

COMPENSATION REPORT



JUPITER!

Named for the Roman god of gods. Largest planet in our solar system. Magnificently majestic. This giant also has irresistible charm: on Jupiter's surface, it seems that it also hails diamonds. The father of all gods would be thrilled. Back here on earth, we'd find such a waste of valuable resources to be a bit unnecessary.

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COMPENSATION REPORT

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 2017 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 audited 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 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 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.

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 Annual General Meeting 2017, the fixed remuneration for members of the Board of Directors until the next annual meeting, as well as the fixed remuneration for the fiscal year 2017 and the variable remuneration for the fiscal year 2016 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 fiscal year 2017, as well as the variable remuneration for the fiscal year 2016 was voted upon at the Annual General Meeting 2017.

1.3 Meetings

The Compensation Committee met twice during the 2017 business year.

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2. Compensation system

2.1 General principles of compensation

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

The company may award compensation for activities in 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 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;
- a lump-sum expenses payment;
- 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, the responsibilities and position 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; the members of the Extended Group Management Board receive such compensation of up to CHF 24 000. 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.

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.

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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, 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 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 2016 and 2017, 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. Once exercised, the shares may be freely disposed of. As of 2016, these can optionally 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 amounted to generally CHF 25 000 (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 allocation date. The day value corresponds to the share price on the allocation date less the exercise price.

The following values are in force for 2016 and 2017:

	2017	2016
Date of grant	31 May 2017	17 May 2016
Share price on the day of allocation	CHF 73.90	CHF 59.25
Exercise price	CHF 4.00	CHF 4.00
Daily value on the date of allocation	CHF 69.90	CHF 55.25

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 846 000.

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

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3. Additional contractual elements

- 3.1 Term and termination periods of employment contracts** All employment contracts of the Executive Group Management Board and of the Extended Group Management Board 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. 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.).

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4. Compensation for the members of the Board of Directors and Group Management Board (KL/EKL) in 2017

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

a. Board of Directors BoD)

2017 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	221 919	1 022 942	1 400 000	1 398 000	335 650	4 378 511
	Vice-						
Ernst Tanner	Chairman	160 406				9 029	169 435
Daniela Aeschlimann	Member	152 634				11 190	163 824
Georges Nicolas Hayek ⁸⁾	Member	151 854				6 854	158 708
Prof. Dr. h.c. Claude Nicollier	Member	150 305				8 218	158 523
Dr. Jean-Pierre Roth	Member	150 305				8 218	158 523
Total		987 423	1 022 942	1 400 000	1 398 000	379 159	5 187 524

2016 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	219 602	1 001 928	1 260 000	1 105 000	282 844	3 869 374
	Vice-						
Ernst Tanner	Chairman	158 192				8 119	166 311
Daniela Aeschlimann ⁷⁾	Member	83 943				4 838	88 781
Georges Nicolas Hayek ⁸⁾	Member	149 753				6 736	156 489
Prof. Dr. h.c. Claude Nicollier	Member	148 265				7 402	155 667
Dr. Jean-Pierre Roth	Member	148 265				7 402	155 667
Total		908 020	1 001 928	1 260 000	1 105 000	317 341	4 592 289

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 2017 and in 2016, Mrs N. Hayek was allocated 20 000 share options.

⁵⁾ Other compensation includes pension benefits in the amount of CHF 65 064 (previous year: 65 064). The remaining social benefits (employer's contributions) amounted to CHF 314 095 (previous year: CHF 252 277) 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 since May 2016.

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

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

2017

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)	1 559 798	3 120 000	24 000	1 677 600	609 794	6 967 192
Total other members	5 091 267	11 580 944	101 300	7 080 870	2 814 716	26 567 797
Total	6 651 065	14 700 944	125 300	8 758 470	3 424 510	33 534 989

2016

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	2 808 000	24 000	1 326 000	497 316	6 133 241
Total other members	5 693 007	11 123 617	126 800	7 005 700	2 627 552	26 449 876
Total	7 194 932	13 931 617	150 800	8 331 700	3 124 868	32 583 117

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 520 981 (previous year: CHF 626 565). The remaining social benefits (employer's contributions) amounted to CHF 2 900 871 (previous year: CHF 2 495 706) for the year under review. Other compensation also includes further benefits in the amount of CHF 2 658 (previous year: CHF 2 597).

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.

Final payments totaling CHF 883 221 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). This amount is not included in the remuneration table above.

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

In the 2017 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 2017 and 2016, 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 2017 business year (as in the business year 2016), 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 2017 business year (as in the business year 2016), 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 2017 business year (as in 2016), 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 28 February 2018 of The Swatch Group Ltd for the year ended 31 December 2017.

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 2017 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, 28 February 2018





BLACK HOLE

A different perspective: take a look at this space. At 9.75 mm, it has exactly the dimensions that the Earth would have if all of its matter and anti-matter had the mass of a black hole. But what would matter be if it were confined to a tiny volume? That would be like a watch without a movement – the end of time!