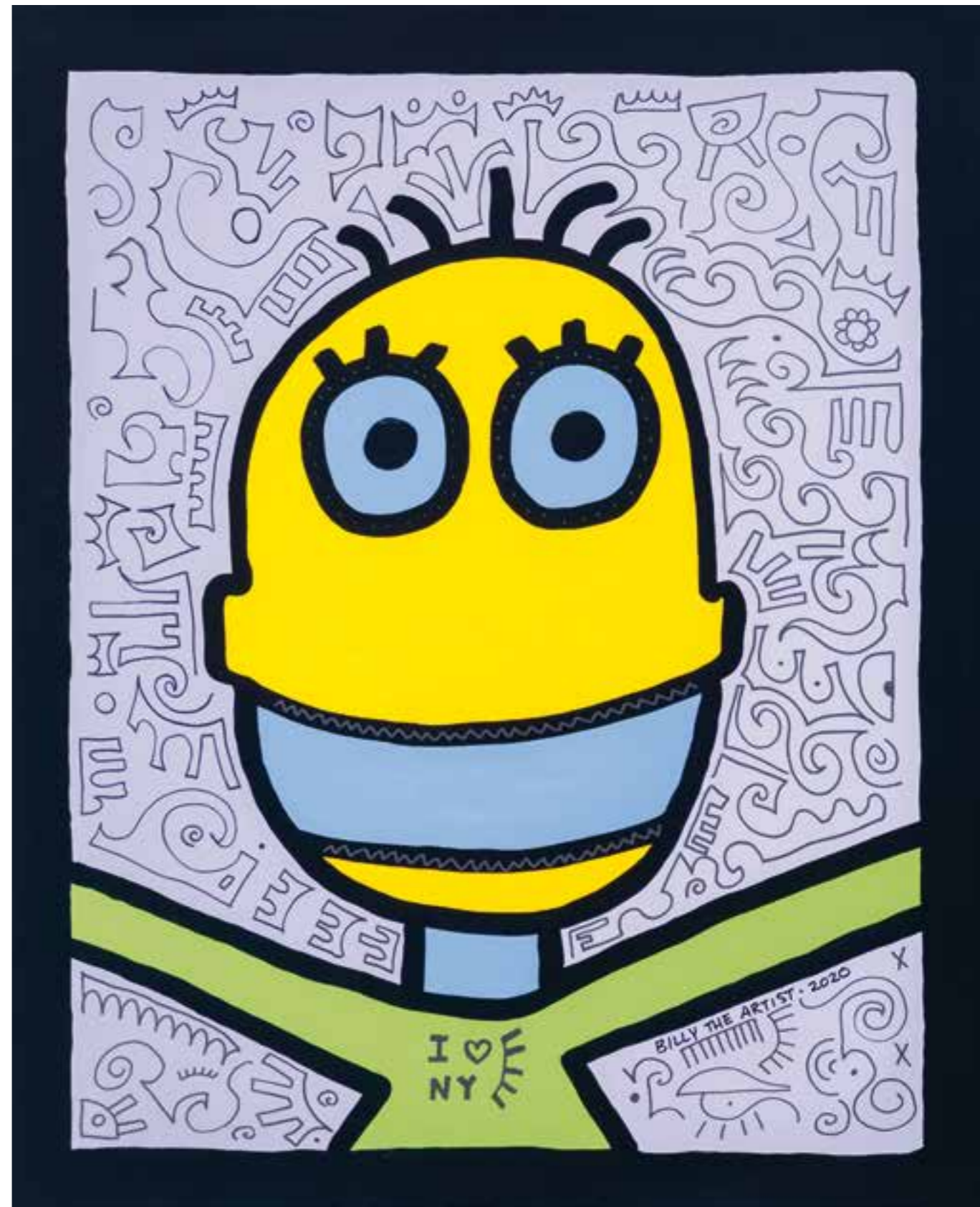


Juan de Lascurain (Mexico)
LOCKDOWN



Juan de Lascrain (Mexico)
HEALTH ON EARTH

It doesn't matter where you come from, or how much money you might have. If you have faith, a dream and you work hard, you can accomplish anything.



Billy The Artist (United States)
IKE NODDLE MASKED

Even during a challenging time I still try and put some sort of positive spirit just to keep myself going. Even with the new mandate of wearing masks we somehow find a way to continue to live and move on.



WFH (WORK FROM HOME)



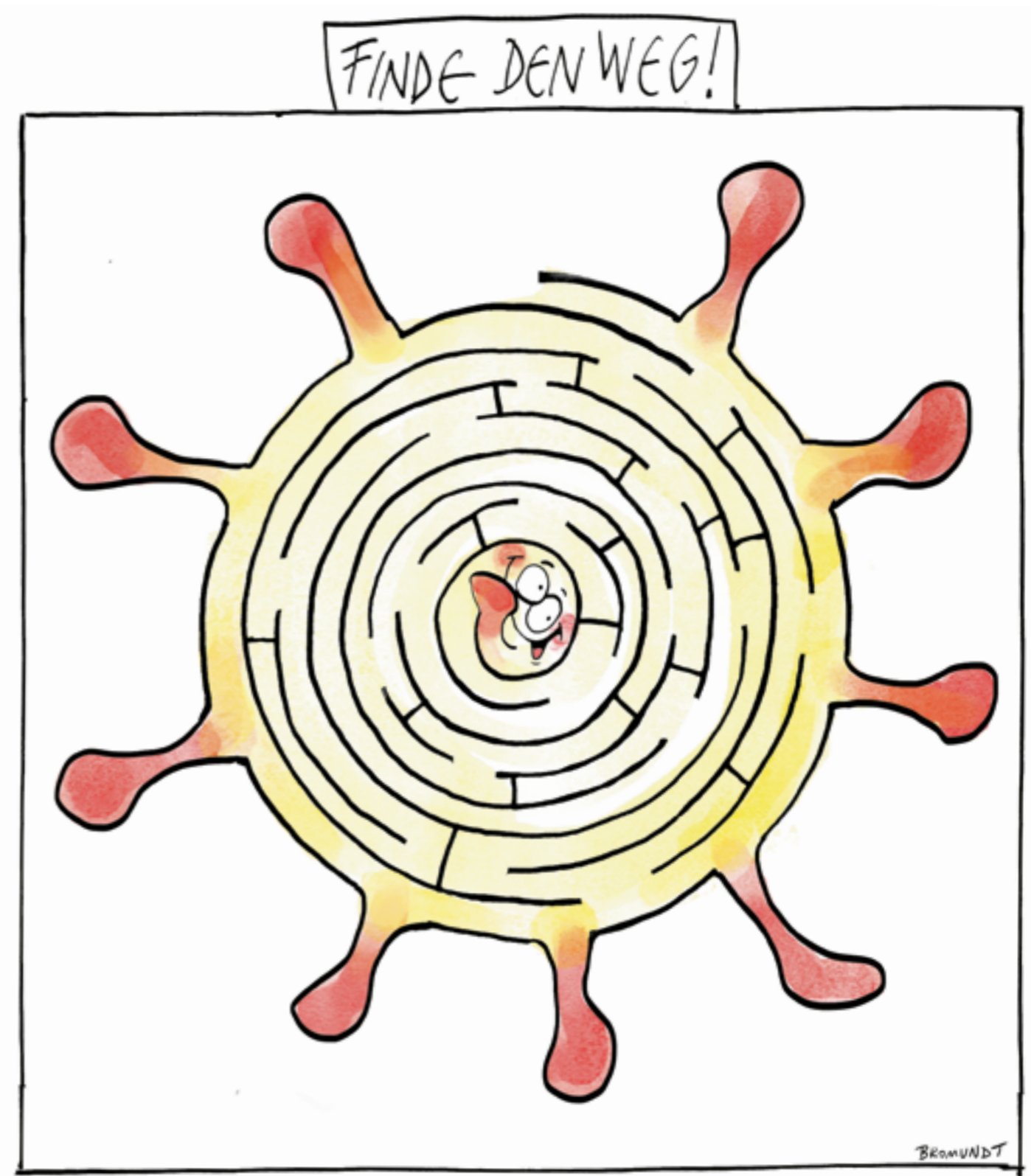
Ton Mak (United Kingdom)
STAY HOME CLUB/TOILET PAPER RUN

"Best Mates": all the friends within this world are inspired by real people that I observe in my daily walks and adventures, uniquely different personalities and colorful fashion forward expressions.



Sophie Tea Art (United Kingdom)
 TAKE WHAT YOU NEED

I painted this piece to signify the crazy toilet roll trend which left our toilet roll aisles empty for days whilst everyone panicked over not having enough.



Corinne Bromundt (Switzerland)
 CORONA-LABYRINTH (SCHWEIZ AM WOCHENENDE)

I drew the *Corona-Labyrinth* to help children maintain an optimistic and playful view of the world, even at a time that those around them were forced by the lockdown to take a position on illness and death.



Chris Shea (United Kingdom)
RAINBOW BOY

The artist sprayed the infamous *Rainbow Boy* murals across the London borough of Croydon – from houses to businesses and more – to raise funds for the National Health Service (NHS).



Owen Carey (United Kingdom)
SPONGEBOB CORONA HANDS

The piece *Spongebob Corona Hands* was painted in Allen Gardens just off Brick Lane (London, UK) very early into the initial lockdown to show some of the issues thrown up on the modern western world going through a pandemic through the character traits of *SpongeBob SquarePants* characters.



Octavia Bromell (United Kingdom)
ITALIAN BALCONY

Illustrated to commemorate the human spirit of souls singing together on the Italian balconies: emerging connected despite the isolation and loss of the first Covid wave.



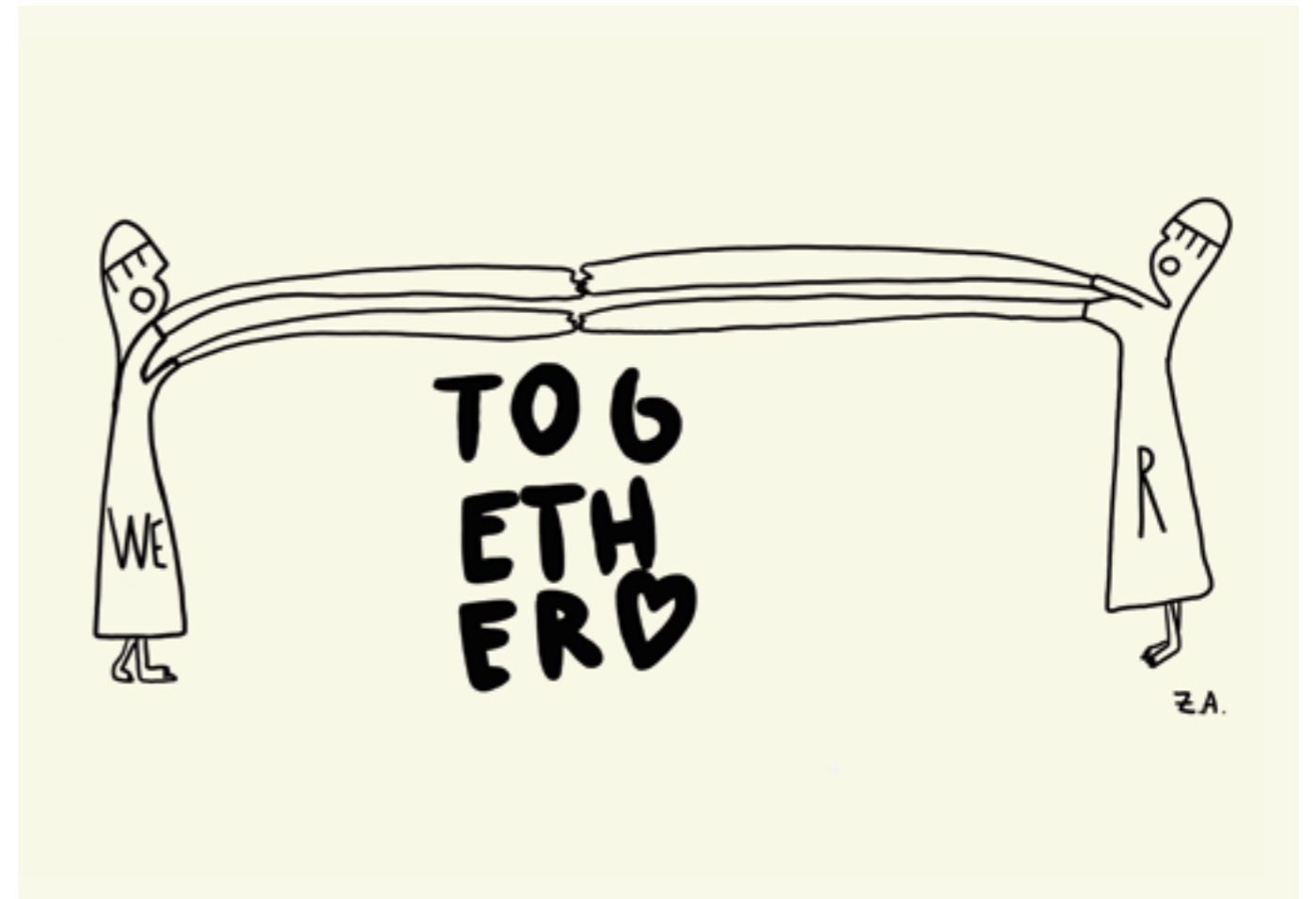
Gabriel Ebersperger (Chile)
MY INFINITY LOCKDOWN ROOM

This is what first came to mind when I thought of last year: adopting an orphan kitten and naming her "Miu", spraying with alcohol whatever came from the outside, eating too much chocolate and having my tall chair collapse under me while watching *Ferris Bueller's Day Off* for the 100th time, my Friday night FaceTime dates with my good friend Ignacia, and my year-long obsession with painting intertwined multicolor morphing loops with gouache.



Debuhe (Switzerland)
L'INSTANT PRÉSENT

In a society in perpetual motion, confinement has forced us to rethink our relationships with time and space.



Alan Zeni (Italy)
LOVES AND NEW HABITS

Some might think that this historical moment has only taken away; I believe it has given us, or given back, much of our "human being".



Nathan Wyburn (United Kingdom)
THANK YOU

Pictures of National Health Service (NHS) workers collected on social media and put together to create an image of a nurse wearing a protective mask, with the words "thank you". To show respect to the true NHS heroes.



GOVERNANCE

CORPORATE RESPONSIBILITY
 SOCIAL POLICY
 CORPORATE GOVERNANCE

CORPORATE RESPONSIBILITY

OUR APPROACH TO CORPORATE RESPONSIBILITY

Taking responsibility for the protection of life, quality of life, safety and health, and the protection of our environment are fundamental concerns of Swatch Group. We endeavor to do the best we can in all areas and at all levels of the company to live up to this responsibility. We always strive to create value for our stakeholders, the environment and society as a whole. Environmental, ethical and social criteria have therefore always been an integral part of our corporate culture and our sourcing policy. The Executive Group Management Board, the Extended Group Management Board and the management of the various units ensure on a daily basis that this culture of responsibility is implemented and sustained at all levels. We strive to ensure that resources are used efficiently and sparingly to ensure that our products are manufactured and marketed in a sustainable and environmentally friendly manner, and thereby secure our long-term success. The use of recyclable materials and substances and environmentally friendly production methods is taken into consideration as early as the planning and development phase of each new product. Sustainability is therefore in our DNA, so to speak. In 2001, Swatch Group began to set clear environmental and efficiency targets and implement effective measures throughout the Group in order to play its part in preserving the environment. We are also committed to protecting international human rights and fighting all forms of corruption in connection with our business activities.

SUSTAINABILITY GOVERNANCE

The Executive Group Management Board is responsible for ensuring compliance with our high standards in the area of sustainability. It anchors our ESG principles in our corporate strategy and defines concrete targets and measures to achieve them. Implementation is coordinated and steered by our Sustainability Steering Committee, which consists of representatives from the executive management and various departments. Our approach to corporate responsibility is approved by the Board of Directors, which has ultimate responsibility.

In its decisions, Swatch Group respects all national and international legal systems. We refer and comply as a minimum to European standards since they go beyond many local regulations. We observe a zero-tolerance policy to violations of human rights, e.g., child and forced labor, and corruption and other criminal acts. Our *Code of Conduct*, which sets forth these principles for our business practices, has been in place since 2005. In relation to sustainable production methods and products, environmental protection and health and safety, Swatch Group complies with the applicable EU directives, such as the restriction of hazardous substances (RoHS), the registration, evaluation, authorization, and restriction of hazardous chemicals (REACH), and the disposal of electrical and electronic equipment (WEEE). We always base our policies on the strictest regulations as the minimum benchmark. With internal directives, we commit ourselves to standards that go beyond the legal standards. Swatch Group Quality Management (SGQM) is responsible for quality assurance, product safety and reliability, and



compliance with regulatory requirements by all Group companies. This includes regular courses and training for our employees. Our Group companies are currently subject to various directives and technical specifications, e.g., substances that we exclude from our watch components and packaging materials, marketing and labeling requirements, the use of sustainable materials and guidelines for the disposal of products. Compliance with external standards (ISO, EN, IEC, SN, etc.) is verified. These relate to chemical test methods, compliance, environment, marketing, test process approvals, test and audit laboratories and packaging materials. SGQM defines the criteria for the approval of new materials and components and reviews the test procedures. It is also responsible for the inspection of internal and external chemical laboratories. Swatch Group Quality Management plays a key role in the continuous improvement of our products, production processes and sustainability.

Our high standards of quality, safety and sustainability are also required of our partners and suppliers. This includes, in particular, responsible sourcing, i.e. full compliance with our *Code of Conduct*, the principles of our business practices and zero-tolerance policy to human rights violations. As a company with a special responsibility for the extraction and sourcing of raw materials and the procurement of biological raw materials from endangered species, we apply international guidelines and standards as a minimum benchmark (including the OECD's *Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas and its Supplement on Gold*; SA 8000 *Social Accountability International*, *CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora*). SGQM also supports compliance with the requirements in our supply chain (see chapter Sourcing, p. 36).

RISK MANAGEMENT

The Corporate Risk Management System is an integral part of the environmental protection and safety policy. This system ensures that crucial risks are regularly identified, analyzed and recorded for early detection of environmental, safety and health risks, in order to develop and implement targeted prevention measures. A significant component is Business Continuity Management. Experts determine which operating entities, and which interconnectivities are important for the Group, identify the main risks (e.g., cyber-risk, fire, water, chemical substances, interruption of operations) and define measures to ensure the greatest possible business continuity. Prevention and emergency procedures are the focal point. A significant element of Swatch Group risk management is its policy of independence. Consequently, the company is reducing any dependence on single suppliers, distribution partners, and financial service providers. This also includes sufficient inventory, expansion and modernization of production capacities, consideration of alternative supply solutions, strategically important acquisitions, and a high level of equity.

For an explanation of financial risks, see the section on financial risk management in the appendix to the consolidated financial statements (p. 80).

PRODUCTION SITES OF THE SWATCH GROUP

Swatch Group is a fully verticalized company with a global sales network and service centers, and a wide range of operating and production sites in the fields of watchmaking, fine jewelry and electronic components (see chapter Organization, pages 4–5). In its approximately 150 sites in Switzerland, Swatch Group produces its own watch movements, cases, crystals, hands and other

watch components, thus largely fulfilling the criteria for marketing watches manufactured in Switzerland in accordance with Swissness requirements (Swiss Made, in accordance with Art. 48 Trademark Protection Act, TmPA).

Its companies in the electronics segment also have their production sites in Switzerland. Swatch Group has only a few production sites abroad, namely Glashütte Original's manufactory in Glashütte, Germany, and Harry Winston's jewelry manufactory in New York, US. However, watches of the Harry Winston brand are produced in accordance with Swissness requirements in the manufactory in Plan-les-Ouates (GE), near Geneva. Four other production facilities in Italy, France and Germany manufacture components for watch straps or specific precision parts. Swatch Group operates two production sites in Thailand and Malaysia: for the assembly of electronic components and in the field of surface treatment.

These production companies are highly specialized in their fields and accordingly each has its own specific profile for the building and facility technology in terms of safety, health, and environmental protection. Each site is equipped with its own facility management system in order to achieve further optimization. The most important parameters are those of the environmentally relevant areas with an influence on energy consumption, in particular electrical, thermal and refrigeration energy consumption and the associated CO₂ emissions, and key figures on water consumption, material consumption, waste management, battery recycling and emissions of Volatile Organic Compounds (VOCs). These indicators are recorded and analyzed in all Swatch Group entities.



ENVIRONMENT

Environmental protection is firmly anchored in all Swatch Group divisions and companies, and represents a core priority that is respected, promoted, and implemented daily by every employee in the company. We apply this conviction along the entire value chain, from product design and production processes to the recycling of our long-lasting and sustainable products. Our brands develop new products using recycled or recyclable, organic and compostable materials. The selected materials are certified by independent organizations or meet international standards. In order to efficiently implement our strategy for sustainable product design, we have begun conducting Life Cycle Assessments (LCA) to better identify and minimize environmental impacts.

Moreover, measures to reduce energy and resource consumption are implemented, whether through manufacturing facilities with intelligent energy control systems or through energy-efficient and heat-insulated infrastructures. To achieve the best possible ecological and energy balance, ultra-modern technologies and building materials are used for new production and other buildings and renovations; this practice also led to a further positive contribution in the year under review.

Every year, all values relevant to operational ecology at all company locations are consolidated into a comprehensive data collection. This data is evaluated and serves as a measurement of results achieved and as a basis for further goal setting. For data collection reasons, the data for the Group in this report relates to the period from October 1st to September 30. As a result of the decline in production due to the Covid-19 pandemic, this year's environmental consumption data is lower than in previous years.

EMISSIONS AND ENERGY

As early as 1990, Swatch Group campaigned for a reduction of CO₂ emissions and lower energy consumption through its sponsorship of the solar mobile *Spirit of Biel*. At that time, the solar mobile won the *World Solar Challenge* in Australia. The first solar-powered Swatch (1995), which has lost none of its appeal, stems from this period. With this, our early commitment to climate protection remains ever-present and motivates us to continue our contribution to climate protection.

In order to contribute even more to environmental protection and further reduce energy consumption, it was decided in 2013 to include all Swiss production entities in a CO₂ reduction program. This means the following targets for Swatch Group:

- By 2030, CO₂ emissions will be reduced by 32% compared with the base year of 2013.
- By 2050, we will achieve the target of net-zero CO₂ emissions.

In order to achieve this, targets for energy-efficiency gains and CO₂ reductions were defined in relation to the figures from the base year of 2013 for all production units in Switzerland, and in principle also apply on a consolidated basis to the entire Group. Production sites and distribution companies located outside Switzerland, in particular the many boutiques and service centers, are also working to improve their energy balance and are subject to clearly defined targets. The boutiques and service centers naturally consume far less energy than the production plants in Switzerland, but are of course also included in the range of measures to reduce emissions and energy consumption.

CO₂ EMISSIONS

Our CO₂ emissions and other greenhouse gases generated by our operations consist of direct emissions from production processes, heat use and fuel consumption (oil and gas). This corresponds to Scope 1 emissions. In the year under review, the Swatch Group's consolidated CO₂ emissions (Scope 1) were reduced by 16.3% compared with the previous year to 15 890 metric tons of CO₂ equivalent.

CO₂ emissions

CO ₂ emissions (tons CO ₂ eq)	2013 Base year	2019	2020	Change to previous year	Change to base year
Total Swatch Group worldwide Scope 1	21 501	18 991	15 890	-16.3%	-26.1%

SWISS PRODUCTION SITES ENVIRONMENTAL PROGRAM, CO₂ EMISSIONS AND ENERGY EFFICIENCY

Together with the Swiss Federal Office for the Environment (FOEN), Swatch Group has agreed voluntary economic and environmental measures for the reduction of energy consumption and the associated CO₂ emissions at all Swiss production sites, with contractually defined targets. The aim of this agreement is to achieve a 27% reduction in CO₂ emissions as measured and evaluated at the Swiss production sites in the period from 2013 to 2020, with a simultaneous boost in energy efficiency of 8%, in order to achieve the targets of 2030 and 2050 (see above). In association with the Energy Agency of the Swiss Private Sector (EnAW), energy audits have been carried out annually by specialists in all locations since 2013 and additional opportunities to reduce CO₂ emissions identified. A corresponding optimized action plan to achieve the goal was developed. The action plan is regularly reviewed and updated, so that a significant contribution to climate protection can continue to be made. Achievement of the annual objectives is monitored and audited by FOEN and the Swiss Federal Office of Energy (SFOE). When the audit is completed, EnAW issues an annual certificate reflecting the extent to which the objectives have been met. All our production plants in Switzerland fall under this program and are certified accordingly.

