

# *CORPORATE GOVERNANCE*



## CORPORATE GOVERNANCE

### 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 208 to 211 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. 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

Since February 2007 the shares of the Swatch Group are also listed on the BX Swiss.

Further information concerning market capitalization and earnings per share is shown on page 230.

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

#### 1.2 Significant shareholders

As of 31 December 2018, the Hayek Pool, related parties, institutions and persons control 61 662 277 registered shares and 11 715 bearer shares, totalling 39.8% (previous year 40.0%) of all the votes.

The Hayek Pool comprises the following members per 31 December 2018:

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 SA	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	—
Families Ammann (pension funds, foundations and individuals, Madisa AG)	c/o Ammann Group Holding AG, Bern	Represented by Daniela Aeschlimann
Fondation d'Ebauches SA et des maisons affiliées	Neuchâtel	—
Various employer-funded foundations <sup>1)</sup>	Various	—

<sup>1)</sup> 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 39.3% (previous year 39.6%) of all the votes; third party Pool members are represented therein, they comprise 3.4% of all the voting rights.

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On 31 December 2018, no other individual shareholder or group of shareholders holding more than 5% is known to the Company.

### 1.3 Cross-shareholdings

The Swatch Group holds no cross-shareholdings.

## 2. Capital structure

### 2.1 Capital

On 31 December 2018, the capital structure of The Swatch Group Ltd was as follows:

124 045 000 Registered shares at CHF 0.45 par value	CHF	55 820 250.00
30 840 000 Bearer shares at CHF 2.25 par value	CHF	69 390 000.00
<b>Total share capital as of 31.12.2018</b>	<b>CHF</b>	<b>125 210 250.00</b>

### 2.2 Authorized and conditional capital

No authorized and conditional capital existed as of 31 December 2018.

### 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	Bearer shares	Share capital in CHF
31.12.2016	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2017	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00
31.12.2018	124 045 000 at CHF 0.45	30 840 000 at CHF 2.25	125 210 250.00

The detailed evolution of equity, reviewed by the auditors for the consolidated financial statements for the years 2017 and 2018, is published on page 177. For The Swatch Group Ltd, it is published for the years 2017 and 2018 in note 11 on page 222. With regard to the previous years we refer to the annual reports 2015, 2016 and 2017.

### 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.

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### 2.8 Options

In 1986, with the takeover of control of the Swatch Group by the Hayek Pool, a block of shares was reserved in favor of a management stock option plan. With regard to the content of this portfolio as of 31 December 2018, reference is made to note 29 on page 205. In 2018, 209 870 registered shares were sold at a preferential price of CHF 4.– per registered share in accordance with the following details:

<b>Year of issue</b>	<b>Number of registered shares</b>	<b>Number of beneficiaries</b>	<b>Year of subscription/payup</b>
2016	67 981	197	2018
2017	70 002	236	2018
2018	71 887	232	2018
<b>Total</b>	<b>209 870</b>		

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

<b>Year of issue</b>	<b>Number of registered shares</b>	<b>Number of beneficiaries</b>	<b>Year of subscription/payup</b>
2017	68 918	226	2019
2018	71 601	228	2019
2018	71 808	228	2020
<b>Total</b>	<b>212 327</b>		

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.

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### 3. Board of Directors

#### 3.1 Members of the Board of Directors

The Board of Directors on 31 December 2018 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 June 30, 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 26.03.2013, 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. As Board member of the Hayek Holding AG, she is responsible for Hayek Engineering AG, Hayek Immobilien AG and Hayek France SA. 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 June 29, 2011. Mr Tanner is the Executive Chairman of the Lindt & Sprüngli Group. 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 Krombacher Brauerei 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. 1<sup>st</sup> prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager 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 is involved in the «Solar Impulse»-Project and was 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 May 1, 1996 he was appointed Vicepresident of the board. On January 1, 2001 he was elected President of the board. Jean-Pierre Roth was Swiss governor of the International Monetary Fund (IMF) in Washington. From March 1, 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 and the «Banque cantonale de Genève». Since July 1, 2017, Mr Roth acts as Vice President of the Arab Bank (Switzerland) Ltd.

