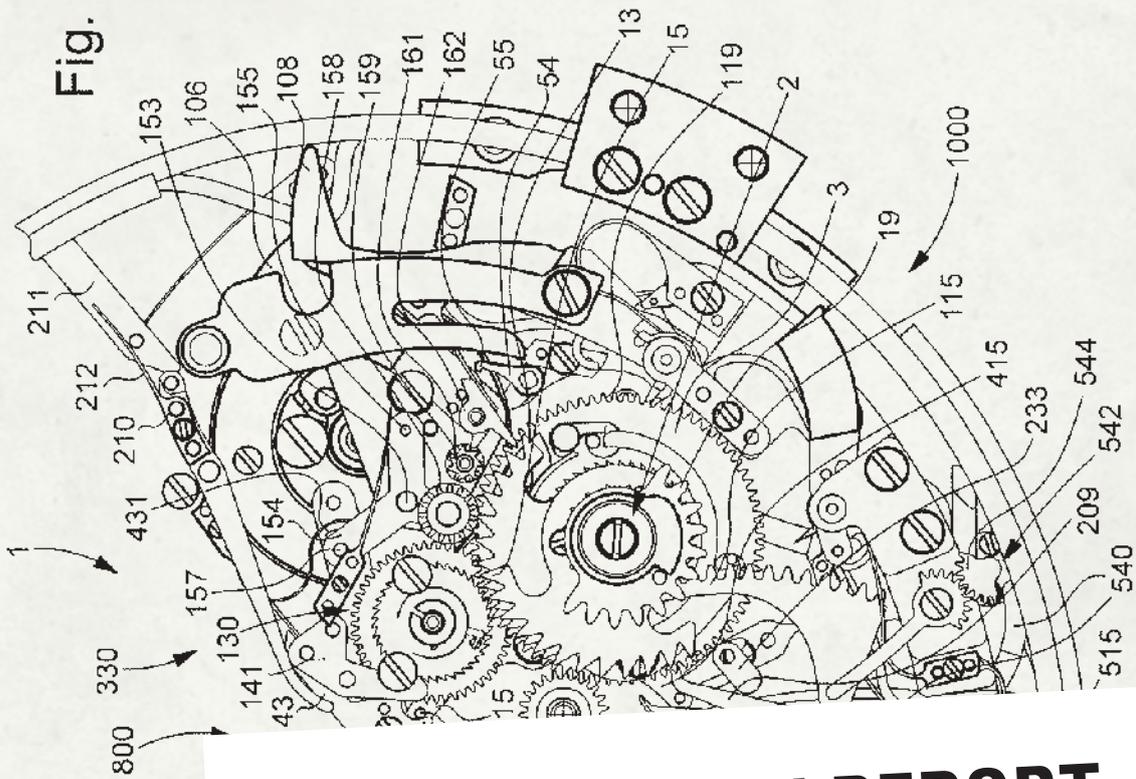


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Fig. 3



COMPENSATION REPORT

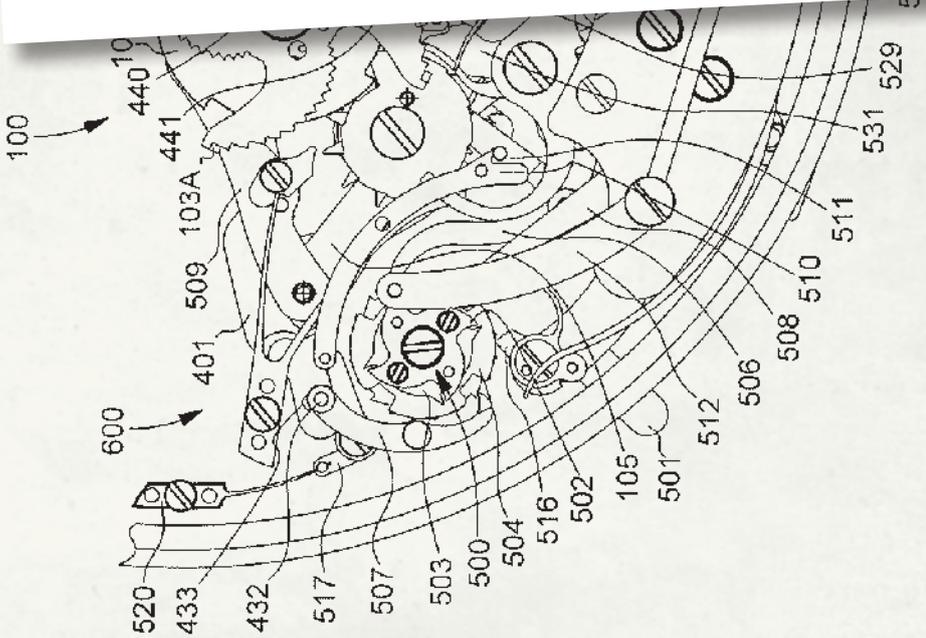


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COMPENSATION REPORT

Dear 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.