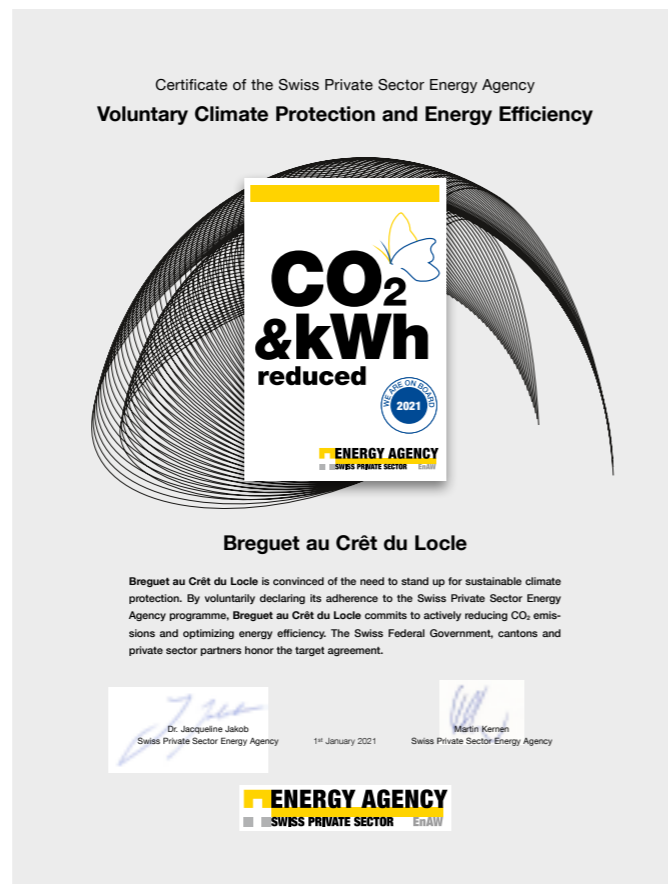


Diagram 1

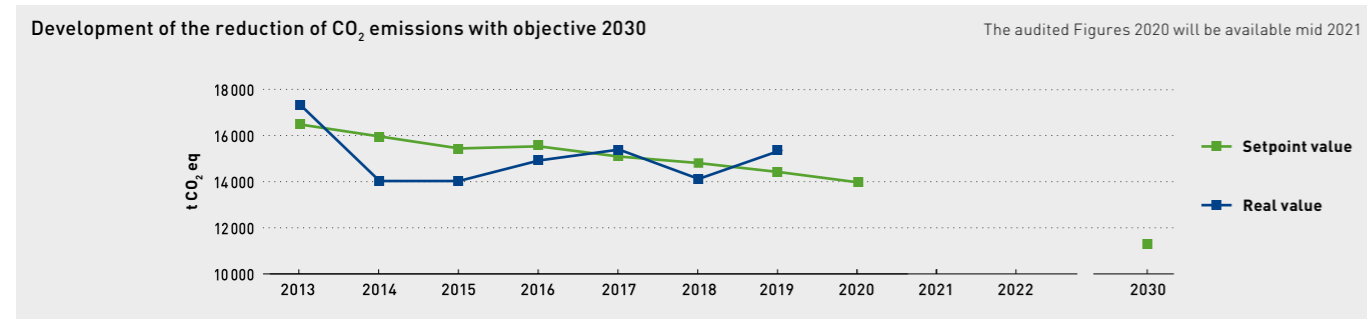
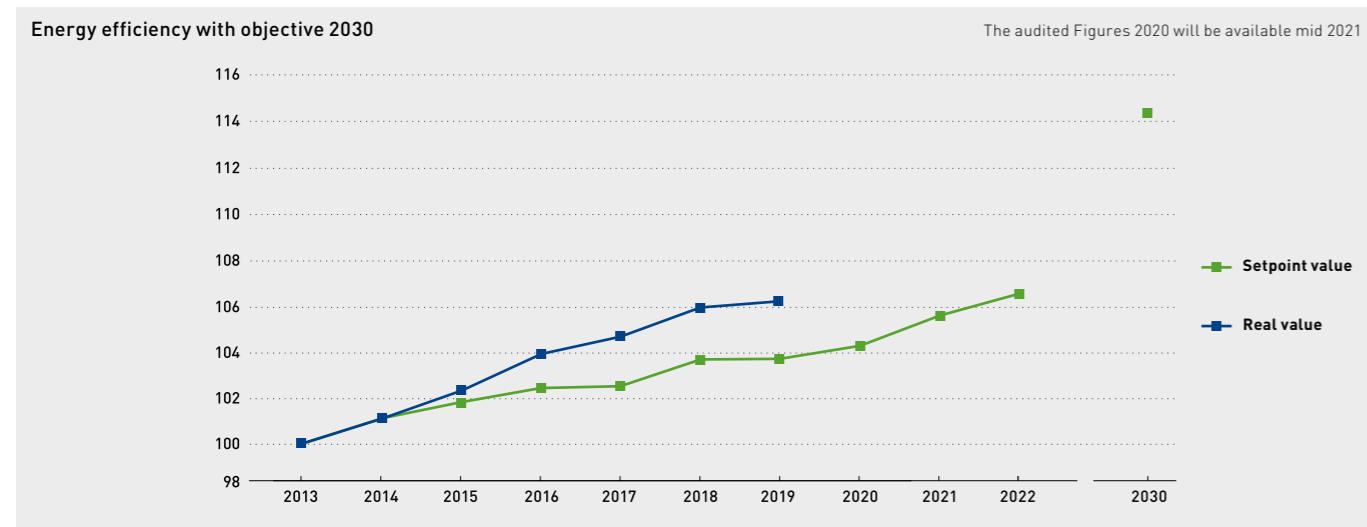


Diagram 2



Energy consumption

Energy consumption	2013 Base year	2019	2020	Change to previous year	Change to base year
Power grid (GWh)	214.2	260.2	230.6	-11.4%	+7.7%
Renewable electricity (GWh)	2.0	8.9	8.8	-1.1%	+440.0%
Heating oil (GWh)	20.6	15.4	12.7	-17.5%	-38.3%
Natural gas (GWh)	80.4	74.7	62.8	-15.9%	-21.9%
District heating (GWh)	2.9	3.7	3.6	-2.7%	+24.1%
Total energy (GWh)	320.1	362.9	318.5	-12.2%	-0.5%
Total floor space, incl. boutiques (m ²)	859 589	1 033 291	987 992	-4.4%	+14.9%
Energy intensity (kWh/m²)	372.4	351.2	322.2	-8.3%	-13.5%

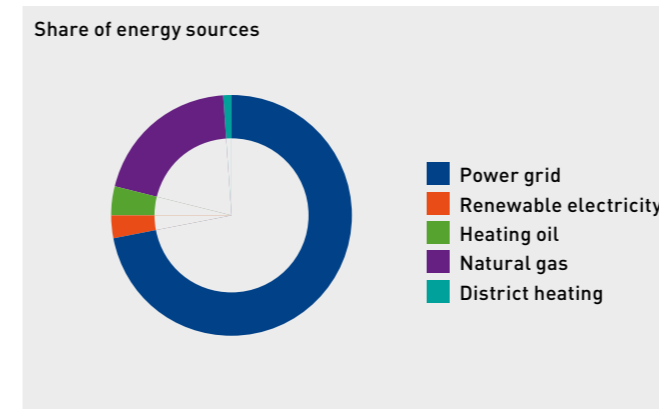
The defined measures have been consistently implemented, resulting in a 12.1% reduction in CO₂ and a 6.4% increase in energy efficiency at Swiss production sites since 2013 as of the end of 2019 (see diagrams 1 and 2). As of the end of 2019, CO₂ emissions were slightly above the CO₂ reduction target path. This is due to operations-related postponements of individual investments, which of course cannot be implemented on a linear basis in line with a target path. However, achievement of the target values at the end of the assessment period is still feasible with the measures taken. The targets for increased energy efficiency, on the other hand, have already been achieved. We will build on this and further intensify our efforts.

As the contractual data collection period with FOEN is the calendar year, the data for production facilities in Switzerland cover the period from January 1 to December 31, 2019. The figures for 2020 will be available in mid-2021.

ENERGY CONSUMPTION

Our energy consumption encompasses both fossil fuels and electricity. A small part of this is also covered by our own production of solar and hydroelectric energy. Our total energy consumption of 318.5 GWh in 2020 breaks down as follows:

Diagram 3



Energy intensity across Swatch Group improved by -13.5% to 322.2 kWh/m² from 2013 to 2020. The share of renewable energy more than quadrupled over the same period. The consumption of heating oil and natural gas has been steadily reduced though the program of measures, as they are CO₂ emissions drivers.

HEAT CONSUMPTION PER UNIT OF FLOOR SPACE (KWH/M² PER YEAR)

Measured in kWh per square meter of floor space, the annual consumption of fossil energy in the form of heating fuel, natural gas and district heating fell by 11.9% in the year under review compared with the previous year. Energy efficiency is constantly improving thanks to ongoing investment in production facilities and buildings. The measures include new buildings equipped with state-of-the-art heat pump technology, new thermal insulation and building renovation programs, the optimization or replacement of air-conditioning and water-cooling systems, renovation of heating installations and the commissioning of new heat recovery units. Due to investment to reduce heat consumption per unit of floor space, this consumption has been cut by more than half since the introduction of the program in 2001. A good example of this are the extensions to the Omega/Swatch site in Biel/Bienne (BE), where heat consumption per m² of surface area was reduced by 48% and CO₂ emissions by an impressive 55%.

ELECTRICITY CONSUMPTION PER UNIT OF FLOOR SPACE (KWH/M² PER YEAR)

Electricity consumption, measured in kilowatt hours (kWh) per unit area (m²) per year, was also reduced by 6.9% compared with the previous year. The commissioning of new, more energy-efficient machines and systems at the production sites, the installation of reactive power compensation equipment and investment in the upgrading of lighting systems led to a slight reduction in electricity consumption in 2020. The use of new LED lamps has resulted in optimal lighting and lower thermal load, thus reducing power consumption and air conditioning costs.

ENERGY FROM SELF-GENERATED RENEWABLE SOLAR ENERGY AND HYDROPOWER PRODUCTION

For decades, Swatch Group has not only invested in the area of electronic systems in low-energy and energy-efficient components and integrated circuits (IC), but has also operated its own energy production plants using renewable energy sources, such as solar energy and hydropower production. Self-generated production of sustainable energy was quadrupled in the period from 2013 to 2020 due to new facilities. Although the amount of self-generated sustainable power production is fairly modest, it nonetheless contributes to climatic and environmental protection. In the year under review, as in the previous year, the various energy production plants again generated approximately 1 600 000 kWh. Total hydropower production is not constant, as it is highly dependent on the average level of precipitation. Similarly, solar energy production depends on the average amount of sunlight captured by photovoltaic installations.

The photovoltaic installations at the Omega manufactory, Swatch Headquarters Distico in Biel/Bienne (BE), Longines in Saint-Imier (BE) and ETA in Boncourt (JU) have a total installed capacity of 1.42 MW. The energy produced by these plants in the year under review amounted to some 1 166 000 kWh (previous year: 1 131 000 kWh) with an area of more than 8000 m². The photovoltaic installations are equipped with state-of-the-art technology, particularly at Omega and Swatch, and owe their patented micro-inverter to Belenos Clean Power.



The La Suze and Le Bez hydroelectric power stations located in Corgémont (BE) were completely renovated and automated in 2010. Their installed power amounts to 160 KW. They produce an average of approximately 525 000 kWh per year, depending on the amount of precipitation.

VOC (VOLATILE ORGANIC COMPOUNDS) EMISSIONS

As a result of the decline in production, the consumption of VOCs decreased by 34.8% compared with the same period of the previous year. VOCs arise primarily through the use of acetone, alcohol and gasoline as cleaning agents for the components produced. However, in the year under review, 45% of consumed VOCs were recovered and/or recycled thanks to the recovery systems for gasoline and other volatile solvents (previous year: 42%). The objective is a continuous decrease in VOC emissions through increased substitution of volatile substances with an aqueous process that does not contain solvents or contains less volatile substances.

Waste consumption

Waste consumption (t)	2013	2019	2020	Change to previous year	Change to base year
Hazardous waste	2 429	4 070	2 751	-32.4%	+13.3%
- of which recycled	1 329	1 603	1 099	-31.4%	-17.3%
Industrial waste	2 863	3 699	2 599	-29.7%	-9.2%
- of which recycled	1 195	1 392	1 191	-14.4%	-0.3%
Total waste	5 292	7 769	5 350	-31.1%	+1.1%

WASTE

In 2020, a total of 5350 metric tons of waste was generated (previous year: 7769 metric tons). Just over half of it is hazardous waste. We comply with strict safety regulations when handling hazardous materials and give our employees regular training. Overall, about 43% of waste was recycled, either in the company's own recycling processes or by a third-party company. Paper consumption in the company decreased by 25% compared with the previous year.

BATTERY RECYCLING

As the in-house battery producer in Swatch Group, Renata operates its own button cell recycling facility (silver recovery). With an annual capacity of 250 million button cells and a production capacity of 26 metric tons of silver oxide, this facility demonstrates Renata's unparalleled contribution to sustainable environmental practices as a button cell manufacturer. Used cells and batteries are crushed in a crusher and their basic materials and particles separated from each other. The silver oxide and other elements are then recovered in a special treatment process. The materials are either used for the production of new batteries or handed over to certified specialist companies. The chemical solutions used are processed in a fully-closed materials processing cycle and returned to the reactors. In the year under review, more than 6.3 metric tons of batteries were handed over to authorized specialist companies and the internal recycling process for reprocessing, adjusted for the disposal of expired batteries and the liquidation of end-of-series products at Renata.



Water consumption

Water consumption (m ³)	2013	2019	2020	Change to previous year	Change to base year
Drinking water	762 612	872 276	613 248	-29.7%	-19.6%
Non-potable water	784 278	370 736	459 231	+23.9%	-41.5%
Total consumption	1 546 890	1 243 012	1 072 479	-13.7%	-30.7%

WATER

Swatch Group's greatest water consumption is in its production facilities. Each production site is controlled and optimized through its own water management system.

The consumption of drinking water decreased by 29.7% to 613 248 m³ compared with the previous year, whereas the consumption of non-potable water increased by 23.9% to 459 231 m³. Overall, this resulted in a 13.7% decrease in water consumption. Of particular note is the increased use of closed water circulation systems, the increased efficiency of water treatment plants and the use of rainwater recovery systems for cooling and sanitary installations.

SUSTAINABLE INVESTMENTS IN NEW BUILDINGS AND RENOVATIONS

The Swatch brand's new "home" is not only one of the largest wooden buildings in the world, it is also a unique place for work and innovation. It sets new benchmarks in terms of sustainable development and energy efficiency. The majority of the building was constructed from wood, a natural raw material. The 1997 m³ of spruce timber come from Swiss forests, where this quantity of wood grows in less than two hours. During its growth phase, the spruce decomposed about 1847 metric tons of greenhouse gases from the environment and absorbed it in the form of carbon. The intelligent geothermal use of ground water to heat or cool the building, and the solar energy produced by the photovoltaic system, make a significant contribution to achieving an optimal CO₂ balance. This use of geothermal energy is in association with the Omega factory building and the Cité du Temps. Several water

tanks have been installed on the Swatch site. During the cooling process, cold water pumped from a withdrawal well is fed into a cold water tank. It is then conveyed to a heat exchanger, where the cooling energy is extracted to help cool the building through cooling ceilings and ventilation. The heat exchanger then returns the water heated by this process to a hot water tank, where it is available to buildings on the site for heating if required. Thanks to this ingenious device, the building is integrated into the natural water cycle. To determine the correct dimensioning of the photovoltaic system, the total electrical power required for all building functions, such as ventilation, cooling, heating, basic lighting, etc., was taken into calculation during the planning stages. The honeycomb structure of the facade comprises 442 tailor-made photovoltaic elements with a total area of 1770 m², while the PV-inverter technology was developed by subsidiaries of the company. This results in a reduction of up to 30 metric tons of CO₂ per year, reflecting the philosophy adopted by Swatch Group, which consists of designing and constructing its new buildings and renovating its old buildings in a sustainable way.

The Group's previous new buildings, such as the Omega manufactory, the Boncourt (JU) industrial park and the combined Universo and Rubattel et Weyermann industrial building located in La Chaux-de-Fonds (NE), were constructed with the same care and similar energy design. However, the manufacturing units in the Boncourt (JU) and Universo industrial buildings produce much more thermal energy, which is recovered by heat exchangers and used for the heating and hot water of some parts of the production sites. As a result, the heating of these buildings consumes little or no fossil fuel. The Boncourt (JU) building also has a rainwater recovery system, which means that industrial water does not need to be drawn from the normal water supply. Instead, the recovered rainwater is purified and treated as industrial water in the company's



water treatment plant, stored in a 100 m³ reservoir and from there piped to the production facilities. The industrial wastewater is then recovered again at the end of the production cycle and returned to the treatment plant. The industrial water is thus treated and reprocessed again and again in a closed cycle. The project carried out for the industrial building of Universo and Rubattel et Weyermann in La Chaux-de-Fonds (NE) deserves special mention. Originally, this industrial area was bought with a view to renovation from a foreign company that had abandoned its production site in Switzerland. The site was completely dismantled, followed by a remediation of the polluted site, prior to erecting a new energy-efficient industrial building in line with Swatch Group's philosophy. In addition, this new industrial area has its own high-tech and fully automated water treatment plant. Wastewater is conveyed from the collection tank to a reactor, where the different liquids and substances are separated. Each solution and substance thus isolated is then reprocessed, tested for quality and purity, and then returned to production in a closed cycle. The Swiss authorities have described this plant as the best industrial example in existence and a flagship project. The total renovation of this industrial area has contributed to the improvement of the urban landscape, and has been welcomed by both the local authorities and the population.

At Longines in Saint-Imier (BE), insulation work has been carried out on the roof and façade over the past three years, resulting in a 60% reduction in gas heating consumption. In addition, photovoltaic systems covering 35% of Longines' electricity requirements have been installed, along with six charging stations for electric cars.

The buildings erected in 1946 for the sale and production of Mido in Biel/Bienne (BE) were completely deconstructed in 2019 and 2020. The buildings were no longer up to date in operational and energy terms, and renovation didn't make any sense due to the substance of the buildings. The aim of the deconstruction after the move to the modern Distico building was to prepare a fully renovated plot of land ready for construction. Extensive studies were carried out for the deconstruction project and the necessary concepts for building pollutants, demolition, contaminated sites and backfilling were developed on that basis. With the renovation, all materials containing hazardous substances were professionally remediated or disposed of in accordance with the law. Particular attention was paid to the protection of workers and the environment. In total, more than 360 metric tons of building pollutants were handed over to specialist disposal companies. In addition, more than 9100 metric tons of building fabric was recovered and recycled. Approximately 5000 m³ of clean material, such as sand, gravel and top soil, was used for backfilling and recultivation. The demolition was completed in the summer of 2020 and the office of water and waste management (AWA) of the Canton of Bern confirmed that the site could be removed from the register of contaminated sites.



SOURCING

GENERAL RAW MATERIAL SOURCING

Environmental, ethical, and social criteria are an integral part of our sourcing policy, which is why only suppliers and sub-suppliers that fully comply with our clearly defined and contractually documented criteria on safety, environmental and socio-political aspects can be considered. This involves not only compliance with national and international laws, but also encompasses the OECD guidelines for raw material and component sourcing (OECD *Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas and its Supplement on Gold*) and *Standard SA 8000* (Social Accountability International) on responsible and ethical sourcing of material. These standards require sourcing under the premise of ethical and fair working conditions, health protection and occupational safety, respect for human rights – including the above-mentioned zero-tolerance policy with regard to forced or child labor – and dealings with business partners, including the supply chain, local development and other socially and environmentally relevant factors. Only non-endangered and ethically sound materials are used. All other materials are excluded, even if they are classified as legally compliant.

In addition, suppliers must, at a minimum, fulfill the internal guidelines of Swatch Group Quality Management, any ecological and legal regulations, and ensure legal compliance in terms of products, particularly REACH (*Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals*), RoHS (*Restriction of Hazardous Substances*) and WEEE (*Waste Electrical and Electronic Equipment*). To ensure this, every supplier receives direct and secure access to the Swatch Group Quality Management conformity specifications for raw materials and substances. These specifications are continuously updated in a comprehensive database. SGQM is currently implementing a new IT tool to collect and digitize Material Safety Data Sheets (SDGS) from more than 900 raw material suppliers, with instructions on use and protection of health and the environment. The database will contain information on more than 8000 chemical substances used in Swatch Group companies, and ensure safe handling, storage and disposal.

Swatch Group FEPS (*Far East Procurement Service*) and SGQM continually verify that suppliers are effectively fulfilling the conditions. The supplier review process is clearly defined and covers the following elements: Swatch Group supplier contract, compliance with SA 8000 conditions, compliance with all local laws and



directives relating to labor law, safety and environmental protection, compliance with ISO 9000, and compliance with EU laws and directives, in particular RoHS and REACH. The audit procedures are divided into the following six subject areas: compliance with labor law and control of working conditions, health and safety at work (Occupational Health & Safety, OH&S), environmental protection, legal product conformity, verification of compliance with the supply contract and the quality of planning, and verification of the quality management system. FEPS determines which suppliers will be audited during a financial year, commissions an auditing company to carry out an audit in accordance with the requirements and then analyzes the report. The cycle ensures that all suppliers are audited within three years. New suppliers are checked immediately.

Suppliers receive an A rating (very good) if over 90% of the test points are fulfilled overall and more than 75% of the test points are fulfilled in the various subject areas, and a B rating (qualified) if at least 75% of the test points are fulfilled overall and 75% of the test points are fulfilled in the three subject areas of labor law, OH&S and environmental protection. With 60% to 75% of the points, the result is a C rating (insufficient). In this case, a three-month period is granted to implement the necessary corrective measures and qualify for a follow-up audit. The supplier then either achieves a B rating or is relegated to a D rating (disqualified). Suppliers who achieve less than 60% of the required test points receive a direct D rating and are disqualified and excluded. For some inspection points, such as non-compliance with local laws, human rights, forced or child labor, the above-mentioned zero-tolerance policy applies.

As at the end of 2020, approximately 170 suppliers had been certified. Approximately 50 certifications were carried out by SA 8000 and BSCI in 2020. FEPS carried out 13 audits in the year under review. Certain deficiencies were identified that needed to be addressed. No disqualifications were declared. Roughly 90% of our sourcing volume is accounted for by 24 of the 170 suppliers certified by FEPS.

ORGANIC RAW MATERIAL SOURCING

In relation to organic raw material such as cotton, leather, wood, etc., not only are the various national and international laws and agreements respected (EU 995/2010 and EC 338/97, *Lacey Act*, *CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora*, *IUCN International Union for Conservation of Nature*, *FSC Forest Stewardship Council*, *PEFC Programme for the Endorsement of Forest Certification*, *EU Timber Regulation*, etc.), but also legal and non-endangered materials classified by our specialists as ethically critical are voluntarily avoided. In this way, we ensure that only legal wood from non-endangered or potentially endangered tree species from sustainable cultivation is used and is declared and certified in terms of origin, forestry provisions and CITES.

The same applies to exotic leather materials, which are not used unless produced in a sustainable and ethical manner, even if no legal obstacles exist. As a result, demand is fulfilled by a very small number of clearly identified, controlled and sustainable breeding farms. Since 2010, for example, we have only used alligator leather from the US, which can guarantee the very strict *US Fish and Wildlife Service* regulations and the above-mentioned CITES regulations.



PRECIOUS METAL SOURCING

Swatch Group also has a clear sourcing policy in regard to precious metals. They are only purchased from individual established long-term suppliers that can demonstrate not only legal compliance according to all the provisions of the financial market supervisory authority, but also certified membership in the *Responsible Jewellery Council (RJC)* or the *London Bullion Market Association (LBMA)*, and can guarantee through recognized certification that the precious metals delivered originate from ethically sound sources and conflict-free regions. The RJC norm is specifically aimed at the fine jewelry and jewelry industries, and includes the OECD guidelines for precious metal sourcing (OECD *Due Diligence Guidance for Responsible Supply Chains from Conflict-Affected and High-Risk Areas and its Supplement on Gold*) and *Standard SA 8000* (Social Accountability International). Members of the RJC are regularly audited by an independent body for compliance with these guidelines.

Gold is sourced exclusively from traceable industrial mines and only in the US, Canada or Australia, where the highest legal standards apply and where the mines are operated under extremely strict conditions set by the authorities and continuously monitored by them. The supply chain, which is kept as short as possible, is delivered directly from the mine to the refinery and then on to in-house gold processing by Swatch Group. Sourcing gold from artisanal mines or other regions, where lower standards apply or where there are residual risks that non-traceable gold could enter the supply chain, is not an option for Swatch Group. This clear and simple sourcing policy is proving to be very effective.

In addition, the investments made in recent years in the Group's foundry and refining facilities have enabled fully internalized processes and precious metals processing, which ensure that the transformation of precious metals inventories, the production of alloys and their recycling are carried out in-house. After the preparation of alloys, extruded profiles and raw ingots are manufactured and then turned into semi-finished or finished products, again using in-house production processes. Thus, Swatch Group controls the complete gold processing chain internally according to a clearly defined process. Nivarox-FAR plays a key role in this respect, as it processes all Swatch Group's gold production stocks in a closed and controlled cycle. Nivarox-FAR has the necessary federal authorization both as a foundry and as a commercial assayer (sworn assayer), and is certified according to the *Responsible Jewellery Council Code of Practice* and *Chain of Custody* (RJC CoP and CoC).

Precious metal sourcing processes have been continuously optimized for several years. There is still room for improvement, particularly in terms of ensuring full traceability of the supply chain, e.g., for sub-suppliers. We are also in the process of implementing equally strict sourcing guidelines for other precious metals, such as silver and platinum.

DIAMOND AND GEMSTONE SOURCING

Diamonds are only purchased from the few suppliers that completely respect and implement the Kimberley Process certification system. Again, the supply chain is direct and only a small number of known and qualified suppliers are selected. Certification guarantees that diamonds can be proven to originate from conflict-free regions and from legal trade. Countries, companies, and merchants that do not use this certification system in its entirety are excluded from trade with Swatch Group. In addition, only long-term partners that comply with the CIBJO (*Confédération Internationale de la Bijouterie, Joaillerie, Orfèvrerie des diamants, perles et pierres*; The World Jewellery Confederation) guidelines and the Kimberley Process are used, in order to exclude any quality and sourcing risks. Individual suppliers must submit a written declaration to the contract and ensure that, in addition to the Kimberley Process, they fully respect and comply with the Swatch Group *Code of Conduct*, disclose the ownership of the supplier and/or manufacturing company with full transparency, and respect the provisions of the RJC and SA 8000. In the event of non-compliance with these regulations or if doubts arise, the supplier in question is immediately disqualified and no longer retained.



OCCUPATIONAL HEALTH AND SAFETY

The safety and health of our employees and our customers worldwide, along with the environment, receive our fullest attention. Our guidelines for both direct and indirect sourcing, production, distribution and use of our products comply not only with the strictest international laws and directives (including directives of the ILO International Labor Organization, SA 8000, local labor laws, etc.), but also with our own more stringent standards, which we continuously expand and improve. The continuous learning process associated with this contributes significantly to the innovative strength of the company and to new investments.

Regular training courses and seminars are organized and held on topics such as quality, safety in the workplace, handling hazardous substances, fire protection, protection against non-occupational accidents and protection against harassment. Safety officers and other relevant persons in the company are regularly trained, including with the involvement of external specialists. There is also an exchange of best practices between Swatch Group companies.

Special protective measures for Covid-19

The year under review was dominated by the global Covid-19 pandemic. This required a wide range of measures to combat its spread and to protect our employees, the customers in our shops and our business partners, with whom we are in constant contact, in all areas and all countries. The protective measures therefore also went beyond the minimum requirements of the individual countries.

From the outset, a protection concept was implemented based on the following three pillars:

Protection on the premises: Human resources managers worked with safety officers to protect employees from the Covid-19 pandemic in the workplace. Relevant protective measures were introduced with employee rotation schedules in the workplaces. Where possible, working from home was mandated. This ensured that each department was able to operate under the given situation.

Contact and communication with employees: The Human Resources department introduced an internal newsletter, a hotline and a weekly conference call to keep in touch with all employees and answer their questions.

One of the goals was to ensure that any employee on reduced hours or working from home would continue to be connected to the company through the Human Resources department.

Assisting staff in the resumption of work: The HR departments of the individual companies coordinated the return of employees who were absent due to reduced hours or working from home. The Human Resources department provided them with the applicable protections and new work regulations at their workplace, and instructed them on how to behave on site.

Early experience was gained in China, where we have our own sales entity and retail stores. We were able to apply these early findings to other affected countries in good time as the pandemic spread from east to west. In various countries and divisions, a regional or nationwide lockdown was imposed by the authorities. Nevertheless, it was ensured that all basic functions, such as production and sales, were able to continue and that the requisite safety conditions were always guaranteed. It was possible to ensure that sufficient material was available in all plants and sales outlets, so there were no interruptions to operations at any time, apart from in the event of a lockdown. Additional investments were made; for example, plexiglass protective walls in the sales outlets, offices and production, disinfectant dispensers and UV equipment for surface treatment.

Following the start of the pandemic on March 13, 2020, a Covid-19 task force was set up in Switzerland, comprising all the HR departments of all Swiss companies, safety officers, several CEOs and members of the Swatch Group management.