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**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 has held since 2014.

### 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:

	First-time election	Term of office
Nayla Hayek	1995	up to 2019
Georges Nicolas Hayek	2010	up to 2019
Prof. Dr. h.c. Claude Nicollier	2005	up to 2019
Dr. Jean-Pierre Roth	2010	up to 2019
Ernst Tanner	1995	up to 2019
Daniela Aeschlimann	2016	up to 2019

On the occasion of the General Meeting 2018 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 2018, 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 2018.

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).

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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.

With the entry into force of the revised Swatch Group Statutes, 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 2018.

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 twice 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.

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

At 31 December 2018

#### 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. 1<sup>st</sup> prize at the Thessaloniki Film Festival, an official contribution to the Cannes Film Festival, etc.) and his activity as producer and manager 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, is a lawyer and has been a member of the Extended Group Management Board since 1992 and of the Executive Group Management Board since 2005. She is President of Swatch Group France, Swatch Group France Les Boutiques, responsible for Swatch Group Italy, Swatch Group Spain, Swatch Group Belgium and Swatch Group Netherlands as well as for the watch brand Flik Flak. She 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 is member of Board of the Colbert Committee, Paris.

**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, responsible for ETA. 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). 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.

**Dr Mougahed Darwish**, Swiss citizen, holds a doctorate in Physics from the ETHL. 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 Micro-electronic, Micro Crystal, Renata and Oscilloquartz. Mr Darwish has been with the Group since 1979, starting as Project Manager for the Xicor-Ebauches 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 and the Science Council of the CSEM as well as on the Board of FLRH; he is a member of the Swiss Academy of Technical Science. Since 2008, Mr Darwish actively accompanies the project Belenos Clean Power; since July 2010 he is a delegate of the Board of Directors of Belenos Clean Power Holding AG and since 2015 also the Vice Chairman of this body.

**Marc Alexander Hayek**, Swiss citizen, Dr h.c. European University Montreux, 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. Since August 2017, Mr Hayek is also a member of the Board of Directors of Belenos Clean Power Holding Ltd. 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, IT, 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; earlier, he was a member of the Board of Directors and the management of the Flumroc-Spoerry group of companies. Mr Kenel represents the Swatch Group in the Board of economiesuisse, the Convention Patronale and in 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).

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### 4.2 Members of the Extended Group Management Board

**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 Tissot, Mido, Certina as well as Swatch Group Brazil 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).

**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 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.

**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 Rado, Hamilton, for Swatch Group Mexico and Swatch Group Austria. Mr. Breschan manages Rado since January 1, 2011. Before he 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.

**Jean-Claude Eggen**, Swiss citizen, holds an engineering degree from the University of Applied Sciences (HES) in Biel/Bienne. He completed additional studies in business economics and automation and also obtained an Executive MBA. A member of the Extended Group Management Board since 2013, Mr. Eggen began his career at the Swatch Group in 1992 as director of SMH Engineering SA in Grenchen. He subsequently directed the MIM (Metal Injection Molding) activities for the production of steel cases at ETA Manufacture Horlogère Suisse SA. Prior to taking up a position as Vice President Swatch & Quartzline at ETA, Mr. Eggen also worked as Director of Operations for Phonak Communications SA, where he was responsible, inter alia, for organizing production in Vietnam.

**Yann Gamard**, French citizen, holds an MBA from Lausanne and has been a member of the Extended Group Management Board since 1998, responsible for Swatch Group Germany, Swatch Group UK and Ireland, and Swatch Group Nordic (Denmark, Finland, Sweden, Norway) as well as the distribution logistics for watches in Europe and worldwide for the batteries. 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/Bienne and is a member of the Swatch Group's Extended Management Board since 2013, where he is responsible for the segment Electronic Systems. 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.