For the first time at the 2015 General Meeting, the compensation of the members of the Board of Directors and the Group Management Board (Executive Group Management Board, Extended Group Management Board) was voted upon.

At the same 2015 General Meeting, the framework for the Articles of Association of the Swatch Group provided for by the Compensation Ordinance, which is to apply to compensation and, in particular, to the decision-making process by the shareholders, was created.

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; and
- one section that sets out the specific compensation in the 2015 business 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 Ltd.

Disclosure takes place according to the „accrual principle“. The current part of the report (Section 4a-e) was reviewed by PricewaterhouseCoopers Ltd.

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 5 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 the 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 General Meeting for approving compensation. The Compensation Committee may submit proposals and recommendations to the Board of Directors in all matters pertaining to compensation.

COMPENSATION REPORT

With the coming into force of the revised 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 General Meeting for its approval.

At the 2015 General Meeting, the General Meeting voted for the first time on the fixed total compensation of the members of the Board of Directors until the next General Meeting and of the members of the Executive and Extended Group Management Board for the 2015 business year along with the variable compensation of the members of the Executive and Extended Group Management Board for the 2014 business year.

1.3 Meetings

The Compensation Committee met twice during the 2015 business year.

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 undertakings 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 certain 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;
- a lump-sum expenses payment;
- a bonus programme with variable compensation;
- a share programme 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 thirteenth instalment is paid each year in December. The degree of responsibility, the position and education are taken into account in the base salary.

2.3.2 Lump-sum expenses

The members of the Board of Directors and the Executive Group Management Board receive a lump-sum compensation for expenses in the amount of CHF 30,000.00; the members of the Extended Group Management Board receive such compensation of up to CHF 24,000.00. This lump-sum compensation payment covers representation and small expenses and has been agreed with 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 lump-sum compensation only once.

COMPENSATION REPORT

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 potential bonus will be paid. Where individual objectives are not achieved, a proportionate reduction will be made.

The bonus is determined and paid out at the start of the year, once the annual accounts 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 (turnover, operating profit) will foreseeably be achieved; if not, a payment of 50% will be made.

The assessment criteria that apply are, among other things: turnover development, development of operating profit and EBIT, changes in market share, development of inventory and receivables, accomplishment of development and set-up projects, success in negotiations, successful implementation of costreduction 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 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 2014 and 2015, this amounted to CHF 4.00. 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. After subscription, the security may be freely disposed of. 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 ordinary General Meeting. In 2015, the General Meeting decided for the first time on the overall allocation upon a motion of the Board of Directors. 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 50,000.00; for members of the Extended Group Management Board, this amounted to generally CHF 25,000.00 (allocation value = share price minus CHF 4.00 exercise price).

The tax value or the daily value at the time of the allocation is used as the basis for calculation for the compensation of the allocated shares. The tax value is equal to the average price of the share during the subscription-payment period, less the exercise price. This exercise price applies for the first one-third of the allocated shares, which can be paid up from the date of allocation over a period of one month. The daily value is equal to the share price on the date of allocation, less the exercise price. This price is used for the assessment of the second and the last third of the allocated shares, which may be exercised after one or two years, respectively.

The following values apply for 2014 and 2015:

	2015	2014
Date of grant	9 June 2015	8 July 2014
Tax value	CHF 73.80	CHF 89.05
Share price on the day of allocation	CHF 72.60	CHF 95.40
Exercise price	CHF 4.00	CHF 4.00
Daily value on the date of allocation	CHF 68.60	CHF 91.40

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 320,000.00.

The Management Fund covers income components between CHF 320,000.00 and CHF 846,000.00.