Initially, Skype meetings were held daily, then once a week. The agenda consisted of the new resolutions of the Federal Council and the Federal Office of Public Health, the trends in terms of case numbers and all issues concerning wages, compensation payments, changes in salary payments and allowances. The Human Resources departments of the various subsidiaries were thus closely involved in the frequent adjustments of the measures.

The critical situation caused by the pandemic, which developed differently from country to country and continent to continent, required an extremely proactive, solidarity-based and creative approach on the part all those involved.

Despite the restrictions in mobility, within the workplace, in production and in the boutiques, we succeeded in continuing the training programs for our apprentices without any quality cut backs, as we had done in previous years.



SOCIAL POLICY - APPRENTICES

In 2020, Human Resources departments at every Swatch Group entity excelled in their roles as entrepreneurs and initiators of solutions to assist each and every employee. This resulted in great open-mindedness and a constant focus on the future, with a medium- and long-term vision, particularly concerning skills acquisition. In fact, despite the difficulties of going to work to produce parts and sell watches in boutiques that had been closed for a very long time, and with sales well below expectations compared to 2019, Swatch Group continued to invest in the future through its apprentices.

In accordance with existing objectives, the number of apprentices hired at the start of the academic year in August 2020 was equal to the number who finished in July 2020. It should be noted that it takes four years to train an apprentice, followed by several years of experience needed to reach the level of skills required to maintain know-how in Swatch Group companies. Currently, young people are trained in 38 different disciplines with courses lasting two, three or four years.

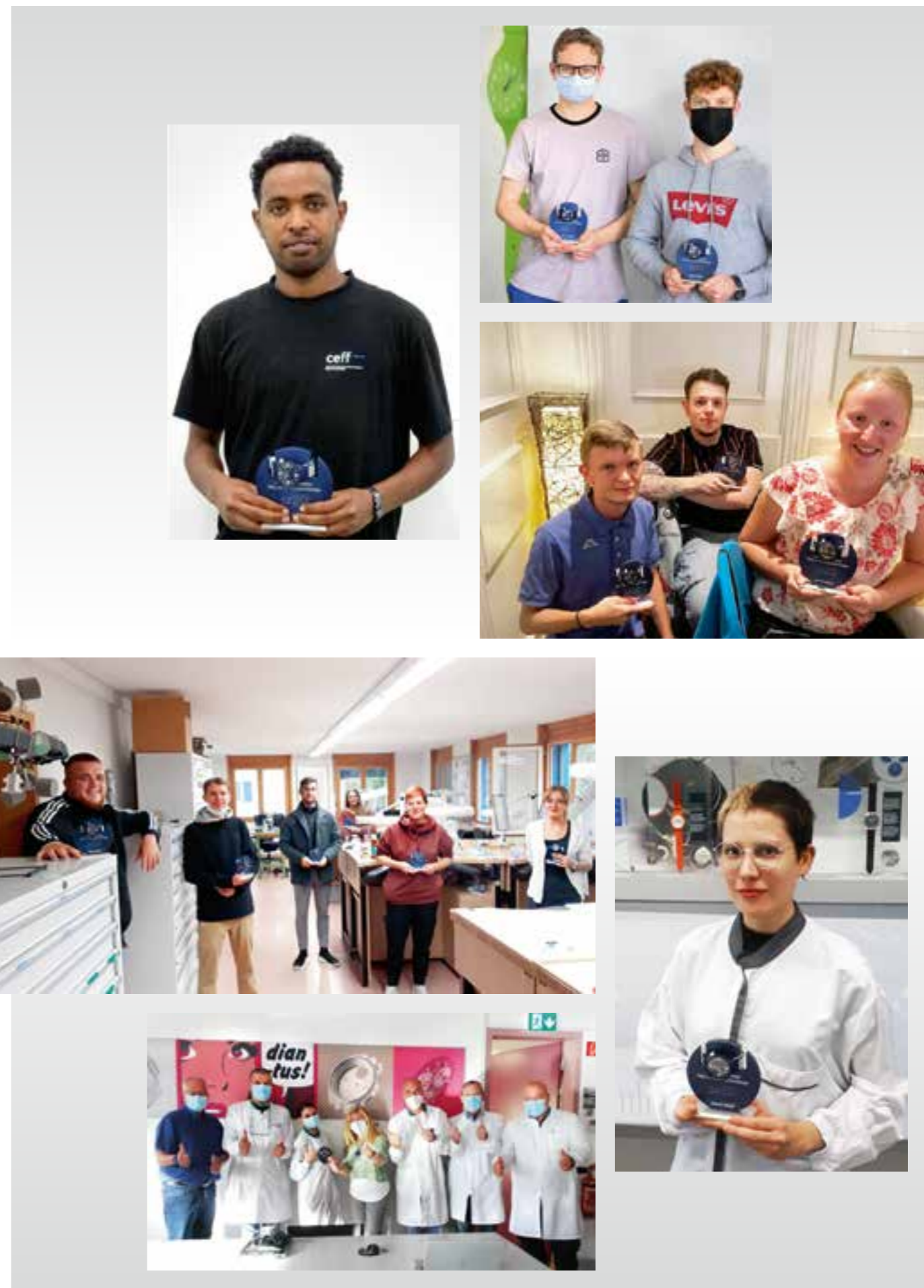
A wide range of skills and professions is on offer, from truck drivers to jewelers, cooks, micro-mechanics, computer scientists, and chemical laboratory technicians, as well as watchmakers, production mechanics, microtechnological construction drafts-persons and commercial employees (men and women). This professional diversity reflects the strength of Swatch Group, the only watchmaking group capable of producing all the components of a watch, an endeavor that requires a multitude of skills.

As a result of Covid-19, regular programs and events such as the annual graduation ceremony for apprentices, language exchanges with Paris and Berlin, or sending two watchmakers to Hong Kong couldn't be undertaken. These programs have been postponed until things begin to normalize.



Social distancing makes it difficult to maintain a good corporate culture. However, confronted with the high risk of a pandemic and illness, teams remained united and supportive in getting through this difficult period, which we hope will be as short as possible.

Finally, each employee has appreciated Swatch Group's motivational efforts, like compensating the loss of wages due to technical unemployment, over and above governmental support. The staff's sense of belonging, a "family" value that is inherent to Swatch Group's philosophy, has grown exponentially.



1. Group structure and shareholders

1.1 Group structure

The Swatch Group is active worldwide and represented in all market and price segments in the watch sector with 18 brands and in the jewelry sector. In addition, it holds an outstanding industrial position with a high degree of verticalization in the Production sector as well as the strategically important sector of Electronic systems. In the Corporate sector, the operational units which provide services for the whole Group are centralized. The Swatch Group has lean and efficient management structures at all levels. While the Board of Directors deals with the overall management, strategic and supervisory tasks, the operative executive duties are incumbent on the Executive Group Management Board, which is supported by the Extended Group Management Board. An overview of the operational and of the distribution organizations is given on pages 4 and 5. The fully consolidated companies, of which none but The Swatch Group Ltd is listed on the Stock Exchange, are given on pages 93 to 96 with each company's name, domicile, share capital and the percentage of shares held. The shares of The Swatch Group Ltd are listed on the SIX Swiss Exchange AG and BX Swiss AG. The bearer shares are listed under the ISIN number CH0012255151 at the SMI, SPI as well as SLI indices. The registered shares are listed under the ISIN number CH0012255144 at the SPI, SPI Extra and SMIM indices.

ISIN:	CH0012255144	registered shares
	CH0012255151	bearer shares
Reuters:	UHRN.S	registered shares
	UHR.VX	bearer shares
Telekurs:	UHRN, 1	registered shares
	UHR, 1	bearer shares

Further information concerning market capitalization and earnings per share is shown on page 117.

The corporation's registered office is located in Neuchâtel, Faubourg de l'Hôpital 3. The administrative headquarters are in Biel/ Bienne, Seevorstadt 6.

1.2 Significant shareholders

As of 31 December 2020, the Hayek Pool, related parties, institutions and persons control 62 773 361 registered shares and 749 811 bearer shares, totalling 43.6% (previous year 42.3%) of all the votes.

The Hayek Pool comprises the following members per 31 December 2020 :

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

The companies and institutions close to the Hayek Pool but which do not formally belong to the Hayek Pool are:

Name / Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	-
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	-
Various welfare foundations 1)	various	-

1) Wohlfahrtsstiftung der Renata AG, ETA Wohlfahrtsstiftung, Fonds de prévoyance d'Universo, Fondation Technocorp, Fondation de prévoyance de The Swatch Group Les Boutiques SA, Fonds de prévoyance SSIH and CP Caisse cadre

The community of heirs of N. G. Hayek controls directly, through related parties and institutions and in the context of the Pool 42.9% (previous year 41.8%) of all the votes; third party Pool members are represented therein, they comprise 3.6% of all the voting rights.

On 31 December 2020, no other individual shareholder or group of shareholders holding more than 5% is known to the Company. If a person subject to this obligation reaches, falls below or exceeds the threshold of voting rights according to Art. 120 FinMIA, this person is obliged to issue a corresponding notification. For the sake of simplicity, reference is made to the website of the Disclosure Office "https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html", where the current and updated disclosures of significant shareholders can be found.

1.3 Cross-shareholdings

The Swatch Group holds no cross-shareholdings.

2. Capital structure

2.1 Capital

On 31 December 2020, the capital structure of The Swatch Group Ltd was as follows:

Share category	Quantity	Par value per share	Total par value in CHF
Registered shares	116 919 500	CHF 0.45	52 613 775.00
Bearer shares	28 936 000	CHF 2.25	65 106 000.00
Total share capital as at 31.12.2020			117 719 775.00

2.2 Authorized and conditional capital

No authorized and conditional capital existed as of 31 December 2020.

2.3 Changes in capital

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

Balance sheet date	Registered shares at CHF 0.45	Bearer shares at CHF 2.25	Share capital in CHF
31.12.2018	124 045 000	30 840 000	125 210 250.00
Capital reduction 2019 (cancelled shares)	-7 125 500	-1 904 000	-7 490 475.00
31.12.2019	116 919 500	28 936 000	117 719 775.00
31.12.2020	116 919 500	28 936 000	117 719 775.00

The detailed evolution of equity, reviewed by the auditors for the consolidated financial statements for the years 2019 and 2020, is published on page 65. For The Swatch Group Ltd, it is published for the years 2019 and 2020 in note 9 on page 108. With regard to the previous years we refer to the annual reports 2017, 2018 and 2019.

2.4 Shares and participation notes

The shares of the Company listed in point 2.1 are fully paid in. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value. No participation notes have been issued.

2.5 Benefit certificates

No benefit certificates exist.

2.6 Limitations on transferability and nominee registrations

The Statutes of the Swatch Group stipulate that the Board of Directors shall refuse the registration of new shares, if the new shareholder fails to give an express written declaration to the effect that he or she acquired the shares in his/her own name and for his/her own account. Furthermore, the Board of Directors refuses a registration if the purchaser, either alone or in conjunction with related persons, already holds 5% or more of the registered share capital (either directly or indirectly) at his disposal, or would exceed this threshold with the new acquisition (Art. 9 para. 3 of the Statutes). The Board of Directors may approve exceptions to this rule in special cases. No such exceptions were requested in the period under review.

Insofar as an individual or a legal entity was already entered in the share register before the reporting date of 31 May 1997 with 5% or more of the registered share capital, the Board of Directors must approve even though the percentage limits have been exceeded. The same exception applies for related persons (spouse, descendant, brother, sister), transfers due to inheritance or matrimonial property rights as well as certain transfers between legal entities or individuals subject to the exception (Art. 9 para. 6 and 7 of the Statutes).

Where a share purchaser presents an application for recognition as a shareholder of the company, he shall be regarded as a shareholder without voting rights until the company has recognized him as a shareholder with voting rights. If the company fails to refuse the purchaser's application for recognition within 20 days, he shall be acknowledged as a shareholder with voting rights. A shareholder who has no voting right may exercise neither the voting right nor the other associated rights.

2.7 Convertible bonds

The Swatch Group currently has no outstanding convertible bonds.

2.8 Options

In 2018, Swatch Group transferred shares from its share buyback program of 2008 into the share option plan. With regard to the content of this portfolio as of 31 December 2020, reference is made to Note 13 on page 77. In 2020, 212 439 registered shares were sold at a preferential price of CHF 4.- per registered share in accordance with the following details:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/payup
2018	64 491	202	2020
2019	72 271	209	2020
2020	75 677	204	2020
Total	212 439		

In addition, the Group gave participating managers the following options to subscribe in future to further registered shares at preferential prices as follows:

Year of issue	Number of registered shares	Number of beneficiaries	Year of subscription/payup
2019	60 902	199	2021
2020	61 927	199	2021
2020	62 096	199	2022
Total	184 925		

The allocation results from personnel reviews and proposals for employees who stood out through special achievements in the past year and have performed with above-average commitment. The allocation is then approved by the Board of Directors / the Compensation Committee. It allows a first purchase of a third of the promised number of registered shares in the current year, which can be paid up and claimed immediately, and another third in one and two years respectively. The beneficiaries may choose to block their shares for a vesting period of 5 or 10 years. With the exception of Mrs Nayla Hayek and Mr Nick Hayek no members of the Board of Directors received options or shares under this plan.

3. Board of Directors

3.1 Members of the Board of Directors

The Board of Directors on 31 December 2020 is composed as follows:

Nayla Hayek, Swiss citizen, Dr h.c. European University Montreux, Montreux, is Chairwoman of the Board of Directors of the Swatch Group since 30 June 2010. Mrs Nayla Hayek has been on the Board of Directors of the Swatch Group since 1995. As a member of the World Arabian Horse Organization (WAHO), and as international Arabian horse judge, Mrs Hayek's top-level contacts contribute to many of the business and promotional activities of the Swatch Group and she is responsible for the local organization in Dubai (Swatch Group Middle East) on site. Mrs Hayek is Chairwoman of the Board of Directors of the Rivoli Group, Dubai and represents there the interests of Swatch Group. Following the acquisition of Harry Winston as per 26 March 2013, Mrs Hayek was appointed president and CEO of this new business entity. She is also a member of the Board of Directors of Belenos Clean Power Holding Ltd and of Wat Holding AG. As Board member of Hayek Holding AG, she is responsible for Hayek Engineering AG and Hayek Immobilien AG. She holds no official function or political office.

Ernst Tanner, Swiss citizen, has been on the Board of Directors of the Swatch Group since 1995. He has been Vice-Chairman of the Board of Directors since 29 June 2011. Since 2017, Mr Tanner is the Executive Chairman of the Lindt & Sprüngli Group. From 1993 to 2016 he was the Group CEO and Chairman. Before his activity with Lindt & Sprüngli, he was for over 25 years in leading management positions with the Johnson & Johnson Group in Europe and the USA, ending up as Company Group Chairman Europe. In addition, he is a member of the Board of Directors of the German KrombacherBrauerei GmbH & Co. KG and of the Advisory Board of the Austrian SIGMA Group. Otherwise, he exercises no other executive or advisory functions and holds no official function or political office.

Nick Hayek, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010. Mr Hayek has worked with the Swatch Group since 1992, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1st prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and director of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and Chairman of the Board of Directors of Belenos Clean Power Holding Ltd.

Prof. Dr h. c. Claude Nicollier, Swiss citizen, graduated in Physics and Astrophysics from the Universities of Lausanne and Geneva. Mr Nicollier has been a member of the Board of Directors since 2005. Mr Nicollier resigned from his activities as astronaut at the European Space Agency ESA in March 2007. As an astronaut he was particularly active in the space missions Atlantis 1992, Endeavour 1993, Columbia 1996 and Discovery 1999. The aim of the Endeavour and Discovery missions was the execution of reparation works on the Hubble Space Telescope which were a complete success. The Universities of Geneva and Basel and the École Polytechnique Fédérale de Lausanne, where Mr Nicollier teaches as an honorary professor at the school of engineering, have conferred honorary doctorates on him. Mr Nicollier was involved in the «Solar Impulse»-Project, responsible for the test flights. He is member of the Board of Directors of Belenos Clean Power Holding Ltd. and Chairman of the Board of Directors of CSEM in Neuchâtel. Mr Nicollier does not exercise any operative functions at Swatch Group, does not have any business relationship with Swatch Group and holds no political office.

Dr Jean-Pierre Roth, Swiss citizen, Dr oec. Graduate Institute (HEI) Geneva, has been a member of the Board of Directors since 2010. Following postgraduate studies at the Massachusetts Institute of Technology in the USA, Mr Roth taught at the University of Geneva and at the Graduate Institute (HEI). In 2009 the University of Neuchâtel conferred him a honorary doctorate in economics. Jean-Pierre Roth joined the Swiss National Bank in 1979 where he was active in various areas in Zürich and Bern. On 1 May 1996 he was appointed Vicepresident of the board. On 1 January 2001 he was elected President of the board. Jean-Pierre Roth was Swiss governor of the International Monetary Fund (IMF) in Washington. From 1 March 2006 until end of February 2009 he was Chairman of the Board of Directors of the Bank of International Settlements (BIZ) in Basel. At the end of 2009, Mr Roth resigned as President of the Swiss National Bank. Mr Jean-Pierre Roth was elected as President of the «Banque cantonale de Genève» and member of the Board of Swiss Re and of Nestlé Ltd in 2010. In 2014, he was elected as member of the Board of MKS (Switzerland). Since then, Mr Roth retired from the Board of Swiss Re, Nestlé Ltd and the «Banque cantonale de Genève». Since 1 July 2017, Mr Roth acts as Vice President of the Arab Bank (Switzerland) Ltd.

Daniela Aeschlimann, a Swiss national, has been a member of the Swatch Group Board of Directors since 2016. Ms Aeschlimann studied Business Economics and graduated with a Bachelor of Science in Business Administration from Lucerne University of Applied Sciences. In 2016, she successfully completed an Executive MBA at the University of St. Gallen. Since 2010, she has been a member of the Board of Directors of the Avesco Group and since 2013, has also served as the Board's vice-president. Ms Aeschlimann serves on several other boards of directors and trustees including, notably, a seat on the Board of Directors of Belenos Clean Power Holding SA that she holds since 2014.

Except where mentioned otherwise, none of the members of the Board of Directors exercises an executive function in the Swatch Group, or was part of the management of a company of the Swatch Group during the three years preceding the reporting period. Further, aside from their mandate as a member of the Board of Directors, the non-executive members of the Board of Directors do not entertain any material business relationship with the Swatch Group.

3.2 Elections and terms of office

The members of the Board of Directors are elected at the Ordinary General Meeting of the shareholders for a term of one year. The period between two Ordinary General Meetings is regarded as one year. The members of the Board shall be eligible for re-election at any time. There is no limit on the age and/or term of office. According to Article 19 of the Swatch Group Statutes the votes and elections take place openly, except where the Chairman orders a written or electronic election or vote. One or more shareholders, who together dispose of not less than 10% of the represented votes, may require written votes or elections.

First-time election and remaining term of office of the members of the Board of Directors:

Name	First-time election	Term of office
Nayla Hayek	1995	up to 2021
Georges Nicolas Hayek	2010	up to 2021
Prof. Dr h.c. Claude Nicollier	2005	up to 2021
Dr Jean-Pierre Roth	2010	up to 2021
Ernst Tanner	1995	up to 2021
Daniela Aeschlimann	2016	up to 2021

On the occasion of the General Meeting 2020 the members of the board of directors were re-elected for another term of one year. Mr Jean-Pierre Roth has been designated as the representative of the bearer shareholders and Mrs Nayla Hayek as representative of the registered shareholders.

3.3 Changes in the Board of Directors

In the year under review, there were no changes in the Board of Directors.

3.4 Number of permissible mandates

According to art. 40 of the Swatch Group Statutes, no member of the Board of Directors shall hold more than four additional directorships in listed companies and ten additional directorships in unlisted companies. The following are not covered by these restrictions (i) directorships in companies which are directly or indirectly controlled by the company or which control the company, (ii) directorships held by a member of the Board of Directors on behalf of or at the request of the company or a company controlled by it, provided that no member of the Board of Directors shall hold more than 20 such directorships, and (iii) mandates in associations, charitable organizations, non-profit foundations and employee welfare foundations, as long as no member of the Board of Directors shall hold more than 30 such mandates. Directorships shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Directorships in different legal entities that are under joint control or same beneficial ownership are deemed one directorship.

3.5 Internal organizational structure of the Board of Directors

At the General Meeting 2020, the Chairwoman of the Board of Directors (Mrs Nayla Hayek) was elected by the shareholders (until the next General Meeting). Moreover, the Board of Directors is self-constituting. It has appointed a Vice-Chairman (Mr Ernst Tanner) from its midst. The office of Secretary to the Board of Directors is carried out by Mrs Jennifer Meyer-Kluge. The Secretary to the Board of Directors is not a member of the Board. The term of office of the Chairman, the Vice-Chairman and the Secretary respectively is one year. They are all re-eligible for a further term of office. If an officer is substituted, the successor completes the remainder of the term of the predecessor. The Board of Directors has an Audit Committee and a Compensation Committee at its disposal. These committees, which sit separately (normally immediately following an ordinary meeting), because of the relatively small number of company directors, comprise all the members of the Board of Directors. The Audit Committee is chaired by Mrs Nayla Hayek. The office of Chair of the Compensation Committee is conducted by Mr Ernst Tanner, Vice-Chairman of the Board of Directors. The Chairwoman of the Audit Committee and the Chairman of the Compensation Committee were elected by the Board of Directors at their first meeting after the General Meeting 2020.

The Audit Committee is mainly responsible for the supervision of the financial reporting and for the evaluation of the internal and external audit. The Audit Committee has particularly fulfilled the following functions:

- Review of the Audit reports,
- Reinforcement of points which the auditing firm raised,
- Determination of the audit focal points,
- Discussions of the efficiency of the internal control system including risk management,
- Appraisal of the performance, remuneration and independence of the external auditors,
- Dealing with special questions of the financial statements (for further details see also point 8.3).

The Compensation Committee concerns itself with the compensation policy of the company. It supports the Board of Directors in determining the compensation systems and the principles of compensation as well as the preparation of proposals to the General Meeting with regard to the approval of compensation. The Compensation Committee can submit proposals and recommendations to the Board of Directors in all compensation matters.

The Compensation Committee deals with all questions in the field of compensation and proposes solutions for the attention of the Board of Directors. The Board of Directors is the decision-making body. It submits the required resolutions to the General Meeting for approval. Further details can be found in the separate Compensation Report for the business year 2020.

The Board of Directors does not have a Nomination Committee at its disposal. The tasks of the Nomination Committee (determination of the criteria for the selection of candidates for election as members of the Board of Directors, selection procedure, etc.) are carried out directly by the Board of Directors, in view of the small number of members.

In the year under review, the Board of Directors met six times. The meetings lasted approximately three to four hours. The Compensation Committee met three times and the Audit Committee met three times.

The members of the Executive Group Management Board regularly attend the ordinary meetings of the Board of Directors (second part). Beside the President (CEO) of the Executive Group Management Board, the Chief Financial Officer (CFO) and, if necessary, any other members of the Executive Group Management Board, attend the meetings of the Audit Committee. The Chief Financial Officer (CFO) participates in the meetings of the Compensation Committee as he attends to the personnel issues of the members of the Executive Group Management Board and Extended Group Management Board. Where there are discussion points concerning a person present, such person withdraws from the meeting.

3.6 Definition of areas of responsibility

The Board of Directors is the highest executive body responsible for the overall administration of the Group. It adopts strategic decisions and defines the means necessary for attaining the long-term goals. It determines, inter alia, the participation and appointment of the members of the Executive Group Management Board, the Extended Group Management Board and the heads of the main Group companies. Moreover, the Board of Directors approves the annual budget of the Group and its affiliated companies. The Board of Directors prepares the General Meeting and drafts the annual report as well as the half-year report.

The Board of Directors has delegated the current operative business to the Executive Group Management Board, the Extended Group Management Board and to the management of The Swatch Group Ltd.

The Executive Group Management Board is responsible for implementing Group strategies. It sets strategies and objectives for the Group companies and supervises their management.

The Extended Group Management Board supports and advises the Executive Group Management Board in its operative tasks. It makes suggestions for the development of the Group strategy.

The individual members of the Executive and Extended Group Management Boards manage their allocated areas within the framework of the Group policy and in accordance with guidelines set by the Executive Group Management Board. The management of The Swatch Group Ltd. is responsible for the current operative business of the The Swatch Group Ltd.

3.7 Information and control instruments

Each member of the Board of Directors can request to receive information on all issues concerning the Company and on important issues concerning the Group companies.

The members of the Executive Group Management Board report at the Board of Directors meetings on current business and important business issues. In particular, the members of the Board of Directors regularly receive detailed information regarding turnover and results trends for the Group and Group Divisions. Furthermore, important business issues, new products and the Group's financial status are reported in detail. Moreover, extraordinary occurrences are immediately brought to the attention of the Board.

Outside meetings, each member of the Board of Directors may seek information on the general progress of business from authorized management (after informing the Chairwoman). With due authorization of the Chairwoman, they may also demand direct information on individual business transactions. Should the Chairwoman reject an application for information, a hearing or an inspection (which has never occurred so far), the entire Board of Directors shall decide at the request of the applicant.

The Chairwoman of the Board of Directors has an Audit-Team available, which she may deploy in specific cases.

4. Group Management (Executive Group Management Board/Extended Group Management Board)

At 31 December 2020

4.1 Members of the Executive Group Management Board

Nick Hayek, Swiss citizen, pursued two years' study at the University of St. Gallen (HSG), then attended the Film Academy CLCF in Paris. President of the Executive Group Management Board since 2003 and member of the Board of Directors since 2010, Mr Hayek has worked with the Swatch Group since 1992, firstly as Swatch Ltd Marketing Manager, then as Swatch Ltd President and finally as Delegate of the Board of Directors of Swatch Ltd. In the mid-eighties, he founded his own production company, Sesame Films in Paris, and worked in Switzerland and abroad. His involvement in a number of film productions (e. g. a series of documentaries for Swiss Television), then the production of a number of short films (e. g. 1st prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and director of two feature films, «Das Land von Wilhelm Tell» and «Family Express» with Peter Fonda (a film that earned him the prize for the best Swiss comedy at the Charlie Chaplin Comedy Film Festival in Vevey) resulted in his being called upon to advise on various Swatch projects in the early '90s and to assume responsibility for several Swatch exhibitions (such as that of Lingotto in Turin). Mr Hayek is a member of the Board of Directors of the CSEM (Centre suisse d'électronique et de microtechnique) and of Belenos Clean Power Holding Ltd.

Florence Ollivier-Lamarque, French citizen, lawyer, has been a member of the Extended Group Management Board since 1992 and of the Executive Group Management Board since 2005. Ms. Ollivier-Lamarque has been with the Group since 1988 when it took over the Société Inthor, Paris, which distributed some of the Group's watches in France. At that time, she worked as Swatch and Tissot Brand Manager. In 1990, she took over the management of Swatch Group France and in 2002 the management of Swatch Group France Les Boutiques. She was responsible for Swatch Group France and Swatch Group France Les Boutiques until end of 2018 as well as for Italy, Spain, Belgium and The Netherlands. Ms. Ollivier-Lamarque is responsible for the watch brand Flik Flak, member of Board of the Colbert Committee and Vice President of the Fédération de l'Horlogerie, Paris.