**Walter von Känel**, Swiss citizen, with a commercial training, has been member of the Extended Group Management Board since 1991, with responsibility for Longines. He entered Longines in 1969 and became its President in 1988. Before joining Swatch Group Mr. von Känel worked for a watch-dial factory and with the Federal Customs Administration.

## CORPORATE GOVERNANCE

**Calogero Polizzi**, Italian citizen, holds a diploma in information technology from the Industrial Technical Institute L. Cobiانchi in Verbania, Italy. He was appointed to the Swatch Group's Extended Group Management Board in 2013. Since 2017, he is responsible for the software aspects of the new Swiss Operating Systems of IoT (Internet of Things). He was responsible for the IT systems at Swatch Group since his appointment as CIO (Chief Information Officer) in 2005 and was a member of the management of The Swatch Group Services Ltd. Previously he worked as IT Manager at Swatch Group Italy and as Head of IT at The Swatch Group Distribution LTD. Between his activities for Swatch Group Italy and Swatch Group Distribution he was Chief Information Officer at Tod's S.p.A. Before joining Swatch Group, Mr Polizzi worked at Whirlpool where he was engaged in various information technology positions at the international level.

**Kevin Rollenhagen**, American citizen, graduated in Economics (BA) at the Michigan State University, has been a member of the Extended Group Management Board since 2005 and is responsible for Swatch Group China and Swatch Group Taiwan, Swatch Group Australia and Country Manager of Swatch Group Macau and Swatch Group Hong Kong (he represented these countries from 2000 onwards in the Extended Group Management). Mr Rollenhagen joined Swatch Group in 1989. He started his career as trainee at Tissot and became Regional Sales Manager for Tissot and Omega. Since 1994 he has been active in Hong Kong and China (first as Brand Manager Omega). Before joining Swatch Group Mr Rollenhagen worked with Caterpillar in sales. Mr Rollenhagen represents Swatch Group in the Hong Kong Watch Importers Association where he acts as Treasurer.

**Dr Peter Steiger**, Swiss citizen, who has a doctorate in Public Economics, has been a member of the Extended Group Management Board since 2002, with responsibility for The Swatch Group Corporate Controlling and Logistics as well as Swatch Group Singapore, Swatch Group Indonesia 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).

### 4.3 Number of permissible mandates

According to art. 40 of the Swatch Group 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 retirement there are no other entitlements to any compensation.

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

In August 2018, Mr. Thomas Meier retired from the Extended Management Board. 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.

### 4.7 Country Panel

At the beginning of 2014, a Country Panel was constituted with the task of supporting the Executive Group Management Board, in particular in the fields of distribution and international business development. The Country Panel meets usually twice per business year. The meetings are chaired by the president of the Executive Group Management Board. The function of the Country Panel is purely advisory. It is made up of the Country Managers of important country organisations. In addition, there are further members who are appointed by the Executive Group Management Board from among the presidents of the further country organisations (rotation principle).

## CORPORATE GOVERNANCE

### 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 Swatch Group 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 2018 may be consulted on page 225.

#### 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 Swatch Group 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.

## CORPORATE GOVERNANCE

### 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 Swatch Group 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 Swatch Group 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 OR).

#### 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 Swatch Group Statutes in conjunction with Art. 135 FinfraG).

#### 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.

## CORPORATE GOVERNANCE

### 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 2018 annual accounts:

(CHF million)	Audit	Taxes	Other Services	Total
PricewaterhouseCoopers	4.6	0.9	1.2	6.7
Other Auditing Companies	0.6	0.7	0.3	1.6
<b>Total 2018</b>	<b>5.2</b>	<b>1.6</b>	<b>1.5</b>	<b>8.3</b>
Total 2017	5.0	1.2	1.1	7.3

#### 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.

## **CORPORATE GOVERNANCE**

### **9. Information policy**

The Swatch Group reports on the business of the Group at the following times:

- January 31, 2019    Key figures 2018
- March 14, 2019    Press conference / annual report 2018
- May 23, 2019      General Meeting of Shareholders
- July 31, 2019      Half-year figures 2019

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](http://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](http://www.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](http://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.