The Management Fund provides for contributions of 10%. 75% of such contributions 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 respectively, 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. Such a mortgage loan may be granted only for a primary residence. 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 Deployment 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 respectively, must 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 of the Extended Group Management Board respectively, who have resigned from their functions are employed on a mandate basis 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) in 2015

This part of the report is subject to revision by PricewaterhouseCoopers Ltd

a. Board of Directors (BoD)

2015 Name	Function	Compensation for functions in the BoD ¹⁾	Compensation for executive functions				Total ⁶⁾
			Base compensation ²⁾	Bonus ³⁾	Share options ⁴⁾	Other compensation ⁵⁾	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Nayla Hayek	Chairwoman	231 294	1 001 928	1 400 000	1 406 663	382 066	4 421 951
	Vice-						
Ernst Tanner	Chairman	166 146				8 772	174 918
Georges Nicolas Hayek	Member	157 186				7 186	164 372
Prof. Dr. h.c. Claude Nicollier	Member	155 603				7 997	163 600
Dr. Jean-Pierre Roth	Member	155 603				7 997	163 600
Total		865 832	1 001 928	1 400 000	1 406 663	414 018	5 088 441

2014 Name	Function	Compensation for functions in the BoD ¹⁾	Compensation for executive functions				Total ⁶⁾
			Base compensation ²⁾	Bonus ³⁾	Share options ⁴⁾	Other compensation ⁵⁾	
		(CHF)	(CHF)	(CHF)	(CHF)	(CHF)	(CHF)
Nayla Hayek	Chairwoman	231 378	1 001 928	1 450 000	1 812 335	418 934	4 914 575
	Vice-						
Ernst Tanner	Chairman	166 146				8 850	174 996
Esther Grether ⁷⁾	Member	64 835				3 362	68 197
Georges Nicolas Hayek ⁸⁾	Member	157 186				7 186	164 372
Prof. Dr. h.c. Claude Nicollier	Member	155 603				8 068	163 671
Dr. Jean-Pierre Roth	Member	155 603				8 068	163 671
Total		930 751	1 001 928	1 450 000	1 812 335	454 468	5 649 482

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 20 000 for functions in the Compensation Committee and the Audit Committee as well as lump-sum expense 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 2015 and in 2014, Mrs N. Hayek was allocated 20 000 share options.

⁵⁾ Other compensation includes pension benefits in the amount of CHF 65 064 (2014: 63 424). The remaining social benefits (employer's contributions) amounted to CHF 348 954 (2014: CHF 391 044) for the year under review.

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

⁷⁾ BoD member until May 2014.

⁸⁾ The compensation for the executive functions is set forth in paragraph b of this chapter.

COMPENSATION REPORT

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

2015

Name	Base compensation ¹⁾ (CHF)	Bonus ²⁾ (CHF)	Share options ³⁾ (number)	Share options ³⁾ (CHF)	Other compensation ⁴⁾ (CHF)	Total ⁵⁾ (CHF)
Georges Nicolas Hayek (MB President / CEO)	1 501 925	3 120 000	24 000	1 688 000	568 775	6 878 700
Total other members	6 042 612	12 973 655	127 300	8 953 395	3 306 280	31 275 942
Total	7 544 537	16 093 655	151 300	10 641 395	3 875 055	38 154 642

2014

Name	Base compensation ¹⁾ (CHF)	Bonus ²⁾ (CHF)	Share options ³⁾ (number)	Share options ³⁾ (CHF)	Other compensation ⁴⁾ (CHF)	Total ⁵⁾ (CHF)
Georges Nicolas Hayek (MB President / CEO)	1 501 925	3 170 000	24 000	2 174 800	610 320	7 457 045
Total other members	6 039 698	13 453 993	127 300	11 535 518	3 654 367	34 683 576
Total	7 541 623	16 623 993	151 300	13 710 318	4 264 687	42 140 621

¹⁾ Total annual base compensation allocated on a cash or accrual basis, including lump-sum expense 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 644 781 (2014: 624 557). The remaining social benefits (employer's contributions) amounted to CHF 3 172 736 (2014: CHF 3 511 582) for the year under review. Other compensation also includes further benefits in the amount of CHF 57 538 (2014: CHF 128 548).

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

The figures presented include all direct and indirect compensation.

Mr G.N. Hayek, as the CEO, received the highest compensation.

No compensation payments whatsoever were distributed to former members of the Board of Directors and of the Group Management Board respectively, in connection with prior activities as members of the governing bodies of the company.

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

In the 2015 business year, 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 business year.

At the end of 2015 and 2014, there were no credit or loans to (current or former) executive members of the Board of Directors or the Group Management Board.

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

In the 2015 business year (as in the business year 2014), 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 2015 business year (as in the business year 2014), 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 2015 business year (as in 2014), 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 19 February 2016 of The Swatch Group Ltd for the year ended 31 December 2015.

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 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Gerhard Siegrist
Audit expert
Auditor in charge



Tobias Handschin
Audit expert

Basel, 19 February 2016