Raynald Aeschlimann, Swiss citizen, graduated with a degree in economics and an M.A. from the University of St. Gallen (HSG). He was appointed to the Swatch Group's Extended Group Management Board in 2013, since 2020, Mr. Aeschlimann is a member of the Group Management Board. Since 2016 Mr. Aeschlimann is President of Omega Ltd. Prior to that, he was Vice President and International Director of Sales, Retail and Distribution at Omega Ltd. since 2001. He joined Omega in 1996 as Sales and Marketing Project Manager. He was also Brand Manager of Omega and Blancpain Spain in 2000 and has been the Group Coordinator for the Swatch Group's Indian subsidiary since 2010. Mr. Aeschlimann is on the Executive Board of the Federation of the Swiss Watch Industry FH. He had previously worked at Longines and Complementa AG in St. Gallen from 1992 to 1996.

Pierre-André Bühler, Swiss citizen, technical education, member of the Extended Group Management Board since 2008 and of the Executive Group Management Board since 2013. Mr Bühler started his career within the Group in 1977 as manager of the industrialisation division at Michel SA in Grenchen. Later Mr Bühler held executive functions at ETA (Technical manager of the division Michel) and at Nivarox (Production manager). Before taking over the general management of ETA, Mr Bühler worked as managing director of Nivarox-Far (Le Locle). Since September 2019, he is CEO of DYB, responsible for new industrial technologies for the Group and responsible for Comadur in the Executive Group Management Board. He represents the Swatch Group on the Executive Board of the Federation of the Swiss Watch Industry FH and is a member of the Board of Directors of CSEM, as well as a member of the foundation board of FLRH (Fondation en faveur d'un Laboratoire de Recherches Horlogères).

Dr Mougahed Darwish, Swiss citizen, holds a doctorate in Physics from the EPFL. He has been a member of the Extended Group Management Board since 1994 and of the Executive Group Management Board since 2005, responsible for EM Microelectronic, Micro Crystal, Renata and Oscilloquartz. Mr Darwish has been with the Group since 1979, starting as Project Manager for the Xicor-Ébauches joint venture. Previously, he had been active in research and development for the Centre électronique horloger (CEH, today Centre Suisse de l'électronique et de microtechnique SA, CSEM). From 1985 to 2007 he managed EM Microelectronic as CEO. Mr Darwish represents the Group on the Board of Directors of the CSEM as well as on the Board of FLRH (Fondation en faveur d'un Laboratoire de Recherches Horlogères); he is a member of the Swiss Academy of Technical Science. Since 2008, Mr Darwish is a member of the Board of Directors of Belenos Clean Power Holding AG and actively supports several projects.

Marc Alexander Hayek, Swiss citizen, Dr h.c. European University Montreux, holds a bachelor degree in Economics and has undergone training in Marketing and Economics. He became a member of the Extended Group Management Board in 2002 and of the Executive Group Management Board in 2005 with responsibility for Blancpain, Breguet, Jaquet Droz and Glashütte Original as well as for CHH Microtechnique, Simon et Membré, and Swatch Group Central and South America. Since August 2017, Mr Hayek is a member of the Board of Directors of Belenos Clean Power Holding Ltd and since 2019 Vice President and Delegate. He joined Blancpain as Marketing Manager in 2001. Mr Hayek had previously worked as an independent entrepreneur (Restaurant Colors, Zurich) and had been employed by Swatch in the PR area and by Certina in marketing.

Dr Thierry Kenel, Swiss citizen, holds a doctorate in Economics, a degree in Mechanical Engineering and a postgraduate degree in Management of Technology. As a Member of the Extended Group Management Board since 2009 and of the Executive Group Management Board since 2012, he is responsible for Corporate Finance, Reporting, Investor Relations, Swatch Group Belgium, Swatch Group Netherlands, Swatch Group Luxembourg, Swatch Group Greece and Swatch Group South Africa. Mr Kenel has been with the Swatch Group since 2003, first as Group Controller in the business segment Electronic Systems and subsequently as Head of Finance, IT and Administration at Montres Breguet SA. Prior to joining the Swatch Group, Mr Kenel was a lecturer and researcher in the field of economics at the University of Lausanne; before that, he was a member of the Board of Directors and the management of the Flumroc-Spoerry of companies. Mr Kenel represents the Swatch Group in the Board of economiesuisse, the Convention Patronale and the Federation of the Swiss Watch Industry FH, where he presides over the Economic Commission. Mr Kenel continues to be a private lecturer of Finance and Financial Reporting at the University of Lausanne (HEC) as well as at the Swiss Institute of Certified Accountants and Tax Consultants. He is also a member of the Liaison Committee University-Industry at the University of Lausanne (HEC).

Dr Peter Steiger, Swiss citizen, who has a doctorate in Public Economics, has been a member of the Extended Group Management Board since 2002 and member of the Executive Group Management Board since 2019, with responsibility for Corporate Controlling and Logistics as well as Swatch Group Singapore, Swatch Group UK, Swatch Group Mexico and Swatch Group US. He started his career with the Group in 1989 as Head of Finance and Administration with PC Quartz. Later, Mr Steiger held leading finance and logistics positions within various Group companies (among others Swatch and Longines). Before joining the Swatch Group, he had worked with international groups in Switzerland and abroad (Shell, Philips).

François Thiébaud, French citizen, studied at the ICG Institut Contrôle de Gestion, Paris and Law at the University of Besançon, and he has been a member of the Extended Group Management Board since 1998 and of the Executive Group Management Board since 2006, with responsibility for Mido, Certina, Union Glashütte as well as Swatch Group France and the Swiss market. He joined the Swatch Group in 1996 as President of Tissot. Previously, he had been active as Delegate of the Board of Directors of Juvenia and General Manager of Breitling during 13 years. He represents the Group in the AMS Association des fournisseurs d'horlogerie, marché suisse (Chairman).

4.2 Members of the Extended Group Management Board

Matthias Breschan, Austrian citizen, graduated from the Vienna School of Economics, has been a member of the Extended Group Management Board since 2005 and is responsible for Longines, Swatch Group Taiwan, and Swatch Group Austria. Mr Breschan is the President of Longines since July 2020. Before, he was the President of Rado for nine years, managed Hamilton for seven years and worked as Area Sales Manager for three years at Swatch Telecom. Between his activity for Hamilton and Swatch Telecom he was Managing Director of Aldi in France (Aldi Marché Est). Before joining Swatch Group Mr Breschan worked for Texas Instruments and Alcatel Mobile Phones in the product marketing, international marketing and sales areas.

Sylvain Dolla, French and Swiss citizen, master's degree from Toulouse Business School, member of the Extended Group Management Board since 2020. Sylvain Dolla has been president of Tissot since July 2020. Mr. Dolla joined Swatch Group in 2004, where he first held the position of Head of High-Tech & Access at Swatch. He then became Head of Sales International at Hamilton before serving as the brand's president for nine years. Before joining Swatch Group, Sylvain Dolla worked in various technologies companies in Paris, London, Atlanta and Dubai.

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Daniel Everts, Swiss citizen, lic. iur., attorney-at-law, MBA from INSEAD in Fontainebleau, France. Member of the Extended Group Management Board since 2019, responsible for Swiss Timing, Swatch Group Nordics (Sweden, Norway, Denmark, Finland), and Swatch Group Poland. Daniel Everts joined Swatch Group in 2010. Since 2016, he holds the position of Chief Legal Officer Corporate & Industry and is responsible for the legal support of the Group companies in the areas of production, electronic systems and corporate. Before joining Swatch Group, Daniel Everts worked as a lawyer in international commercial law firms. He represents Swatch Group as a delegate to the Swiss Watch Industry Employers' Association (Convention Patronale) and is a board member of the Swiss Employers' Association (SAV).

Yann Gamard, French citizen, holds an MBA from Lausanne and has been a member of the Extended Group Management Board since 1998. He is responsible for the watch brand Swatch, Swatch Group Germany as well as the distribution logistics for watches in Europe and for batteries worldwide. He joined the Swatch Group in 1995 (Swatch AG). He subsequently assumed responsibility for the telecom business of the Swatch Group and was thereafter appointed as Country Manager for the USA, responsible for Hamilton and later on for Glashütte Original, as well as for further European countries. Before joining the Group, Mr Gamard held various roles with Procter & Gamble and Cartier.

Hans-Rudolf Gottier, Swiss citizen, holds an electrical engineering degree from the University of Applied Sciences (HES) in Biel and is a member of the Swatch Group's Extended Management Board since 2013, where he is responsible for the companies Renata and Micro Crystal as well as for the FEPS in Shenzhen. Mr Gottier began his career in Swatch Group in 1980 as head engineer of the quartz production. Since 1990, he is the CEO of Micro Crystal Ltd. During this period, Micro Crystal was developed from being an internal quartz supplier for the watch business to being a worldwide quartz supplier. Over the recent years, Mr Gottier has led various companies within Swatch Group Electronic Systems and completed their restructuring. Prior to joining Swatch Group, Mr Gottier worked in South America where he was responsible for the technical implementation in connection with the importation of large machinery and installations.

Roger Juillet, Swiss citizen, has been a member of the Extended Group Management Board of Swatch Group since 2019. He has been CEO of Nivarox-FAR since 2012 and a member of the Executive Board of ETA since 2019. In addition, Mr. Juillet is responsible for Mecos and Swatch Group Assembly on the level of the Extended Group Management Board. Mr. Juillet joined the Group in 1969. He has held various positions in a number of Group companies. For example, he joined ETA in 1985 and was appointed Group Manager Automation after working for FHF (Fabrique d'Horlogerie de Fontainemelon) for several years. In 1998, he assumed the role of production manager for microtechnology components at Nivarox-FAR. Three years later, Mr. Juillet was appointed Production Manager Components and Assembly at the same subsidiary and then took over the management of this key Swatch Group company on 1 April 2012.

Mireille Koenig, Swiss citizen, lic. iur., lawyer, LL.M. (Chinese Law) from Hong Kong University. Member of the Extended Group Management Board since 2019, responsible for Swatch Group Russia and Swatch Group South Korea as well as the legal interests of the brands and international subsidiaries. Mireille Koenig joined the Swatch Group Legal Department in 2009 and has been Chief Legal Officer Brands & Countries since 2016. She represents Swatch Group as a delegate on the Legal Committee of the Swiss Watch Industry Association (FH). Prior to joining Swatch Group, Mireille Koenig worked for several years as a lawyer in an international business law firm and in a senior position at a Chinese management consultancy in Shanghai.

Lionel a Marca, Swiss citizen, has been a member of the Extended Group Management Board of the Swatch Group since 2019, responsible for Breguet, Rubattel & Weyermann, and MOM Le Prélet. He completed a technical education as a qualified rhabilleur watchmaker at the EHMP (Ecole Horlogerie Microtechnique) in Porrentruy. Mr. a Marca has been Vice President of Blancpain since 2004 and Vice President of Harry Winston as Head of Technical and Development Management since 2015. Previously, he was Head of Product at Blancpain for two years. He also served as consultant and project manager for Swatch Group Quality Management and as watchmaker for complications at ETA, as well as at Frédéric Piguet SA. Before joining Swatch Group, Lionel a Marca was a rhabilleur watchmaker in various watch companies in the Jura region.

Calogero Polizzi, Italian and Swiss citizen, holds a diploma in information technology from the Industrial Technical Institute L. Cobianchi in Verbania, Italy. He joined Swatch Group in 1999 and is Head of Information Technology at Swatch Group level since 2005, and President and CEO of Swatch Group Italy since 2019. He is a member of the Extended Group Management Board since 2013. Also on this level, he has the responsibility for Information Technology, Swatch Group Italy, and Hamilton. In addition, he is responsible for the software aspects of the new Swiss Operating System for IoT (Internet of Things). He worked as IT Manager at Swatch Group Italy and later as Head of IT at Swatch Group Distribution. Between these two assignments, he has been Chief Information Officer at Tod's S.p.A. Before joining Swatch Group, Mr Polizzi used to work at Whirlpool where he was engaged in various information technology positions at the international level.

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4.3 Number of permissible mandates

According to art. 40 of the Statutes, no member of the Group Management Board shall hold any directorships in listed companies and more than four additional directorships in unlisted companies. The following are not covered by these restrictions (i) directorships in companies which are directly or indirectly controlled by the company or which control the company, (ii) directorships held by a member of the Group Management Board on behalf of or at the request of the company or a company controlled by it, provided that no member of the Group Management Board shall hold more than 20 such directorships, and (iii) mandates in associations, charitable organizations, non-profit foundations and employee welfare foundations, as long as no member of the Group Management Board shall hold more than 30 such mandates. Directorships shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Directorships in different legal entities that are under joint control or same beneficial ownership are deemed one directorship.

4.4 Employment Contracts

The contracts of employment with the members of the Executive and the Extended Group Management Board are entered into for an indefinite period of time and can be terminated by both parties with a six month notice period. In case of a cancellation no termination payment will be due. No entry bonus is paid by Swatch Group when entering new contracts (Golden Hellos).

In case of an exit there are no other entitlements to any compensation.

4.5 Changes in the Executive Group Management Board resp. Extended Group Management Board

As of 1 July 2020, Mr. Raynald Aeschlimann was appointed to the Executive Group Management Board from the Extended Group Management Board. Mr. Sylvain Dolla was appointed to the Extended Group Management Board on 1 July 2020. As a consequence of his retirement, Mr. Walter von Känel resigned from the Extended Group Management Board as of 1 July 2020. Mr. Kevin Rollenhagen retired from the Extended Group Management Board end of August 2020. Otherwise, there were no changes in the Executive Group Management Board or the Extended Group Management Board during the year under review.

4.6 Management Contracts

Within the framework of a global contract, Hayek Engineering AG, Zurich, placed its management personnel in particular at the disposal of operational activities, as well as in the areas of real estate and logistics.

5. Compensation, shareholdings and loans / credits**5.1 Compensation**

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, etc. are exposed in a separate compensation report. Additionally, it is pointed out that according to Art. 32 para. 7 of the Statutes, the compensation may be awarded in the form of cash, shares, in kind or in the form of services; with regards to the executive members of the Board of Directors and the members of the Group Management Board, their compensation may in addition be awarded in the form of other participation rights, options, or similar instruments or units. The Board of Directors or, to the extent delegated to it, the compensation committee shall determine the applicable conditions relating to the grant, the exercise as well as the deadlines, possible blocking periods and forfeiture conditions.

The separate Compensation Report also covers the loans, credits and share programs and is thus referred to here.

5.2 Participation programs

The aims of the management stock option plan of the Swatch Group are to honour performances of the main Management members, strengthen the motivation and the sense of responsibility in the Group, further the loyalty to the firm as well as the stability of the managing employees and promote a favorable wealth increase. The allocation of shares results from an individual performance report. The voting rights of the shares in possession of the plan will not be exercised.

The share program is described in the Compensation Report.

An overview of the shares and options owned by the members of the Board of Directors, Executive Group Management Board and Extended Group Management Board and persons being closely related to them at 31 December 2020 may be consulted on page 111.

5.3 Loans, credits

Loans and credits to members of corporate bodies are considered in the Compensation Report.

5.4 Approval by the General Meeting

Pursuant to Art. 31 of the Statutes, the General Meeting shall annually approve the motions of the Board of Directors in relation to the aggregate amounts of (i) the maximum fixed compensation of the members of the Board of Directors for the period until the next Ordinary General Meeting, (ii) the maximum fixed compensation of the members of the Group Management Board for the current business year, (iii) the variable compensation of the executive members of the Board of Directors for the completed business year and (iv) the variable compensation of the members of the Group Management Board for the completed business year. The Board of Directors may thereof propose additional motions to the General Meeting or motions which vary from those mentioned above, to the extent permitted by law.

The company or companies controlled by it shall be organized to pay to persons who become members of the Group Management Board or are being promoted within the Group Management Board after the General Meeting has approved the compensation of the Group Management Board for the relevant period a supplementary amount during the compensation period(s) already approved, if the maximum aggregate amount of compensation already reapproved by the General Meeting is not sufficient to cover their compensation. The supplementary amount shall not exceed 40% of the last approved aggregate amount of compensation of the Group Management Board.

In the event that the General Meeting does not approve a motion of the Board of Directors, the Board of Directors shall determine, taking into account all relevant factors, the respective (maximum) aggregate amount or (maximum) partial amounts. The Board of Directors shall submit the amount(s) so determined for approval by the same General Meeting, a subsequent Extraordinary General Meeting or the next Ordinary General Meeting.

The company or companies controlled by it may pay out compensation prior to the approval by the General Meeting subject to the subsequent approval by the General Meeting.

6. Shareholders' participation

6.1 Voting rights and representation restrictions

For the exercise of voting rights, no shareholder may combine, either directly or indirectly, more than 5% of the total shareholders' equity in respect of his own shares and those represented by him. This limitation does not apply to the shares which are excluded from the registration prohibition (point 2.6 above). Nor does this restriction apply to the exercise of voting rights by the independent voting-rights representative.

Furthermore, pursuant to Art. 16(4) of the Statutes, the Board of Directors is entitled to make exceptions to the limitations in special cases. No exceptions were requested or granted during the business year. A modification of the representation restrictions is only possible through a change of the provisions of the Statutes. For such modification a decision of the General Meeting with a relative majority is required.

Shareholders who cannot attend the General Meeting in person may arrange to be represented by their legal representative, by another shareholder entitled to vote or by the independent voting-rights representative.

6.2 Statutory quorums

In addition to the special quorum regulations provided in Art. 704 CO, the Statutes also apply the same quorum regulation (two-thirds of the votes represented and an absolute majority of the par values of shares) for dismissing members of the Board of Directors.

6.3 Convocation of the General Meeting of Shareholders

The General Meeting is convened pursuant to Articles 13 and 14 of the Statutes. Shareholders who together own at least 10% of the share capital can, at any time, request in writing the convening of an extraordinary general meeting. Such an extraordinary general meeting shall be held within 40 days of the date of receipt of such a request.

6.4 Agenda

Shareholders who represent shares with a par value of one million Swiss francs may submit a written request for a meeting to be held to discuss a particular subject; the motions tabled shall likewise be indicated [see Article 14 (3) of the Swatch Group Statutes in conjunction with Art. 699 and 700 CO].

6.5 Entries in the share register

As a general rule, the share register is closed for entries 20 days before each General Meeting.

7. Changes of control and defence measures

7.1 Duty to make an offer

Art. 10 of the Statutes provides that a shareholder who acquires shares either directly or indirectly or in agreement with third parties and by so doing exceeds the limit of 49 % of voting rights, including the shares that he already possesses, regardless of whether those rights can or cannot be exercised, shall be required to make an offer to purchase all the listed shareholding papers of the Company [Art. 10 of the Statutes in conjunction with Art. 135 FinMIA].

7.2 Clauses on changes of control

There are no agreements with members of the Board of Directors, the Executive Group Management Board or other managerial staff for the case of a change in the shareholder structure.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers Ltd performs since 1992 the function of external auditor of the Group. Before that, the predecessor organizations already served as auditors for the Group and many of its companies.

Mr. Thomas Brüderlin, as head auditor (Engagement Partner), has been responsible for the audit and Group audit since the 2018 accounting year.

8.2 Auditing fees and additional fees

The following auditor's fees have been charged to the 2020 annual accounts:

(CHF million)	Audit	Taxes	Other Services	Total
PricewaterhouseCoopers	4.3	0.9	1.1	6.3
Other Auditing Companies	0.4	0.3	0.3	1.0
Total 2020	4.7	1.2	1.4	7.3
Total 2019	5.3	1.4	1.7	8.4

8.3 Supervisory and control instruments pertaining to the audit

The supervision and final verification of the external audit is exercised by the Audit Committee, and by the full Board of Directors, respectively [see also the duties and functions as described under 3.5]. The Audit Committee evaluates together with the Group Management the performance of the auditors and recommends the independent external auditor to the Board of Directors for election by the General Assembly. As a general rule, the Audit Committee meets twice a year with the auditors. The auditors prepare a report for the Audit Committee regarding the findings of the audit, the financial statement and the internal control. Together with the auditors, the audit focus points for the following review period are determined and the audit related key risks established by the auditors are discussed. In collaboration with Group Management the independence of the auditors is evaluated annually. In particular and for this purpose the worldwide fees of the audit are presented, discrepancies with the estimated costs analysed and explained and the budget for the following audit period is determined. The appointment of the auditor is subject to an approval procedure.

9. Information policy

The Swatch Group plans to report on the business of the Group at the following times:

- 28 January 2021 Key figures 2020
- 18 March 2021 Press conference / annual report 2020
- 11 May 2021 General Meeting of Shareholders
- 30 July 2021 Half-year figures 2021

The list may change during the year, if dates are adjusted or added. The information is always published in the Swiss and international press and also published and processed in the publications of leading international banks.

This information can also be obtained from the Swatch Group website at www.swatchgroup.com, and in particular under the «Investor Relations» section. The annual report can also be viewed and downloaded using the link "<https://www.swatchgroup.com/en/investors-space/annual-report>". In addition, the swatchgroup.com homepage allows for the possibility of subscribing to the Push-and-Pull information service in order to receive ad-hoc-financial announcements.

For queries, there is a contact form at www.swatchgroup.com/contactus. Queries may also be sent by post (The Swatch Group Ltd., Seedorstadt 6, CH-2501 Biel) or by fax to +41 32 343 69 11 or by telephone on +41 32 343 68 11.



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[CHF million]	2020	2019	Change in %		
			at constant rates	currency effect	Total
Net sales	5 595	8 243	-28.7%	-3.4%	-32.1%
Operating result	52	1 023			-94.9%
- In % of net sales	0.9%	12.4%			
Net result	-53	748			
- In % of net sales	-0.9%	9.1%			
Equity	10 965	11 493			
- As a % of balance sheet total	85.0%	83.9%			
Dividend in CHF 1)	2020	2019			
- Per bearer share	3.50	5.50			
- Per registered share	0.70	1.10			

1) For the year under review: Board of Directors' proposal

With its 18 brands, the Swatch Group is present in all segments, and is a fully verticalized company, from production to distribution. The Group has an ideal set-up worldwide, with its own retail network including e-commerce and its own customer service. The Group continuously makes long-term investments, not only in research and development of innovative and unique products, but also in the close to 150 production facilities in Switzerland and in worldwide distribution. As a result, the Group occupies an unparalleled position in the Swiss as well as the worldwide watch industry.

2. Environment / Financial year

Development net sales and operating result

2020 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Net sales	5 337	268	8	-18	5 595
Operating result	179	-6	-121	0	52
- In % of net sales	3.4%	-2.2%			0.9%
2019 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
Net sales	7 966	289	10	-22	8 243
Operating result	1 145	7	-129	0	1 023
- In % of net sales	14.4%	2.4%			12.4%

Despite major losses in the first half of 2020, the Group achieved a positive operating result of CHF 52 million for the entire year under review. Without the business unit Calvin Klein, which will be discontinued during the course of 2021, the operating result would have amounted to CHF 99 million. Net loss amounted to CHF -53 million.

In the year under review, the Group closed 384 retail stores. The resulting special costs incurred amounted to CHF 42 million. In Hong Kong SAR alone, the number of stores was reduced from 92 in the previous year to 38 at the end of 2020. Conversely, Group brands opened 55 new stores in growth markets. Further expansion of e-commerce business, which reported sales growth of 70%, could not compensate for sales losses in traditional retail. The proportion of e-commerce for brands in the middle and basic price segment reached between 20% and 30%. Production of watches, jewelry and components was gradually increased in the past months, but will only reach capacity again in the first half of 2021.

Net sales in the Electronic Systems segment decreased slightly in local currencies by -3.1%. The operating loss amounted to CHF -6 million. Excluding Swiss Timing, whose activities for sporting events were, for the most part, either cancelled or postponed due to Covid-19, would have resulted in an operating profit of CHF 2 million. In December, there was a double-digit increase in segment sales (without Swiss Timing) over the previous year.

Development net result

(CHF million)	2020	2019
Operating result	52	1 023
Net financial result	-16	-20
Ordinary result	36	1 003
Non-operating result	0	1
Result before income taxes	36	1 004
Income taxes	-89	-256
Net result	-53	748
- In % of net sales	-0.9%	9.1%
Basic earnings per share in CHF	2020	2019
- Registered shares	-0.20	2.84
- Bearer shares	-0.99	14.18

The net financial result for the year under review closed with a loss of CHF -16 million (previous year: loss of CHF -20 million), primarily influenced by a strongly negative net currency result. Further details to the net financial result can be found in Note 18 of the consolidated financial statements.

Income tax expenses amounted to CHF 89 million in the year under review (previous year: CHF 256 million). Due to Covid-19, both country organizations, with the exception of China, and Swiss production companies recorded a significant decline in sales and profits, as well as losses in some cases. Tax expenses could not be reduced to the same extent, as relatively high taxes had to be paid on increased profits in China. A detailed analysis of income tax expense is disclosed in Note 27 of the notes to the consolidated financial statements.

Net result totaled CHF -53 million compared to CHF 748 million in previous year.

In the current year, basic earnings per share amounted to CHF -0.20 (previous year: CHF 2.84) for registered shares and CHF -0.99 (previous year: CHF 14.18) for bearer shares. Detailed information can be found in Note 15 of the consolidated financial statements.

Thanks to the strong operating cash flow of the second half, the Board of Directors of the Swatch Group will propose a dividend of CHF 3.50 per bearer share and CHF 0.70 per registered share at the Annual General Meeting on 11 May 2021 (previous year: CHF 5.50 per bearer share and CHF 1.10 per registered share).

FINANCIAL REVIEW

Development balance sheet structure

(CHF million)	2020	2019
Current assets	9 238	9 555
Current liabilities	1 212	1 361
Equity	10 965	11 493
– As a % of balance sheet total	85.0%	83.9%

Current liabilities were covered by current assets by a factor of 7.6 (previous year: 7.0). This factor indicates a very healthy structure of the short-term balance sheet positions.

In the year under review, the equity amounted to CHF 11.0 billion (previous year: CHF 11.5 billion). The equity ratio was 85.0% of total assets (previous year: 83.9%).

Development liquidity

(CHF million)	2020	2019
Cash and cash equivalents at 1 January	1 148	902
Cash flow from operating activities	819	1 224
Cash flow from investing activities	-126	-344
Cash flow from financing activities (incl. foreign exchange rate differences on cash)	-301	-634
Cash and cash equivalents at 31 December	1 540	1 148

After-tax operating cash flow generated in 2020 was CHF 819 million, a decrease of -33.1% against the previous year.

Across all segments, Swatch Group invested a total of CHF 253 million in non-current operating assets¹⁾ in 2020. Free cash flow²⁾ amounted CHF 693 million (-21.3% compared to previous year), respectively 12.4% of Net sales (previous year: 10.7%).

The dividend payment of CHF 284 million (previous year: CHF 413 million) was the main cash flow from financing activities. The net liquidity³⁾ at the end of the year was CHF 1 700 million.

3. Outlook

Group Management anticipates a strong catch-up in consumption worldwide for watches and jewelry in 2021, as has already been observed in Mainland China after normalization of the health situation. Demand will strengthen further as soon as travel restrictions can be relaxed or lifted.

Numerous new products from the Group's brands will be additional sales drivers for 2021, for example, the Omega *Moonwatch*, the Longines *Spirit* or the highly demanded Tissot *T-Touch Connect Solar*. The latter will be launched in additional markets in 2021, including the USA and China. Swatch is pleased with the high demand for its *SwatchPAY!* models with credit card function. In future, these models can be conveniently configured online – unique in the world – and tokenization on site at a Swatch Store will no longer be necessary.

Highlights in Production will be the startup of a new production line for solar watch dials as well as the introduction of new technologies in the polishing sector.

1) Investments in property, plant and equipment, in intangible assets and in other non-current assets according to statement of cash flows

2) Cash flow from operating activities minus cash flow from investing activities

3) Cash and cash equivalents and marketable securities and derivative financial instruments minus current financial debts and derivative financial instruments

CONSOLIDATED INCOME STATEMENT

	Notes	2020 CHF million	%	2019 CHF million	%
Net sales	(4, 5a)	5 595	100.0	8 243	100.0
Other operating income	(5b)	122	2.2	134	1.6
Changes in inventories		-364	-6.5	-16	-0.2
Material purchases		-983	-17.6	-1 600	-19.4
Personnel expense	(11)	-1 972	-35.2	-2 578	-31.3
Depreciation and impairment on property, plant and equipment	(8)	-420	-7.5	-437	-5.3
Amortization and impairment on intangible assets	(9)	-43	-0.8	-43	-0.5
Other operating expenses	(6a)	-1 883	-33.7	-2 680	-32.5
Operating result		52	0.9	1 023	12.4
Other financial income and expense	(18)	-3	-0.0	-3	-0.0
Interest expense	(18)	-3	-0.0	-8	-0.1
Share of result from associates and joint ventures	(18, 34)	-10	-0.2	-9	-0.1
Ordinary result		36	0.7	1 003	12.2
Non-operating result	(5c)	0	0.0	1	0.0
Result before income taxes		36	0.7	1 004	12.2
Income taxes	(27b)	-89	-1.6	-256	-3.1
Net result		-53	-0.9	748	9.1
<i>Attributable to shareholders of The Swatch Group Ltd</i>		-51		730	
<i>Attributable to non-controlling interests</i>		-2		18	
Earnings per share in CHF	(15)				
Registered shares					
Basic earnings per share		-0.20		2.84	
Diluted earnings per share		-0.20		2.83	
Bearer shares					
Basic earnings per share		-0.99		14.18	
Diluted earnings per share		-0.99		14.17	

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

CONSOLIDATED BALANCE SHEET

Assets	Notes	31.12.2020		31.12.2019	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents	(19)	1 585	12.3	1 239	9.0
Marketable securities and derivative financial instruments	(20)	207	1.6	230	1.7
Trade receivables	(5d)	685	5.3	838	6.1
Other current assets	(22)	212	1.6	132	1.0
Inventories	(7)	6 315	49.0	6 852	50.1
Prepayments and accrued income	(23)	234	1.8	264	1.9
Total current assets		9 238	71.6	9 555	69.8
Non-current assets					
Property, plant and equipment	(8)	2 929	22.7	3 189	23.3
Intangible assets	(9)	144	1.1	150	1.1
Investments in associates and joint ventures	(34)	29	0.2	45	0.3
Other non-current assets	(26)	106	0.9	325	2.4
Deferred tax assets	(27d)	451	3.5	428	3.1
Total non-current assets		3 659	28.4	4 137	30.2
Total assets		12 897	100.0	13 692	100.0

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

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31.12.2020		31.12.2019	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(21)	92	0.7	101	0.7
Trade payables		281	2.2	313	2.3
Other liabilities	(24)	182	1.4	185	1.4
Provisions	(10)	69	0.5	84	0.6
Accrued expenses	(25)	588	4.6	678	5.0
Total current liabilities		1 212	9.4	1 361	10.0
Non-current liabilities					
Financial debts	(21)	3	0.0	20	0.1
Deferred tax liabilities	(27d)	465	3.6	546	4.0
Retirement benefit obligations	(12)	43	0.3	46	0.3
Provisions	(10)	51	0.4	57	0.4
Accrued expenses	(25)	158	1.3	169	1.3
Total non-current liabilities		720	5.6	838	6.1
Total liabilities		1 932	15.0	2 199	16.1
Equity					
Share capital	(14a)	118		118	
Capital reserves	(14b)	-970		-948	
Treasury shares	(14d)	-141		-195	
Goodwill recognized		-1 372		-1 372	
Translation differences		-490		-285	
Retained earnings		13 752		14 087	
Equity of The Swatch Group Ltd shareholders		10 897	84.5	11 405	83.3
Non-controlling interests		68	0.5	88	0.6
Total equity		10 965	85.0	11 493	83.9
Total equity and liabilities		12 897	100.0	13 692	100.0

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(CHF million)	Notes	2020	2019
Operating activities			
Net result		-53	748
Share of result from associated companies and joint ventures	(34)	10	9
Income taxes	(27b)	89	256
Depreciation on non-current assets	(8, 9)	463	481
Impairment	(8, 9)	0	-1
Changes in provisions and retirement benefit obligations		-23	-2
Gains/losses on sale of non-current assets		-16	-9
Other non-cash items		73	3
Changes in net working capital:			
- Trade receivables		124	42
- Inventories		370	21
- Other current assets, prepayments and accrued income		67	16
- Trade payables		-12	-91
- Other liabilities and accrued expenses		-45	-7
Dividends received from associated companies and joint ventures	(34)	1	4
Income tax paid	(27c)	-229	-246
Cash flow from operating activities		819	1 224
Investing activities			
Investments in property, plant and equipment		-208	-399
Proceeds from sale of property, plant and equipment		7	26
Investments in intangible assets		-41	-47
Proceeds from sale of intangible assets		19	0
Investments in other non-current assets		-4	-13
Proceeds from other non-current assets		83	11
Purchase of marketable securities		-132	-60
Sale of marketable securities		150	138
Cash flow from investing activities		-126	-344
Financing activities			
Dividends paid to shareholders	(16)	-284	-413
Dividends paid to non-controlling interests		-11	-17
Repurchase of treasury shares		0	-34
Sale of treasury shares		24	1
Change in non-current financial debts		0	2
Change in current financial debts		20	-153
Repurchase of non-controlling interests	(31c)	0	-1
Cash flow from financing activities		-251	-615
Net impact of foreign exchange rate differences on cash		-50	-19
Change in cash and cash equivalents		392	246
Change in cash and cash equivalents			
- Balance at beginning of year		1 148	902
- Balance at end of year	(19)	1 540	1 148

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CHF million)	Attributable to The Swatch Group Ltd shareholders							Non-controlling interests	Total equity
	Share capital (Note 14a)	Capital reserves (Note 14b)	Treasury shares (Note 14d)	Goodwill recognized	Translation differences	Retained earnings	Total		
Balance at 31 December 2018	125	-961	-1 251	-1 372	-210	14 854	11 185	89	11 274
Net result						730	730	18	748
Currency translation of foreign entities					-75		-75	-2	-77
Dividends paid						-413	-413	-17	-430
Employee stock option plan (Note 13)		13					13		13
Share capital reduction	-7		1 091			-1 084	0		0
Repurchase of treasury shares		1	-35				-34		-34
Transactions with non-controlling interests		-1					-1	0	-1
Balance at 31 December 2019	118	-948	-195	-1 372	-285	14 087	11 405	88	11 493
Net result						-51	-51	-2	-53
Currency translation of foreign entities					-205		-205	-7	-212
Dividends paid						-284	-284	-11	-295
Employee stock option plan (Note 13)		-1	9				8		8
Sale of treasury shares		-21	45				24		24
Transactions with non-controlling interests		-0					-0	0	0
Balance at 31 December 2020	118	-970	-141	-1 372	-490	13 752	10 897	68	10 965

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL INFORMATION

1. General information

The Swatch Group Ltd and its subsidiaries (collectively the Group) is active worldwide and represented in the finished watches and jewelry sector with 18 brands in all market and price segments. In addition, it holds an outstanding industrial position with a high degree of vertical integration in the sector of watch movements and components as well as in the electronic systems sector.

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

The shares of The Swatch Group Ltd are listed in Switzerland in the Swiss Reporting Standard of the SIX Swiss Exchange, under the ISIN numbers CH0012255144 (registered shares) and CH0012255151 (bearer shares). Bearer shares are included in the indices SMI, SPI as well as SLI and registered shares in the indices SPI, SPI Extra and SMIM. In addition, Swatch Group shares are also listed on the BX Berne eXchange.

These consolidated financial statements were approved for issue by the Board of Directors on 3 March 2021 and will be submitted to the Annual General Meeting of Shareholders for approval on 11 May 2021.

2. Basis of preparation

a. Basic accounting policies

These financial statements provide a true and fair view of the Swatch Group's assets, financial position and earnings, and have been drawn up in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. The financial statements of the Group are based upon the financial statements of the Group companies as at 31 December and are established in accordance with the standardized reporting and accounting policies. The financial statements are based on the principle of historical acquisition costs (except for securities and derivative financial instruments recognized at fair value) and on the going concern principle. The statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts have been rounded to the next million.

b. Changes in accounting policies

No changes to the Swiss GAAP FER standards became applicable in the year under review. The Group is not affected by the new standard *FER 40 Consolidated financial statements of insurance entities*, which will become effective on 1 January 2021. No further changes to standards have been published or announced.

c. Accounting estimates and judgments

The preparation of consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain accounting estimates and judgments which have an impact on the assets and liabilities, income and expenses reported, as well as the disclosure of contingent liabilities. These estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations and assessments of future events that are assumed to be reasonable under the given circumstances. Real results may differ from these estimates.

Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognized in the period in which the estimate is revised.

Significant estimates, judgements and assumptions are made mainly in the following areas:

Inventories. The Group recognizes impairments on inventories subject to market risk or with risk of obsolescence. In doing so, historical experience, anticipated future requirements, and the life cycle of the individual products are taken into account. Impairments are regularly evaluated by the individual subsidiaries, based on Group guidelines, and adjusted when necessary. The exceptional worldwide situation in the year under review did not lead to a requirement for additional impairment due to the fact that Group products have an extremely long life and are neither perishable nor subject to short term fashion cycles. Details to inventory write-downs are disclosed in Note 7.

Taxes. The Group operates worldwide and is subject to taxation in over 40 countries. The Group is fully compliant with tax laws without exception and pays taxes where economic value is generated. Group-internal transactions are conducted on an arm's length basis. The Group discloses the amount of tax paid and key tax figures annually in the "Country-by-Country Reporting". Calculation of current and deferred tax positions is based on the applicable tax laws. New circumstances such as changes in tax rates, tax systems, offsetting of carryforward tax losses, or estimates of the effect of ongoing tax audits can have a significant impact on the existing tax obligations or tax claims of Group companies. The Group proactively and systematically clarifies tax positions with tax experts to prevent tax eventualities. The Group is obligated to cooperate transparently with tax authorities. Details to income taxes and tax positions are disclosed in Note 27.

3. Events after the balance sheet date

There were no significant events after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IMPORTANT OPERATING POSITIONS

4. Segment information

a. Operating segment information

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

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

- Watches & Jewelry Design, production and commercialization of watches and jewelry
- Electronic Systems Design, production and commercialization of electronic components, Sports timing activities

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

Corporate does not qualify as a segment but is shown separately. It includes the activities of the Group's holding, finance, research and development, real estate and several other companies. Elimination of inter-segment sales is shown in the elimination column.

Internal Group sales are recognized at arm's length. Segment expenses are those that can be directly attributed to the segment. Centralized costs relating to Group Management, Corporate Communication, Group Human Resources, Corporate Finance, Treasury, Tax and Legal Services are not reallocated to the operating segments and remain under the heading Corporate.

2020 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	5 335	256	4		5 595
- Group	2	12	4	-18	0
Net sales	5 337	268	8	-18	5 595
Operating result	179	-6	-121	0	52
- In % of net sales	3.4%	-2.2%			0.9%

2019 (CHF million)	Watches & Jewelry	Electronic Systems	Corporate	Elimination	Total
- Third parties	7 965	273	5		8 243
- Group	1	16	5	-22	0
Net sales	7 966	289	10	-22	8 243
Operating result	1 145	7	-129	0	1 023
- In % of net sales	14.4%	2.4%			12.4%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IMPORTANT OPERATING POSITIONS

b. Net sales by geographical region

(CHF million)	2020	2019
Switzerland	340	753
Other Europe	998	1 564
Total Europe	1 338	2 317
Greater China	2 487	2 962
Other Asia	1 187	2 108
Total Asia	3 674	5 070
Total America	490	707
Total Oceania	56	94
Total Africa	37	55
Total	5 595	8 243

For the geographical presentation, sales are reported according to the destinations that appear on the invoices.

5. Revenues and trade receivables

a. Net sales

Net sales include the inflow of economic benefits from the sale of goods and services within the scope of ordinary business during the period under review. Sales reductions such as discounts, rebates and other concessions as well as payments to third parties such as commissions and any value added tax are deducted from net sales reported. All intercompany sales are eliminated during consolidation.

Revenues are reported if a Group company has transferred the significant risks and rewards of ownership of products sold to the client, and the collectability of the related receivables is reasonably secured. Revenue from services is recognized in the accounting period in which the service is rendered. Accruals for discounts granted to clients are established during the same period as the sales which gave rise to the discounts under the terms of the contract. In the case of agency transactions, only the value of own services is recognized. In the event of business transactions involving identifiable multiple elements, these are to be recognized and valued separately. This type of transaction occurs only rarely within the Group.

(CHF million)	2020	2019
Sale of goods	5 578	8 222
Rendering of services	17	21
Total net sales	5 595	8 243

b. Other operating income

In the year under review, other operating income amounted to CHF 122 million (previous year: CHF 134 million).

c. Non-operating result

Only net result from investment property was included in the non-operating result position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IMPORTANT OPERATING POSITIONS

d. Trade receivables

Trade receivables are recognized and carried at the original net invoice amount less an allowance for any specifically impaired receivables.

Impairment is charged on receivables which are either more than 12 months overdue or for which specific risks have been identified. Since no independent rating is available for most customers, their creditworthiness is assessed by the local credit control departments. In doing so, their asset and financial positions, previous experience and other factors are taken into consideration.

Bad debts are definitely written off when there is objective evidence that the Group will not be able to collect the receivables. Allowances for impaired receivables as well as losses on trade receivables are recognized as other operating expenses.

(CHF million)	31.12.2020	31.12.2019
Trade receivables – gross	698	856
Allowance for impaired receivables	-13	-18
Total trade receivables – net	685	838

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

(CHF million)	2020	2019
Balance at 1 January	-18	-15
Translation differences	1	0
Utilization	2	1
Reversal	5	1
Creation	-3	-5
Balance at 31 December	-13	-18

6. Expenses

a. Other operating expenses

(CHF million)	2020	2019
Marketing, sales and administration	-790	-1 245
Subcontracting and other direct costs of sales	-195	-284
Maintenance, rents and energy	-836	-1 096
Other operating expenses	-62	-55
Total other operating expenses	-1 883	-2 680

Other operating expenses included extraordinary costs amounting to CHF 42 million in the year under review (previous year: CHF 0 million) incurred in connection with the closure of 384 retail stores.

b. Research and development costs

Costs for research and development activities amounted to CHF 223 million in the year under review, representing 4.0% of net sales (previous year: CHF 251 million or 3.0% of net sales).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
IMPORTANT OPERATING POSITIONS

7. Inventories

Inventories are valued at the lower of acquisition or production cost and fair value less cost to sell. Any discounts received are treated as cost reductions. Manufacturing costs comprise all costs directly attributable to material and production, as well as overhead costs incurred in building up the inventory at its current location and/or to its current condition.

Acquisition costs are determined according to the weighted average method. Some production companies value their own produced inventories using the standard cost method. As these costs are regularly reviewed and updated, this method approximates the result of the weighted average method. Inventories with unsatisfactory inventory turnover are revalued accordingly.

(CHF million)	31.12.2020	31.12.2019
Raw materials, auxiliary material and supplies	470	519
Goods in progress	395	446
Semi-finished goods	1 757	1 910
Finished goods	3 342	3 625
Spare parts for customer service	351	352
Total inventories	6 315	6 852

Inventories with risk of obsolescence have been adjusted to their net realizable value as follows:

(CHF million)	2020	2019
Additional write-downs	-52	-44
Reversal of write-downs	4	3
Net impact in the income statement	-48	-41

8. Property, plant and equipment

Property, plant and equipment (including investment property) are recorded in the balance sheet at historical cost less accumulated depreciation and any impairments. Acquisition costs comprise the purchase price as well as the costs directly attributable to the utilization of the property, plant and equipment. Investments in existing property, plant and equipment are only capitalized if their value in use is sustainably increased or their useful life is extended considerably. Self-constructed assets are only capitalized if they are clearly identifiable and the costs can be reliably determined, and if the assets generate measurable benefits for the Group over a period of several years. Maintenance and repair costs that do not add value are charged directly to the result for the period.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The maximum depreciation periods are as follows:

- Land	no depreciation
- Production plants	30 years
- Administrative buildings	40 years
- Investment properties	50 years
- Technical equipment and machinery	15 years
- Other equipment and fixtures	8 years

Investment property mainly comprises commercial premises and residential buildings rented to third parties. The position advances and construction in progress includes buildings under construction and non-refundable down payments on land and buildings. The Group does not capitalize any interest expenses incurred during the construction period.

Impairment

The recoverable value and the remaining useful life of non-current assets are verified on every balance sheet date. If there are indications of a sustained impairment, the recoverable amount of the respective assets will be determined. The recoverable amount is the higher of the net selling price and value in use. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the smallest group of assets to which the individual asset belongs. If the book value of an asset exceeds the recoverable amount, an impairment loss is recognized separately in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
IMPORTANT OPERATING POSITIONS

(CHF million)	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2019	2 650	4 224	815	55	7 744
Translation differences	-18	-39	-28	0	-85
Additions	20	109	62	7	198
Disposals	-6	-119	-52	0	-177
Transfers	15	-3	3	-15	0
Historical cost, 31 December 2020	2 661	4 172	800	47	7 680
Accumulated depreciation, 31 December 2019	-931	-3 099	-525	0	-4 555
Translation differences	6	29	20	0	55
Annual depreciation	-77	-248	-95	0	-420
Impairment	0	0	0	0	0
Depreciation on disposals	4	115	50	0	169
Transfers	0	-1	1	0	0
Accumulated depreciation, 31 December 2020	-998	-3 204	-549	0	-4 751
Net book values					
Balance at 31 December 2019	1 719	1 125	290	55	3 189
Balance at 31 December 2020	1 663	968	251	47	2 929
<i>of which investment properties at 31.12.2020</i>	<i>423</i>				
<i>of which undeveloped properties at 31.12.2020</i>	<i>31</i>				

(CHF million)	Land, buildings and properties	Technical equipment & machinery	Other equipment & fixtures	Advances and construction in progress	Total
Historical cost, 31 December 2018	2 456	4 109	757	198	7 520
Translation differences	-8	-9	-7	0	-24
Additions	65	214	104	26	409
Disposals	-24	-87	-50	0	-161
Transfers	161	-3	11	-169	0
Historical cost, 31 December 2019	2 650	4 224	815	55	7 744
Accumulated depreciation, 31 December 2018	-873	-2 930	-472	0	-4 275
Translation differences	2	5	5	0	12
Annual depreciation	-75	-258	-105	0	-438
Impairment	0	1	0	0	1
Depreciation on disposals	15	83	47	0	145
Transfers	0	0	0	0	0
Accumulated depreciation, 31 December 2019	-931	-3 099	-525	0	-4 555
Net book values					
Balance at 31 December 2018	1 583	1 179	285	198	3 245
Balance at 31 December 2019	1 719	1 125	290	55	3 189
<i>of which investment properties at 31.12.2019</i>	<i>435</i>				
<i>of which undeveloped properties at 31.12.2019</i>	<i>30</i>				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
IMPORTANT OPERATING POSITIONS

9. Intangible assets

Capitalized development costs

Research costs are expensed when incurred. Development costs are only capitalized if they can be identified as intangible assets that will generate economic benefits in the future and the costs can be measured reliably. Other development costs are expensed when incurred. Once a product enters commercial production, the capitalized development costs are amortized on a straight-line basis over the estimated useful life (maximum five years).

Software

This heading includes in particular the following positions:

- Licenses purchased granting rights to use new technologies and software. They are amortized over their useful life (maximum five years).
- Internally developed software. These costs are recognized as intangible assets if it is likely that they will generate future economic benefits. The costs include software development employee costs and the direct portion of related overhead costs. The capitalized costs are amortized on a straight-line basis over the estimated useful life (maximum five years).

Other intangible assets

This heading includes in particular the following positions:

- Key money for strategically located retail stores. If it can be demonstrated by the existence of a market, it is capitalized as an intangible asset and amortized on a straight-line basis over the location's useful life of maximum 20 years. In contrast, key money that is not refundable or only refundable under specific circumstances is treated as prepaid rent and recorded under Other non-current assets (see Note 26).
- Patents and rights of use
- Development and software projects in progress. These are transferred into their respective categories after project completion.

Goodwill

Goodwill from acquisitions is recognized in Group equity at the time of acquisition. The notes to the consolidated financial statements disclose the effects of a theoretical capitalization and amortization of goodwill (see Note 33).

Impairment

The principle for recognition of impairment on non-current assets is described in Note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
IMPORTANT OPERATING POSITIONS

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
Historical cost, 31 December 2019	189	208	119	516
Translation differences	0	-2	-1	-3
Additions	12	15	13	40
Disposals	-1	-2	-5	-8
Transfers	22	3	-25	0
Historical cost, 31 December 2020	222	222	101	545
Accumulated amortization, 31 December 2019	-153	-171	-42	-366
Translation differences	0	2	0	2
Annual amortization	-21	-18	-4	-43
Impairment	0	0	0	0
Amortization on disposals	1	2	3	6
Transfers	0	0	0	0
Accumulated amortization, 31 December 2020	-173	-185	-43	-401
Net book values				
Balance at 31 December 2019	36	37	77	150
Balance at 31 December 2020	49	37	58	144

	Capitalized development costs	Software	Other intangible assets	Total
(CHF million)				
Historical cost, 31 December 2018	179	189	106	474
Translation differences	0	-1	-2	-3
Additions	6	14	28	48
Disposals	-1	-2	0	-3
Transfers	5	8	-13	0
Historical cost, 31 December 2019	189	208	119	516
Accumulated amortization, 31 December 2018	-134	-148	-46	-328
Translation differences	0	1	1	2
Annual amortization	-20	-20	-3	-43
Impairment	0	0	0	0
Amortization on disposals	1	2	0	3
Transfers	0	-6	6	0
Accumulated amortization, 31 December 2019	-153	-171	-42	-366
Net book values				
Balance at 31 December 2018	45	41	60	146
Balance at 31 December 2019	36	37	77	150

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

IMPORTANT OPERATING POSITIONS

10. Provisions

Provisions are recognized:

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate receivable, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement, net of any reimbursement. No discounting effects are taken into account on non-current provisions, as these are considered to be immaterial.

(CHF million)	Warranty	Legal risks	Dismantling	Other	Total
Balance at 31 December 2018	93	8	30	16	147
Translation differences	-1	0	0	0	-1
Additional provisions	82	1	1	7	91
Reversal of provisions	-5	0	-1	-7	-13
Provisions used during the year	-78	-1	-2	-2	-83
Balance at 31 December 2019	91	8	28	14	141
<i>thereof current provisions</i>	<i>70</i>	<i>3</i>	<i>3</i>	<i>8</i>	<i>84</i>
<i>thereof non-current provisions</i>	<i>21</i>	<i>5</i>	<i>25</i>	<i>6</i>	<i>57</i>
Translation differences	-2	0	-2	-1	-5
Additional provisions	42	1	6	19	68
Reversal of provisions	-6	-1	-1	0	-8
Provisions used during the year	-64	-5	-2	-5	-76
Balance at 31 December 2020	61	3	29	27	120
<i>thereof current provisions</i>	<i>45</i>	<i>2</i>	<i>4</i>	<i>18</i>	<i>69</i>
<i>thereof non-current provisions</i>	<i>16</i>	<i>1</i>	<i>25</i>	<i>9</i>	<i>51</i>

a. Warranty

Products that do not perform to customers' satisfaction are repaired or replaced by the Group under warranties of one or more years. The provision made at year-end to cover anticipated warranty costs is based on past experience with respect to the volume of repairs and returns.

b. Legal risks

Some Group companies are involved in litigation arising from the ordinary course of their business. Management estimated the outcome of these lawsuits on the basis of currently available information and recorded adequate provisions. However, there are inherent risks within legal claims depending on court and adversary party behavior and opinion that may cause a significant outflow of economic benefits.

c. Dismantling / restoration

Various Group companies have contractual or legal obligations to return objects to their original state at the end of the term of the contract. At the beginning of the contract term, dismantling and restoration costs are estimated on the basis of contractual elements and/or empirical values and provisions are recorded. These obligations arise primarily from contracts for rental premises.

d. Other

Other provisions relate to various present legal or constructive obligations of the Group companies toward third parties. This category contained also restructuring provisions in the amount of CHF 10 million (previous year: CHF 2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PERSONNEL

11. Personnel expense

(CHF million)	2020	2019
Wages and salaries	-1 807	-2 080
Short-time work allowances	278	0
Social security costs	-305	-353
Employee stock option plan (Note 13)	-8	-12
Pension costs (Note 12)	-130	-133
Total personnel expense	-1 972	-2 578

Due to Covid-19, the Group introduced reduced working hours in various countries for a significant number of employees. Compensation from insurers was deducted from personnel expense (see table above).

The development of the headcount, expressed as the number of employment contracts, is summarized in the following table:

(unaudited)	2020	2019
Average annual headcount	33 870	36 596
Total headcount at 31 December	32 424	36 089
<i>Men</i>	<i>16 071</i>	<i>17 654</i>
<i>Women</i>	<i>16 353</i>	<i>18 435</i>
<i>Swiss contracts</i>	<i>16 655</i>	<i>17 562</i>
<i>Non-Swiss contracts</i>	<i>15 769</i>	<i>18 527</i>

12. Retirement benefit obligations

Pension obligations

Group companies operate various pension schemes, which conform to the legal regulations and provisions in force in the respective countries. The actual economic effects of pension schemes on the Group are calculated at balance sheet date. An economic obligation is recognized as a liability if the requirements for the recognition of a liability are met. An economic benefit is capitalized provided that it is permitted and intended to be used for future Group pension contributions. Freely available employer contribution reserves are capitalized.

Employees of Swiss Group companies are insured as part of the "Swatch Group Pension Fund", which is a separate legal entity and financed by contributions from both employers and employees. Surpluses or deficits are calculated based on the preliminary Pension Fund's financial statements, which have been drawn up in accordance with Swiss GAAP FER 26. The Group's pension costs include the employer contributions accrued in the period as well as any economic effects from the excess/shortfall and the change in employer contribution reserves.

Some foreign companies operate fully financed pension funds. These funds are treated in the same way as the Swiss plan in terms of accounting, i.e. paid contributions are basically recorded as expenses. In some countries, there are also pension plans that do not have their own assets, whereby the corresponding benefit provisions are recognized directly in the balance sheet and any changes are recognized in the income statement.

Other post-employment benefits

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

Termination benefits

Termination benefits are payable when employment is terminated (in normal employment conditions) in advance of the terms of the contract, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes such benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or providing benefits as a result of an offer made for a voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. The company does not make severance payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERSONNEL

a. Economic benefit / obligation and pension costs

2020	Surplus / deficit	Group's economic share	Change from previous year		Contributions concerning the business period	Total pension costs
			no income statement impact 1)	income statement impact		
(CHF million)						
Patronage funds / patronage pension plans	397	0	0	0	11	11
Pension plans without surplus / deficit	0	0	0	0	-6	-6
Pension plans with surplus	3	0	0	0	-5	-5
Pension plans with deficit	-312	-1	0	1	-125	-124
Pension plans without own assets	0	-42	8	-6	0	-6
Total	88	-43	8	-5	-125	-130

2019	Surplus / deficit	Group's economic share	Change from previous year		Contributions concerning the business period	Total pension costs
			no income statement impact 1)	income statement impact		
(CHF million)						
Patronage funds / patronage pension plans	399	0	0	0	12	12
Pension plans without surplus / deficit	0	0	0	0	-7	-7
Pension plans with surplus	0	0	0	0	-2	-2
Pension plans with deficit	-307	-2	2	-2	-126	-128
Pension plans without own assets	0	-44	5	-8	0	-8
Total	92	-46	7	-10	-123	-133

1) The amounts without an income statement impact refer to exchange rate differences and disbursements.

b. Summary of pension costs

	2020			2019		
	Switzer-land	Abroad	Total	Switzer-land	Abroad	Total
(CHF million)						
Contributions to pension plans	-112	-13	-125	-109	-14	-123
Total contributions	-112	-13	-125	-109	-14	-123
Change of economic benefits from surpluses	0	0	0	0	0	0
Change of economic obligations from deficits	0	-5	-5	0	-10	-10
Total changes of economic effects from surpluses / deficits	0	-5	-5	0	-10	-10
Total pension costs	-112	-18	-130	-109	-24	-133

c. Shares held by pension institutions

Number of shares of The Swatch Group Ltd	31.12.2020		31.12.2019	
	Registered shares	Bearer shares	Registered shares	Bearer shares
	3 702 746	11 875	3 703 796	12 165

d. Employer contributions reserve

At the end of the year under review, and at the end of the previous year, there was no employer contributions reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERSONNEL

13. Employee stock option plan

The Group operates a share-based employee stock option plan. Under the terms of this plan, a specified number of options to purchase registered shares are granted to managers and employees who have distinguished themselves by a particularly strong commitment to the company or an above-average performance. One-third of the options granted can be exercised immediately, one-third after 12 months, and the remaining third after 24 months. Options are conditional on the employee being employed by the company on the date of exercise. Options are not transferable and only exercisable by the employee. The exercised options can optionally be subject to a blocking period of either 5 or 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The fair value of the employee services received in exchange for the granting of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted (day value at grant date, respectively the last trading day before the grant date). At each balance sheet date, the Group revises its calculation of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original calculations, if any, in the income statement, with a corresponding adjustment to equity.

Registered shares from existing treasury stock have been specifically reserved for this plan. No new shares were issued for the employee stock option plan. The proceeds received are recognized in Group equity when the options are exercised.

The dilutive effect of outstanding options on earnings per registered share is disclosed in Note 15b.

Balance of registered shares in the employee stock option plan	2020	2019
Balance at 1 January	2 742 335	2 954 449
Exercised shares	-212 439	-212 114
Balance at 31 December	2 529 896	2 742 335

Options outstanding	2020	2019
Options outstanding at 1 January	200 206	212 327
Granted	199 700	201 503
Forfeited or lapsed	-2 542	-1 510
Exercised	-212 439	-212 114
Options outstanding at 31 December	184 925	200 206

Expiry date of outstanding options	31.12.2020	31.12.2019
2020		132 958
2021	122 829	67 248
2022	62 096	
Total	184 925	200 206

The personnel expense recorded in the income statement of the year under review amounted to CHF 8 million (previous year: CHF 12 million).

Valuation of options		2020		2019	
		Portion exercisable in 1 year	Portion exercisable in 2 years	Portion exercisable in 1 year	Portion exercisable in 2 years
Grant date		31.05.2020	31.05.2020	31.05.2019	31.05.2019
Expiry date		31.05.2021	31.05.2022	31.05.2020	31.05.2021
Share price on grant date	CHF	37.34	37.34	48.36	48.36
Exercise price	CHF	4.00	4.00	4.00	4.00
Day value on grant date	CHF	33.34	33.34	44.36	44.36

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL AND TREASURY

14. Share capital and reserves

Shares issued by The Swatch Group Ltd are recognized in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share capital consists of registered shares, each with a nominal value of CHF 0.45, and bearer shares, each with a nominal value of CHF 2.25. Each share carries one vote. Both categories of shares confer equal entitlement to dividends according to their nominal value.

Treasury shares that are reacquired are deducted from equity at historical cost. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of treasury shares. In the event of a resale at a later point in time, a gain or loss is recognized as an addition to or reduction of capital reserves.

a. Share capital

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

Balance sheet date	Registered shares		Bearer shares		Share capital in CHF
	at CHF 0.45		at CHF 2.25		
31.12.2018	124 045 000		30 840 000		125 210 250.00
Capital reduction 2019 (cancelled shares)	-7 125 500		-1 904 000		-7 490 475.00
31.12.2019	116 919 500		28 936 000		117 719 775.00
31.12.2020	116 919 500		28 936 000		117 719 775.00

In the previous year, shares were cancelled as part of a capital reduction, in accordance with the resolution passed at the Annual General Meeting.

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

b. Capital reserves

Capital reserves include the result from the sale of treasury shares and transactions with non-controlling interests as well as effects of capital reductions.

c. Non-distributable reserves

At the end of the year under review, the reserves of the holding company, The Swatch Group Ltd, included a non-distributable amount of CHF 165 million (previous year: CHF 219 million). This amount consisted of CHF 141 million related to treasury shares held (previous year: CHF 195 million) and non-distributable legal reserves of CHF 24 million (previous year: CHF 24 million).

d. Treasury shares

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

	Registered shares		Bearer shares		Total CHF million
	Quantity	CHF million	Quantity	CHF million	
Balance at 31 December 2018	10 201 597	633	1 912 550	618	1 251
Acquisitions 1)	314 433	18	56 450	17	35
Disposals 2)	-212 114	0	0	0	0
Cancellations 3)	-7 125 500	-478	-1 904 000	-613	-1 091
Balance at 31 December 2019	3 178 416	173	65 000	22	195
Acquisitions 1)	0	0	0	0	0
Disposals 2)	-633 995	-46	-25 000	-8	-54
Balance at 31 December 2020	2 544 421	127	40 000	14	141

1) In the year under review, the Group acquired neither registered shares nor bearer shares. In the previous year, 314 433 registered shares were acquired at an average price of CHF 58.55 and 56 450 bearer shares at an average price of CHF 295.67.

2) In the year under review, 421 556 registered shares were sold at an average price of CHF 41.50 (previous year: none). As part of the employee stock option plan (see Note 13), 212 439 registered shares were exercised (previous year: 212 114). In addition, 25 000 bearer shares were sold in the year under review at an average price of CHF 227.22 (previous year: none).

3) The cancellations were related to a capital reduction in accordance with the resolution passed at the Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL AND TREASURY

15. Earnings per share

a. Basic

	2020	2019
Net result attributable to shareholders of The Swatch Group Ltd (CHF million)	-51	730
Percentage of registered shares outstanding in comparison with the share capital outstanding	44.2%	44.0%
Percentage of bearer shares outstanding in comparison with the share capital outstanding	55.8%	56.0%

Registered shares

	2020	2019
Net result attributable to registered shareholders (CHF million)	-23	322
Average number of shares outstanding	114 169 222	113 428 394
Basic earnings per share (CHF)	-0.20	2.84

Bearer shares

	2020	2019
Net result attributable to bearer shareholders (CHF million)	-28	408
Average number of shares outstanding	28 872 923	28 814 317
Basic earnings per share (CHF)	-0.99	14.18

b. Diluted

Registered shares

	2020	2019
Net result attributable to registered shareholders (CHF million)	-23	322
Average number of shares outstanding – basic (as above)	114 169 222	113 428 394
Potential number of shares from options outstanding	166 808	185 285
Average potential number of shares outstanding – diluted	114 336 030	113 613 679
Diluted earnings per share (CHF)	-0.20	2.83

Bearer shares

	2020	2019
Net result attributable to bearer shareholders (CHF million)	-28	408
Average potential number of shares outstanding	28 872 923	28 814 317
Diluted earnings per share (CHF)	-0.99	14.17

16. Dividends paid and proposed

Dividend payments to shareholders are recognized in the Group's financial statements in the period in which the Annual General Meeting of The Swatch Group Ltd has given its approval.

On 14 May 2020, the Annual General Meeting approved the distribution of the following dividend:

	Dividend per share CHF	Total dividend CHF million
Dividend paid		
Registered shares	1.10	129
Bearer shares	5.50	159
Total dividend		288
Dividend not paid out on own shares		-4
Total dividend paid		284

At the Annual General Meeting on 11 May 2021, the payment of the following dividend for the year under review will be proposed and treated as an appropriation of available earnings during the financial year 2021:

	Dividend per share CHF	Total dividend CHF million
Proposed dividend		
Registered shares	0.70	82
Bearer shares	3.50	101
Total dividend		183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL UND TREASURY

17. Financial risk management

a. Financial risk factors

In view of the global and varied nature of its activities, the Group is exposed to different financial risks, including foreign currency, market, credit and liquidity risks. The Group's financial risk management is essentially focused on identifying and analyzing exchange rate risk, mainly against the US Dollar, the Chinese Renminbi, the Euro and the Japanese Yen, with the aim of minimizing its impact on the net result of the Group. In order to hedge exchange rate risk, the Group may use derivative financial instruments such as forward currency contracts or currency options.

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

Credit risk. Credit risks in respect of customers arise when they may not be able to settle their obligations as agreed. The credit standing of commercial partners defined in the Group's client credit policy is periodically reviewed at Group level. There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

In the context of securities trading, the Group guards against the risk of default by implementing directives that impose minimum credit ratings for investments in tradable securities. Exposure to this type of risk is closely monitored by Group management and is contained within strict and predetermined limits. Given the very high standards of creditworthiness applied to the commercial and financial partners, the default risks to which the Group is exposed are estimated to be limited.

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

At the balance sheet date, the available liquidity is summarized as follows:

(CHF million)	31.12.2020	31.12.2019
Cash and cash equivalents (Note 19)	1 585	1 239
Marketable securities and derivative financial instruments (Note 20)	207	230
Short-term accessible liquidity reserves	1 792	1 469
Committed credit facilities	822	809
/. Utilized credit facilities	-89	-118
Total short-term accessible liquidity reserves and undrawn credit facilities	2 525	2 160

b. Capital management

The primary objective of the Group with regard to capital management is to preserve a strong equity base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The Group's top management reviews the capital structure of the Group and the equity of its subsidiaries on a regular basis.

To preserve or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new debt or redeem existing debt. There were no changes in the Group's approach to capital management during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL AND TREASURY

18. Net financial result

(CHF million)	2020	2019
Interest income	17	21
Result from marketable securities at fair value	3	19
Net currency result	-19	-39
Other financial expense	-4	-4
Other financial income and expense	-3	-3
Interest expense	-3	-8
Share of result from associates and joint ventures	-10	-9
Net financial result	-16	-20

19. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise petty cash, cash at banks and short-term deposits with an original maturity of three months or less. They are recorded at their nominal value. The average yield on short-term bank deposits corresponds to the average interest rate on an investment on the money markets with a term of up to three months. In the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, less current account overdrafts (funds "net cash").

(CHF million)	31.12.2020	31.12.2019
Current accounts and liquid assets	1 025	929
Short-term deposits with financial institutions	560	310
Total cash and cash equivalents - balance sheet	1 585	1 239

(CHF million)	31.12.2020	31.12.2019
Cash and cash equivalents	1 585	1 239
Current account overdrafts (Note 21)	-45	-91
Total funds net cash - statement of cash flows	1 540	1 148

20. Marketable securities and derivative financial instruments

Marketable securities

Purchases and sales of securities are recognized in accordance with the settlement date principle. The securities are initially measured at cost, and the transaction costs are charged to the income statement. Subsequently, the listed securities are recorded in the balance sheet at market value on the balance sheet date. Private equity investments are adjusted to the current net asset value on the balance sheet date. All realized and unrealized gains and losses resulting from variations in market values and foreign currencies are recorded in the income statement. In general, issuer risk is minimized by only buying securities which are investment grade rated.

Derivative financial instruments

The Group did not designate derivative financial instruments as cash flows hedges, either in the year under review or in the previous year. All such instruments are booked at fair value. Fair value changes are recognized immediately in the financial result. Counterparty risk is also minimized by ensuring that all derivative financial instruments, money market investments and current account deposits are placed with financial institutions whose credit ratings are usually at least investment grade.

(CHF million)	31.12.2020	31.12.2019
Equity securities	69	32
Bond securities	133	183
Investment funds and other investments	4	9
Total marketable securities at fair value	206	224
Derivative financial instruments	1	6
Total marketable securities and derivative financial instruments	207	230

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CAPITAL UND TREASURY

At the end of the year under review, there was no option contract outstanding (none in the previous year). The table below gives an overview of the contract values and fair values of open forward contracts.

(CHF million)	31.12.2020			31.12.2019		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts in						
CNY	79	1	0	0	0	0
EUR	320	0	-2	350	1	0
GBP	69	0	-1	76	0	0
USD	320	0	-1	437	5	0
Other currencies	79	0	0	126	0	0
Total	867	1	-4	989	6	0

21. Financial debts and derivative financial instruments

Financial debts

Financial debts are recognized as nominal values. Any transaction costs incurred are posted in the income statement. Financial debts are shown on the balance sheet as current liabilities, unless the Group has an unconditional right to postpone the settlement of the debt until at least 12 months after the balance sheet date. The exposure of the Group's financial debts to interest rate changes is limited as most of these debts have fixed interest rates.

Derivative financial instruments

The accounting principles for derivative financial instruments are explained in Note 20.

(CHF million)	31.12.2020	31.12.2019
Current account overdrafts	45	91
Short-term bank debts	43	10
Derivative financial instruments	4	0
Total current financial debts and derivative financial instruments	92	101
Total non-current financial debts	3	20
Total financial debts	95	121

The contractual repricing dates at the balance sheet date are as follows:

(CHF million)	< 1 year	1-5 years	> 5 years	Total
At 31 December 2020	92	1	2	95
At 31 December 2019	101	18	2	121

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

(CHF million)	31.12.2020	31.12.2019
CHF	51	94
JPY	37	20
Other currencies	7	7
Total	95	121

The Swatch Group had no listed debenture bonds or convertible bonds outstanding in the years under review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED BALANCE SHEET

22. Other current assets

(CHF million)	31.12.2020	31.12.2019
VAT to be refunded	59	86
Other receivables	153	46
Total other current assets	212	132

23. Prepayments and accrued income

(CHF million)	31.12.2020	31.12.2019
Prepaid sales, marketing and administration costs	82	102
Income tax assets	18	18
Prepaid leasing costs	26	32
Other prepayments and accrued income	108	112
Total prepayments and accrued income	234	264

24. Other liabilities

(CHF million)	31.12.2020	31.12.2019
Advance payments received	73	53
Income tax liabilities	8	10
VAT liabilities	25	37
Other tax liabilities	15	11
Social benefits liabilities	33	36
Other liabilities	28	38
Total other liabilities	182	185

25. Accrued expenses

(CHF million)	31.12.2020	31.12.2019
Accrued salaries and social benefits	118	168
Accrued sales, marketing and administration costs	156	160
Accrued income taxes	125	144
Accrued sales reductions	54	74
Accrued leasing costs	171	183
Other accrued expenses	122	118
Total accrued expenses	746	847
<i>thereof current</i>	<i>588</i>	<i>678</i>
<i>thereof non-current</i>	<i>158</i>	<i>169</i>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED BALANCE SHEET

26. Other non-current assets

Non-current accruals

This position contains the non-current portion of prepayments and accrued income, particularly prepaid marketing and leasing cost. Key money paid when renting stores in strategic locations is recognized as prepaid rent when recovery at the end of the contract is not certain, and booked to rent expense on a straight-line basis over the contract period. The current portion is transferred to Prepayments and accrued income.

	Non-current accruals	Security deposits	Other financial assets	Total
(CHF million)				
Balance at 31 December 2019	35	93	197	325
Translation differences	-1	-6	-5	-12
Additions	1	4	3	8
Disposals	-0	-10	-67	-77
Balance sheet transfer	-7	-10	-121	-138
Balance at 31 December 2020	28	71	7	106

	Non-current accruals	Security deposits	Other financial assets	Total
(CHF million)				
Balance at 31 December 2018	32	96	208	336
Translation differences	-1	-1	-2	-4
Additions	4	11	4	19
Disposals	0	-6	-1	-7
Balance sheet transfer	0	-7	-12	-19
Balance at 31 December 2019	35	93	197	325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OTHER INFORMATION

27. Income taxes

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

Current income tax

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

Deferred tax

Deferred tax is recognized in full, using the balance sheet approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax regulations and rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply.

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

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

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

a. Reconciliation of the Group's effective tax rate

The Group has changed the presentation of the tax rate reconciliation in order to present the given information in a more representative manner. Firstly, the Group's applicable tax rate is now presented as the domestic tax rate of Biel, where the Headquarters of Swatch Group are located. Secondly, the reconciliation items are presented in CHF million instead of percentages for easier comprehension. Prior year figures have been represented in the same manner in order to ensure full comparability.

	2020	2019
(CHF million)		
Result before income taxes	36	1 004
Group's applicable tax rate	22.0%	22.0%
Income taxes at applicable tax rate	-8	-221
Effect of:		
- Differences in tax rates 1)	-71	-23
- Tax rate changes on deferred taxes 2)	51	21
- Recognition and offset of tax loss carry-forwards not recognized in prior years	6	4
- Non-recognition of tax loss carry-forwards	-62	-38
- Non-taxable income	3	2
- Non-tax-deductible expenses	-7	-8
- Income taxes of prior periods	-1	6
- Other items	0	1
Total income taxes	-89	-256
Group's effective tax rate	247.2%	25.5%

1) The Group operates worldwide and is subject to income taxes in many different tax jurisdictions. The effect of the different tax rates in the respective tax jurisdictions versus the Group's applicable tax rate as well as the relative weight of the result of each individual entity in the Group's result may change from year to year.

2) More than half of the positive effect of tax rate changes in the year under review was attributable to the Swiss tax reforms in the various home cantons of the Group.

The effective tax rate based on the ordinary result in the year under review was 247.2 % (previous year: 25.5 %).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OTHER INFORMATION

b. Income tax expenses

(CHF million)	2020	2019
Current income taxes	-209	-290
Income tax of prior periods	-1	6
Deferred taxes	121	28
Total income taxes	-89	-256

c. Current income tax

Net current income tax liability (CHF million)	2020	2019
Balance at 1 January	-136	-99
Recognized in income statement	-210	-284
Recognized in equity	-1	-1
Income taxes paid	229	246
Translation differences	3	2
Balance at 31 December	-115	-136
Current income tax assets	18	18
Current income tax liabilities	-133	-154

d. Deferred tax

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

(CHF million)	31.12.2020			31.12.2019		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	329	-302	27	310	-337	-27
Trade and other receivables	1	-15	-14	2	-14	-12
Property, plant and equipment	20	-97	-77	18	-122	-104
Intangible assets	10	-6	4	9	-7	2
Provisions	13	-39	-26	15	-42	-27
Retirement benefit obligations	6	0	6	6	0	6
Accrued expenses	65	-32	33	69	-34	35
Tax losses	57	0	57	16	0	16
Other	13	-37	-24	10	-17	-7
Total deferred tax assets / liabilities	514	-528	-14	455	-573	-118
Deferred tax assets			451			428
Deferred tax liabilities			-465			-546

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

(CHF million)	2020			2019		
	Not recognized	Recognized	Total	Not recognized	Recognized	Total
Up to five years	227	3	230	192	15	207
More than five years	414	235	649	207	32	239
No expiry date	176	21	197	118	22	140
Total at 31 December	817	259	1 076	517	69	586

The potential tax effect resulting from the utilization of previously unrecognized carryforward tax losses amounted to CHF 161 million in the year under review (previous year: CHF 113 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OTHER INFORMATION

28. Commitments and contingencies

Operating leases

An operating lease is where a significant portion of the risks and rewards of ownership are retained by the lessor. Operating lease payments are recognized as expenses in the income statement on a straight-line basis over the lease term. On the other hand, temporary rent adjustments are recorded as expense reductions in the corresponding months, and are not distributed over the remaining term of the lease.

Finance leases

A finance lease is where the lessor transfers to the lessee the significant risks and rewards associated with the ownership of the leased item. At the beginning of the term of the lease contract, the lower of fair value of the leased item or net present value of the future lease payments is shown in the balance sheet as assets and liabilities. Each lease payment is apportioned between the finance charges and the reduction of the lease liability, so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recorded directly in the income statement as expenditure. Capitalized leased assets are depreciated over the lower of estimated economic useful life of the asset or contract period.

Property, plant and equipment are only leased exceptionally. At the end of the year under review, the Group had no property, plant and equipment under finance lease contracts (previous year: net book value of less than CHF 1 million).

a. Guarantees and sureties

At the end of the year under review, guarantees to third parties as security for commitments of Group companies amounted to CHF 27 million (previous year: CHF 32 million).

Total assets pledged by Group companies to guarantee their commitments amounted to CHF 102 million at the end of the year under review (previous year: CHF 128 million), of which CHF 16 million served to secure financial debts (previous year: CHF 22 million).

b. Leasing and other commitments

The Group's fixed operating leasing commitments that cannot be cancelled within 12 months and which are not recognized in the balance sheet are due as follows (non-discounted):

(CHF million)	31.12.2020	31.12.2019
Less than 1 year	357	460
Between 1 and 5 years	1 039	1 243
Over 5 years	830	861
Total	2 226	2 564

The figures in the preceding table include all rental contracts for buildings, a major part of which relate to the Group's retail business, and to all other rental contracts existing at the end of the year under review. Leasing costs amounting to CHF 536 million were recognized in the income statement of the year under review, compared to CHF 695 million in the previous year.

At the end of the year under review, other open long-term and irrevocable payment obligations entered into by the Group, which cannot be cancelled within 12 months, had a non-discounted value of CHF 588 million (previous year: CHF 720 million). They mainly relate to marketing and sponsoring commitments, as well as investments in tangible fixed assets.

c. Contingent assets and liabilities

Some Group companies have contingent liabilities in respect of legal claims arising from the ordinary course of business and they may be liable to pay compensation. It is not expected that any material liabilities will arise from these contingent liabilities other than those provided for (see Note 10b).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
OTHER INFORMATION

29. Related party transactions

a. Principal shareholders

At the end of the year under review, the Hayek Pool and its related companies, institutions and individuals held 62 773 361 registered shares and 749 811 bearer shares, equivalent to 43.6% of all voting rights (previous year: 42.3%) of The Swatch Group Ltd, which is the parent company of the Group. In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 42.9% of all voting rights (previous year: 41.8%).

b. Key management personnel

In addition to the members of the Board of Directors, the members of the Group Management Board and of the Extended Management Board are considered as key management personnel. Total compensation for key management personnel was as follows:

(CHF million)	2020	2019
Short-term employee benefits	19.5	23.8
– of which in salaries	8.5	7.9
– of which in bonus	10.1	15.4
– of which in expense allowances	0.6	0.5
– of which in other benefits	0.3	0.0
Share-based compensation	4.8	6.3
Contributions to pension plans	0.7	0.6
Other social benefits	2.0	2.5
Total	27.0	33.2

In the year under review and in the previous year, no termination benefits were paid to members of the Board of Directors, the Management Board or the Extended Management Board. The employment contracts of members of management bodies do not provide for this type of benefit. In the year under review and in the previous year, no payments were made to former members of the Group's governing bodies for their past functions.

c. Share ownership

At the end of the year under review, the executive members of the Board of Directors and the members of the Management Board of the company as well as the persons close to them held directly or indirectly a total of 57 910 178 registered shares and 737 976 bearer shares, representing 40.2% of all voting rights (previous year: 39.0%). In addition, at the end of the year under review, all the non-executive members of the Board of Directors as well as the persons close to them held 100 registered shares and 2 010 bearer shares, representing 0.0% of all voting rights (previous year: 0.0%).

d. Loans to members of the governing bodies

The employees of the company may take out a mortgage loan with the Swiss Pension Fund of the Swatch Group for the construction or acquisition of property in Switzerland. The conditions for these mortgage loans are set by the Foundation Board of the Swiss Pension Fund of the Swatch Group. These conditions are applied in the same manner to all Swatch Group employees. In the year under review and the previous year, no loans were granted to current or former members of the Board of Directors, the Management Board or the Extended Management Board. Also, in the year under review and the previous year, no such loans were outstanding.

e. Associated companies and other related parties

The following table summarizes transactions, receivables and payables with associated companies, joint ventures (see Note 35b) and other related parties. Consulting services invoiced by the Hayek Group are recognized in Other related parties. At the end of the year under review and the previous year, there were no other balances outstanding with other related parties.

(CHF million)	2020		2019	
	Associates and joint ventures	Other related parties	Associates and joint ventures	Other related parties
Purchases	52	9	76	10
Sales	9	0	38	0
Receivables	1	0	2	0
Payables	3	1	3	1
Guarantees received	0	0	0	0
Loans granted	2	0	7	0
Interest rate on loans granted	4.0%	0	4.2%	0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

30. Consolidation

Consolidation policies

The Group companies include all companies that are directly or indirectly controlled by The Swatch Group Ltd. In this respect, control is defined as the power to control the financial and operating activities of the respective company, so as to obtain benefits from its operations. This control is normally evidenced by the holding of more than half of the voting rights on share capital of an entity. Group companies are consolidated from the date on which control is transferred to the Group until the date on which control ceases.

Companies acquired over the course of the year are revalued and consolidated in accordance with Group principles upon the date of acquisition. Goodwill from acquisitions is recognized in Group equity at acquisition date. The Notes to the financial statements disclose the effects that a theoretical capitalization and amortization of the acquired goodwill would have to the equity and the net result (see Note 33). In the event that shares of Group or associated companies are sold, the difference between the proceeds from the sale and the proportional book value of the net assets, including historical goodwill, is recognized as a gain or loss in the income statement.

Non-controlling interests in equity and in net result are disclosed separately in the consolidated balance sheet and the consolidated income statement. Changes in ownership interests in subsidiaries are recognized as equity transactions, provided that control continues. Intercompany transactions, balances and unrealized gains and losses from transactions between Group companies are eliminated in full.

Associates are all companies on which the Group exerts significant influence, but does not control. This is generally evidenced when the Group holds voting rights of 20% to 50% of the voting rights on share capital of an entity. Representation on the board of directors or access to the current financial information of a company are also indicators of significant influence. Investments in associated companies are accounted for using the equity method and are initially recognized at cost. Unrealized gains and losses from transactions with associated companies are eliminated to the extent of the Group's participation in the associated company. The accounting policies of associated companies are adjusted where necessary in order to ensure consistency with the policies observed by the Group. Participations in joint ventures are also reported using the equity method.

Foreign currency translation

Translation in the financial statements of the Group companies

The financial statements of individual Group companies are measured in the currency of the economic environment in which these companies predominantly operate (functional currency). Transactions in foreign currencies are converted to the functional currency at the prevailing exchange rate on the transaction date. Balance sheet items in foreign currency are converted using the year-end exchange rate. Any resulting gains and losses are recorded in the income statement. Foreign exchange gains or losses from the conversion of intercompany loans of an equity nature are recognized in equity without affecting the income statement. Exchange differences resulting from the conversion of investments in associated companies are also reported in equity. There are no investments in hyperinflationary countries.

Translation of individual financial statements to be consolidated

The consolidated financial statements of the Swatch Group are presented in the reporting currency of Swiss francs (CHF). The financial statements of the individual companies to be consolidated are translated into Group currency at the effective date with the current rate method. This currency translation is carried out for the assets and liabilities at the year-end exchange rates, for equity at historical exchange rates, and for the income statement and statement of cash flows at average annual exchange rates. Any translation differences are recognized in equity without affecting the income statement.

In the event that a foreign entity is sold, the cumulative translation differences recognized in equity, which are a result of the translation of the financial statements and intercompany loans, are reversed from the accounts and reported in the income statement as part of the gain or loss on the sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

a. Consolidated companies

	2020	2019
Number of companies at 1 January	153	158
Foundations	1	0
Group internal mergers	0	-3
Liquidations	-2	-2
Number of companies at 31 December	152	153
<i>of which associates</i>	<i>5</i>	<i>5</i>
<i>of which joint ventures</i>	<i>2</i>	<i>2</i>

b. Exchange rates

Currency	Unit	Average rates		Prevailing rates	
		2020	31.12.2020	2019	31.12.2019
CNY	1	0.1361	0.1357	0.1443	0.1392
EUR	1	1.0736	1.0860	1.1134	1.0880
HKD	1	0.1210	0.1142	0.1271	0.1245
JPY	100	0.8830	0.8585	0.9133	0.8925
USD	1	0.9382	0.8860	0.9955	0.9700

31. Business combinations

a. Acquisition of subsidiaries

There were no acquisitions in the year under review and the previous year.

b. Divestments of businesses

No companies were sold in the year under review and the previous year.

c. Changes in non-controlling interests

In November 2020, the Group's share in the company Belenos Clean Power Engineering AG was reduced from 60% to 51%. The transaction amounted to less than CHF 1 million and had no impact on the Group's equity.

In August 2019, the Swatch Group acquired the remaining 40% of shares of Termiboîtes S.A., a watch case polishing company. The Swatch Group already had control over the company. The transaction amounted to CHF 1 million. The difference between the purchase price and the proportional equity of the company amounted to CHF 1 million and was recorded in the capital reserves.

32. Discontinued operations

The business unit Calvin Klein will be discontinued in 2021, due to the expiration of the license agreement. This unit reached the following key figures, with net sales realized mainly in Europe (over 50%) and Asia (over 40%) in the year under review:

(CHF million)	2020	2019
Net sales	40	117
Operating result	-47	-33

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

33. Acquired goodwill

Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the net identifiable assets of the acquired company at the time of purchase. In the case of acquisitions, potentially existing non-capitalized intangible assets such as brands, user rights or client lists are not recognized separately, but remain in goodwill. Goodwill may also arise from investments in associated companies, calculated as the amount of the acquisition costs of the investment which exceeds its related net assets at fair value at the time of acquisition. Goodwill from acquisitions is translated into CHF with the exchange rate applicable on the respective transaction date, and is recognized directly in Group equity. As a result, no currency adjustments are necessary in the statement of changes in goodwill. The estimated useful life of goodwill is between 5 and 10 years.

A goodwill impairment test is carried out at every balance sheet date. A goodwill impairment would not result in a charge being recorded in the income statement, but would lead to a disclosure in the notes to the financial statements. In the event that a Group company is sold, any goodwill acquired at an earlier point in time and recognized in equity is taken into consideration when determining the gain or loss in the income statement.

a. Theoretical statement of changes in goodwill

The theoretical capitalization of goodwill would have the following impact on the consolidated balance sheet:

(CHF million)	2020			2019		
	Goodwill Group companies	Goodwill associated companies	Total	Goodwill Group companies	Goodwill associated companies	Total
Historical cost 1 January	1 389	48	1 437	1 389	48	1 437
Additions	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Historical cost 31 December	1 389	48	1 437	1 389	48	1 437
Theoretical accumulated amortization 1 January	-1 082	-45	-1 127	-980	-42	-1 022
Theoretical annual amortization	-102	-3	-105	-102	-3	-105
Theoretical impairment	0	0	0	0	0	0
Theoretical amortization on disposals	0	0	0	0	0	0
Theoretical accumulated amortization 31 December	-1 184	-48	-1 232	-1 082	-45	-1 127
Theoretical net book value 31 December	205	0	205	307	3	310

b. Theoretical impact on equity and net result

Had goodwill been capitalized and amortized, the theoretical effect on equity and net result would have been as follows:

(CHF million)	31.12.2020	31.12.2019
Equity per balance sheet	10 965	11 493
Theoretical capitalization of net book value of goodwill	205	310
Theoretical equity including net book value of goodwill	11 170	11 803
(CHF million)	2020	2019
Net result per income statement	-53	748
Theoretical amortization of goodwill	-105	-105
Theoretical net result after goodwill amortization	-158	643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

34. Investments in associates and joint ventures

All associates and joint ventures (see Note 35b) are recognized using the equity method.

(CHF million)	2020	2019
Balance at 1 January	45	59
Share of result from associates and joint ventures	-10	-9
Dividends received	-1	-4
Investments	0	0
Translation differences	-5	-1
Balance at 31 December	29	45

Although voting rights in the investment in Hengdeli Holdings are less than 20%, the Swatch Group can exert significant influence, since it is represented on the board of directors and has access to current financial information. Therefore, this investment is considered to be an associated company.

In the year under review and the previous year, there were no significant changes in investments in associates and joint ventures.

At balance sheet date, associated companies and joint ventures had no contingent liabilities (previous year: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

35. The Swatch Group Companies

As at 31.12.2020

a. Fully consolidated

Company name, Registered offices	Field of Activity	Capital in million	Group participation
EUROPE			
Switzerland			
The Swatch Group AG, Neuchâtel	Holding	CHF 117.72	
Assemti SA, Locarno	Assembly	CHF 0.10	100%
Belenos Clean Power Engineering AG, Biel/Bienne	Research and development	CHF 0.25	51%
Belenos Clean Power Holding AG, Biel/Bienne	Holding	CHF 63.00	51%
Blancpain SA, Le Chenit	Watches	CHF 0.10	100%
Blancpain Les Boutiques SA, Le Chenit	Retail	CHF 0.10	100%
Breguet Les Boutiques SA, L'Abbaye	Retail	CHF 0.50	100%
CERTINA AG, Le Locle	Watches	CHF 3.50	100%
CHH Microtechnique SA, Le Chenit	Watch components	CHF 0.10	100%
Cité du Temps SA, Biel/Bienne	Communication	CHF 6.00	100%
CK Watch & Jewelry Co., Ltd., Biel/Bienne	Watches	CHF 5.00	90%
Comadur SA, Le Locle	Products in hard materials	CHF 7.86	100%
Compagnie des Montres Longines, Francillon S.A., Saint-Imier	Watches	CHF 10.00	100%
Dernier Batz SA, Neuchâtel	Real estate	CHF 10.00	100%
Diantus Watch SA, Mendrisio	Watches, movements	CHF 10.00	100%
Distico SA, Biel/Bienne	Distribution	CHF 3.00	100%
Dress your body AG, Corcelles-Cormondrèche	Jewelry	CHF 0.10	100%
EM Microelectronic-Marin SA, La Tène	Microelectronics	CHF 25.00	100%
ETA SA Manufacture Horlogère Suisse, Grenchen	Watches, movements and components	CHF 6.20	100%
Evaco AG, Möhlin	Watches	CHF 0.50	58%
Hamilton International AG, Biel/Bienne	Watches	CHF 3.00	100%
Harry Winston SA, Plan-les-Ouates	Watches	CHF 0.40	100%
ICB Ingénieurs Conseils en Brevets SA, Neuchâtel	Patents	CHF 0.20	100%
Manufacture Ruedin SA, Haute-Sorne	Watch cases	CHF 2.40	100%
Meco SA, Grenchen	Watch crowns	CHF 4.50	100%
Micro Crystal AG, Grenchen	Miniature low-frequency quartz crystals	CHF 4.00	100%
MIDO AG, Le Locle	Watches	CHF 1.20	100%
MOM Le Prélet S.A., Val-de-Ruz	Watch dials	CHF 0.30	100%
Montres Breguet SA, L'Abbaye	Watches	CHF 10.00	100%
Montres Jaquet Droz SA, La Chaux-de-Fonds	Watches	CHF 12.00	100%
Nivarox-FAR S.A., Le Locle	Watch components and thin wires	CHF 4.00	100%
Novi SA, Les Genevez	Assembly	CHF 0.14	100%
Omega SA, Biel/Bienne	Watches	CHF 50.00	100%
Rado Uhren AG, Lengnau BE	Watches	CHF 2.00	100%
Record Watch Co. SA, Saint-Imier	Administration	CHF 0.10	100%
Renata AG, Itingen	Miniature batteries	CHF 0.50	100%
Rubattel et Weyerhann S.A., La Chaux-de-Fonds	Watch dials	CHF 0.15	100%
Simon et Membrez S.A., Delémont	Watch cases	CHF 0.10	100%
SSIH Management Services AG, Biel/Bienne	Services	CHF 0.05	100%
Swatch AG, Biel/Bienne	Watches	CHF 2.00	100%
Swatch Retail AG, Biel/Bienne	Retail	CHF 2.00	100%
Swiss Timing LTD, Corgémont	Sports timing technology & equipment	CHF 2.00	100%
Technocorp Holding S.A., Le Locle	Holding	CHF 6.00	100%
Termiboîtes S.A., Basse-Allaine	Watch case polishing	CHF 0.10	100%
The Swatch Group Assembly SA, Mendrisio	Assembly	CHF 6.00	100%
The Swatch Group Europa AG, Biel/Bienne	Distribution	CHF 29.65	100%
The Swatch Group Export SA, Neuchâtel	Distribution	CHF 1.00	100%
The Swatch Group Far East Distribution Ltd, Biel/Bienne	Distribution	CHF 0.10	100%
The Swatch Group Immeubles SA, Neuchâtel	Real estate project & property management	CHF 0.50	80%
The Swatch Group Lab AG, Zürich	Services	CHF 0.60	100%
The Swatch Group Les Boutiques SA, Le Grand-Saconnex	Retail	CHF 3.00	100%
The Swatch Group Management Services AG, Biel/Bienne	Services	CHF 0.05	100%
The Swatch Group Recherche et Développement SA, La Tène	Research and development	CHF 0.10	100%
The Swatch Group Services AG, Biel/Bienne	Logistics, distribution and services	CHF 1.00	100%
Time Flagship AG, Zürich	Retail	CHF 6.00	100%
Tissot SA, Le Locle	Watches	CHF 5.00	100%
Universo S.A., La Chaux-de-Fonds	Watch hands	CHF 0.67	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

Company name, Registered offices	Field of Activity		Capital in million	Group participation
Belgium				
The Swatch Group (Belgium) SA/NV, Anderlecht	Distribution	EUR	1.75	100%
RETAIL SERVICES BELGIUM SA, Bruxelles	Services	EUR	2.09	100%
Germany				
Förderungsgesellschaft der Glashütter Uhrenindustrie mbH, Glashütte	Watches	EUR	0.03	100%
Glashütter Uhrenbetrieb GmbH-Glashütte/Sa., Glashütte	Watches	EUR	0.51	100%
ST Sportservice GmbH, Leipzig	Sports timing technology & equipment	EUR	3.47	100%
Swiss Prestige Uhren Handel GmbH, Eschborn	Retail	EUR	0.08	100%
The Swatch Group (Deutschland) GmbH, Eschborn	Distribution	EUR	1.28	100%
UNION Uhrenfabrik GmbH Glashütte/Sa., Glashütte	Watches	EUR	0.10	100%
France				
BREGUET SAS, Paris	Administration	EUR	0.04	100%
FABRIQUE DE FOURNITURE DE BONNETAGE-F.F.B.-SAS, Villers-le-Lac	Precision parts	EUR	4.56	100%
Frésard Composants SAS, Charquemont	Precision parts	EUR	1.80	100%
Harry Winston SAS, Paris	Retail	EUR	10.09	100%
HOOR PASSION SAS, Paris	Retail	EUR	10.00	100%
The Swatch Group (France) SAS, Paris	Distribution	EUR	15.00	100%
Greece				
THE SWATCH GROUP GREECE S.M.S.A., Athens	Distribution	EUR	0.32	100%
Great Britain				
Harry Winston (UK) Limited, London	Retail	GBP	0.00	100%
The Swatch Group (UK) Limited, London	Distribution	GBP	2.00	100%
Italy				
Lascor S.p.A., Sesto Calende	Watch cases and bracelets	EUR	1.00	100%
The Swatch Group Europe Services S.r.l., Milano	Administration	EUR	0.01	100%
The Swatch Group (Italia) S.p.A., Milano	Distribution	EUR	23.00	100%
Luxembourg				
The Swatch Group Financial Services (Luxembourg) S.A., Alzingen	Finance company	EUR	5.00	100%
The Swatch Group RE (Luxembourg) S.A., Alzingen	Reinsurance	EUR	1.80	100%
The Swatch Group SICAF-SIF, Alzingen	Finance company	CHF	233.41	100%
Monaco				
The Swatch Group (Monaco) Les Boutiques S.A.M.	Distribution	EUR	2.00	100%
Netherlands				
The Swatch Group (Netherlands) B.V., Eindhoven	Distribution	EUR	3.45	100%
Austria				
The Swatch Group (Österreich) GmbH, Wien	Distribution	EUR	0.04	100%
Poland				
The Swatch Group (Polska) Sp.z o.o., Warszawa	Distribution	PLN	10.00	100%
Russia				
The Swatch Group (RUS) OOO, Moscow	Distribution	RUB	8 544.12	100%
Sweden				
The Swatch Group (Nordic) AB, Stockholm	Distribution	SEK	0.50	100%
Spain				
THE SWATCH GROUP ESPAÑA SA, Alcobendas	Distribution	EUR	0.45	100%
Czech Republic				
ASICentrum spol. s.r.o., Praha	Microelectronics	CZK	0.30	100%
ST Software s.r.o., Liberec	Sports timing technology & equipment	CZK	0.10	80%
Turkey				
The Swatch Group Turkey Saat Ticaret Limited Sirketi, Istanbul	Distribution	TRY	251.00	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

Company name, Registered offices	Field of Activity		Capital in million	Group participation
ASIA				
Bahrain				
Hour Choice W.L.L., Manama	Retail	BHD	0.02	58%
Greater China				
Harry Winston Commercial (China) Co. Ltd., Beijing	Retail	CNY	78.96	100%
Harry Winston (Hong Kong) Limited, Hong Kong SAR	Retail	HKD	0.01	100%
O Grupo Swatch (Macau) Limitada, Macau	Retail	MOP	1.50	100%
Shanghai Qi Heng Trading Co., Ltd., Shanghai	Retail	CNY	30.00	100%
Shanghai Qi Tong Trading Co., Ltd., Shanghai	Retail	CNY	1.00	100%
Shanghai Ruijing Retail Co., Ltd., Shanghai	Retail	CNY	20.25	100%
Shanghai Ruiwan Retail Co., Ltd., Shanghai	Retail	CNY	4.00	100%
Shanghai SMH Watch Service Center Co., Ltd., Shanghai	Customer service	CNY	48.37	100%
Shanghai Swatch Art Centre Co., Ltd., Shanghai	Art center	CNY	148.41	90%
SMH Les Boutiques (Shanghai) Co., Ltd., Shanghai	Retail	CNY	99.69	100%
SMH Swiss Watch Trading (Shanghai) Co., Ltd., Shanghai	Distribution	CNY	7.12	90%
SMH Technical Services (Shenzhen) Co., Ltd., Shenzhen	Services	CNY	10.45	100%
The Swatch Group (China) Ltd., Shanghai	Distribution	CNY	14.88	100%
The Swatch Group (Hong Kong) Limited, Hong Kong SAR	Distribution	HKD	5.00	100%
India				
Swatch Group (India) Private Limited, New Delhi	Distribution	INR	5 280.00	100%
Swatch Group (India) Retail Private Limited, New Delhi	Retail	INR	180.10	100%
Indonesia				
PT Swatch Group Indonesia, Jakarta	Distribution	IDR	189 295.90	100%
Japan				
Harry Winston Japan K.K., Tokyo	Retail	JPY	10.00	100%
The Swatch Group (Japan) KK, Tokyo	Distribution	JPY	100.00	100%
Qatar				
Hour Choice W.L.L., Doha	Retail	QAR	0.20	29%
Rivoli Enterprises W.L.L., Doha	Retail	QAR	0.20	29%
Rivoli Watches W.L.L., Doha	Retail	QAR	0.40	29%
Malaysia				
MICROMECHANICS (M) SDN. BHD., Ipoh	Assembly electronic components	MYR	35.00	100%
SWISS LUXURY WATCH & JEWELRY SDN. BHD., Kuala Lumpur	Retail	MYR	7.00	51%
THE SWATCH GROUP (MALAYSIA) SDN. BHD., Kuala Lumpur	Distribution	MYR	1.00	100%
Oman				
RIVOLI & CO LLC, Muscat	Retail	OMR	0.30	58%
Singapore				
Harry Winston N.A. Pte. Ltd., Singapore	Retail	SGD	0.00	100%
THE SWATCH GROUP S.E.A. (S) PTE. LTD., Singapore	Distribution	SGD	4.00	100%
South Korea				
The Swatch Group (Korea) Ltd., Seoul	Distribution	KRW	6 300.00	100%
Thailand				
ETA (Thailand) Company Limited, Samut Prakan	Assembly electronic components	THB	504.50	100%
The Swatch Group Trading (Thailand) Limited, Bangkok	Distribution	THB	600.00	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATION AND GROUP STRUCTURE

Company name, Registered offices	Field of Activity	Capital in million	Group participation
United Arab Emirates			
Al Khaleej Watches LLC, Abu Dhabi	Retail	AED 0.15	58%
Blue Sky Trading Company LLC, Abu Dhabi	Retail	AED 0.30	58%
Excel Enterprises LLC, Dubai	Retail	AED 1.70	58%
Golden Watch Company LLC, Abu Dhabi	Retail	AED 0.50	58%
Hour Choice LLC, Dubai	Retail	AED 3.00	58%
Rivoli Arcade LLC, Dubai	Retail	AED 0.30	58%
Rivoli Enterprises LLC, Dubai	Retail	AED 3.00	58%
RIVOLI GROUP LLC, Dubai	Retail	AED 24.02	58%
Rivoli Investments LLC, Dubai	Holding	AED 0.30	58%
Rivoli Textiles LLC, Dubai	Retail	AED 0.30	58%
Swatch Group Retail Middle East LLC, Dubai	Retail	AED 0.30	100%
Vision 2000 LLC, Dubai	Retail	AED 1.00	58%
AMERICA			
Brazil			
SGB Importação e Varejo de Artigos de Luxo Ltda, São Paulo	Retail	BRL 82.50	100%
Canada			
H.W. Protection Inc., Toronto	Services	CAD 1.94	100%
The Swatch Group (Canada) Ltd., Toronto	Distribution	CAD 4.50	100%
Mexico			
Operadora y Comercializadora de Relojes y Joyería S.A. de C.V., Mexico	Services	MXN 1.50	100%
The Swatch Group Mexico S.A. de C.V., Mexico DF	Distribution	MXN 200.00	100%
Panama			
The Swatch Group Panama S.A., Panama City	Administration	USD 0.01	100%
United States			
EM Microelectronic – US Inc., Colorado Springs	Microelectronics	USD 0.04	100%
Harry Winston, Inc., New York	High jewelry	USD 0.00	100%
The Swatch Group (U.S.) Inc., Wilmington, Delaware	Distribution	USD 1.01	100%
OCEANIA			
Australia			
THE SWATCH GROUP (AUSTRALIA) PTY. LTD., Glen Iris	Distribution	AUD 0.40	100%
AFRICA			
South Africa			
The Swatch Group (South Africa) (Proprietary) Limited, Sandton	Distribution	ZAR 225.00	100%

b. Equity method

Company name, Registered offices	Field of Activity	Capital in million	Group participation
EUROPE			
Switzerland			
Danyack S.A., La Chaux-de-Fonds	Real estate	CHF 0.06	29%
S.I. Les Corbes SA, Val-de-Ruz	Real estate	CHF 0.10	34%
ASIA			
Greater China			
Beijing Xinyu Hengrui Watch & Clock Co., Ltd., Beijing	Real estate	CNY 40.00	50%
Hengdeli Holdings Limited, Hong Kong	Retail	CNY 22.94	9%
Saudi Arabia			
Alzouman General Trading Co. Ltd., Jeddah	Retail	SAR 60.00	33%
United Arab Emirates			
Marcolin Middle East FZCO, Dubai	Distribution	AED 0.10	29%
New Horizons General Trading LLC, Dubai	Retail	AED 0.30	29%

Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of The Swatch Group Ltd and its subsidiaries (the Group), which comprise the consolidated income statement for the year ended 31 December 2020, the consolidated balance sheet as at 31 December 2020, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 61 to 96) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 33,000,000

We concluded full scope audit work at 87 Group companies in 29 countries. These 87 Group companies addressed more than 90% of the Group's total assets, net sales and net result.

As key audit matter the following area of focus has been identified:

Valuation of inventories



Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality for the audit of the consolidated financial statements	CHF 33,000,000
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How we determined it	5% of the weighted average result before income taxes of the last three years
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Rationale for the materiality benchmark applied	We chose result before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. In addition, a weighted and average result before income taxes is a generally accepted benchmark for considerations of materiality. We chose 5% of result before income taxes to determine materiality as this is a commonly used benchmark in practice.
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We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2,500,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks in making operational decisions and for its financial reporting.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The main subsidiaries of the Group are audited by PwC exclusively and we remain in constant contact with the audit teams that perform the work. As the auditor of the consolidated financial statements, we ensure that we visit the local management and the local auditor of the most significant Group companies every three years according to a rotation plan. During these site visits, we discuss the risks of a material misstatement in the local entity's financial statements as well as the focus points of the audit and the audit scope. During the audit of the 2020 consolidated financial statements, we participated in the audit closing meetings of three of the main Group companies in Switzerland and discussed the audit with the local auditors and the management of the main Group companies in the United Arab Emirates, France and Hong Kong via a virtual meeting.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Valuation of inventories

Key audit matter

We consider the valuation of inventories to be a key audit matter because they amounted to CHF 6,315 million on the balance sheet as at 31 December 2020 and they represent a significant share of total assets (about 49%).

Sales of watches and jewellery are subject to market fluctuations. These fluctuations along with the complex structure of inventories – raw materials, components, finished goods and spare parts – mean that there is significant scope for judgement in testing inventories for impairment and recoverability. In performing these tests, the different raw materials used and the durability of the value of each brand's products have to be considered in the light of the differing product life cycles.

Please refer to page 66 (Basis of preparation, c. Accounting estimates and judgments) and page 70 (Notes to the consolidated financial statements, Note 7 Inventories) in the 2020 Annual Report.

How our audit addressed the key audit matter

We performed the following audit procedures to assess the appropriateness of the valuation of the inventories:

- By reference to historical and expected inventory usage figures, we assessed at subsidiary level the process for identifying slow-moving inventories (raw materials, semi-finished goods and spare parts for customer service) and the appropriateness of the resulting write-downs.
- For finished goods subject to market risk, we tested at subsidiary level and at Group level Management's valuation estimates based on the lower of acquisition or manufacturing cost and net realisable value as well as the recoverability of the book value of finished goods. In doing so, we considered not only sales figures but also the marketability of the watch and jewellery collections.
- Further, at Group level, we checked the process to eliminate unrealised gains and losses from transactions between Group companies. In doing so, we checked that the valuation of the inventories on the consolidated financial statements did not include material unrealised gains.

We consider Management's approach to value inventories and assess write-downs as reasonable.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERT-suisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Thomas Brüderlin
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 3 March 2021



FINANCIAL STATEMENTS OF THE SWATCH GROUP LTD

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INCOME STATEMENT OF THE SWATCH GROUP LTD

	Notes	2020 CHF million	2019 CHF million
Income from investments in subsidiaries	(1)	697	969
Other income		5	5
Personnel expense		-39	-45
Other expenses		-18	-17
Depreciation and impairment	(2)	-124	-20
Financial expenses	(3)	-16	-36
Financial income	(4)	30	59
Ordinary result		535	915
Non-operating result		0	0
Extraordinary result		0	0
Profit before income taxes		535	915
Income taxes		-2	-4
Net income		533	911

BALANCE SHEET OF THE SWATCH GROUP LTD

Assets	Notes	31.12.2020		31.12.2019	
		CHF million	%	CHF million	%
Current assets					
Cash and cash equivalents		419	5.1	109	1.4
Assets with an observable market price	(5, 8)	189	2.3	74	0.9
Other current receivables					
– from Group companies	(6)	2 573	31.1	2 707	33.4
– from third parties		27	0.3	36	0.5
Prepayments and accrued income		3	0.0	3	0.0
Total current assets		3 211	38.8	2 929	36.2
Non-current assets					
Loans to Group companies	(6)	855	10.3	789	9.7
Investments in subsidiaries and associates	(7)	4 196	50.8	4 375	54.0
Property, plant and equipment		6	0.1	6	0.1
Intangible assets		1	0.0	1	0.0
Total non-current assets		5 058	61.2	5 171	63.8
Total assets		8 269	100.0	8 100	100.0

BALANCE SHEET OF THE SWATCH GROUP LTD

Equity and liabilities	Notes	31.12.2020		31.12.2019	
		CHF million	%	CHF million	%
Current liabilities					
Financial debts and derivative financial instruments	(8)	54	0.7	95	1.2
Other current liabilities					
– to Group companies		29	0.4	95	1.2
– to third parties		4	0.0	4	0.0
Accrued expenses		12	0.1	15	0.2
Non-current liabilities					
Non-current provisions		90	1.1	90	1.1
Total liabilities		189	2.3	299	3.7
Equity					
Share capital		118	1.4	118	1.5
Statutory capital reserve		124	1.5	148	1.8
Statutory reserve		10	0.1	10	0.1
Reserve for treasury shares		0	0.0	0	0.0
Voluntary reserve		7 289	88.2	6 759	83.4
– Profit brought forward		147		50	
– Net income for the year		533		911	
Available earnings		680	8.2	961	11.9
Treasury shares		-141	-1.7	-195	-2.4
Total equity	(9)	8 080	97.7	7 801	96.3
Total equity and liabilities		8 269	100.0	8 100	100.0

NOTES TO THE FINANCIAL STATEMENTS

General

The financial statements of The Swatch Group Ltd, with registered office in Neuchâtel, comply with the requirements of the Swiss Code of Obligations (OR). The financial statements for the year under review were prepared in accordance with Swiss Accounting Legislation (thirty-second title of the Swiss Code of Obligations).

Valuation principles**a. Assets**

Assets are valued at no more than their acquisition cost. Exceptions are current assets with an observable market price, which are valued at the stock price or market value on the balance sheet date. All changes in value are recognized in the income statement. No value fluctuation reserves are built.

b. Investments

Investments in subsidiaries and associates are valued individually provided that they are significant and that due to their similarity are not usually combined as a group for valuation.

c. Treasury shares

Treasury shares reserved for the employee stock option plan, as well as repurchased treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in capital reserves.

d. Liabilities

Liabilities are valued at nominal value.

e. Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

Details to specific items**1. Income from investments in subsidiaries**

(CHF million)	2020	2019
Dividends	645	909
Other income from investments in subsidiaries	52	60
Total	697	969

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

2. Depreciation and impairment

Depreciation and impairment is calculated on receivables, property, plant and equipment, intangible assets, loans and investments in subsidiaries and associates. In the year under review, this amounted to CHF 124 million (previous year: CHF 20 million).

3. Financial expenses

(CHF million)	2020	2019
Interest expense	-1	-7
Result from marketable securities at fair value	-4	0
Net currency result	-9	-27
Other financial expense	-2	-2
Total	-16	-36

NOTES TO THE FINANCIAL STATEMENTS

4. Financial income

(CHF million)	2020	2019
Interest income	22	42
Income and gains on securities	8	17
Total	30	59

5. Assets with an observable marketprice

(CHF million)	31.12.2020	31.12.2019
Marketable securities	112	42
Precious metals	76	24
Derivative financial instruments (see Note 8)	1	8
Total	189	74

6. Receivables and loans

These positions mainly include deposits of surplus cash with the Group-internal finance company in Luxembourg as well as financing of subsidiaries.

7. Investments in subsidiaries and associates

The list of 151 legal entities, including minority investments, held directly or indirectly by The Swatch Group Ltd and consolidated at Swatch Group level, is published in Note 35 of the consolidated financial statements in this report.

Investments in subsidiaries amounted to CHF 4 196 million or 50.8% of total assets at the end of the year under review (previous year: CHF 4 375 million or 54.0% of total assets).

8. Financial debts and derivative financial instruments

At the end of the year und review, current account overdrafts of CHF 45 million were open (previous year: CHF 91 million).

At the end of the year under review, as in the previous year, there was no option contract outstanding. The table below gives an overview of the contract values and fair values of open forward contracts.

(CHF million)	31.12.2020			31.12.2019		
	Contract value	Positive fair value	Negative fair value	Contract value	Positive fair value	Negative fair value
Forward contracts						
- Third parties	782	0	-4	989	6	0
- Group	317	1	-5	345	2	-4
Total	1 099	1	-9	1 334	8	-4

Derivative financial instruments are recognized at fair value. Forward contracts outstanding at the end of the year under review served to hedge operations relating to exchange rate risk and market volatility. Intragroup contracts relate to agreements between The Swatch Group Ltd and Group companies for the hedging of risk associated with intragroup financial transactions.

NOTES TO THE FINANCIAL STATEMENTS

9. Equity

Compared to the end of the previous year, equity increased by CHF 279 million to CHF 8 080 million in the year under review. At the end of the year under review, the equity ratio amounted to 97.7% of total assets (previous year: 96.3%).

The table below shows the changes in equity:

(CHF million)	Share capital	Statutory capital reserve	Statutory reserve	Reserve for treasury shares	Voluntary reserve	Available earnings	Treasury shares	Total equity
Balance at 31.12.2018	125	136	10	0	7 263	1 043	-1 251	7 326
Allocated in 2019					580	-580		0
Dividend paid out						-413		-413
Capital reduction (cancellation of treasury shares)	-7				-1 084		1 091	0
Change in treasury shares		12					-35	-23
Net income						911		911
Balance at 31.12.2019	118	148	10	0	6 759	961	-195	7 801
Allocated in 2020					530	-530		0
Dividend paid out						-284		-284
Change in treasury shares		-24					54	30
Net income						533		533
Balance at 31.12.2020	118	124	10	0	7 289	680	-141	8 080

Share capital

The share capital of The Swatch Group Ltd is composed as follows (unchanged from the previous year):

Balance sheet date	Registered shares at CHF 0.45	Bearer shares at CHF 2.25	Share capital in CHF
31.12.2019	116 919 500	28 936 000	117 719 775.00
31.12.2020	116 919 500	28 936 000	117 719 775.00

Principal shareholders at 31 December 2020

At the end of the year under review, the Hayek Pool, its related companies, institutions and individuals held 62 773 361 registered shares and 749 811 bearer shares, equivalent to 43.6% of all voting rights (previous year: 42.3%). The Hayek Pool comprises the following members:

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

NOTES TO THE FINANCIAL STATEMENTS

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

Name / Company	Location	Beneficial owners
Hayek Holding AG	Meisterschwanden	Community of heirs of N. G. Hayek
Community of heirs of N. G. Hayek and family members		Community of heirs of N. G. Hayek
Personalfürsorgestiftung der Hayek Engineering AG	Meisterschwanden	-
Ammann families (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ébauches SA et des maisons affiliées	Neuchâtel	-
Various welfare foundations	various	-

In the context of the pool, the group of the community of heirs of N. G. Hayek and related parties controlled in total 42.9% of all voting rights at end of the year under review (previous year: 41.8%).

At the end of the year under review, the Swatch Group had no knowledge of any other group or individual shareholder controlling more than 5% of all voting rights.

Statutory capital reserve

Gains and losses from the sale of treasury shares, including transaction costs, are recorded directly in the statutory capital reserve. In addition, the statutory capital reserve includes the historical proceeds from the issuance of participation certificates in excess of nominal value and issuance costs (premium).

Voluntary reserve

In the year under review, an amount of CHF 530 million was appropriated from available earnings at 31 December 2019 (previous year: CHF 580 million).

Reserve for treasury shares

At the end of the year under review, there was no reserve for treasury shares. No shares of The Swatch Group Ltd were held by Group subsidiaries (previous year: none).

Available earnings

In compliance with the resolution approved at the Annual General Meeting of 14 May 2020, a dividend of CHF 1.10 per registered share and of CHF 5.50 per bearer share was appropriated from available earnings as at 31 December 2019. The total dividend amount paid to shareholders in the year under review came to CHF 129 million on the registered shares and CHF 159 million on the bearer shares. In accordance with the resolution relating to the use of available earnings approved by the above-mentioned Annual General Meeting, no dividends were paid on the treasury shares held by the Swatch Group. This amount, which would have totaled CHF 4 million, thus remains as an integral part of equity at the end of the year under review. Finally, CHF 530 million was appropriated from available earnings at 31 December 2019 and allocated to the voluntary reserve.

Treasury shares

Treasury shares held by The Swatch Group Ltd at the end of the year under review corresponded to 1.0% (previous year: 1.3%) of the nominal value of total share capital. In addition to repurchased treasury shares, this position also includes registered treasury shares intended for the employee stock option plan.

NOTES TO THE FINANCIAL STATEMENTS

The number of treasury shares held directly or indirectly by The Swatch Group Ltd changed as follows:

Shares held by	Registered shares 1)		Bearer shares	
	2020	2019	2020	2019
The Swatch Group Ltd				
Balance at 1 January	3 178 416	10 201 597	65 000	1 912 550
Acquisitions 2)	0	314 433	0	56 450
Disposals 3)	-633 995	-212 114	-25 000	0
Cancellations 4)	0	-7 125 500	0	-1 904 000
Balance at 31 December	2 544 421	3 178 416	40 000	65 000
Other consolidated companies				
Balance at 1 January	0	0	0	0
Acquisitions	0	0	0	0
Disposals	0	0	0	0
Balance at 31 December	0	0	0	0
Total balance at 31 December	2 544 421	3 178 416	40 000	65 000

1) Of which, at the end of the year under review, a total of 2 529 896 registered shares were reserved for the employee stock option plan (previous year: 2 742 335 shares).

2) In the year under review, the Group acquired neither registered shares nor bearer shares. In the previous year, 314 433 registered shares were acquired at an average price of CHF 58.55 and 56 450 bearer shares at an average price of CHF 295.67.

3) In the year under review, 421 556 registered shares were sold at an average price of CHF 41.50 (previous year: none). As part of the employee stock option plan (see Note 13 of the consolidated financial statements), 212 439 registered shares were exercised (previous year: 212 114). In addition, 25 000 bearer shares were sold in the year under review at an average price of CHF 227.22 (previous year: none).

4) The cancellations were related to a capital reduction in accordance with the resolution passed at the Annual General Meeting.

Off-balance-sheet items

Number of full-time equivalents

In the year under review, the annual average number of full-time equivalents was 139 (previous year: 143).

Leasing liabilities

The balance of liabilities arising from buy or purchase-like contracts and other leasing commitments which do not expire or cannot be cancelled within 12 months amounted to less than CHF 1 million at the end of the year under review and previous year.

Liabilities to pension plans

The balance sheet at the end of the year under review contained no liabilities to pension plans (previous year: none).

Assets pledged

None of the company's assets were pledged.

Guarantees

At the end of the year under review and of the previous year, guarantees provided by The Swatch Group Ltd amounted to less than CHF 1 million. As in the previous year, this item relates to a guarantee to cover a lease commitment taken out by another Group company.

Contingent liabilities

At the end of the year under review, unchanged from the previous year, there were no contingent liabilities except the joint and several responsibility in favor of other Group companies in connection with the group taxation of value added tax.

Comfort letters

In the year under review, The Swatch Group Ltd issued comfort letters in favor of subsidiaries, guaranteeing the companies' willingness to pay for at least one year.

NOTES TO THE FINANCIAL STATEMENTS

Swatch Group shares and options of the Board of Directors, Group Management and employees

Article 959c paragraph 2 item 11 of the Swiss Code of Obligations requires disclosure of the number and value of shares and options granted to members of the Board of Directors and Group Management as well as to employees. Details of the entire employee stock option plan are disclosed in Note 13 of the consolidated financial statements. Allocations to the Board of Directors and the Management Board are disclosed in the separate compensation report, in which all management remuneration information is disclosed.

In the year under review, 5 000 registered shares and options valued at CHF 0.2 million (previous year: 4 600 registered shares and options valued at CHF 0.2 million) were allocated to other employees of The Swatch Group Ltd.

In addition, Article 663c paragraph 3 of the Swiss Code of Obligations requires disclosure of shares and options held by members of the Board of Directors and Group Management, including closely related persons. The table below shows the corresponding holdings at the end of the year under review and of the previous year.

Name	Function	Registered Shares		Bearer shares		Options	
		2020	2019	2020	2019	2020	2019
Community of heirs N. G. Hayek represented by Marianne Hayek		56 695 202	55 698 304	737 796	550		
Nayla Hayek	BoD Chairwoman	208 208	188 208			20 002	20 002
Ernst Tanner	BoD Vice-Chairman			2 000	2 000		
Prof. Dr. h.c. Claude Nicollier	BoD Member	100	100				
Dr. Jean-Pierre Roth	BoD Member			10	10		
Daniela Aeschlimann	BoD Member						
Georges Nicolas Hayek	BoD Member / CEO	175 491	152 691			24 000	24 000
Raynald Aeschlimann 1)	MB Member	33 867	26 867			7 001	7 001
Pierre-André Bühler	MB Member	18 966	19 466			8 002	8 002
Dr. Mougahed Darwish	MB Member	87 668	85 068	40	40	2 602	2 602
Marc A. Hayek	MB Member	169 065	155 898	140	140	13 835	12 502
Dr. Thierry Kenel	MB Member / CFO	90 253	80 253			10 001	10 001
Florence Ollivier-Lamarque	MB Member	71 498	71 166			5 002	3 334
Dr. Peter Steiger	MB Member	120 999	110 999			10 001	10 001
François Thiébaud	MB Member	170 048	146 948			12 502	13 102
Lionel A Marca	EMB Member	314	905			968	477
Matthias Breschan	EMB Member	4 034	1 034			3 000	3 000
Sylvain Dolla 2)	EMB Member	1 300				401	
Daniel Everts	EMB Member	1 700	1 100			600	600
Yann Gamard	EMB Member	9 000	3 500			5 501	5 501
Hans-Rudolf Gottier	EMB Member	37 700	32 700			5 002	5 002
Roger Juillet	EMB Member	2 845	1 936			1 200	1 134
Walter von Känel 3)	EMB Member		55 500		40		6 000
Mireille Koenig	EMB Member	3 520	2 132			800	600
Calogero Polizzi	EMB Member	8 500	6 000			3 000	2 500
Kevin Rollenhagen 4)	EMB Member		79 815				7 335
Total		57 910 278	56 920 590	739 986	2 780	133 420	142 696

1) MB since July 2020 (before EMB)

2) EMB since July 2020

3) EMB until June 2020

4) EMB until August 2020

Each option gives the right to draw one registered share. Each share (registered or bearer) represents one voting right. The principal shareholders are disclosed in Note 29 of the consolidated financial statements. Except for the community of heirs of N. G. Hayek, no member of the Board of Directors, Management Board and Extended Management Board, together with persons closely linked to them, owned as of the end of the year under review, either directly or through share options, more than 1% of the outstanding Swatch Group shares (end of previous year: community of heirs of N. G. Hayek).

Additional information, cash flow statement and management report

According to Article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the statement of cash flows and the management report are dispensed with, as The Swatch Group Ltd prepares the consolidated financial statements in accordance with a recognized financial reporting standard.

Events after the balance sheet date

These financial statements were approved for issue by the Board of Directors on 3 March 2021 and will be submitted to the Annual General Meeting of Shareholders for approval on 11 May 2021. Otherwise, there were no other significant events after the balance sheet date.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

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

(CHF million)	2020	2019
Net income	533	911
Profit brought forward	147	50
Available earnings	680	961
Allocation to voluntary reserve	-450	-530
Payment of a 2019 dividend, i.e.:		
- CHF 1.10 per registered share with a par value of CHF 0.45		-129
- CHF 5.50 per bearer share with a par value of CHF 2.25		-159
Payment of a 2020 dividend, i.e.: 1)		
- CHF 0.70 per registered share with a par value of CHF 0.45	-101	
- CHF 3.50 per bearer share with a par value of CHF 2.25	-82	
Dividends not paid out on own shares held by the Group 2)		4
Balance carried forward	47	147

1) It is planned not to pay dividends on treasury shares held by the Group.

2) Based on the decision of the Annual General Meeting of 14 May 2020, the dividend due on own shares held by the Group was not paid out.

Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Report on the audit of the financial statements

Opinion

We have audited the financial statements of The Swatch Group Ltd, which comprise the income statement for the year ended 31 December 2020, the balance sheet as at 31 December 2020 and notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 103 to 111 and pages 93 to 96) as at 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 30,000,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Valuation of investments in subsidiaries and associates

Report of the Statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality for the audit of the financial statements	CHF 30,000,000
How we determined it	0.38% of total equity
Rationale for the materiality benchmark applied	We chose total equity as the benchmark because it is a relevant and generally accepted benchmark for materiality considerations relating to a holding company. We chose 0.38% of total equity to determine materiality as this is a commonly used benchmark in practice.

We agreed with the Board of Directors and the Audit Committee that we would report to them misstatements above CHF 2,500,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons. The Management of The Swatch Group Ltd uses stricter criteria and lower benchmarks to support its operational decisions and for its financial reporting.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Report of the statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Valuation of investments in subsidiaries and associates

Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2020, investments in subsidiaries and associates of The Swatch Group Ltd amounted to CHF 4,196 million (about 51% of total assets). They include the directly held subsidiaries, which hold the other Group companies. These include subsidiaries with different levels of vertical integration, in particular component producers, manufactures, brand name parent companies, numerous sales organisations and other equity investments. Because of their vertical integration and their similarity, these investments are grouped together, in some cases, for valuation purposes.</p> <p>Due to the significance of this asset category in the financial statements and because of the scope for judgement in grouping these investments, we consider the impairment assessment of the equity investments as complex and, therefore, as a key audit matter.</p> <p>Please refer to page 106 (Valuation principles) and page 107 (Details to specific items, note 7 Investments in subsidiaries and associates) of the 2020 Annual Report.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> - We checked the grouping of the investments based on their similarity and their vertical integration in the Swatch Group. - We tested the valuation of each investment or group of investments based on its equity and results for the year. <p>We consider Management's approach to group and value the investments as an acceptable and reasonable basis for the valuation of the investments.</p>

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTSuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report of the Statutory Auditor

to the General Meeting of The Swatch Group Ltd

Neuchâtel

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG



Thomas Brüderlin
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 3 March 2021



THE SWATCH GROUP LTD SECURITIES

Average number of shares outstanding / Average share capital	2020 basic	2019 basic	2018 basic	2017 basic	2016 basic
Number of registered shares of CHF 0.45	114 169 222	113 428 394	115 449 571	116 755 450	118 672 611
Number of bearer shares of CHF 2.25	28 872 923	28 814 317	29 268 442	29 567 412	29 987 419
Total average number of shares outstanding	143 042 145	142 242 711	144 718 013	146 322 862	148 660 030
Share capital registered shares in CHF	51 376 150	51 042 777	51 952 307	52 539 953	53 402 675
Share capital bearer shares in CHF	64 964 077	64 832 213	65 853 995	66 526 677	67 471 693
Total average share capital in CHF	116 340 227	115 874 991	117 806 302	119 066 630	120 874 368

Key data per registered share (nom. CHF 0.45) in CHF	2020	2019	2018	2017	2016
Consolidated net result attributable to shareholders	-0.20	2.84	3.23	2.77	2.14
Cash flow from operating activities 1)	3.17	4.75	3.60	4.78	3.76
Consolidated equity 1)	42.41	44.63	43.07	42.67	41.22
Dividend 2)	0.70	1.10	1.60	1.50	1.35

Key data per bearer share (nom. CHF 2.25) in CHF	2020	2019	2018	2017	2016
Consolidated net result attributable to shareholders	-0.99	14.18	16.14	13.86	10.69
Cash flow from operating activities 1)	15.83	23.76	18.01	23.89	18.80
Consolidated equity 1)	212.07	223.17	215.33	213.33	206.12
Dividend 2)	3.50	5.50	8.00	7.50	6.75

Stock price (adjusted) in CHF	2020	2019	2018	2017	2016
Registered shares high	52.75	62.60	91.30	80.95	74.00
Registered shares low	28.56	46.62	54.05	60.60	48.25
Registered shares at year-end	46.76	51.15	56.80	74.50	62.25
Bearer shares high	280.50	322.00	499.10	414.60	373.00
Bearer shares low	151.00	247.70	275.60	307.50	246.20
Bearer shares at year-end	241.50	270.00	286.70	397.40	316.70

Key ratios (year-end)	2020	2019	2018	2017	2016
Average return on equity 3)	-0.5%	6.6%	7.7%	6.8%	5.3%
Dividend yield registered shares 4)	1.5%	2.2%	2.8%	2.0%	2.2%
Dividend yield bearer shares 4)	1.4%	2.0%	2.8%	1.9%	2.1%
Market capitalization in CHF million	12 455	13 793	15 887	21 497	17 489

1) Calculation based on average share capital per share category respectively average number of shares outstanding

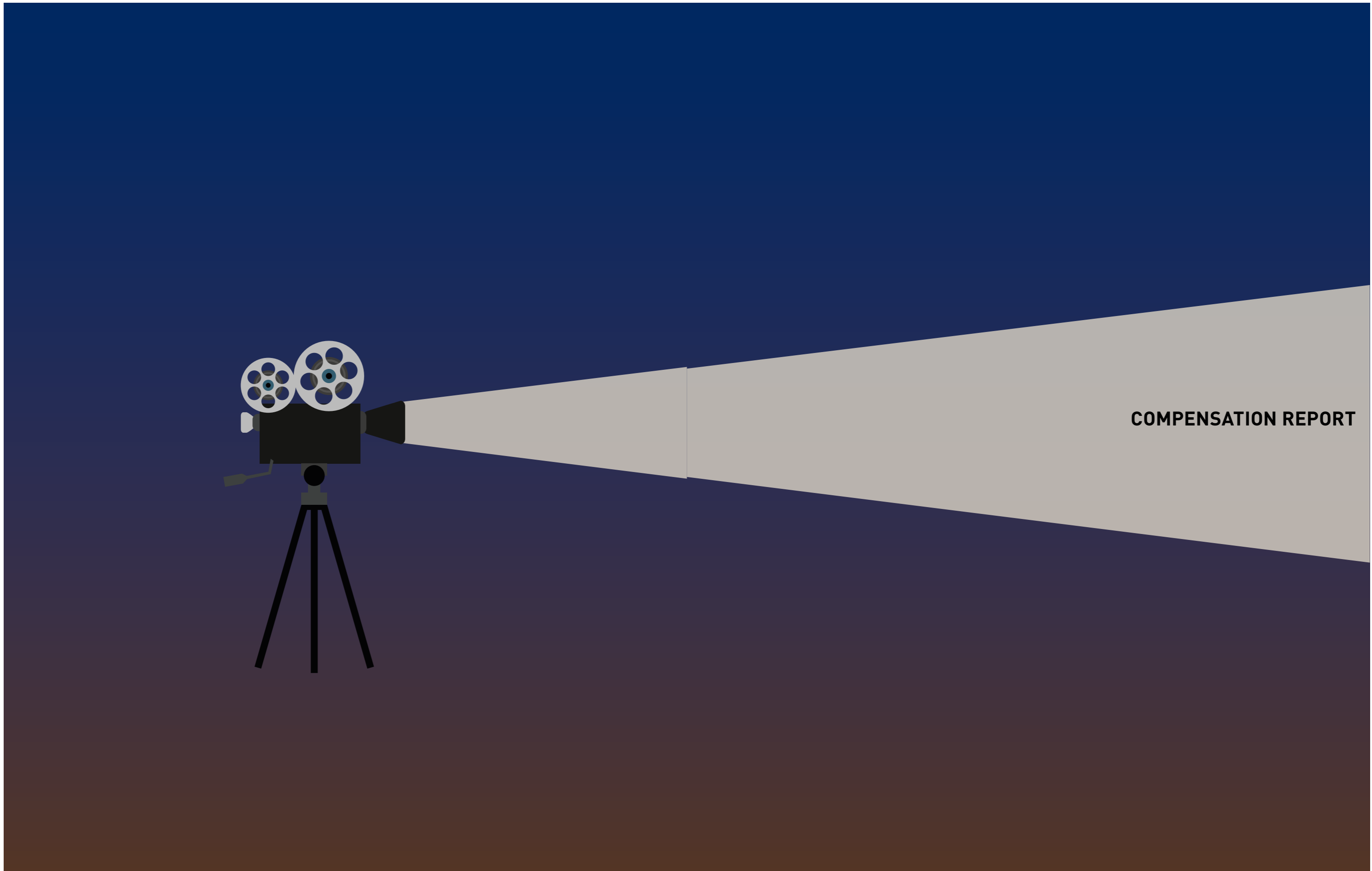
2) For the year under review: Board of Directors' proposal

3) Net result as a percentage of average equity (previous year plus year under review, divided by two)

4) Dividend as a percentage of share price at year-end

Securities	ISIN-Number	Reuters Symbol
The Swatch Group Ltd Registered shares	CH0012255144	UHRN.S
The Swatch Group Ltd bearer shares	CH0012255151	UHR.VX

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



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)****120****121****122****124****125**

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.

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.

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, respectively the last trading day before the grant date, less the exercise price.

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

		2020	2019
Grant date		31.05.2020	31.05.2019
Share price on grant date	CHF	37.34	48.36
Exercise price	CHF	4.00	4.00
Day value on grant date	CHF	33.34	44.36

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.

COMPENSATION REPORT

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.).

COMPENSATION REPORT

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)

2020	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)		Other compensation 5) (CHF)
	Nayla Hayek	Chairwoman	195 501	1 002 108	900 000	666 800	276 979	3 041 388
	Ernst Tanner	Vice-Chairman	142 299				7 772	150 071
	Daniela Aeschlimann	Member	136 015				9 742	145 757
	Georges Nicolas Hayek 7)	Member	134 807				8 478	143 285
	Prof. Dr. h.c. Claude Nicollier	Member	133 588				7 079	140 667
	Dr. Jean-Pierre Roth	Member	133 588				7 079	140 667
	Total		875 798	1 002 108	900 000	666 800	317 129	3 761 835

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)		Other compensation 5) (CHF)
	Nayla Hayek	Chairwoman	230 448	1 002 108	1 500 000	887 200	345 570	3 965 326
	Ernst Tanner	Vice-Chairman	166 225				9 608	175 833
	Daniela Aeschlimann	Member	158 086				11 725	169 811
	Georges Nicolas Hayek 7)	Member	157 158				10 462	167 620
	Prof. Dr. h.c. Claude Nicollier	Member	155 675				8 771	164 446
	Dr. Jean-Pierre Roth	Member	155 675				8 771	164 446
	Total		1 023 267	1 002 108	1 500 000	887 200	394 907	4 807 482

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 16 500 for functions in the Compensation Committee and the Audit Committee (previous year: CHF 20 000) 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 67 192 (previous year: CHF 65 592). The remaining social benefits (employer's contributions) amounted to CHF 249 937 (previous year: CHF 329 315). 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)

2020	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	1 870 000	24 000	800 160	408 475	4 580 740
New KL/EKL members 6)	1 301 354	823 000	3 900	130 026	371 733	2 626 113
Total other members	4 401 828	6 507 830	97 100	3 237 314	1 903 195	16 050 167
Total	7 205 287	9 200 830	125 000	4 167 500	2 683 403	23 257 020

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
New KL/EKL members 6)	419 909	418 751	0	0	125 244	963 904
Total other members	4 425 780	10 410 024	97 100	4 307 356	2 040 148	21 183 308
Total	6 347 794	13 948 775	121 100	5 371 996	2 727 146	28 395 711

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 643 403 (previous year: CHF 507 081). The remaining social benefits (employer's contributions) amounted to CHF 1 744 404 for the year under review (previous year: CHF 2 158 586). Other compensation also includes further benefits and long-term service awards in the amount of CHF 295 596 (previous year: CHF 61 479).

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

6) Compensation of members appointed to the KL/EKL during the year under review or the previous year.

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 3 March 2021 of The Swatch Group Ltd for the year ended 31 December 2020.

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 2020 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, 3 March 2021







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